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Chair

Mr. Gerry Ritz

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● (0905)

[*English*]

The Chair (Mr. Gerry Ritz (Battlefords—Lloydminster, CPC)): Good morning, everyone, and welcome to our continuing discussions on the future of biofuels in Canada.

Before us today we have, from Maple Leaf Foods, Rory McAlpine, vice-president, and Ron Wardrop, director; from the Canadian Renewable Fuels Association, Kory Teneycke; from Commercial Alcohols Inc., Bliss Baker, vice-president; from Iogen Corporation, Jeff Passmore; from the Saskatchewan Ethanol Development Council Inc., Lionel LaBelle; and from Biox Corporation, Tim Haig.

We'll begin presentations, gentlemen. We have two hours this morning, so let's start it off.

I understand, Kory, you're going to speak for several of the groups combined, and then we'll move on.

Thank you, Kory.

Mr. Kory Teneycke (Executive Director, Canadian Renewable Fuels Association): Mr. Chairman, honourable members, I'd like to thank you for inviting us, the Canadian Renewable Fuels Association, to appear before you today.

CRFA is a non-profit organization with a mission to promote renewable transportation fuels through consumer awareness and government liaison activities. Our membership is made up of representatives from all levels of the ethanol and biodiesel industry, including grain and cellulose ethanol producers, biodiesel producers, fuel technology providers, and agricultural associations.

A number of our members are here before you today: Bliss Baker with Commercial Alcohols, Tim Haig with Biox, Jeff Passmore with Iogen. We also have Ron Wardrop and Rory McAlpine with Maple Leaf Foods. However, to maximize the amount of time you'll have to ask us questions, I'm going to be making one presentation that will cover off a number of these folks.

I would also like to make the committee aware that the CRFA is currently undergoing a comprehensive policy consultation process with our members to look at what barriers exist to the development of a vibrant renewable fuels industry in Canada, as well as what regulatory instruments can be used to address these barriers. Don O'Connor, a globally recognized expert in renewable fuels, and Gil Assie, with the Saskatoon-based accounting firm Meyers Norris Penny, are leading the consultation process, which is in response, of course, to the government's commitment to require an average 5% content of renewable fuel, such as ethanol and biodiesel, in Canadian gasoline and diesel fuel by 2010.

It should go without saying that CRFA is enthusiastically supportive of the government's commitment, and we are encouraged by the warmth by which it has been received by provincial and territorial governments. We believe all levels of government are not only interested in the environmental benefits associated with blending renewable fuels like ethanol and biodiesel, but are also interested in the economic benefits associated with producing these fuels domestically.

To be successful in having ethanol and biodiesel production facilities built in Canada will require several things, including a stable economic and regulatory environment that is competitive with those found in neighbouring jurisdictions. While I'm not prepared to give specific recommendations on how to do this today, as our consultation process does not conclude until Monday, July 24, I am in a position to share some of the benefits to our economy in general, and to the agricultural sector in particular, of having three billion litres of the renewable fuel required to meet the government's commitment produced right here in Canada.

Let me start off by saying that the renewable fuels industry is poised to become a massive value-added user for primary agricultural commodities, second only to the livestock industry in terms of value and sheer volume. In order to back up that statement, I'll need to step back a little and provide some basic information on how ethanol and biodiesel are produced.

Ethanol is an alcohol-based fuel additive that is typically blended with gasoline at 10%, but it can be up to 85% for certain vehicles. Ethanol is typically made from renewable feedstocks that are high in sugar or starch, such as sugar cane, corn, and wheat. There is also a new form of ethanol production that produces ethanol by using the cellulose portion of plants, such as wheat straw, corn stover, or switchgrass. This is a technology that one of our members, Iogen, uses to make ethanol in its demonstration plant outside Ottawa.

In Canada, grain-based ethanol would typically be made from corn in Ontario and Quebec and from wheat in western Canada. About one-third of the production coming out of a dry mill ethanol plant would be ethanol. You get about 10 litres per bushel. About one-third would be industrial CO_2 and one-third would be a high-protein animal feed known as distiller grains.

Biodiesel is essentially to diesel fuel what ethanol is to gasoline, except that it's made from fats and oils, such as canola, soybeans, and recycled restaurant grease. Although biodiesel can be used in blends of up to 100% in diesel engines, currently there are CGSB standards only for blends up to 5%. The yield for biodiesel is approximately one litre of biodiesel for every one litre of oilseeds or animal fats, and the primary co-product is glycerine.

The Canadian market for on-road transportation fuel is approximately 60 billion litres of fuel per year. Of that, 41 billion litres is gasoline and 19 billion is diesel fuel, meaning a 5% renewable fuel requirement would be approximately three billion litres of fuel per year. If you were to assume that the 5% requirement was met by the government's target of 500 million litres of biodiesel, and the remainder of about 2.5 billion litres by ethanol, you would create a market for 250 million bushels of corn and wheat, and about 500 million litres of fats and oils. That is an incredible amount of agricultural product.

Ethanol plants being built in North America typically range from 120 million litres to 200 million litres in annual production. Capital costs are in the range of 75¢ to $1 per litre, so a 120-million litre plant would cost in the range of $100 million to $120 million Canadian to build.

A 120-million litre plant would also create approximately 160 new jobs. About 40 of those would be direct, and about 120 of them would be indirect. Indirect jobs would be things like trucking, handling grain, and other service industries. It would raise local commodity prices by approximately 10¢ a bushel and inject about $75 million per year into the local economy. It means that 2.5 billion litres of ethanol required to meet the government's commitment would result in approximately 16 new ethanol plants and generate about 2,500 new jobs, a $2 billion to $2.5 billion one-time investment, and over $1 billion in economic activity each and every year.

As impressive as the three billion litres is, it's only a drop in the bucket in the context of a North American market that is expected to exceed 38 billion litres by 2010. The U.S. industry has over 100 ethanol plants in operation today, with 30 more under construction. The market for ethanol in the U.S. is expected to almost double over the next two years. Although much smaller, the market for biodiesel in the United States is approximately 500 million litres today, but is expected to exceed two billion litres over the same period. So there are aggressive growth curves for both commodities.

This provides a potentially huge growing and lucrative market for Canadian renewable fuel production. However, if we fail to put in place a stable and competitive economic and regulatory environment for ethanol and biodiesel producers, Canadian grains and oilseeds are likely to be processed at facilities located in the United States.

