House of Commons
CANADA

Standing Committee on Agriculture and Agri-Food

AGRI • NUMBER 061 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Monday, October 31, 2005

Chair

Mr. Paul Steckle

Standing Committee on Agriculture and Agri-Food

Monday, October 31, 2005

● (1530)

[*English*]

The Chair (Mr. Paul Steckle (Huron—Bruce, Lib.)): Ladies and gentlemen, I'm going to call the meeting to order. There are a few members yet to come. Hopefully, they'll be here before we get too far into this meeting.

We want to continue our deliberations this afternoon in regard to the corn imports issue, a tariff on corn coming in from the United States. We've had a number of meetings already on this issue.

This afternoon we're going to hear from some of the industries related to the primary production of agricultural commodities. We're dividing our session today into two one-hour formats. The first hour we're going to be hearing from the Canadian Pork Council, the Canadian Cattlemen's Association, and the Animal Nutrition Association of Canada.

We have with us, from the Canadian Pork Council, Clare Schlegel, president, who is no stranger to this committee, and Edouard Asnong, first vice-president. From the Canadian Cattlemen's Association we have David Stewart, executive director, Ontario Cattlemen's Association—welcome, David—and Ian McKillop, director, also no stranger to the committee.

From the Animal Nutrition Association of Canada we have Henry Van de Velde, executive vice-president, risk and integration strategies, Hytek Inc.; and Dennis Kornelsen, purchasing manager, grains and ingredients, Hytek Inc.

With those opening comments and introductions, allow me to ask you to begin. Mr. Schlegel, I believe you're.... Oh, we have Mr. McKillop first.

If you could, keep it as succinct as possible. I realize you have a message. We want you to give that message, but we also want time for questions. You have one hour to do your portions, so if you can accommodate us, we'll try to accommodate you.

Mr. McKillop.

Mr. Ian McKillop (Director, Canadian Cattlemen's Association): Thank you very much, Mr. Chairman. I'm pleased to present this brief on behalf of the Canadian Cattlemen's Association.

My name is Ian McKillop. I farm in southwestern Ontario near the town of Dutton on land that has been in my family for five generations, since 1851. I operate a cow/calf-to-finish operation with 140 cows. I also grow corn, soybeans, wheat, and forages on our property. I've been an elected director of the Canadian Cattlemen's Association since 2003 and I currently serve as the president of the Ontario Cattlemen's Association. I'm accompanied by David Stewart, who is the executive director of the Ontario Cattlemen's Association.

We have provided copies of this presentation, which I would ask be entered into the committee's official record.

We all know that Canadian cattle producers have, for the past two and a half years, gone through a massive loss of markets and revenue that no other agricultural sector in Canada has ever experienced. Although our work to fully restore our markets continues, the cattle and beef industry's strategic plan to reposition itself is just now starting to help us return to profitability. The strategic plan was developed largely by the Canadian Cattlemen's Association and announced by the federal government in September 2004.

The main objective of this plan is to reduce the dependence of Canadian cattle producers on exporting live cattle. In a nutshell, if we build the capacity to feed and process our cattle in Canada, we can immunize ourselves against potential future market losses for live cattle exports.

The plan has been successful. Canadian cattle slaughter capacity has already increased from approximately 72,000 head per week to about 93,000 head per week. We expect capacity to reach 103,000 head per week by late 2006.

The main feed source for finishing cattle in Canada is grain. The type of grain fed largely depends on its cost and availability. Most of the cattle fed in western Canada are fed primarily on barley, while most of the cattle in eastern Canada are fed on corn. Thus Canadian cattlemen, and more particularly Ontario cattlemen, are customers of the Canadian corn growers, who are seeking to increase the price of our most vital input.

We are sympathetic to the market revenue situation of Canada's corn growers. CCA and OCA representatives have met several times with Canadian corn growers this past summer and in previous years to try to identify mutually acceptable solutions. We have proposed ways of encouraging Ontario cattle feeders to use Canadian corn when the supplies are low and prices are high. In return, we have sought assurances from Canadian corn growers that they would continue to supply cattle feeders on a consistent, year-round basis, even when supplies are low and prices are high.

The corn growers' response has been disappointing and has forced Ontario cattle feeders to rely on imports as well as Canadian corn to secure supply on a consistent, year-round basis.

We have heard accusations that cattle feeders are only interested in maintaining a cheap supply of corn from the United States. The truth is not that we want low-cost corn, but that we need cost parity between U.S. and Canadian cattle feed inputs. Feed cost parity is an absolute necessity for long-term survival of the Canadian cattle feeding sector.

Let's examine the competitive disadvantage that will ensue if Canadian feed costs rise significantly above U.S. feed costs in an integrated North American cattle and beef marketplace. U.S. feeders will be able to use their feed cost advantage to bid more for calves than Canadian cattle feeders. U.S. cattle feeders will enjoy a lower break-even price on slaughter cattle. U.S. slaughter facilities will have access to cattle that have a lower break-even price than Canadian facilities. Beef produced from cattle that are retained in Canada at higher feed costs would be less competitive in export markets and face increased competition in the domestic market from imported beef.

All of the objectives of the strategic plan to reposition the cattle and beef industries for recovery will be undermined by the imposition of duties on corn imports from the United States. In short, Canadian cattle producers and packers will produce less beef, and Canadian consumers will eat more imported beef. Quite frankly, we feel as though we may be beaten back down before we have even had the chance to get fully up onto our feet again.

● (1535)

We are also concerned about repercussions that could come from potential U.S. reaction to significantly increased volumes of live animal exports to the U.S. to take advantage of these lower feed costs.

The Canadian cattle industry's only alternative to offset the competitive disadvantage that would be created by the imposition of duties on U.S. corn would be to seek relief through drawback of such duties upon the export of fed cattle or beef. Under this scenario, imported duty-paid corn would need to be tracked and a refund of duties claimed when either the cattle or the beef is exported.

There is substantial administrative complexity to duty drawback, but the alternative of feeding cattle at a competitive disadvantage is simply not sustainable. Unfortunately, even this approach will likely encourage marketing the fed cattle in the U.S. instead of utilizing the Canadian packing capacity we have worked so hard to expand.

Under either scenario, whether Canadian calves are fed in the U.S. or fed in Canada utilizing duty drawback, the imposition of duties will ultimately lead to reduced demand for Canadian-grown corn, leaving Canadian corn growers worse off than they are now.

We understand that corn users, including the Canadian cattle feeders, will not have an opportunity to influence the Canadian International Trade Tribunal's approach until the public interest phase following its final determination of injury. It is possible, therefore, that duties will be imposed and collected for at least four months before we have our opportunity to even have our say before the tribunal, and for who knows how long before the recommendation can be processed.

Mr. Chairman and members of the committee, we appear before you today to seek your views and help on what Parliament can do to avoid this extremely serious situation, which carries such negative consequences for the Canadian cattle industry.

I would like to thank the committee for the opportunity to appear and to speak to you about this issue. We'll be pleased to answer any questions at the conclusion of the presentations. Thank you.

● (1540)

The Chair: Thank you, Mr. McKillop.

Mr. Schlegel, do you have a presentation?

Mr. Clare Schlegel (President, Canadian Pork Council): I do.

The Chair: Okay.

Mr. Clare Schlegel: Thank you.

The Canadian Pork Council is a federation of provincial hog farmers' associations representing the national and international interests of more than 10,000 hog producers in Canada.

More than 31 million hogs were marketed by the Canadian swine industry in 2004, of which about 23 million were processed in Canada and the other eight million, or slightly more, were exported as live swine to the United States.

Combining live export sales with more than 900,000 tonnes of pork and pork products shipped to just under 100 countries around the world in 2004, the industry generated $3.4 billion of export revenue for Canada last year. More than half of our swine production is ultimately sold to customers outside of Canada.

The CPC thanks the committee for organizing this discussion on a topic that is of great significance for us as livestock producers as well as a subject of some contention within our farm community.

We would like to begin by pointing out some “nots” in our approach to the current corn trade challenge.

Firstly, Canadian hog producers are not looking for access to cheap or subsidized corn. We much prefer to see markets, our own and those of our input suppliers and downstream customers, operate without the interference of trade-distorting government subsidies, tariffs, or other protective devices. Our dependence upon export markets for over half our production, however, requires that we have access to grain at internationally competitive prices. I'd like to highlight that: we need access to grain at internationally competitive prices.

Secondly, we do not dispute that loss of the Ontario market revenue insurance program support has weakened the safety net program available to Ontario corn growers and that it is intrinsically unfair to have different safety nets for Ontario farmers from those which exist in other parts of NAFTA, particularly the U.S.

Thirdly, we do not believe that the imposition of retaliatory tariffs on U.S. corn will have any noticeable punitive impact on the United States. In other words, it won't change the price of corn in the U.S. Because of the relatively small portion of U.S. corn production going to Canada—less than 1%—Canadian duties or tariffs will not lower their prices such that they will be persuaded to seek reforms to their farm programs. We see most of the pain from duties instead being experienced by those of us who are corn users in Canada.

Fourthly, the CPC also does not accept that hog producers should shoulder such a large share of the burden for addressing the imbalance between the U.S. and Canada in government support, which they would do by having to pay more for corn, and very likely for other feed grains, as a result of retaliatory tariffs.

This imbalance in the subsidization situation between Ontario and the U.S. is a public policy issue and needs to be addressed by the Canadian public, not just by those of us who are users of corn. Furthermore, it should not be in ways that will cost the Canadian economy, through decreased export competitiveness and loss of value-adding business to the United States and other competitor countries that will have an important advantage over Canada in feed costs.

I'll turn the rest of our presentation over to Edouard Asnong.

[*Translation*]

Mr. Edouard Asnong: I'll give my presentation in French.

Canadian pork processors rely upon domestic hog suppliers that must be economically viable in the long-run. By the same token, Canadian hog producers need an economically sustainable domestic feed grains industry. Because we are so dependent upon exports and staying competitive with our major foreign rivals, a significant change in any one segment of our value chain — from inputs through to finished products — can have major implications for the entire sector.

The imposition of duties on U.S. corn would provide our major competitors on the world market — not only the United States, but Brazil and others — with an important cost advantage in finishing hogs. However, our difficulties would not stop here.

We foresee a series of events that could lead us once again to having to fight efforts in the U.S. to impose retaliatory duties on live pigs from Canada. Earlier this year, Canada was successful in avoiding the permanent imposition of antidumping and countervailing duties on swine in a case brought forward in the U.S. by the National Pork Producers Council. Canadian hog farmers spent over $12 million in the defence effort alone, not to mention the costs of dealing with provisional duties and serious uncertainty for longer term business planning. We would add that this was the third U.S. trade remedy case against the Canadian hog and/or pork industries in the past 20 years and there was a duty on live swine for 15 of those years.

Although we won, we are very concerned about renewed efforts in the U.S. to launch a new investigation.

If proposals by Canadian Corn Producers for duty imposition were implemented, countervailing and antidumping duties on U.S. corn would likely increase by $5 to $10 the cost to finish a pig in Canada. Their substantial feeding cost advantage would enable U.S. hog finishers to pay that much more for Canadian feeder pigs than Canadian hog finishers could afford to pay. Higher volumes of feeder pig imports to the United States would result.

Not only would this divert piglets away from Canada where they can be raised on Canadian grain and be processed in Canadian plants, but it would significantly increase the risk of those U.S. producers opposed to imports pursuing another trade action against Canada.

Having explained the problems posed for the Canadian pig industry from duties on corn imports, one can ask: Yes, but what about the situation facing Canadian corn producers?

In deciding to take a position of opposition to duties on U.S. corn imports, the Canadian Pork Council also undertook to engage in dialogue with corn producers on alternatives to duties that would address their concerns.

We have listened to them about the inadequacy of Ontario safety net programs, and have examined their proposals for additional risk management coverage.

The Canadian Pork Council recommends the following: that the Government of Canada, as requested by Canadian Corn Producers, pursue a WTO dispute settlement process to challenge the legality of U.S. grain corn subsidies; and that there be an examination of alternatives to address the adequacy of safety net programs that have been articulated by Canadian Corn Producers, including the risk management proposal that has been put forward by Ontario's Grain and Oilseed Safety Net Committee, taking full account of their potential trade dispute implications for downstream users or corn such as the hog industry.

It is absolutely essential that any modifications of or additions to safety net programs be designed to minimize the risk of them being found countervailable for exporting industries. This must include ensuring that any new initiatives don't jeopardize the trade neutrality of the CAIS program, take consideration of the issue of 'pass-through' to users of the affected commodity, and, of course, that they can be accommodated within Canada's domestic support obligations under the WTO.

Thank you for providing us with this opportunity to express our views about issues with corn imports from the United States. We would be pleased to answer any questions members of the Committee may have.

● (1545)

[*English*]

The Chair: Thank you very much.

We will begin the questioning period. I'm going to limit it to five minutes on this round, because we have many members and a shortage of time.

Mr. Gerry Ritz (Battlefords—Lloydminster, CPC): We haven't handled the Animal Nutrition Association of Canada yet.

The Chair: I apologize. I've been looking ahead here, looking at my time.

Mr. Van de Velde, do you have a presentation?

● (1550)

Mr. Henry Van de Velde (Executive Vice-President, Risk and Integration Strategies, Hytek Inc., Animal Nutrition Association of Canada): Thank you, Mr. Chairman.

I'm Henry Van de Velde, executive vice-president, risk and integration strategies, with Hytek Ltd. of La Broquerie, Manitoba. I am joined here today by Dennis Kornelsen, purchasing manager for grains and ingredients with Hytek.

Hytek is an integrated pork producer in Manitoba. Our operation has 50,000 sows producing over a million pigs per year. We also are a significant manufacturer of feed.

I'd like to add that Hytek is 90% owned by five farming families, including mine. Hytek employs 326 people in our local farming communities. We work together with many local farming families to produce a quality product for the world's export market.

Dennis and I are also here today representing the Canadian feed industry. ANAC is the national trade association, representing approximately 90% of the animal nutrition products commercially manufactured in Canada. ANAC's members include livestock and poultry feed manufacturers, as well as suppliers of grains, oilseed meals, microingredients, and other services to the industry.

As major users of feed grains, the feed industry welcomes the opportunity to share our views on the U.S. corn imports and on the subsidy and dumping complaint brought by the Canadian corn producers.

I would like to begin by telling you about our industry. Every year in Canada, livestock consume about 25 million metric tons of feed. This includes the commercial feed industry, which has sales of over $3.5 billion Canadian and employs approximately 9,000 people in 550 feed mills across the country. The commercial sector manufactures approximately 15 million metric tons of feed every year. The remainder is manufactured on non-commercial on-farm mixing establishments.

According to our estimates, swine, dairy, and poultry feeds account for approximately 85% of the complete feeds manufactured and sold by commercial mills. As you are well aware, corn producers in Manitoba, Ontario, and Quebec have filed an anti-dumping and countervailing duty complaint against imports of grain corn from the U.S. Provisional duties, currently estimated at $1.20 Canadian per bushel, could be imposed and collected as early as December 15, 2005. If this occurs, prices for domestically produced corn and other feed grains will increase.

Any duties imposed on corn imports will be very disruptive to corn users, feed manufacturers, and livestock producers. Even if the Canadian International Trade Tribunal eventually decides to reduce the duties in the public interest, duties could still be collected for eight to nine months or longer.

We are here before the committee today to tell you that the feed industry is very concerned with the potential for duties to be applied to U.S. corn imports. Not only will the price of importing U.S. corn increase, but these duties on U.S. corn will also drive up the price of Canadian corn and other alternative feed grains. This price increase will have an impact on all other farmers who need to purchase feed ingredients.

The possibility that duties will be implemented on corn has already had an impact on the marketplace. We have already seen disruption in normal corn purchasing in response to the launch of this investigation. Domestic corn growers are already holding on to their corn in hopes of getting higher prices. In several parts of the country, grain buyers have stopped putting in advance orders for corn.

Duties on corn will have a major impact on feed production and users of feed. Eighty percent of animal feed is feed grain—either corn, wheat, or barley. Feed cost is the single most important factor in food production. As some of you may know, 50% of the cost of raising an animal is the cost of feed. In a scenario in which duties are imposed on corn, livestock producers will suffer, with hogs and cattle producers being most at risk.

The potential impacts of this are very significant. In 1998, Hytek sold 100% of all our production into the U.S. as 50-pound weanlings. Today, 60% of our production is raised and processed in Canada. Raising and processing livestock is vital to improving the economic viability of the agricultural sector in Canada.

Canada relies on export markets; we simply produce more than we consume. It is vital that Canada produce products the rest of the world is willing to buy.

Many Canadian livestock producers could not compete in the case of much higher feed costs. If it becomes uneconomical to raise and feed these animals in Canada, producers could ship the young animals to the U.S. to save on feed cost. We would be putting a further strain on a sector that has already has had its fair share of difficulties in the past few years.

In some parts of Canada, we already have an issue in accessing adequate supplies of corn products. In 2004, frost reduced our local corn supply. In 2005, a late seeding necessitated by excess moisture reduced our local corn supply. The excessive moisture has also increased the mycotoxin levels in wheat and barley. The hog industry must be able to source feed grains with mycotoxin levels below 500 parts per billion on a regular basis.

● (1555)

As you can see, duties on corn imports will have significant consequences that need to be taken into consideration.

We are disappointed that the Canadian corn producers have asked Canada to initiate investigations of grain corn imports. There are better ways of trying to solve this problem, such as persuading the U. S. to reduce its corn subsidies through the WTO negotiations.

The feed industry is sensitive to the difficulties corn producers currently face, but it is important that the solutions to their plight aren't based on transferring their difficulties to other farmers. Unfortunately, the corn producers have decided instead to use their customers to secure improved safety net subsidies.

As always, ANAC is looking forward to participating in developing another solution that could address the corn producers' concerns while not negatively impacting upon other parts of the agrifood supply chain.

In summary, the value-added industries of livestock production and further processing are essential to the economic viability of the agricultural economy in Canada. We must look for ways to diversify and expand within an extremely competitive global marketplace to ensure our families and our children's families can continue farming as our forefathers were able to do when they pushed their first plow across this great land many years ago.

Thank you for your time, Mr. Chairman.

The Chair: Thank you very much, Mr. Van de Velde.

Now we'll begin our question period. We have Mr. Anderson, who wants to lead off. You have five minutes.

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

Concerning the Animal Nutrition Association presentation, I want to ask if you can reconcile something for me. You said the Border Services Agency have talked about possible duties of $1.20 a bushel. When the CBSA was here, they said there was a 4.4% average margin of dumping, in their opinion. The industry had it much higher than that. But on an average price of $2.86, if I'm correct, that's 12¢ or 15¢, or something like that.

Can you reconcile that with where CBSA said $1.20? They weren't willing to use that figure here. Can you tell me where you got it?

Mr. Henry Van de Velde: The $1.20 was supplied to me by ANAC itself. The number has been thrown out a couple of times. I myself am not a hundred per cent sure where it comes from.

Mr. David Anderson: They were asked here if they had any idea what a possible duty would be, and they were very reluctant to say, so I'd be interested in knowing where it's coming from.

This is going off the Border Services report again. They talk about there being a 91¢ U.S. subsidy this year on their price. Last year it was about 44¢; this year it's 91¢. I guess the assumption we're all making is that a large part of that is affecting the price in the States and then affecting our price negatively as well.

You all talk about how you don't want cheap corn and how you feel sorry for the producers. But you're benefiting from this 91¢. Why should Canadian producers be expected to compete against the U.S. treasury? Why should they be the ones to absorb the full effect of that 91¢ on the price of corn?

Anyone can answer, or a number of you can.

Mr. Henry Van de Velde: I think the important part for us, looking at it from our perspective, is that It comes down to our needing to be able to compete in the global marketplace when we export our value-added products. In 1998 we manufactured about 24,000 tonnes of feed, and today we're manufacturing more than 240,000 tonnes of feed, just for ourselves. The reason is that we link production back into western Canada, and that's where all this feed has come from.

We used to, and still do today, raise a lot of hogs in the U.S. as well. We are going to have an extremely hard time being able to sell our production in Canada at a competitive price if we're forced to absorb this extra cost that our U.S. production doesn't require. When it's all said and done, we in western Canada, whether we like it or not, have to compete in a global marketplace. We will export something out of this country. We just have to decide what it's going to be. But it cannot be something at a higher price; otherwise, it'll just disappear.

Mr. David Anderson: I don't have any problem with the idea of competing in a global marketplace. I think it's great. But the reality is that the U.S. treasury is subsidizing the price of corn by about 90¢ a bushel, and most of the presentations we've heard are suggesting the Canadian farmers should just absorb that. I'm not finding that acceptable.

I've only heard one presentation from processors and industry that even came close to saying we should be challenging the U.S. Farm Bill on this. There was one suggestion made here today. But the reality is that farmers are going to have to absorb it if something isn't done here, and I'm just wondering how you expect them to be able to do that.

● (1600)

[*Translation*]

Mr. Edouard Asnong: In my presentation, I said that corn producers should be supported by subsidy or other programs. Canadian corn producers should not be penalized. The worst thing that could happen to us would be for them to stop producing corn. We wouldn't be any further ahead. We're competing with American producers, and we have to have access to inputs at the same price as our American competitors. Canadian corn producers shouldn't have to fight the U.S. treasury; it's the Canadian treasury that should conduct this fight. I also said in my presentation that we encourage corn producers to denounce the situation before the WTO or verify the legality of U.S. subsidies.

[*English*]

The Chair: Mr. Schlegel, did you have a comment?

Mr. Clare Schlegel: I think it's pretty simple. The price of corn needs to be similar in the U.S. and in Canada. This action wouldn't change the price of pigs, so that's the problem that we face. It would raise the price of corn in Canada, the price of feed in Canada, yet we would be competing in terms of the product that we're selling. I think the same is true for beef.

The Chair: Mr. McKillop, is it the same thing?