What is our ability to produce these fuels over and above the amount required to meet the 5% target that the government has laid out? To use just one example, Canada produces approximately 22 million tonnes of wheat per year, and exports approximately 70% of that to be processed in other countries. Those 15 million tonnes of wheat that we are currently exporting could be processed right here at home, making approximately 5.5 billion litres of ethanol, far in excess of what would be required for our own needs, and providing a lucrative export commodity to markets like the U.S.

To produce that amount of ethanol you would require an additional 36 150-million-litre ethanol facilities. Using the same methodology as I described above, you would yield a capital investment of just under $5 billion, and an additional 5,760 jobs in rural Canada. This would be without taking acres away from other crops, switching to higher-yielding varieties with a higher starch content, or tapping into the estimated vast quantities of cellulosic material estimated to be able to produce an additional 10 billion litres of ethanol a year.

The potential for biodiesel is equally compelling. Canada's canola oil production alone has fluctuated between 1.5 billion litres and three billion litres per year. Add to that rendered animal fats, recycled grease, and soybean oil, and Canada has the ability to be a world-class producer of biodiesel as well.

In addition to raising local commodity prices, ethanol and biodiesel plants can help even more money make its way to the farm gate by having primary agricultural producers participate in equity ownership of these production facilities. Farmers and local business people own approximately 60% of the current U.S. ethanol industry. However, the desire for local ownership must be balanced against the reality of the difficulty of raising equity from farmers and rural communities hit hard by declining farm revenues and shrinking communities. In some cases projects that are wholly owned by farmers will proceed, in other cases they'll be partnered with companies that are already in the fuel business, and in some cases projects will be entirely corporately owned.

● (0910)

Some advocates say that you can overcome the problem of raising enough capital by simply building smaller plants, but I would caution against that approach. There are real economies of scale at play in both ethanol and biodiesel production. Based on a recent analysis developed by Natural Resources Canada using financial models for biodiesel and ethanol plants across North America, a 200-million-litre-a-year ethanol plant would have production costs 15% lower and a return on investment almost three times higher than that of a 25-million-litre-a-year plant. The story is very similar for biodiesel. I've included those graphs in the package in front of you.

So according to the CRFA and its members, primary agriculture producer participation should be encouraged; however, the government should not pursue policies that encourage the creation of an inefficient industry or limit others from participating in this market.

Let me close by saying there are great economic and social benefits for both farmers and agribusiness in having a vibrant renewable fuels industry; however, to realize them we must have a competitive industry built on a solid economic and regulatory foundation that is competitive with other countries.

I welcome the opportunity to report back to the committee with these details toward the end of July, after our consultation process is concluded.

Thank you.

● (0915)

The Chair: Thank you, Mr. Teneycke.

Mr. McAlpine or Mr. Wardrop, do you have anything to add?

Mr. Rory McAlpine (Vice President, Government and Industry Relations, Maple Leaf Foods Inc.): Thank you, Mr. Chairman.

Maple Leaf Foods is probably familiar to most members of the committee. We're the largest food processor, employing 24,000 people in operations across Canada. One of our key operating companies is Rothsay, which is Canada's largest recycler of animal by-products into value-added products, including animal feed, amino acid supplements, biodiesel, and many other industrial products for the oleochemical industry.

We provide, through Rothsay, an essential service and an environmentally efficient process for managing the collection, processing, and capturing of value of edible and inedible by-products. Finished products are sold in both domestic and international markets. Approximately 25% of what Rothsay processes comes from Maple Leaf's own meat processing operations.

Ron Wardrop is director of marketing and product development for Rothsay and was instrumental in the launch of our biodiesel plant in Montreal, which was opened last year. It's the first commercial-scale biodiesel plant in Canada.

I'll ask Ron to say a few words.

Mr. Ron Wardrop (Director, Marketing and Business Development, Maple Leaf Foods Inc.): Thank you very much, Mr. Chairman.

One point that I'd like to touch on very quickly is the link between rendering of animal by-products and the importance to the agricultural community of having that value added into biodiesel.

Very simply, the rendering process involves taking from the meat production process the parts of animals we don't eat. Every year billions of pounds of these products are not used and need to be recycled. We've taken one of the products from that, animal fats, and turned it into renewable fuel at our plant in Ville Ste. Catherine, Quebec. It's a 35-million-litre-a-year biodiesel plant, the first of its kind in Canada, and we're value-adding to products we used to export to other markets. We're bringing that value and keeping it in Canada.

It's very important to understand that this benefits farmers. With the feed rule changes that may be coming, with specified risk material around cattle, it's important that we have value-added ways to use those fats and oils. Without that, there's the potential of lost value to farmers. So the rendering process will still be a way to treat that material, and this biodiesel is becoming the way to turn that material into a value-added product, keeping value in farmers' pockets instead of having charges and disposal fees. It's also taking the by-products from other farmers, such as pork and poultry farmers, and keeping value in those materials as well.

So we would ask that as the committee considers renewable fuel standards going forward, you understand that the rendered process and biodiesel are very important to the farm community.

Thank you.

The Chair: Thank you, gentlemen.

Mr. LaBelle.

Mr. Lionel LaBelle (President, The Saskatchewan Ethanol Development Council Inc.): Thank you very much, Mr. Chairman. I appreciate the opportunity to be here.

I represent a group called the Saskatchewan Ethanol Development Council, which grew out of an organization called Saskatchewan Agrivision, which I was directly part of. We became very aggressive with the provincial government in 2002 to convince the Saskatchewan government to be the first province in Canada to implement what we refer to as an ethanol mandate in our province. We were successful in doing that. Subsequent to that, Manitoba and Ontario, of course, have set in place similar roles.

The Ethanol Development Council is a not-for-profit organization. I am very proud of our participation from all sectors within our economy. Clearly those from Saskatchewan can understand that many of our groups have opposing points of view on many different issues. Our board is made up of APAS, Agricultural Producers Association of Saskatchewan Inc.; SARM, Saskatchewan Association of Rural Municipalities; the University of Saskatchewan; Ag-West Bio Inc.; and first nations. Quite frankly, everyone agrees on the renewable fuel objective of rural Saskatchewan and what it means to our economy.

Our objective is to promote ethanol specifically. Biodiesel, we believe, will come forward as we move forward, but we believe ethanol is a great opportunity for us in western Canada. We also believe there are some realities in agriculture that this committee must focus on and must understand.

Saskatchewan is in crisis in terms of agriculture. If you look at gross revenue per acre, in Ontario, Quebec, British Columbia, or New Brunswick you're looking at gross revenues in excess of $1,000 per acre. In Saskatchewan the average is $135 per acre.