Mr. Ian McKillop: It's exactly true for beef, and just to emphasize, for every dollar difference in the price difference between U.S. corn and Canadian corn, that would add $60 per head onto the cost of finishing an animal in Canada. That is simply a cost we cannot absorb when we are selling into the world market against countries like the U.S.

Mr. David Anderson: May I have a point of clarification on that?

The Chair: Really, we've run out of time, and in order to get everybody in here, we have to move on.

Mr. David Anderson: Was it a dollar on corn?

The Chair: Yes, a dollar on corn.

Mr. Bellavance.

[*Translation*]

Mr. André Bellavance (Richmond—Arthabaska, BQ): Thank you, Mr. Chairman.

Thank you for your presentations, gentlemen. With regard to the WTO, Canadian corn producers are asking Canada to be more active in this area; that's part of their offensive. The International Trade Minister said he would act very quickly. In the language of government, it's not always as quick as we would like.

I very much appreciate the fact that you've taken the trouble to present your own solutions. However, as you said, Mr. Asnong, you also can't hope that corn producers will disappear. In their presentation to the committee, they said they weren't asking Canada to file this complaint before the Canadian Foreign Trade Tribunal for fun, but because they have their backs to the wall. That's also part of their offensive.

You spoke with them. What kind of agreement could you make with them to resolve the current impasse. You're asking Parliament to examine the matter, but I'm asking each of you what your suggestions are for resolving the impasse?

Mr. Edouard Asnong: The CAIS program doesn't appear to be working for grain producers in general. The reference margins on which the program is based are constantly declining. If there isn't a positive reference margin, the program stops paying. Is there any way to adjust this program? We also asked them whether there was a way to develop a program in what's called a “blue box” of other programs less likely to be disputed. Corn producers definitely have to continue producing because we have to continue buying corn and we need them.

However, I don't know whether we have to absorb the cost of it. They also need us and our clientele. So there would be a way of exploring, together with the government, a way to adjust assistance programs and the possibility of developing other assistance programs.

● (1605)

Mr. André Bellavance: Does someone else wish to respond?

Have you considered mounting a joint offensive to secure changes to the CAIS program and the possibility of creating other programs? Do you think that would be a promising option? The number of participants could give weight to the initiative. With the help of the opposition parties, things could move. Have you considered that?

Mr. Edouard Asnong: Yes, we've already spoken with grain producers about our interest in mounting an offensive.

We're currently determining what program would be acceptable. We understand that grain or corn producers don't export. However, we have to pay attention to the structure of support programs. If we support one input or another type of production, that can also create what's called a pass through and have an impact on the production that's exported. So you have to create a program so that this phenomenon doesn't occur. We're studying that. But we're definitely going to join forces so that we can all come out winners.

[*English*]

Mr. Ian McKillop: The cattle industry has been very vocal in lobbying for changes to the CAIS program to make it more effective for all Canadian agriculture, all Canadian producers. Changes to the CAIS program are not going to be quick. They are multi-year changes. This corn trade action could very likely be almost immediate. We need the CITT to take their time to investigate both sides of this issue very thoroughly. We can't afford to have a quick decision made on this. There needs to be a proper investigation done. Interests of both sides need to be considered.

[*Translation*]

Mr. André Bellavance: Mr. McKillop, you ask us in your speech what Parliament and parliamentarians can do to resolve the impasse, which is serious for the industry as a whole. Ultimately, you answered your own question, and, like Canadian corn producers, you have solutions in mind.

[*English*]

Mr. Ian McKillop: I think that right now the president of the Canada Border Services Agency does not need to impose provisional duties. That is discretionary, and the president should use his discretionary power to allow for an investigation to take place.

As well, the public interest inquiry and the injury inquiry should be conducted at the same time, allowing for the recommendation to come forward at the same time as a final injury determination is made.

Again, we need to emphasize that we need to investigate this thoroughly from both sides before the government rushes into any quick decisions on this and to consider the impacts of how it will affect the three organizations and the members sitting here, as well as to recognize the concerns of the corn producers.

The Chair: Mr. Bellavance, your time has expired.

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

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chairman.

Thank you, gentlemen, for your presentations.

There's no question, Mr. Chair, this is a really serious situation. The sad reality is that the United States farm policy that allows the United States corn to drive our prices down in Canada while protecting their own could create a situation where we in Canada shoot ourselves in the foot. I think all your presentations outline the amount of growth in our industry in adding value, creating jobs in Canada, doing our processing here, and exporting the end result. However, the other side of the coin is, if we wait for the WTO, how many of our corn and cereal grain producers are going to be broke at the end of the day?

I do appreciate the suggestions that were made in the Pork Council brief on page 4. I think they're worthy of merit. I guess the bottom-line question is, how do you see government assisting the industry in getting to the point where...? If you're going to have a healthy livestock industry, you also have to have a healthy grain industry, and people at all levels have to receive fair returns. Do you have any suggestions on how to get there?

A question I want to ask directly to all is, where would it leave us in the WTO discussions if we set, by one means or another, a floor equivalent to the United States? That's pretty nearly the only solution in this dilemma. If we were to take the Americans head-on and establish a floor equivalent to theirs, which would protect our grain industry and also protect you, while the fight continues at WTO and elsewhere, where would that leave us relative to the WTO? Would it be the solution?

I know the response always is, even from the farm community, when we talk that line, that the country can't afford it. Well, are we at the point where we can't afford not to, if we're in this situation that we're in right now?

● (1610)

Mr. Clare Schlegel: I might be the first one to stick my foot in my mouth here. Wayne, I think you've hit the nail on the head in terms of the issues we're attempting to address.

It's probably easier to catch the problem than it is to put the solution forward. The livestock industry you see represented here is committed to working with corn growers and the government to try to find a solution that will work. Clearly, in the long term in North America we need to find a system in which there are similar programs, so that we don't have these trade disputes we're currently up against in so many different areas.

That's a longer-term solution. Between now and then, frankly, we don't have a good solution, but we're certainly willing to look at the potential ways the Government of Canada could support the grains and cereals industry in Canada to allow the industry to compete. We do know that putting it on the backs of livestock producers and having us go out of business in the short term isn't the solution, but there needs to be a solution. We've suggested a few things in the brief; we certainly would commit to work both with you and with corn.

We met with corn last week. We met them back in September. We've positioned ourselves as not being antagonistic or against them, but we are saying we need to find a way to work through this together. It's unfortunate that they took it to the level they did before we had a chance to talk.

Now, I'm going to be fair to them and say it's also unfortunate that we did not recognize the hurt—actually be proactive, and go and say we need to find a solution.

Hon. Wayne Easter: Does anybody else have any thoughts on the question raised?

Mr. Clare Schlegel: The WTO question is key. In Canada, of course, we think WTO first and domestic policy second. It's pretty clear that the U.S. thinks domestic policy first, WTO second. Somehow we've got to find a way to make it work within the current negotiations, the whole area of domestic support. When we hear proposals talking about a U.S. reduction in its domestic support, yet they can fit all their current programs within the capacity that's there, it doesn't level the playing field between Canada and the United States. That would perpetuate the kind of problem we're talking about here, with no easy solution.

Mr. Henry Van de Velde: There's one thing I'd like to add on this.

I agree with everything that's been said here, but one part—around supply—is, I think, being little bit missed. Given the amount of growth that's happened in western Canada—going from 2.8 million hogs to 8 million hogs, which has more than doubled in the last 10 years, and the cattle industry growing by 30% because of BSE—the demand on feed grains in western Canada has dramatically increased.

In 2004, when the frost hit, the Manitoba corn crop was only 4% of all the corn needed in western Canada. Hytek uses 10 million bushels' equivalent of feed; in a good year, Manitoba produces 10 million. In the last three years, Manitoba hasn't even produced 10 million bushels of corn. We cannot rely on the fact that we're going to have a frost every year in western Canada to have feed grains.

Vomitoxins are another problem. I talked to Dr. Trevor Smith, who spent 28 years on vomitoxins in Guelph. He says over 100 different mycotoxins—they're moulds—are found in feed grains. Over 50% of the samples he's tested recently have this level above what's acceptable in hog production. We keep looking back and saying we're just going to find this grain somewhere else; it's sitting there—we can just go and get it.

We can talk about a lot of things. I agree that they should all be done in WTO, but the reality is that the supply is not there, unless we're going to talk about feeding number one and number two grades of wheat to hog production.

● (1615)

Hon. Wayne Easter: Could I interrupt, Henry, for a second? If the supply is not there, why wouldn't the price be up?

The Chair: Mr. Easter, your time has expired.

Having access to U.S. corn is part of it. It's a good discussion, but we want to get some more of the people in. Perhaps we can summarize.

Mr. Angus is next.

Mr. Charlie Angus (Timmins—James Bay, NDP): I'd like to know what to do in terms of our farm economy. It seems to me probably right now our number one problem is the distorted markets we're seeing because of the U.S. subsidies. I mean no offence here, but I can't help feeling that at the end of the day, things are pretty good for you guys because of that distorted market. Am I not correct?

Mr. Clare Schlegel: What are you talking about?

Mr. Charlie Angus: You're getting access to fairly cheap corn because of the heavy U.S. subsidies. If we had a fair market, you'd be paying more.

Mr. Clare Schlegel: So what's the cost of corn to the U.S. hog or beef producer, who we're competing against? Is it similar to what we pay?

Mr. Charlie Angus: You tell me.

Mr. Clare Schlegel: It is similar, plus or minus basis, which is simply the cost of getting corn from Iowa to Manitoba or Iowa north. So corn or any grain finds its own level in North America. The only thing that determines variation is the cost of transportation. If you increase the price of corn in Canada, you've simply put us at a disadvantage.

The example would be in this situation—and by the way, David, we can provide you with the brief that was put before the commission.

Mr. Charlie Angus: Sorry, it's my questioning. You can talk to him later.

Mr. Clare Schlegel: They have talked to us as high as $2 a bushel. So the numbers we used to evaluate the impact was $1 a bushel or $40 a tonne.

Mr. Charlie Angus: That would incur 90¢ a bushel.

Mr. Clare Schlegel: That would impact us by $10 a pig, and $10 a pig would increase our cost in Canada. In the United States, their feed price stays the same, their pig price stays the same. So you've just disadvantaged your livestock industry in Canada by that much.

Mr. Edouard Asnong: Just to answer your question, we have mentioned that what we want is not cheap corn. We don't want to buy corn at $90 when the cost of production is something like $160. We are more than happy to pay $160, but if our competitors in the States are paying $90, we cannot afford to pay $160 and be competitive with them in pork prices.

Mr. Charlie Angus: I understand. The problem is, where do we go from here?

You guys pointed out that for the U.S. it's domestic first and WTO second. It seems to me that for the U.S. the WTO is about fourth on the list. Is it feasible, given the crisis in corn right now, to feel that the U.S. will stop the heavy subsidization in corn at the WTO when we've been trying to get them to move on this right across the sector and they have no interest in it? Again, is this even feasible to suggest?

Mr. Edouard Asnong: I think Canada has to make a choice. The choice that Canada made many years ago was to add value on their grains and oilseeds. That value was converted into meat or ethanol or you name it. Now we are putting at risk the value-added product. Why? Because the U.S. corn producers are subsidized and they can survive in this environment. The Canadian corn producers can't. Why can't they? Because the CAIS program is not working for them. They should be helped.