Our solutions in agriculture cannot be incremental; they must be bold. Clearly our strategy with the Ethanol Development Council is to be bold.

The last three years of net revenue in Saskatchewan have been the three worst years in our history. In the same time period, the American farmer has had his three best years in history, and collectively the agribusiness community that supports agriculture has had the three best years in its history.

Our position with the Ethanol Development Council is that the Canadian government needs to be bold, and we're calling for a 10% renewable fuel standard. We believe 5% by 2010 is absolutely doable, but we think 10% by 2015 should be the goal. It's important for us to focus on that.

A 10% renewable fuel standard in this country will require six billion litres of material. If it is entirely a grain-based industry, it would require some 600 million bushels of grain. If you use an average yield of 30 bushels per acre, we're talking about some 20 million acres of land being required to meet that goal—20 million acres of land, ladies and gentlemen. That's not incremental. That's a bold strategy. Saskatchewan, with 50% of the farmland, can really play a dramatic role in how we move out this opportunity.

The other part of this piece is the rural economy and what it means to jobs. I can demonstrate to you economic reporting that speaks to job multipliers. Traditional manufacturing job multipliers are 3.5; in the ethanol industry, the job multiplier is 10. Fifty jobs in an ethanol plant equal 500 jobs within a 100-mile radius of that particular facility.

Those are jobs in the rural economy. They're not in centres like Winnipeg, Calgary, Saskatoon, or Regina; rather, they're in communities of 3,000 people, where jobs are important, school is important, keeping the population in place to pay the tax base is important.

We don't believe 10% is in any way not doable. Clearly we think it is doable. Our province will be at 7.5% this summer when the next newest capacity in this country comes on board in Lloydminster, Saskatchewan. We all know that Brazil is at 40%; the Americans are at 4% and heading towards 20%; Sweden is talking of 100%; the European Union is at 5.75% and is really discouraged at how slowly they are evolving. China really is going to set the tone, we believe, in the years forward in terms of their strategy on ethanol. Also, across the globe, countries like South Africa, Russia, and so on, are moving forward.

There are some huge benefits in western Canada in terms of our geographical location. We have been told our entire lives that we're landlocked, that we're disadvantaged, that we're 2,000 kilometres away from ports, but in the ethanol story we are literally in the centre of North America. We can export east, west, and south. We can supply ethanol to the Pacific northwest more cheaply than anybody in Nebraska can, and I will debate aggressively the financial viability of a wheat-based, cereal-based plant over a corn-based plant. We think we have some real opportunities.

We are also challenging where the capacity should be. We clearly believe the capacity should be where the land base is, and obviously we have some very specific issues there.

● (0920)

If you were to ask the average Canadian citizen where ethanol comes from, he would tell you it comes from corn. The reality today is that in our country there are six ethanol plants up and running, and two are corn-based and four are wheat-based. There'll be new capacity in Lloydminster that will be wheat-based. So by the end of 2006 or this year, there will be seven plants operating in Canada, and five will be wheat-based.

If you look at acreage collectively, western Canada has 86% of the farmland and produces 80% of the crop in this country. And of that capacity 0.004% is corn. In western Canada wheat is king, cereal crops are king, and we think there are some huge opportunities here for us.

The other part of the picture I want to talk about is really the technologies that are available, whether it's grain-based technology; whether it's what we call integrated technologies, which are tied into cattle feedlots; whether it's cellulose technology, or whether it's syngas technology, which is a wood-waste product. In Saskatchewan we have the opportunity to have all four of those facilities operating and to really be world leaders in how we roll out the opportunity.

We have world-leading knowledge in our province. The common fermentation technology used around the world for grain-based ethanol comes from the University of Saskatchewan, and Dr. Mike Ingledew. There's new raw starch hydrolysis being patented in Saskatchewan in relation to some of the benefits of reducing energy costs. The new syngas work that's being done by the Saskatchewan Research Council, we think, is very profound. We also have the Crop Development Centre, which we think will be a key to the success of the renewable fuel industry in our province, because we will and can develop crops that are high starch content and high yielding, which are really key, in our opinion. We also have the Prairie Feed Resource Centre, which will tie in the benefits of dried storage grain and wet storage grain to add more value to the ethanol industry in our part of the world.

Clearly, what do we think government or this committee must do? Those of you who have heard me speak before will know that the message is that we need champions. We need champions at the political level to take this model and move it forward. The future of agriculture is in jeopardy. The future of Saskatchewan is in jeopardy, in terms of turning into an Australian outback if we don't pay attention to what we're doing as we move forward. We cannot be incremental.

If you think of the ethanol piece, you must think about it in three different sections. The first third is, what's in it for primary producers? I'll argue that in Saskatchewan it has to be about new grain technology or new yielding varieties of grain that will give more dollars per acre. That's the first part of the piece for primary producers.

The second part of the piece for primary producers is freight. We have places in Saskatchewan where the freight rate will exceed the value of the grain. We have freight rates in Saskatchewan now where we're getting close to $2 per bushel. So those are the direct benefits to primary producers.

The third part is the community and community jobs. With all due respect, those with the deepest pockets will not build ethanol plants in communities with populations of 2,000 or 3,000; they will build it on major thoroughfares, close to major centres. That's not going to help the rural economy in terms of jobs.

The last part of that piece is ownership. Who should own those plants? We clearly believe that the federal government has to have a preferential bias in its programming to ensure that producers get into the ownership cycle. There was mention made of the Americans and the American model. If you were to type into the Renewable Fuels Association of the U.S. and look at the 101 plants that are operational today, a very large asterisk on the bottom of the page will indicate which of those facilities are farmer owned. We don't have anything like that in Canada, and I can tell you that one plant in Canada today is farmer owned.

There are an additional 20 or so plants in the U.S. that are not farmer owned, or majority owned by farmers, but where farmers are playing a role in the ownership. So farmers and producers are playing a very important role in the ownership of ethanol facilities in the United States. In this room, we need to think about that and what needs to happen.

What does the federal government have to do? First of all, it has to use financial tools and tax tools—and those cost this government nothing, but do cost it in terms of contingent liability. I'll argue that if you're going to bet on something, renewable fuel is probably one of the best bets we've ever made. And keep in mind that there has not been an industry in this country that has not had major federal government involvement. If you go back 130 years to the railway, or to what's happening today in the automotive industry or in the tar sands, governments play a role in developing industries.

● (0925)

The second part of that is capital grants. One of the things I really want to impress upon this group is that government has to get away from a program strategy of picking winners and losers. Among the best programs in the United States are the commodity programs of the Commodity Credit Corporation, which allow you, as a proponent group, to build your plant. The bankers and owners of those plants should make the decision as to whether the plants get built. At the end of a 12-month cycle you'll receive a cheque from the Commodity Credit Corporation equal to approximately 12% of the capital value of the plant. That's the right way to manage these things, so we can move away from this debate about economies of scale, because with all due respect, I will debate anybody in this room on economies of scale.

The USDA has four specific programs. The first is a mortgage loan guarantee program. There's a 2% premium to do that. The second program, the rural cooperative stock purchase program, allows farmers, primary producers, to invest in value-added industries. Across the piece it's $400,000, and in some states it's as much as $750,000 for one investor. The third are the programs of the USDA Commodity Credit Corporation I spoke to you about. And the last is that the Internal Revenue Service in the U.S. will provide a $1.5 million investment tax credit to a farmer-based plant every year, year in and year out.

What do we have in Canada today? Nothing yet, but I'm optimistic this group will support what we need to do.

I was recently at a conference—-it was sold out, there were some 2,000 delegates—-when the Secretary of Agriculture pleaded with farmers to get more involved, to get more aggressive in taking part in owning this industry. And for the record, the average American farmer is carrying about 13% debt. If you look at Saskatchewan, the debt load Saskatchewan farmers are carrying will shock you.

And lastly, what's important from our perspective is the future of agriculture in our province. It's not unique to places in Manitoba and it's not unique to what's happening in Alberta. There has been some improvement in grain prices today, but—Mr. Easter will verify this—we really haven't had any kind of crop prices in our country where farmers could be deemed to be profitable since about the mid-1970s. We're in crisis, ladies and gentlemen. Renewable fuel is a tremendous opportunity.

I'll close with what a vibrant ethanol industry, with a bias towards producer ownership, can do for western Canadian agriculture. What can a geographically central, emerging economy do for my province? The simple answer is everything.

To close, Mr. Chair, this is what is happening in Saskatchewan. This is the emerging ethanol industry. We are serious about this. We are looking for your support. We think the solutions are here. We think the opportunities are absolutely profound.

With that in mind, I thank you, Mr. Chair, and look forward to your questions.

● (0930)

The Chair: Thank you, gentlemen.

Is there any redirect from the panel at all? Nothing? If that is so, we'll move to our round of questioning.

Seven minutes, Mr. Easter.

Hon. Wayne Easter (Malpeque, Lib.): Thanks, Mr. Chair, and thank you gentlemen, for coming and for great presentations.

You haven't seen it, I don't think, but Jean-Denis Fréchette of the Library of Parliament prepared a really good paper on the biofuels issue as well.

It's startling when you look at the production that's in place now in the United States or on line. The bottom line figures are basically this. The U.S. on line, or coming into line, or already producing, will be at about 21 billion litres, and we will barely hit the billion with what's on stream at the moment. And that's way off what are generally comparison figures between Canada and the United States. If anything, we should be at least at 10% of their level.

A number of you mentioned value-added and, I guess, in developing the policy, how do we make sure that producers get paid for the actual value of the raw material going in? And 10¢ a bushel isn't going to cut it; it isn't going to solve the farm problem.

Mr. Teneycke, in the closing paragraph of your paper you talked about the economic and social benefits. And they are there; there's no question about it. You go on to say, however, that to realize them we must have a competitive industry built on a solid economic and regulatory foundation that is competitive with other countries.

Therein lies our problem. The U.S. farm policy is allowing raw production to go into these plants way below their value. Their farm policy brings it up through commodity support, and so producers get paid for that value.

There is the other side of the coin—ownership equity, capital, and so on—and I don't want to get into that at the moment.

In Canada, our farm policy is far different—and I'm not criticizing this government any more than the one we were part of—and it creates a difficulty for us both. You can't compete if you have to pay producers more money than the United States raw production going into those plants. Our producers can't survive if we don't bring up the raw material cost of that product going in.

Do you see any way of bridging that dilemma?

● (0935)

Mr. Kory Teneycke: I think there are several elements to that. Let me drill in on the first one that you mentioned, the need for a competitive economic and regulatory environment.

This is not a primary resource part of our economy; this is the manufacturing part of our economy. We move large amounts of grains and oilseeds across our country and around the world with great efficiency, so where the plants will be and where that grain will be processed will be determined by these other factors. So there's no avoiding the need to be competitive. Capital will build plants where it will get the best return. So irrespective of the feedstock cost issues that you raised, in terms of how you regulate the market and how you tax it, you need to be competitive.

In terms of your point about higher support for our primary agricultural producers in the U.S., you're absolutely correct that this is a challenge for our industry. However, I do think this is a way to improve the situation over what it currently is.

Although 10¢ to 12¢ a bushel is a small amount of money when you say it as 10¢ to 12¢, when you multiply it by 250 million bushels, you're looking at a serious amount of money that's going directly into the pockets of grains and oilseeds producers. That's just to meet that initial requirement. If your industry really takes off and you're supplying the U.S. market, that number will increase over time, as you're taking more grains and oilseeds out of the market.

Hon. Wayne Easter: The biggest bang is for primary agricultural producers to be an equity stakeholder inside the industry as well. That provides, I guess, an added benefit of being a bit of a natural hedge against commodity prices. I think on that end there are ways of doing equity capital, and government will have to have a look at it.

But it's the raw production end. Yes, you can multiply 10¢ in increase per bushel by however many bushels are required. But the fact of the matter is, if you're in business and you are losing money on every bushel you produce, then the more you produce the more you lose.

The problem with the system the way it's currently structured, and the way our policy is versus that of the United States, the producers —the farmers—are the generators of wealth in even the ethanol economy, because they're providing the raw material; they're the generators of wealth, but they're not accumulating any of that wealth. Unless we deal with that problem, we're not really going to solve the farm problem. We have to find a way to ensure that producers get paid at least values equivalent to those in the United States, or we're not really dealing with the problem. What you'll have is the same thing as is happening in Chatham: American corn is coming into that plant. We don't want to see that; we want to see Canadian product going through these plants, but at a profit to producers.