What we are saying is that because we have to compete with the U.S. producers we cannot afford to pay more than U.S. competitors. We have also suffered from the Canadian dollar value. The Canadian dollar value increased by 30%. That has already had a huge impact on hog producers, and it has also a huge impact on corn producers.

So I think fix the CAIS program and the solutions...and Mr. McKillop said very well what we are asking for. But I don't think we should go so far. I think we should solve the problem, and the corn producers will be satisfied and withdraw their action. That's what we should plan and work on.

● (1620)

Mr. Charlie Angus: I guess I'm still looking for what that solution would be, because it seems to me that CAIS is a disaster—we know that—but is it practical policy to try to have the Canadian taxpayer compete with the heavy subsidizing that we're seeing in the U.S.? They have a lot more muscle than we can apply. If we do get a deal in Doha, with the caps that are already placed, we don't have a lot of room to manoeuvre. So unless we deal with the price distortion in grains and corn, at the end of the day, can our farmers be any further ahead?

Mr. Edouard Asnong: I'm not sure if I understood your question very well. I think you asked, why should the taxpayers help out? I think as exporters we generate a lot of economy in this country and also we bring a lot of money, new dollars, into this country by our exports.

Mr. Charlie Angus: Is it feasible, 90¢ a bushel, going head to head against the U.S.?

Mr. Edouard Asnong: I haven't figured how much that is at the end of the day. But if you compared the cost of it, and also what we put at risk by having to reduce our value-added products that we are exporting, and what's the value of that when you compare, I think probably the results would easily indicate what difference it would make.

The Chair: Mr. Bezan is next, for five minutes.

Mr. James Bezan (Selkirk—Interlake, CPC): Thank you, Mr. Chair, and thank you, gentlemen, for coming in today.

Ian, you'd said putting the countervailing duty in place was going to cost somewhere in the range of $60 a head more in feed costs, which means you're going to pay $60 less on each calf that's sold through the auction market.

Mr. Ian McKillop: That's correct, based on a spread and a difference of $1 between the U.S. price of corn and the Canadian price of corn. For every $1 difference, there would be a $60 increase in feeding costs of a Canadian animal. For example, in Ontario we finish out about 600,000 head per year; at $60 a head, we would have about $36 million in additional costs in Ontario.

Mr. James Bezan: We have quite the problem here.

We have a corn industry that's definitely been taken advantage of by U.S. subsidies, the U.S. Farm Bill in particular, and we have feed grain users and users of corn products here who are going to be disadvantaged if we put in place a tariff. As somebody who's in the cow-calf business, I don't want to be getting less on my cattle, having just come through BSE and everything else. I don't want to see the hog industry going through any more problems, and we need to make sure it continues to grow and prosper. There's talk in Manitoba of a new packing plant getting built. It's something we need. We need to make sure the industry grows and does not shrink. So how are we going to resolve this?

I don't think CAIS is the way. CAIS has proven to be a very terrible program in delivering aid out to farmers—the whole BSE situation brought that to light—and we have a crisis here in which it's not going to help the Ontario, Manitoba, or Quebec corn growers. They're going to be sitting with shortfalls in revenue because of the reduced income and marketability of their product.

What can we do to help the corn growers without disadvantaging our feed grain users? I know you guys in pork made mention of the Ontario program, but essentially we have to also make sure we design programs that aren't countervailable. We need some ideas here. That's what we're looking for.

Mr. Ian McKillop: One solution is the current program the Ontario grains and oilseeds committee is recommending. It would be funded by the provincial government in Ontario and the federal government. It would give them the price support they feel they need in order to compete with the subsidized U.S. product.

That program is basically an addition to the former market revenue program, which did include farm-fed grains in it. It's my understanding that was acceptable under WTO trade rules as an acceptable farm subsidy program for livestock. That's one solution. It is a program that has been promoted quite extensively in Ontario.

Mr. James Bezan: How much are they talking about on a per-bushel basis?

● (1625)

Mr. Ian McKillop: It's tied to the price in Chicago. It's not a flat per-bushel basis. There is more incentive, or more responsibility, put on the producer to sell the crop when the prices are good, and the government is not on the hook for as much. They're not expected to fill the gap as much as they were under the old market revenue program, so there is more onus on the producers to sell their crops at a reasonable price if they have the opportunity to do so.

Mr. James Bezan: You said it's going to apply to farm-fed grain as well?

Mr. Ian McKillop: Correct.

Mr. James Bezan: So the guy's going to benefit from feeding lower-cost grain, and then get the subsidy on top of that? That's almost like a double bill.

Mr. Ian McKillop: The program is similar to the market revenue program, under which farm-fed grains were included. In total, they are looking at about a $500-million package.

Mr. Edouard Asnong: It would be nice if we had all the solutions this afternoon and everybody agreed on what everyone should do, but certainly some people have to sit together and discuss the problem and try to find a solution. That means an involvement of all the parties concerned, including the governments.

Mr. James Bezan: What we're dealing with here is an issue that has some relevance and timeliness to it. We're getting a lot of pressure from growers who are feeling the injury right now as they're trying to market this year's crop, and they've been feeling it throughout the year as they've been marketing last year's crop.

We have to reach some decisions here in a relatively short time. The WTO is probably the right place to either negotiate away the subsidies in the U.S. Farm Bill or to challenge in future possibilities, but that all takes time. The CITT will be doing their investigation—again, it's going to take time. We need to do something today without hurting the users, but we also need to look at the overall picture of how we put in place a program that isn't countervailable.

Mr. Henry Van de Velde: The one thing I've noticed a little bit.... There are a few quick points, but specifically to your question, I'm being referred to as a user. My family and the other families of Hytek are all grain farmers. When the Crow subsidy disappeared, we all looked for ways to manage what we do and how we could go chase extra income and how we could make this work.

One simple comment is that maybe a grain farmer would invest in some livestock. It's like two sides in this game. The grain farmer says, “Mr. Livestock-guy, save me”, and then livestock guy says, “Mr. Grain-farmer...”, but at the end of the day, we're all producing the same thing. If we all create our own demand.... That's what basis is—create demand for your product, whether it's through export, or whether it's local. You can remove basis. In eastern Manitoba, barley is 50¢ higher than it is in western Manitoba. Why? Because that's where all the livestock is. If you create demand for your product, you will raise the price.

The other thing that seems to be.... We come up with this conversation every time the Canadian dollar likes to take a run to 85¢. There's no magic here. A $200 hog is worth $150 today; $8 canola is worth $6 today; $5 wheat is worth $3.75 today; and I'm sorry, but $3.60 corn is worth $2.70 today. That's a function of the Canadian dollar. There's no magic here, and we can have this conversation every time the dollar runs up, but this is a reality of dealing in the world market. We win on the oil; we lose on the grain.

The Chair: Mr. Schlegel, I know you have some comments, but perhaps you could keep those comments for our next questioner.

Ms. Ur, for five minutes.

We're going to take this into the next hour, and if we have to, we may have to extend our time a few minutes at the end. We'll see how the next session goes, but I believe there are still some questions that need to be asked from the table.

Mrs. Rose-Marie Ur (Lambton—Kent—Middlesex, Lib.): I'll try to be quick, because five minutes is hardly enough to ask questions from our three presenters.

Sitting here listening to all the presenters and being a farmer in my previous life, I can certainly understand your dilemma. I'm sure Americans are tuned into this, watching us here today at this committee, and they're laughing all the way and thinking, here we are causing such a kerfuffle up in Canada and pitting one sector against the other. As Mr. Van de Velde had just said, it's not us and them, it's us together.

That being said, was there a lot of discussion? I know some of you alluded to this in your presentation. Prior to this going forth with OCPA, was there any discussion as to coming together—proposals, solutions—before they originated their countervail or the triggering of their concern?

Mr. Schlegel.

● (1630)

Mr. Clare Schlegel: No, not prior.

Mr. Henry Van de Velde: Not on this. The only conversation we had ourselves was in Manitoba. There was a similar countervail done regionally in Manitoba at that time.

Mrs. Rose-Marie Ur: So OCPA had no consultation. They just went ahead.

Mr. Henry Van de Velde: That's correct.

Mr. Edouard Asnong: In fact, it was a surprise for us, but I know that they are also full participants—maybe not the corn producers, but indirectly the corn producers through the grain producers, at the safety net advisory committee—at all those tables they were arguing to develop programs to fit their needs

Mrs. Rose-Marie Ur: Right.

When you had the disaster, Mr. McKillop, with the BSE, were there any consultations with the grains people then, when you were experiencing difficulty? Could they play a part in that situation?

Mr. Ian McKillop: No, I would say we were largely on our own at the time.

Mrs. Rose-Marie Ur: On your own again.

I think it was Mr. Van de Velde, or maybe Mr. Schlegel, you had said the hog industry in Manitoba has gone from two million to eight million, I believe?

Mr. Henry Van de Velde: It was 2.8 million in 1995 to over 8 million today.

Mrs. Rose-Marie Ur: You need 10 million bushels of grain to feed those animals?

Mr. Henry Van de Velde: I'm sorry, the 10 million bushels is just Hytek itself.

Mrs. Rose-Marie Ur: Just Hytek itself—

Mr. Henry Van de Velde: In western Canada.

Mrs. Rose-Marie Ur: And that's not even thinking about ethanol, then. Wow.

Mr. Henry Van de Velde: That's the 10 million bushel equivalent of feed that we produce in a year. Just to give you an idea, in 2004 Manitoba only produced less than one million bushels of corn, and 95% of all the corn in western Canada comes from Manitoba.

Mrs. Rose-Marie Ur: Right. You had indicated in your presentation that domestic corn growers are already holding onto their corn. We had presenters here last week, in Chatham; they had 20¢ per bushel, and no one was selling corn in Chatham. We heard that last week.

Mr. Henry Van de Velde: The one other thing I'd like to mention is that it's not as if we go and buy and pay less in the U.S. Currently we pay $24 a tonne minimum, just to freight the corn up from the U. S. That's 60¢ a bushel. To get the high-quality feed grade and wheat that we need out of Saskatchewan costs us $40 a tonne. That's a dollar a bushel, just to freight it in.

The local Manitoba farmers all have that price. We signed contracts in 2004, in February, with the Manitoba corn farmers to deliver us grain in the fall at a price they were comfortable with. This was a follow-up to 2000, when we made an active approach. We got into the fall after the frost; we had to proactively ask all those farmers if they were okay with cancelling their contracts. We offered that to them—every single one of them signed a contract—because they didn't have the corn to supply us. Not one single producer stayed. We were forced after that to go and find our own corn. If we had held them to those contracts, they would have had to go to the U. S. to find the corn to fill the contracts.

Mrs. Rose-Marie Ur: I believe, Mr. Schlegel, it was you who said the governments need to get together and have a proposal. I think governments have to be there, but I think this needs to happen on the ground with the corn producers and with the various sectors affected by this. They need to sit down in a room and thrash it out.

Am I dreaming in Technicolor, thinking that could happen now?

Mr. Clare Schlegel: I believe it could happen, but the solution— you are part of the solution, and the inequity between Canada and the U.S. has to be taken care of. There will probably be short-term solutions and long-term solutions. Our dilemma is that the house is burning—

● (1635)

Mrs. Rose-Marie Ur: Exactly.

Mr. Clare Schlegel: —and it's a legal process, so the legal process continues, in spite of the fact that we here probably all have good intentions. If we could find a way to give ourselves some breathing room and to get corn to back off for a period of time, and all be committed, and have a true government-industry partnership...I do believe there is a solution, and I think it's a transition to a longer-term world market, a global market.

This is not a position of the Canadian Pork Council, but we may need a common market in North America, down the road, that removes some of the inequities we see. We're a long way from that, but the reality is that Canada produces 30 million pigs, the U.S. produces 100 million, but 15 million of the 30 million in Canada have to be exported. I don't want to buy cheap subsidized corn, but don't make me pay $40 a tonne more than what my fellow farmer buys it for, of those 100 million. Otherwise we can't compete around the world. The world pork trade is about 4 million tonnes. About a quarter of that comes from Canada and about a quarter of that comes from the U.S., so we have no choice but to be competitive. That's what drives our prices, and that's fundamentally what our concern is here.

We didn't start the process, but we're committed to working with all the other farmers to try to find a solution. If we can find a way to do that in a reasonable time, then hopefully we can get out ahead of it.

The Chair: Our time has expired.

The last speaker in this session is Mr. Lapierre.

[*Translation*]

Mr. Réal Lapierre (Lévis—Bellechasse, BQ): I'm going to recap the comments I've heard since the start of last week. The role of the Border Services Agency is to check to see whether there are any cases of dumping. The people who have met with us until now have all come to the same conclusion. Whether it's breweries, distilleries, ethanol producers or breeders, they all say they're facing a problem. That problem may seriously penalize corn producers. However, the events surrounding the softwood lumber issue have taught us that we can't depend on immediate WTO negotiations that can produce results.

So what solution remains? In my view, all the parties that have to work with corn producers could join forces and propose that government authorities set up a program. This doesn't exist as such at this time, but, until the matter has been clarified at the WTO, that would make it possible to correct the shortfall. From what I've heard in this committee, a state of panic has set in. There is real concern. Everyone seems to be looking at everybody else, wondering where the solutions will come from.

Of course, if all parties concerned got together to make a common proposal, even if it meant heading in new directions, the short- and medium-term problem could probably be resolved. I don't see how this issue can be resolved under the present arrangement.

Mr. Edouard Asnong: That's what I believe as well. In my view, we urgently need to adopt that solution. However, we have to be quite aware of the fact that we're currently falling into the U.S. policy trap. The U.S. subsidizes primary commodities, and, because the prices of those commodities are low, other sectors can develop, whether it be ethanol production, animal production or other types of production. The U.S. policy is so successful that these people are stealing our industries. Our ethanol plants will be shifting their production to the United States. As I said earlier, piglets will go to be finished and slaughtered there as well, and they'll be exported here as meat. The same will no doubt be true in the case of beef.

We have to be careful. It's urgent that the government take an interest in the issue. We need to act quickly and find an acceptable solution that will enable everyone to survive. It's essential that we continue producing added value and that we export products that generate economic activity in Canada.

[*English*]

The Chair: Mr. McKillop, do you wish to comment?

Mr. Ian McKillop: Further to that, under the duty drawback provision, that will really hurt us if the tariff is put in place. I agree that we need to come to a solution. All the parties need to get together. There has to be a solution, but the duty drawback will severely hurt our processing industry if cattle fed U.S. corn then have to be exported to the U.S. in order to get that duty rebate. The additional capacity that industry and government have worked so hard to achieve over the last two years will be lost under the drawback provisions, which our producers will take advantage of if there is a tariff imposed on U.S. corn. A decrease in our slaughter capacity—after having it expanded—will hurt not only our industry but all of rural Canada as well.

● (1640)

The Chair: We're truly in a dilemma. There is no doubt that we have competing industries that are trying to survive in a sinking quagmire of financial losses on the farm scene. Over the past 12 years, we have doubled our exports from Canada, on the agricultural side, yet we have never found agriculture in such dire financial straits. Obviously, the primary producer—he or she—is not getting a fair share out of the marketplace.

We're going to be hearing from other groups today, but there are sectors of our society that are getting their fair share. How do we get at least a portion of the fair share of the marketplace back to the farm gate, where it belongs? That's the dilemma we face in this country.

A lot of options have been offered. Some are acceptable, I suppose, to some degree, but we are in a world marketplace. We can go on for a while, but that's sort of....

I think this committee understands the dilemma you're facing. It's something we have to struggle with, but we thank you very much for your presentation and for being forthright. We understand, but we don't have the answers for your problems today. We take them under consideration; they are well noted, and we hope that the next time we meet, perhaps we can discuss something entirely different from this issue today.

Thank you very much.

We'll take a short recess while we rejig the table, and we'll get back to this meeting.

Thank you very much.

● (1642)

(Pause)

● (1647)

The Chair: I'm calling the meeting to order. We have one witness at the table. Is the other witness in the room?

We want to convene this meeting. We cannot operate this committee unless we have people at the table. We have a set time for people to be at the table. We expect them to be here.

To continue our debate on the corn tariff, we have with us Ellen Mary Mills, director of policy development with Food and Consumer Products of Canada. When she gets here, we will have Annalisa King, senior vice-president for vertical coordination, Maple Leaf Foods Incorporated. I believe those are our two witnesses.

Ms. Mills, would you like to begin?

Ms. Ellen Mills (Director, Policy Development, Food and Consumer Products of Canada): Thank you very much, Mr. Chair.

I want to say that on behalf of the Food and Consumer Products of Canada, I'm very pleased to be here and we're very pleased to be able to present our views to this committee on the grain corn imports and on the potential imposition of a tariff.

You will have in front of you, hopefully, a submission in both English and French. I'm not going to read from it word for word, but I would ask that the entire submission be formally entered into the record of this committee.

Just before we begin, I will say a few words about our industry and about our association. Many of you may know it; some may not. It's the industry association representing approximately 130 Canadian-operated member companies that make and market retailer and national brands integral to the daily life of Canadians at home, work, and leisure. They provide Canadians with safe, high-quality food and consumer products sold through a variety of chain, grocery, drug, and convenience stores, mass merchandisers, and food service distribution channels. You can see the range of products—food, beverage, food service, and consumer products.

To give you just a little bit about our impact, in 2004 the industry generated $22.5 billion in GDP. That is approximately 12.4% of the manufacturing gross domestic product. We employed 350,000 Canadians in every region in Canada, making us Canada's largest employer in the manufacturing sector. This industry also contributes a great deal—$33 million—to charitable causes, and over five million bags of groceries to needy Canadians.

I don't think I need to go into the background. You know why we're here. The Ontario Corn Producers' Association, the Quebec Corn Producers, etc., have asked the Canada Border Services Agency to look into the alleged dumping and subsidizing of grain corn and ingredients into Canada, and the impact on their industry.

I want to point out our members' concerns. I recognize we are another end-user. You have just heard from a significant end-user; we are another one.

Generally speaking, we and our manufacturers need a low-cost, reliable supply of grain corn inputs. Our submission today is focused on the potential imposition of an interim tariff by CBSA. We do know that the Ontario Corn Producers have also asked that this be recognized under the WTO and added to the Byrd Amendment, but grain corn and its derivatives are very important ingredients for food and beverage processors in Canada. They're used extensively in finished goods manufactured in Canada for both domestic and internal markets.

Our members need predictable and stable access to corn supplies on both sides of the Canada-U.S. border to provide flexibility and efficiency in the processing sector. In some instances, corn varieties needed for food processing are not available and cannot be grown in Canada, owing to agronomic conditions.

The stability of the grain corn supply chain is of vital interest to our members, and essential to protecting the jobs of thousands of Canadians employed in the agrifood industry. It's equally important to Canadian consumers, who in turn are affected by the availability and price of products we manufacture.

Our sector is very concerned that any trade action launched by the Government of Canada could lead to a disruption in corn supply, greater cost for Canadian manufacturers for important manufacturing inputs, business uncertainty caused by escalating Canada-U.S. trade tensions, increasing food costs for Canadian consumers, job losses in the agrifood process sector, and the loss of product choices—or higher prices—for Canadian consumers.

In general, I'll speak briefly to the impact on Canadian consumers first. Corn today is a commodity used to produce a wide range of products consumers use and rely on, but it is also fuelling the development of many new products. Recent discoveries indicate that virtually anything made from petroleum can also be made from corn, such as non-petroleum-based plastics, absorbents in diapers and other products, and fuel ethanol.

According to the Ontario Corn Producers' Association, corn is used in the manufacture of about 25% of the 10,000 products found in a modern supermarket, and in a wide range of other products, such as paper and cardboard. These are the products that the FCPC member companies manufacture. Manufacturers who have already been burdened with substantial increases in energy costs and the pressure on profit margins caused by the rise in the Canadian dollar will undoubtedly need to pass to consumers the cost of any increases that result from a potential tariff.

● (1650)

With the imposition of a retaliatory tariff of $1 per bushel on U.S. grain imports, consumers will face increases on food products manufactured by FCPC members of between 5% and 10%, depending on the product. The most prominent of these food products include the following, and you can see the range: confectionery products, pet food, cookies, crackers, frozen beverages, fruit fillings, rice cakes, etc.

On the manufacturers' side of it, the manufacturers' input cost increases are likely to kill products and jobs. The cost structure of the food processing industry is dominated by the material cost component, which accounts for 82% of total costs, from a low of 68% in the baking segment to a high of 89% in the dairy segment, according to the Conference Board of Canada's Canadian industrial outlook for winter 2005.

A potential tariff on grain corn originating in or exporting from the U.S. will significantly increase the cost of raw grain corn and derivatives from primary milling used in food manufacturing. With the imposition of a $1 per bushel increase, input costs for manufacturers using raw grain corn are estimated to increase somewhere in the range of 15% to 20% annually for our members. Manufacturers using glucose syrup or high-fructose corn syrup would be subject to lower cost increases, likely in the neighbourhood of 5%, given the lower corn content. The entire food manufacturing industry is facing an increase of approximately $50 million on grain corn inputs annually.

Sustainability of product lines is at stake when cost increases cannot be passed on to consumers, and passing on cost increases down the food chain is not possible in every case. Given the price elasticity associated with many products, price increases may not be possible, and further competition from U.S. products not subjected to the tariff increase may also prevent consumer price increases. Therefore, Canadian manufacturers must decide whether to compress profit margins or discontinue the product lines affected by a tariff increase.

Further job losses are likely. The effects of cost increases due to a tariff imposition on grain corn inputs provides manufacturers with few unappealing choices: consumer price increases, with a potential threat to continuity of sales; squeeze on profit margins; product line discontinuation; and potential closures, depending on the size of the plant. Depending upon the product category, not all these options are available, and, with the exception of consumer price increases, job losses are inherent in each option. FCPC member companies affected project job losses in the range of 15% to 75% for small to medium-sized companies, with specific plant closures a real possibility for some. Larger companies estimate job losses in the range of 500 to 700.