If you look at the current situation, agrifood profits have been pretty good the last three years, but farm profits have been pretty damn poor, the worst ever. What I'm wondering is whether on the industry side you can look at that and make some recommendations to ensure that there is some way of bringing up the feedstock coming in, whether through business risk management, through commodity support levels, or whatever.

Mr. Kory Teneycke: I think if this or any government were to decide to provide the level of support to primary agricultural production that exists in Europe or the United States, it would be a benefit to our industry; there's no question. But I don't foresee $5 billion, $6 billion, $7 billion a year of additional money being spent in the sector to do that.

In lieu of that, I guess the question is whether this is clearly of benefit to primary agricultural producers. Would it be helpful to our industry if we had the kind of equivalent government support for primary agricultural producers here? Absolutely it would be. The fact that we don't have it doesn't mean this isn't still a good thing, and a thing worth doing, and something that will deliver dollars to the farm gate.

● (0940)

The Chair: Thank you, Mr. Easter.

Regarding one point Mr. Easter made, has anybody done any work on the savings in freight for producers if you were to go to regionally based plants as opposed to...? You know, freight and elevation to tidewater all the time is one of the largest expenses we have, so 10¢ or 12¢ a bushel could be quite significant if you're also saving a buck a bushel on freight. Has anybody done any work on that at all?

Mr. Jeff Passmore (Executive Vice-President, Iogen Corporation): Our company looks at logistics and freight issues daily. It's a big issue for us. One of the reasons we locate our plants where we do, which is near the corn, is to minimize freight costs. We're in Chatham because that's where all the corn is, and you're going to have to truck it or rail it shorter distances. Our new project in Quebec, in Varennes, is also located near large quantities of corn to minimize freight costs. It's a big issue.

The Chair: Thank you.

We'll hear Mr. Bellavance for seven minutes, please.

[*Translation*]

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

Thank you for your testimony. This is a very interesting file. We realize that more and more countries are interested in using ethanol and bio-diesel. I just learned that Sweden also has a fairly ambitious project for producing and using these new fuels. In any case, they are newer to us than they are to other countries like Brazil, Europe and the United States.

In any case, the government has set an ambitious goal. We will need 12 times more ethanol and bio-diesel according to this new government objective. Also, I share my colleague's concerns as well as those of farmers who do not know whether they will have a fair share of the profits occasioned by an increased demand for biofuel.

It is coming, but we have some questions about the dumping of corn by the United States. We know that corn producers are appealing this matter before the Canadian International Trade Tribunal. We wonder whether at the beginning, we will only use products from the United States, especially if the prices remain at their current level, and we, as well as grain producers, think that these prices constitute dumping.

In your deposition, Mr. Teneycke, you mentioned consultations. We will hear more about them by the end of July. Are there any farmers on your work team? Are you consulting any farmers? We wonder whether our plants will be mainly supplied with American corn.

[*English*]

Mr. Jeff Passmore: Let me address part of your question, then perhaps Kory can address the second half.

Our project in Varennes, Quebec, which you may be familiar with, is a 120-million-litre plant. It's a $125 million investment in that community, and two years of construction jobs, and it has been done in partnership with farmers in the area. Over 500 farmers have invested in that project, as they invest in all our projects as a matter of principle for our company.

The farmers gathered together and worked with us for a number of years to put together a corn selling group. That group, the 500-plus farmers, set up an organization, and we've actually given them a commitment to be able to supply corn to our plant. So that's a contract we've entered into with farmers. It's good for business for us, and it's good for business for the farmers. They have a legal right to supply their corn to our plant.

That's what we've done in Quebec. It's an interesting model, and we think it's going to work. It's going to be market price, but they have first right to sell their corn to our plant. That's how they're going to benefit. They also have an equity stake in our plant.

Mr. Kory Teneycke: On the second part of that question, I think there's sometimes a temptation for policy-makers to try to cheat the system, so to speak, in terms of getting a policy outcome they want. If you were to put feedstock restrictions on where you could buy commodities, taking any of the liquidity out of the corn market by saying that no American corn or corn from other places could cross the border, you would artificially inflate the price of corn in Canada. Yet the output from these ethanol plants, or the livestock that would be eating corn, or the starch facility would all have NAFTA-protected outputs that would have to compete against plants in the U. S. that didn't have an artificially high input cost, and you would see the value-added industry in Canada go bankrupt.

So if you think it's not good for farmers to have free trade and have commodities like corn crossing the border, it's really not good for farmers to have the value-added agricultural industry shut down because of an artificial trade barrier.

It is policy-makers, I think, in a way, sometimes trying to not address the real issue—which was identified by the last questioner—which is a vastly different level of support for primary agricultural producers in the U.S. and Europe than exists in Canada. It's trying to push onto the market the role that government is playing in other countries. I don't think it works well.

● (0945)

Mr. Tim Haig (President and CEO, Biox Corporation): Mr. Chairman, I'd like to make an observation. I'm not in the corn ethanol business, so perhaps it's just an observation as an observer.

I don't understand this preoccupation and concern with imported corn. Yes, we should use domestic corn to the extent that we have it, but Canada has always been accused of being hewers of wood and drawers of water. In this case, we're talking about importing something and adding value. All those jobs are going to be created in this country. The construction is going to be created. Plants are going to be built here. The economic benefits are going to happen here. The spinoff jobs are going to happen here. This is a reverse situation where, you know, instead of being hewers of wood and drawers of water, we're actually importing a raw material and adding value.

[*Translation*]

Mr. André Bellavance: First, I did not say anything about closing the border. I was talking about corn prices which, in our opinion, are dumping prices. There is an imbalance. In fact, American corn is being dumped in Canada. So, I was wondering whether we would be using American corn, especially as we begin production, because our producers do not have much of a surplus. There is plenty of surplus wheat in the west, but there is no great surplus of corn in Canada. Even if we use up all the surplus in the plants, there will not be enough left for other purposes.

I would really like to know whether the plants will be supplied exclusively with American corn or if we will favour, as Mr. Passmore said, corn and wheat producers in Quebec and Canada. Mr. Passmore said that there was a partnership with farmers in the Varennes sector, where the plant was built. I would like to know whether this kind of partnership could be extended to the industry as a whole.

[*English*]

Mr. Kory Teneycke: I'd like to hear what Lionel has to say on this as well, but on the point of dumping, there was an accusation that there was dumping in the Canadian market. There was a trade challenge brought forward to the CITT, and the CITT found there was an injury. So there are mechanisms in place, if someone is using an illegal trade practice, to challenge that. We recently had one on corn and it was defeated, so I think that's an example of the process working.