In addition, the imposition of a tariff may mean a shift in production from Canada to the United States. Companies operating plants in both Canada and the U.S. assign production mandates to the lowest-cost facility. The cost advantage that Canadian plants enjoyed before the strengthening of the Canadian dollar has all but been eliminated. Accordingly, a cost increase affecting only Canadian manufacturers relative to their American counterparts will continue to erode their competitiveness and seriously threaten production in Canada.

The options to avoid input cost increases due to a retaliatory tariff are limited. The move to import finished products from the U.S., instead of grain or grain ingredients, could prove costly. The cost of up-charges for U.S. production and the potential additional charges for smaller Canadian runs could prove to be as costly as increases arriving from a tariff imposition. More importantly, those who rely on domestic suppliers may be faced with the elimination of their Canadian source, as Canadian millers fold. I know that Casco, the primary Canadian supplier of processed grain corn ingredients to FCPC member companies, has indicated the viability of their operation in the event a tariff is imposed is in question, and they may be forced to close.

We recognize that Canadians have heard directly from Casco about the challenges they face in the event of a tariff and about potential job losses, so I will not elaborate on their specific plight; however, such a closure would force Canadian manufacturers to look to American suppliers, only increasing the Canadian reliance on U.S. imports of grain corn. As well, it would be highly disruptive, creating an unstable and unpredictable environment for manufacturers in Canada, which risks the continuation of many businesses in Canada.

● (1655)

In conclusion, FCPC respects the mandate of the Canadian Border Services Agency and the terms of reference set down for their investigation regarding the alleged injurious dumping and subsidizing of U.S. grain corn imports to the Canadian corn production industry. However, we respectfully submit that analysis of the alleged injurious effect should take into account the impact on a wider range of stakeholders—I think you heard that from the previous presenters—including the users of grain corn down the supply chain, and certainly the end-users of finished products. We hope today that we have provided you with a preliminary analysis of the impact as we see it on our industry and on consumers.

To summarize, consumers risk either the loss of products or higher prices of approximately 5%—or both. Manufacturers will be confronted with grain import cost increases of between 15% and 20%, and increases in glucose and high-fructose input costs of approximately 5% to 10%. Manufacturers have limited options to combat input cost increases, and therefore job losses are likely. The competitiveness of Canadian plants relative to American facilities will be eliminated, and production is likely to move south as a result. As well, Canadian suppliers of grain corn ingredients face closure, creating disruption for manufacturers and a further reliance on American suppliers.

Finally, Canada is a net importer of grain corn, and the imposition of a tariff on U.S. imports will have injurious effects down the entire food chain, affecting food manufacturers and ultimately Canadian consumers.

We thank you for this opportunity to appear before the Standing Committee on Agriculture and Agri-Food and present the views of the members of the Food and Consumer Products of Canada, which I recognize is only one sector of the end-users.

● (1700)

The Chair: Thank you very much.

Ms. King, did you have anything to present? Can we keep it relatively short? We're running out of time.

Ms. Annalisa King (Senior Vice-President, Vertical Coordination, Maple Leaf Foods Inc.): Yes, absolutely.

My name is Annalisa King, and I'm the senior vice-president of Maple Leaf Foods Inc. I'd like to thank the committee very much for having me here today and for talking about the corn countervail and anti-dumping issue. It is, of course, very concerning to our company, especially to our hog production section, which I will get into.

Maple Leaf Foods is Canada's leading food processor. We export to over 80 countries, we have about $6.5 billion in sales, and we have approximately 23,000 employees. Of particular interest, and one of the reasons I am here—and that might be self-telling—is the fact that our hog production sector is one of the largest hog production groups in Canada. We produce over 1.7 million hogs per year.

Maple Leaf Foods is concerned that the duty put in place on corn imported from the U.S. will place affected industries in Canada in an uncompetitive position versus comparable industries in other countries. While we recognize that corn prices internationally have been lower recently and that the highs of a few years ago are gone now—primarily due to weather and yield improvements, we have seen particularly low values of corn over the past two years—we do believe placing a duty on corn is not the way to solve this problem. It will drive demand and send value-added jobs to other countries, and Canadian corn producers will lose customers and ultimately be worse off.

Maple Leaf Foods does take trade very seriously. We recently joined with the Canadian Pork Council to fight the anti-dumping case against the U.S. on live swine. As mentioned by the council, this was a $12-million spend that was successful in the end. However, in the wake of that victory, we may be in a situation in which we increase costs. Given the fact that feed is an important part of hog production, we will increase costs into Canada, and the U.S. producers may again launch an anti-dumping cases against us as a result. If we impose duties on U.S. corn, we may in fact snatch defeat from the jaws of victory, so to speak, in the case of live hogs into the U.S.

I know you have had other presenters and other industries in on ethanol, as well as pork producers and so on, but I want to reiterate some of the items around hog production, as well as the poultry sector and the pet food industry. These are the industries that affect Maple Leaf the most.

In terms of the hog industry, the impending corn countervail and anti-dumping case brought forward by the Canadian Corn Producers will have a devastating impact on the Canadian pork industry, both in the immediate and long terms—immediate term in the form of cost increases, and long term in the switch of value-added businesses south, as well as the removal of processing in Canada. On the immediate cost increases in the immediate term, based on the assumption of a $1 U.S. per bushel impact of duty corn—and I can answer that question if you're wondering where that number is coming from—this would increase the cost of producing a market hog in Canada by about $9.20. The State of Iowa puts forth a survey that often says the five-year average return for a hog producer is about $4.76. As a result, we would see a very significant decline in, if not a total elimination of, profitability for hog producers in Canada.

In terms of the long-term or medium-term effects, we heard earlier today that the elimination of profit will force Canadian hog producers to find different ways of making money. As a result, they will shift younger pigs to the U.S. because there is less of an impact from corn on the cost of production at this stage. For every market pig, which is approximately $150 Canadian, that is shipped to the U.S. as a baby pig, which would be about $35 to $40 Canadian, $115 of economic value is lost to Canada. That would result in approximately $345 million being lost to the Canadian economy, which will ultimately affect jobs and will ultimately affect our overall value-added business, our tax base, etc.

Ultimately, slaughter also has a long-term challenge if baby pigs go south. We will be unable to operate our plants on a two-shift basis, which is what we need to do in order to compete with those in the United States. As a result of that, you will see rationalization of plants in Canada, and again you'll see job loss and economic value-added loss as further processors move toward and closer to their slaughter capacity.

● (1705)

The poultry industry faces a similar challenge. It's slightly different because of supply management, but the impending corn countervail will also have immediate and long-term impacts. The immediate impact again will come in the form of cost increases, based on the dollar per bushel. The cost for a live chicken, based on the supply management formula, will be from 5¢ to 7¢. That cost will be transferred on to the processor basically because of the live formula that we have in supply management in Canada.

The processing industry may or may not be able to pass that cost on to further processors, food service operators, retailers, etc. If they do, it will then be up to the food service operators, further processors, and retailers to decide whether they can in fact pass it on to consumers. Net-net, the Canadian value chain will see an impact of approximately $70 million, which is the 5¢ to 7¢ times 934 million kilograms of chicken produced annually in Canada.

Some companies will not be able to absorb the cost increases, and therefore grocery prices and menu prices are likely to rise for the Canadian consumer as a result, as my colleague has stated. There is a medium- to long-term impact on supply management, however. The cost of raising a chicken in the U.S. is 55¢ a kilogram. The cost of raising a chicken in Brazil is approximately 50¢ a kilogram. Our current live price is in and around $1.11 to $1.14, depending on the region.

As a result of that, we will see that Brazilian and U.S. companies will be able to bring chicken in even under a 249% duty, and we may actually chip away at the structure of supply management. This would only happen if we were able to increase prices. However, as I mentioned earlier, it's unlikely that processors and food service operators, as well as further processors, are going to be able to absorb the full impacts of those cost increases, so menu prices and those types of things will likely increase.

We already see the impacts of this coming through to us, because we do see that Brazilian product does come in in a frozen form even with the duty, and this would further exacerbate that risk. While I can't draw an exact correlation to that, we are messing with fire. Significant pressure on supply management has severe implications for Canadian poultry farmers, and any aggravation to this will create a lack of stability in this sector.

In order to maintain Canadian competitiveness in the poultry industry, the poultry processing industry also needs to have some profit margin. If some or all of the corn duty cannot be passed on from processing, it may drive away future investment dollars necessary to continue the viability of these businesses, and processors will continue to pressure supply management volume down in order to manage their situation. This will have a negative circular effect on the industry.

Lastly, the pet food industry is fairly simple. The main ingredient in pet food is, of course, corn. The significant impact on this is that it will take what are already very tight margins and further exacerbate that situation. A duty would not be able to be passed on to customers in this situation, as they have many non-duty options from the U.S. They would be able to bring in finished pet food from U.S. manufacturers. Particularly in private-label and in other sectors, we would see a transfer from Canadian manufacturers to U.S. manufacturers.

In summary, the potential imposition of a duty will have a wide-scale negative impact across Canadian agriculture and agrifood processing in Canada. It will ultimately harm the corn producers more than it helps them. The solution for corn producers is that these issues must be dealt with in another way.

Erecting a protectionist barrier for a global commodity is not a solution. We need to look forward to longer-term, more viable solutions, like diversification into other areas, whether they be ethanol, hog production, cattle production, innovation, cost reductions through yield improvements, biotechnology, scale, or those types of things, with heavy cost reductions.

Both innovative specialized varietals that can command a further price premium and risk management programs should be looked at. These programs are something that every stakeholder in the industry can get behind. We can all invest in these types of programs. We can all support these types of programs. We need to work together for more permanent and innovative solutions to increase our revenues and reduce our costs as a total industry. Hurting each other is not the solution.

Thank you very much for the opportunity to speak with you today. I would appreciate any questions that you have.

● (1710)

The Chair: Thank you, Ms. King.

We'll move to our first questioner, Mr. Eyking, for five minutes.

Hon. Mark Eyking (Sydney—Victoria, Lib.): Thank you, Mr. Chair.

It's funny how a couple of days can change the whole perspective, because when the corn producers were in here, they had a wholly different take on a lot of issues that you people are mentioning.

First of all, the group previous to yours mentioned the quality of our corn in Canada and the inability to produce enough quality. The Ontario Corn Producers were here, and they said that if the price was right, then in the matter of a year they could have the quality and quantity needed for the market. That's one thing I want you to comment on.

Secondly, I've been on this committee for four or five years now, and you get these differences in prices in terms of what a farmer gets for the input product, what the retailer is paying on the end, and what everybody gets in between. I don't know if I misunderstood you here, but you're saying that up to 80% of the cost of a product is coming.... For instance, if I buy a bag of corn chips for a dollar, I would be surprised—and I could be wrong—if 10¢ from that bag is coming from the corn itself, from the farmer. However, you're stating here that it's almost 80% on average. That's my second question.

The other thing I'm concerned about, because we're all talking about working together, is the biggest issue: U.S. subsidies on corn products. You would think that if our hearts were in it for the corn producers, we'd be all over at the WTO in December, working hard to get those subsidies down.

So here's my question to your two groups. Maybe it is in your best interests to have low prices for corn, because you even stated here that it gives you a lower price when selling to the consumer. But technically it's a subsidized product and you're competing with other protein products, whether it's fish or similar products that you'll be competing with.

Those are my three statements. Perhaps you could address them.

Ms. Ellen Mills: I'm not sure how much I can add to the first one, Mr. Eyking. Clearly a number of our members have said to us that they cannot get, from the eastern corn growers, the quality or type of corn that they require. I can't give you specifics, but I can certainly get back to you if you want further information on that.

On the different price, again, we looked to a number of sources, and not only our members. It's difficult to get proprietary information, so we looked to the Conference Board of Canada, which I think has a very good reputation, for an indication. They've done it sector by sector to record what the material input costs are. From their material, I gave you a reference of 82% on the average, with a low of 68% and a high of 89%, as I said.

Again, I'm not sure what more I can add to that.

Hon. Mark Eyking: Mr. Chair, I don't know if we can do it, but I would like to see a breakdown presented to this committee. They're saying 80% of the selling price of their product is, for instance, corn, but could we see some sort of information to substantiate that?

Ms. Ellen Mills: Yes, of their input costs.

The Chair: I think we would like to see a flow chart of what input costs are to the primary producer, right through. We had the same argument being made before, in that pizzas were going up because dairy had gone up. It happened that it really wasn't dairy. It was a whole lot of other associated incidents that caused the prices to go up, and they had to retract. I think the same thing probably applies in the industry we're talking about today.

Ms. Ellen Mills: I can certainly provide that to you. As I said, that 82% figure from the Conference Board of Canada is broken down into various sectors. As I said, I'm not sure our members are going to give proprietary information, but I could certainly see what else we can provide you with.

The Chair: I think you have an obligation—someone has an obligation—to address this issue, because farmers are going broke. The primary producers of this country are going broke while others are saying it has nothing to do with farmers. Well, it has a whole lot to do with farmers, because if we don't have farmers, you'll have to access this product from other parts of the world. In that case, we don't feed ourselves anymore.

This committee should have the right to know what kinds of costs are associated with your products in the marketplace as they relate to what the farmer or primary producers get for that product. I guess that's the argument I'm making, so I would ask of you to try to provide it for this committee.

● (1715)

Ms. Ellen Mills: Will do.

Ms. Annalisa King: In the case of Maple Leaf's business, a low-cost corn does not mean a high margin for us, as we do translate it through from a hog production standpoint. We're feeding corn to pigs that are then sold on the North American market, and processed pork is also sold on a North American market basis.

We are also price-takers, and we do know that every pig does consume 9.2 bushels of corn. Therefore, corn does provide over 50% of the cost of a pig.

We would certainly be happy to provide that information, but it's very important to understand that in the relationship, we need to have a level playing field with our American counterparts in order to compete in the hog business and in the pork business and in the chicken business, quite frankly, in this country. It's not the fact that we have excessive margins or anything like that. We are in a situation in which we are also price-takers, and when we get cost increases that are unlike those of our competitors south of the border, that's when we get ourselves into trouble.

Hon. Mark Eyking: On that point, if I'm deciding whether we have a pork roast or a salmon for supper, if the pork roast is subsidized, there should be a lower price and I'm going to be buying.

At the end of the day, when some people come here and say they're with the farmers, that they'd like to see fewer subsidies, that would raise your costs and you would be less competitive with other protein products. So it's not really in your interest even to raise that cost, because your selling price would be up, technically.

Ms. Annalisa King: Ultimately, all livestock eat grains, and all grains move in world markets and they're all interrelated. As long as the playing field is level between us, as long as total protein is being managed and is increasing overall in the world economy simply because there are a lot of developing countries and so on that are consuming lots more protein than they ever have before, we get into a situation in which, as long as those level playing fields exist, then whether it's higher or lower, because it impacts all livestock somewhat similarly—

Hon. Mark Eyking: I realize all that.

The Chair: Our time has expired, so we'll move on to the next questioner, Mr. Miller.

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

Going back to where you and Mr. Eyking were talking about the cost of the end product of food, without being too fictitious, I would dare say that the figures you raise were probably right, but in total reverse. For example, during the BSE crisis, we know which sector continued to reap profits through the whole thing. It's the processor, it's not the farmer.

I do have a question here. We have one commodity group, the corn producers, asking for a countervailing duty, but almost every other commodity group, from livestock users to processors like yourselves, is against it.

As the chairman said earlier, we're sitting here with a very tough thing to try to come up with in terms of a solution to this. We know there's a problem. In your opinion, what can we do? In your opinion, what should be done to address this? We do know the U.S. corn is probably being dumped in here.

Ms. Annalisa King: There are alternatives to simply looking at subsidies or trying to equalize the safety programs to the U.S. Those alternatives lie in things like yield improvements. The fellow from Hytek talked about it in terms of diversification. If corn producers are diversifying into alternative crops, hog production, cattle production, ethanol co-ops, or those types of things, they're creating a risk management strategy for themselves that allows them to do better than the base corn producer who does nothing else.

There are things like risk management programs that we can put in place. We can look at putting more storage in place so that we can manage our pricing better and ride out some of the very short low periods. There's biotechnology that we can take advantage of. As industry and as government, these are some of the types of things that maybe we should invest in together.

I know these aren't necessarily short-term solutions, but I don't have a short-term solution for you today.

The Chair: I would want to stop you there, because if you believe that is the solution, I would invite you to go and meet our farm groups and give them that analysis of what you would find as a solution to their problems. I think you would get from them a different response, and perhaps a kinder one than the chair is giving you.

● (1720)

Mr. Larry Miller: I probably agree with you, Mr. Chairman. I hope you weren't stealing my time.

Ms. King, if I understood you right, you said that if we put a corn tariff on here it would guarantee a loss on the appeal to the dumping of U.S. hogs. Did I hear you say that?

Ms. Annalisa King: It wouldn't necessarily guarantee it, but it certainly would aggravate the situation by increasing our costs by $9 a hog. I'm roughly putting that number out there, using that dollar per bushel. Then we would probably be selling hogs at a loss, which would therefore, in the U.S. calculation, aggravate that situation. So if there were another live hog/swine case of the U.S. to us, it would put us at severe risk.

Mr. Larry Miller: Basically you can do it to one but not to another, in a sense. I just wanted to understand a little better what you were getting at.

The next one is more of a statement, but there is a question at the end of it.

Food in Canada is cheap. We spend less disposable income on food than any of the other well-to-do nations in the world. I've seen that figure in the last year, and if it has been adjusted from there I stand to be corrected, but I don't imagine it's very far out.

First of all, is that fair to our egg producers here? Secondly, do you think Canadians would be willing to pay slightly more for good, high-quality Canadian food? That's something both of you brought up in your presentations.

Ms. Ellen Mills: On your first question, Mr. Miller, I'd like to say that I—or FCPC—did not come in suggesting a solution, because we are not close to the agriculture sector and I wouldn't want to put forward ideas that wouldn't be worth merit. But we're not here to say that the corn producers should bear the brunt of this.

I think we're a little bit like the previous producers, saying we may be shooting ourselves in the foot if we're going to lose jobs in other areas. That's what we're concerned about, because a number of the plants here do have to compete with the U.S. plants. So on that I don't have the solution, but I certainly don't want you to walk away thinking we are oblivious to the plight of the corn producers.

Mr. Larry Miller: That's fair enough.

Ms. Ellen Mills: On the other point, it's very difficult to say what consumers will pay. Survey after survey, whether it's environmentally...you ask people if they will pay more. Theoretically, most times they say they'll pay more for a high-quality product—a hybrid car, or whatever—but you never know the answer until they're faced with how much, and they're actually in the supermarket making that purchase. So it's very difficult to say whether they will or they won't.

Mr. Larry Miller: Just a little bit further on that, do you think Canadians truly realize how good a deal they get on their food?

Ms. Ellen Mills: You know, I'm not really sure. Clearly our manufacturers get static on their consumer lines when their prices go up. Certainly the retailers, the grocery supermarkets, are very concerned when our manufacturers do want to up prices, because they take the flak at the till. I don't know what else to say.

The Chair: Let's move on.

Mr. Easter.

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

Ms. King, you made the statement that hurting each other is not the solution, and I would agree with that. But at the primary production level last year at the farm gate, without any government payments, the net income for the industry was minus $2 billion. Now, I'd say we have a problem.

Maybe one thing the corn action is showing the rest of the people in the industry is that the farm problem is now their problem too. I think we're going to have to come to some sensible solutions here over the longer term, because you can't have an industry where the raw primary producers are constantly under financial pressure, even though—and I did a report last winter—Canadian farmers are efficient.

I do take issue with your alternatives. Yes, we always have to look at the yield improvement, but if we're talking about ethanol, the federal government has a fair bit of money in the plant in Chatham. I'm told that 85% of the corn coming into that plant is American. Producing ethanol with low-value corn is not the answer either. I mean, producers have to be paid.

I guess I'm asking both of you if you have any proposals that will help us grapple with that bottom-line farm income, because that's where we have to go. Producers don't want to be subsidized; they want their price out of the marketplace, and that's where we have to go. I'll let you think about that.

I have one other question for Ms. Mills. Are you saying you would support corn coming under the Byrd Amendment as one of our retaliatory items?

● (1725)

Ms. Ellen Mills: No, I didn't say that. I said I was quite aware that the Ontario Corn Producers were looking at the Canadian Border Services in an investigation, and a possible tariff was only one solution. They asked that it be added to the Byrd Amendment, and that action also be taken under the WTO.

I would have to get back to you. We certainly haven't consulted with our members on what position they would take if that were added to the Byrd Amendment. I don't know.

Ms. Annalisa King: To respond to your questions, I do believe farm income is a problem. Because Maple Leaf is largely an agricultural company we are very much linked to our producers, and their survival means our survival. We know we can't survive without them. We know there are issues today.

I don't mean to be flippant in talking about some of the things we can do to research and spend time trying to innovatively work ourselves out of this problem. I know every farmer in Canada is actually extremely innovative, and they're extremely good business people. They've done very well under very difficult circumstances, considering everything.

But if we can get together to brainstorm and have round tables, we can see if there are other things we can do. Longer-term contracting, for example, is something we could look at that would hold a price premium and provide supply security to us, and things like that. All I'm suggesting is we get together, talk about these things, brainstorm, and manage our way as best we can through a list of innovative ideas that include everything from science, to risk management, to profit sharing—all those types of things.

I don't have the solution, Mr. Easter. I do share your concerns, because that ultimately means our survival in this business. We prefer Canadian corn, but if there's a $1 duty, that creates a huge burden for us as hog producers to be preferential to Canadian corn. So we can be preferential, but only to the extent that it doesn't result in our demise.

Ms. Ellen Mills: On your first question, Mr. Easter, about the solution, and the problem of the primary producers being our problem, I think our industry realizes that very much. While I don't have solutions here, because we are far removed from the actual situation, we are more than happy to be part of that.