I tried to make the point in my presentation that having primary agricultural producers involved in this sector as equity participants, as is the case in Varennes and in the U.S. and in many other parts of the world, it's very good. I would agree that it's very beneficial.

I also tried to highlight that for the future growth of this industry, as Lionel so correctly pointed out, on the ethanol side it's likely to be dominated by wheat in western Canada. There are some other regional feedstocks that may be quite effective, whether it's potato waste in Atlantic Canada or biodiesel from fish oil, in addition to the work already being done with tallow and rendered material.

There are many other commodities that can be used in addition to corn, so I wouldn't get too focused on that. When you look at the sheer volumes of what could be used to make ethanol and biodiesel in Canada, there's this much that's corn. It plays prominently in our minds because there are a number of plants that are using that today, but a lot of the future growth is likely to be using some of these other commodities. When you have 30 million arable acres in Saskatchewan alone, it's hard to imagine a renewable fuels industry that isn't going to be drawing on the commodities produced in that part of the country.

I'm not sure, Lionel, if you have anything to add.

● (0950)

Mr. Lionel LaBelle: Sure, I'd love to comment.

First of all, Kory, simply to let you know, we have 65 million acres of arable land in Saskatchewan and 35 million acres of crops, so we have a lot of acres.

There is quite an interesting debate going on here about corn availability. Clearly, we think Saskatchewan is the only province in the nation that is a net exporter of feed grain, so we clearly believe we have a specific advantage.

I want to go back to the issue of producer ownership, and there are a couple of comments I'll make. One is that capital goes where the best return exists. With all due respect, that sounds nice on paper, but that's not the reality in the United States today. Ethanol plants are built in communities where the large multinationals would never build an ethanol plant. That's because of a will within the community to make it happen.

One of the things to address primary producers that hasn't been talked about is this. I made a point of travelling throughout the U.S. to visit ethanol plants owned by producer groups. The common scenario is this: Harry hauls 50,000 bushels of corn to the ethanol plant and gets paid $2.25—in fact, I'll give you a specific example, a particular plant in Minnesota. Twice a year the producer gets a document from the ethanol plant and the ethanol plant says, Harry, you hauled 50,000 bushels of grain and you got $2.25 a bushel; you also got a dividend in that six-month period; we also had a capital appreciation of the plant in that six-month period. Harry, you didn't get $2.25 a bushel, you got $8.07 a bushel.

If you really want to do something for primary producers, you've got to get them into the value chain, and not as a minority piece. You must get them as a majority, running and owning that plant. That's the first part. I have a strong opinion about that. I think it's important to understand where that opportunity lies.

The bigger picture for all of us here, I think, is how do we get there from here? There are some dramatic differences in the American model compared to ours. They use tremendous money guarantee programs. From a federal government perspective, in terms of contingent liability, they book 10% of that contingent liability cost. In our country, based on the treasury branch, we need to book 100% of that contingent liability cost. I think that's inappropriate. That's my understanding, Mr. Easter.

The last part we need to talk about from the primary producer perspective, particularly in rural Canada, particularly in western Canada, Mr. Easter, that I want to respond to is the issue of the Canadian Grain Commission and specific crop varieties that we think will be home runs in the ethanol industry. We can grow specific crops today that will yield 70 and 80 and 90 bushels per acre in dry land farming, which is dramatically higher than the traditional hard spring wheats of 30 and 40 bushels per acre. We have issues with KVD registration, and we have some nuances with the Canadian Grain Commission that we have to work on, but that will be a key opportunity for primary producers in terms of taking Saskatchewan's example of $135 of gross revenue per acre and moving it close to $300 per acre of gross revenue, and we can do it quickly.

The Chair: Thank you, gentlemen, and thank you, Mr. Bellavance.

Mr. Bezan, seven minutes, please.

Mr. James Bezan (Selkirk—Interlake, CPC): Thanks for coming in, gentlemen. I appreciate the presentation.

I'm really bullish on the biofuel opportunities we have across Canada, particularly in western Canada: the opportunities with wheat, canola, and animal by-products.

I was interested in listening to Rothsay talk about what they're doing with their biodiesel plant in Quebec. Now Rothsay has rendering facilities across the country. Are you planning on putting in place more biodiesel plants with every rendering facility you have across the country?

Mr. Ron Wardrop: Our first plant is open now and operating, and we're just going into the consultation process on where our second plant should strategically be located. It's a little too early to say where that is, but we're not finished with the expansion of our biodiesel business, by any stretch.

Mr. James Bezan: But there is a logistics problem when you start hauling rendered product back and forth between where you might locate biodiesel facilities.

Mr. Ron Wardrop: They need to be near one of our rendering facilities. Sixty-five per cent of the material that comes in is water, and you can't haul water very far profitably. So it will need to be near our rendering facilities.

We have six facilities, starting in Manitoba and moving out to the Maritimes. So logically, we will be somewhere close to our rendering plants, because we want to add value to our own products rather than having to buy raw materials.

● (0955)

Mr. James Bezan: I'm a cattle producer myself. One issue we've always talk about in losing profitability, since the BSE crisis, has been the by-product value. Have you looked at what the return is to producers now that you're starting to move into the biodiesel market, as to increase in the overall value of an animal? Is it a couple of bucks an animal? Is it $50 an animal?

Mr. Ron Wardrop: Right now, it's more cost avoidance. Because the value of the by-products since BSE have dropped so dramatically, all we're doing is trying to maintain the values. It is probably $1 a pig that's staying in the value of those by-products rather than being taken out of farmers' pockets.

Another thing I didn't mention, and that's helping us decide where to put these plants, is incentives. Right now the incentives are very provincially based. For example, we see that Ontario, Quebec, and Manitoba are now giving incentives by removing our road taxes. Those vary quite dramatically from 16.2¢ a litre in Quebec to 10.9¢ in Manitoba. Those are examples of what's going to help make business decisions about where those plants are going to go.

We need some kind of stable, level playing field that helps make everywhere in Canada available to the biodiesel business. So we would encourage the committee to look at incentives and make sure that all jurisdictions are treated similarly, so we can make logical decisions about where to place those plants.

Mr. James Bezan: Kory, you were talking about the review you're doing right now, the consultation process that your organization is undertaking. But you're not going to be in a position to report until sometime this summer. Are you going to be reporting the recommendations your industry comes up with directly to the minister?

Mr. Kory Teneycke: We will report to several ministers, not only to Minister Strahl but also to Minister Ambrose and Minister Lunn, who are playing very important roles in developing what this process is. The actual regulation itself is likely to be part of Minister Ambrose's work, and primary agricultural producer involvement is something I know Minister Strahl is very focused on. We're working closely with him on that portion, and then with Minister Lunn on some of the interprovincial tax and trade issues that Ron just mentioned, which are very important. So we're reporting to all three.

We actually have our discussion paper here; it came out yesterday for the meetings we're holding in Montreal. We'll have a second set of meetings in Saskatoon in a few weeks. So we're travelling the country.

Everyone here today is participating in that process, plus many others, such as the Canola Council and another rendering company, West Coast Reduction, which also has a very interesting take on all this.

Anyway, we're continuing our work. We'll be reporting in. We're happy to share the outcome with all the committee members as well.

Mr. James Bezan: As a government, we want to be moving forward rather quickly in bringing forward the policy and regulatory changes to make the 5% policy announcement, which we made throughout the campaign, a reality.

Lionel, you said that 5% is very doable and we should be striving for 10%. I don't disagree with you, although I have heard recently from some people within the industry that the capacity to build plants is going to be somewhat limited in the upcoming years because of plants going up, not only in Canada but also in the U.S., and there are only so many companies out there building these facilities. Do you see that as a problem or a restriction? How do we get around that, so we can hit the 5%, and hopefully the 10%, mark?

Mr. Lionel LaBelle: Thanks for the question. You're absolutely right, there are four technology providers in the U.S. that provide the technology to build plants. We went a couple of steps forward in Saskatchewan, where we've gotten access to a particular technology that we've licensed, and we're working with the construction community in Saskatchewan very aggressively to focus on building that capacity.

Just for your own information, the queue right now in the U.S. is about three years. If you want to build a plant today, there's about a three-year wait to get started. We don't want that to happen in our part of the world, and clearly we want to use western Canadian people, western Canadian technology, and western Canadian engineering to build that technology.

So we're aware of that problem.

Mr. Bliss Baker (Vice President, Business Development and Government, Corporate Affairs, Commercial Alcohols Inc.): I would like to comment on that as well. We've got one project under construction and two in the pipeline, and we've opted to do the same thing, which is that we've licensed U.S. technology but we're using Canadian construction know-how to build our plants, particularly in Quebec, where it's SNC-Lavalin. That's a major international company, as you know, that is certainly anxious to build more plants in Canada. We've opted to go with Canadian construction know-how because of that problem you've talked about.

● (1000)

Mr. James Bezan: My final comment is on the dry distillers grain. It's the one thing that I see as cost prohibitive in the production of ethanol. My thought process has been that we should be moving more and more to feed and wet cake coming right out of the plant, similar to what they do at Lanigan. I'm wondering if that's going to be in the plans in the expansion of the ethanol facilities, knowing that as natural gas continues to increase in cost, it's going to make the distillery grain more and more prohibitive.

Mr. Lionel LaBelle: At the Ethanol Development Council, we're well aware of the Lanigan plant and the uniqueness of that plant. We have been told for some time about this economies of scale debate and how you can't build a plant of that size and be profitable. We weren't sure of that, so we commissioned an engineering team using some of the best knowledge in North America. This is not a public document yet, but this is the result of that effort. Clearly, this particular plant and this particular model of a 20-million-litre ethanol plant producing static 20,000 head at one time—so it produces about 40,000 head a year—is about a $45 million company; it has a payback of about 5.7 years, using 70¢ as a price point for ethanol. By the way, it's trading at $1.10 Canadian today, also owning half of the livestock in the pen. That's a tremendous model; that's part of the piece.

The other part of the piece is just dry distillers grain. There are some unique things going on at our university, taking dry distillers grain, mixing it with a by-product from biodiesel, which is glycerine, and opening a brand new market in the hog industry. You haven't seen the report yet because it has to be peer reviewed because it's so bold, but there are some great things going on with dry distillers grain.

The Chair: Does anyone else want to comment on that?

Mr. Kory Teneycke: One of our members, who isn't present here, Okanagan Biofuels, based in Kelowna, is looking at biodigesting in distiller grains. There are numerous technologies and different things that are going on in that. Having the flexibility to do some wet, do some dry, having more options, is only going to help your business case. So I think letting the market bring its resources and its innovation to bear on that issue is going to yield some very innovative solutions. Time will tell which ones are the best.

The Chair: Mr. Baker.

Mr. Bliss Baker: I have one final comment. You're very right about the wet cake being more important in the future. Our Quebec project has a very aggressive wet distillers grain marketing program that we're getting ready to roll out. And the dairy industry, as you all know, is very important to Quebec, and they are waiting anxiously for our plant to get going so they can buy wet distillers grains for their dairy cattle.

The Chair: Thank you, gentlemen.

Mr. Atamanenko, seven minutes, please.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): Thank you very much, gentlemen, for being here.

On a personal note, I find this quite exciting, and I'd like to have a chance to visit one of these plants if the opportunity ever arises.

My questions will be at two levels. One is a general philosophical question and a couple are specific questions.

Should we—and it's interesting coming from me—be looking at the American model? Should our government be looking and working closely with those in the American government to really see what the differences are between the way we do things and the way they do things? Obviously there are models that work; there's no need for us to reinvent the wheel. In other words, should we be in close consultation, coming up with ideas and then trying to implement them as far as the government goes? That's the first question.

The other general question is on this whole debate about fossil fuel energy and subsidies. Should we be doing a gradual shift of subsidies in our energy sector from fossil-fuel-based industry to the biofuels in one area?

I'll just start off with those two general questions.

Mr. Lionel LaBelle: You're right. With Minister Easter previously, Minister Strahl, and others, our particular group is supplying a tremendous amount of information regarding the American model. Some of the very specific programs in the American model have been very successful. With all due respect to the elected officials and the bureaucracy, I think they've done a good job of looking at it.

There's also been an interesting debate about states, what role states have played in the U.S. market and how proactive they have been. There was a comment made on what has happened provincially in Canada in regard to biodiesel, as an example.

There is an interesting anomaly in the states. Montana probably has the most aggressive ethanol program of all of the United States, and yet there is not one ethanol plant in Montana. Correspondingly, the state that probably has the leanest program is South Dakota. The last time I checked, they were the third largest producers of ethanol in the United States.

There's a little mission over there to indicate that it has always been federally driven in the U.S. The State of Minnesota was the first to mandate it, but other things related to MTBE banning and so on have really been the catalyst for the growth of that particular industry.