Back in March our president attended a meeting of deputy ministers from agriculture, health, and industry. We feel in some sense that's the way these things need to be addressed, because they do cut across the various sectors. We'd be more than happy to participate in a multi-sector discussion of these things.

I think some mechanisms need to be found whereby those things can happen.

The Chair: Mr. Easter, your time has expired.

Mr. Bellavance.

[*Translation*]

Mr. André Bellavance: I don't know whether I really have any questions to ask, but I definitely have a comment to make. Fortunately, Ms. Mills, in answer to a question from Mr. Miller, you said you weren't insensitive to the fate of corn producers. I perceived nothing but insensitivity in your remarks. We've heard two completely opposed testimonies here this afternoon. The pork and beef producers, who are not in agreement on the complaint filed by corn producers, have nevertheless offered us certain solutions, such as asking the government to review programs or to create a new one. The opinion of the corn producers is obviously different.

You're presenting us with a disaster scenario. You've even put a figure on job losses, whereas we don't know whether there will be any countervailing duties or, if there are, how high they will be. You're talking about a loss of 50 to 75 jobs at a small to medium-size enterprise and a loss of 500 to 700 jobs at a large business. You also talk about production being shifted. I would tell you that, if there are no more corn producers in Canada or Quebec, production will definitely be shifted. However, the day the Americans stop subsidizing their corn, or are the only ones to have corn for sale, the price of American corn may not be as high as it is right now. Perhaps then you can come back and present us with disaster scenarios.

I find it quite shocking that you should list all the possible negative effects. Of all the witnesses we've heard, you are not among the most pitiable. And yet you have no solutions to present to the committee. I find that deplorable. I'm thinking again of what Mr. Miller said earlier about the mad cow crisis. When producers were in real trouble, consumers didn't have the opportunity to take advantage of the situation because the price of beef in the stores remained the same. I see a parallel between these two cases.

You come and say that the consequences will be very serious. However, the solutions that corn producers could adopt don't seem to be of any real interest to you.

That's more a comment than a question, Mr. Chairman, and I don't really expect an answer.

● (1730)

[*English*]

Ms. Ellen Mills: I would like to make a comment. I'm sorry if what I said offended you. We came here to indicate the impact, which we felt the committee should hear about.

Subsidy programs, the CAIS program, and WTO negotiations are all very complex matters, and I would not want to put forward a solution that is half baked or not well researched. Quite frankly, perhaps I could just share with you that when you do represent 130 companies, all of which are different.... About 38% of them are privately owned Canadian companies. There are a number of multinationals that have their Canadian operations here, based between food and consumer products. Even getting information from them on what the initial impact would be of a $1 per bushel tariff is no mean feat in three weeks.

I'm sorry, but we focused our energies on trying to provide the committee with what the impact would be on this sector, and I don't mean in any way to say that we're not sensitive to the corn producers' problem.

The Chair: We'll move to Ms. Ur.

Mrs. Rose-Marie Ur: Thank you, Mr. Chair.

My first question to both of you is, did either one of you speak to OCPA before they started this action? Did your companies have any input?

Ms. Annalisa King: No we didn't have the opportunity. However, we did have the Canadian Pork Council and ANAC, who represent us, engage in meetings with them, but the meetings were not prior to the action.

Mrs. Rose-Marie Ur: And the same goes for you?

Ms. Ellen Mills: Ms. Ur, we were not even aware of it until the action had been taken.

Mrs. Rose-Marie Ur: Okay, thank you.

Just to continue on Mr. Eyking's statement, 82% of your total cost is your material cost. You said that you had taken that figure from the Conference Board's industrial outlook. I'd just like to share this with you, because we're speaking about corn. This is from *The Farmers' Share: Compare the Share*, a study done in the early eighties and then updated later on and taken up to 2003: “The price of a box of corn flakes more than doubled from 1981 to 2003, increasing $1.91 per box”—which I'm sure you would be on top of, since you're in the business—but “the price of the corn...only increased $0.03 per box.” That seems like a fair price and doesn't sound like.... I know that corn isn't the only ingredient of Cornflakes, but it certainly is a major ingredient.

With your permission, I'll try to get a hold of a copy of that study and perhaps send it to you. It might enlighten you on the costing for our farmers, because I think they're a little bit more realistic than this information you have been given.

Also, you used the phrase “loss of product” several times, which I'd like clarified. It seems to be a phrase that you use a lot—that if this indeed goes forward, there's going to be a loss of product. I hear that from your organization quite a bit. What are you suggesting? What's going to come off the shelf?

● (1735)

Ms. Ellen Mills: I can say specifically that you can see in the submission the range of products that our members have identified, the key ones, that are the finished products from the grain corn input. We asked them what options they would take if this tariff went through and what options they had available to them. Many of them, without giving specific products, said that line would likely be discontinued.

I can't give you specific ones at this time. Again, I know we're always asked exactly what manufacturers will do. They do their best to give us their estimation, but we're always operating in a theoretical situation.

Mrs. Rose-Marie Ur: This is probably more of a comment than a question to you, but in your briefing you said:

> Manufacturers already burdened with substantial increases in energy costs and the pressure on profit margins due to the increase in the Canadian dollar will undoubtedly need to pass cost increases to consumers.
>
> Passing cost increases down the food chain to consumers is not the solution in every case.

Well, guess what? You're probably entering into the real world of farmers. They've been there for a long time, and it's about time some of the organizations recognized—as you started your briefing here with us today—that we need low-cost input. Low cost is low cost, but there's only so long that farmers can go at low cost.

I was a farmer in my previous life, and when you start selling off your assets to give cheap food to consumers, there's a reality check there. Everyone has to make money. I don't take it away from any organization sitting at the table. But Mr. Easter has done his study, and for the last 25 years it's been a sliding scale for farmers. There's not too much more left for our farming sector.

You're saying you haven't been part of a whole group, or you'd like to sit down with one. I don't think there's anything wrong with either one of you picking up the phone—you don't have to wait for government to say that—and saying, "Hey, let's get together. We have a problem here. You're not going to be here. What are we going to do?"

I don't know whether you've ever thought of doing that on your own.

Ms. King.

Ms. Annalisa King: Yes, we actually have had some round tables. We've also participated with the Ontario government in trying to put together some types of innovation forums to allow us to understand better what some of the issues are.

Can we do more of that? Absolutely.

Mrs. Rose-Marie Ur: But we can't wait forever. You are businesses in the field and the primary producers; we are the government. Not to exclude us...but you're the heart of that industry with the producers, so I think it's imperative for the two groups to get together and involve the government thereafter.

Ms. Annalisa King: Yes. Quite frankly, we've spent time fighting these trade cases over the last couple of years, particularly the one on hogs—

Mrs. Rose-Marie Ur: Yes, I was part of it.

Ms. Annalisa King: —that was launched against us by the U.S., but also with the corn. I would like to be spending that time working with the corn producers to find solutions, but unfortunately we're spending our time defending our case. But your point is well taken, and we will continue to do everything we can to get together with them.

The Chair: Thank you, Ms. King, and Mrs. Ur.

Mr. Ritz is next for the last series of questions.

Mr. Gerry Ritz: Thanks for coming today.

This is the last meeting on the corn problem, and I think you're feeling the frustration of some of the committee members because there's no easy solution for this. It didn't happen overnight, and there's certainly not going to be a solution overnight.

We've been facing escalating factors beyond our control since before the Doha Round. Canada has always been the boy scout, and has got there first and fastest and left everybody else in the dust when it came to moving away from subsidies. We're facing that shortfall today and will continue to do that. There's no way to make that up anymore.

We talk about global marketplace and a level playing field, and I couldn't agree with you more. We are selling more than downtown Canada; we're out there in the market.

Other than just studies on cost inputs, have you done studies on the differential in Canadian production and American production, European production, or Brazilian production?They're coming on stream—taxation on your inputs, taxation on your profits; the regulatory burden we face here in Canada, which was quite a bit higher than anybody else's; and the financial side of it. Long-term stable borrowing is no longer available. Have you done cost breakdowns on capitalization of your equipment, depreciation of your equipment, and labour costs, country to country? I think that would be helpful when we start to look at an overarching answer to some of these problems.

It's more than just the cost of inputs. Farmers are the weather vane for this because they're on the front line. As the chairman said, over the last five to ten years in western Canada we've been seeing that slide, but it all comes down to these other issues as well. I would be very interested if you could put something like that together to show where Maple Leaf stands against the Brazilian.... That's where we start to see that there isn't a level playing field.

We know for a fact that a lot of industry is moving to China because of the labour costs, and of course they don't have the environmental concerns and all those different things. So there's a lot more to this than just, gee, we need more for our corn.

I know that's not going to go over well with the corn producers, because they're looking for an immediate answer. There isn't one out there that I can see.

If you could give me some direction on that, it would be great.

● (1740)

Ms. Annalisa King: Absolutely.

As a company, especially with hogs and chicken, we spend a very large period of our day understanding the cost of production. We actually have detailed models that take into account average returns and capital costs, as well as the cost of building new barns, etc. We spend a lot of time trying to understand where the little pieces are within that to reduce our costs so we can actually win against the Americans—and where the places are. You also have to do that on the revenue base. There aren't easy solutions.

The corn producers and the hog producers do that on a regular basis. They understand their costs when they live in their barns from day to day. I know these guys. They live it and breathe it and probably understand it better than anybody. But we have detailed models that we work on. There are some opportunities; there are some areas we can look at in terms of better feed conversions, and so on. But there are a lot of longer-term and medium-term solutions. I don't have an instant solution for the corn producers.

Mr. Gerry Ritz: Nobody does.

Thank you.

The Chair: Thank you, Mr. Ritz.

I guess some of the frustration of previous meetings and the witnesses we've had.... This is an industry that some of us around this table understand very well because we're part of it and have been part of it our entire lives. It's a good thing that some of our farming community can't see what we've read this afternoon. We see your member concerns highlighted on page 2: low-cost reliable supply of grain, and corn inputs. Low-cost is all farmers hear, and it comes at the expense of the primary producer. This is what really irks us and has driven us over the edge. It's already been mentioned a time or two—82% on the input cost side of certain products, and 89% in the dairy segment. There wouldn't be a dairy farmer in Canada who wouldn't want to talk to you outside this room about that matter.

Quite frankly, I realize you have a job to do. You represent 130 companies. I'm going to tell you today that those of us who are on this committee represent 230,000 farmers. They're all individual businessmen trying to make a living in an economy that is not in their favour, and therefore there is frustration today. We're looking to a lot of people for some help on this one, but at the end of the day somebody is going to have to make a decision, and it's probably going to be the people around this table, along with some of the other politicians.

Thank you very much for appearing. I would encourage you to bring forward the information that's been requested this afternoon in the near term

At this point, the meeting stands adjourned.

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

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

Also available on the Parliamentary Internet Parlementaire at the following address:
Aussi disponible sur le réseau électronique « Parliamentary Internet Parlementaire » à l'adresse suivante :
http://www.parl.gc.ca