● (1005)

Mr. Jeff Passmore: First of all, let me say that the whole committee is invited to a tour of the plant. Iogen has a facility right here in Ottawa. If you want to come and see the site of an ethanol demonstration plant, many of your colleagues have been on tours in the past.

To the question on subsidies to conventional fossil versus so-called subsidies for new energy sources and renewable energy, whether it be ethanol or anything else, governments have to ask themselves what their policy goals are and then tilt the playing field in the direction of achieving those policy goals. I have been told by many political staffers in the past that after 20-odd years of subsidies to conventional fossil fuels, the only way to level the playing field would be if you tilted it in the direction of renewable energy in order to have the same playing field over the course of the next number of years.

As a government, ask yourselves what your policy objectives are. The biggest instrument that the federal government has at its disposal is tax policy in terms of driving towards goals and policy objectives.

In terms of following the Americans, Mr. Easter didn't ask this question, but he alluded to it when he talked about a competitive environment. I'll speak to the question of cellulose, because you don't have a cellulose ethanol industry anywhere in the world. You don't have it in the U.S. and you don't have it in Canada, so we're beginning from the same starting point.

Who is the biggest supporter of cellulose ethanol in the world today? It's the President of the United States, a Republican, a Texas oil man, who said in his state of the union address that we have to get ethanol not only from conventional sources but from new sources of ethanol such as corn stocks, wood chips, and switchgrass, all of which are forms of cellulose.

What are they doing in order to achieve that? As I said, no plants have been built in either place, but they have R and D support, which Canada has, and grant money, which Canada does not have. They've gone to a tax system using loan guarantees as a means to cover private sector risk. They have actually put a set-aside in place by 2013. They want a billion litres of cellulose ethanol in the market by 2013.

Canada hasn't taken any of those types of steps. We have to ask ourselves how we want to launch this industry.

As to income to farmers, people say that you can't get them to sell straw. We tested that. We went to the farmers in Idaho, Alberta, and Saskatchewan. They're getting $10 an acre of added income in their pockets before they get paid for baling and trucking the material. They get $10 for the stuff sitting in the windrow.

Did that appeal to them? Well, we signed up 600 farmers in Birch Hills, Saskatchewan.

To Lionel's comment about small communities, what's the population of Birch Hills? Is it 3,000?

Mr. Lionel LaBelle: It's maybe 300.

Mr. Jeff Passmore: Well, there you go. That's a small community. The next biggest community is Prince Albert, which is 15,000 or 20,000 or so.

Farmers are signed up and willing to sell us their straw, but you now need the government to take the lead in terms of policy instruments.

Mr. Alex Atamanenko: I'll move on while I still have some time.

I am encouraged by what's happening in Saskatchewan, Mr. LaBelle. I think we have to do whatever we can to keep our rural communities going. I see this as one exciting way to keep those farmers producing and to keep all of the things happening in the communities that you've been talking about.

We obviously need some kind of an aggressive federal policy. I am encouraged by the current government. I think we have everything in place to do that.

I have another general question.

We all like to talk, and we like to listen and discuss things. What should we be doing not next month but yesterday? What should we be doing now to get this off the ground, so that we in fact do something and we don't just do a study and put it on a shelf somewhere?

● (1010)

Mr. Lionel LaBelle: We asked Minister Strahl this. We were recently in Ottawa and we clearly articulated what we thought he should do, and that was immediately announced, that there will be a renewable fuel standard in Canada and that we're going to move forward and the details will follow.

We also said we should grandfather anybody who wants to start building an ethanol plant today that falls into the specific criterion of producer ownership; otherwise we're going to completely miss the 2006 construction season. So that was our first position: let's start; let's move forward. That's the first part.

The second part, obviously, is that the devil is in the details. We'll argue clearly that producer ownership is a critical part of this piece. We don't for a moment suggest that 100% of all the plants in western Canada will be owned by farmers, but the American model is getting pretty close to 50% of the buildings. We think that's a reasonable target to try to hit, and we think that should be reflected in policy.

Clearly we have a strong opinion that it should be policy, and not a program, so that political interference doesn't get involved in that equation, or the presumption of political interference.

The Chair: You're out of time, Alex.

Does somebody else want to add to that point? Mr. Wardrop.

Mr. Ron Wardrop: When you talk about what you can do today, about 95% of our present production is going to the U.S. because of the blenders tax credit. The way they've chosen to support biodiesel production in the U.S. is working very well. Plants are springing up all over the place and production is going very quickly, and demand is also being driven by that.

Our production—almost all of it—is literally going to the U.S. What you can do right away is level that playing field and get the incentives in place that will bring demand into the market by making renewable fuels a very similar price to fossil fuels. It is working in the U.S.

The Chair: Thank you, gentlemen.

Mr. Steckle, five minutes, please.

Mr. Paul Steckle (Huron—Bruce, Lib.): I want to begin with Mr. LaBelle. First, let me compliment you on your enthusiasm and your optimism in what you see going forward. I share that, and I think you're among friends in this room.

I have some concerns in terms whether the farmers are ready. If the government of today were to provide the tax incentives and the opportunities for them to move in the direction of cooperatives—if we want to use that term—are the farmers ready to participate? Do the Canadian farmers have the same kind of entrepreneurial spirit as American farmers do? Can we get our act together?

Mr. Lionel LaBelle: Thanks for the question. We spent hours debating this issue, and I would argue that it's fundamentally flawed if the federal government comes up with a program and there's no take-up by the farmers. That would be a tragedy.

Last week alone I made a circuit within Saskatchewan over a three-day period and visited nine separate communities. I think those of you who understand the Saskatchewan psyche today will realize that we're in crisis. I would argue that the groundswell of support for renewable fuels in our part of the world is so strong that my answer to you is yes, there will be tremendous take-up. It will be aggressive, it will be fast, and it will have a domino effect.

With the right federal program, we believe we'll see four, five, or six plants immediately, and it will create courage for other communities to get involved. That's the key to this story. I wouldn't be running as hard I am for as long as I am if I didn't believe that.

Mr. Paul Steckle: Thank you. I appreciate that. I'm pleased to hear that response, because we have Rory here this morning and people not representing Cargill.

You presented a pretty optimistic picture for someone who's a shareholder in a certain plant in the U.S. If those returns are really that great—and I have no doubt that they are—why are the Cargills in the future of biodiesel not out there building plants? Why isn't Maple Leaf building a plant to use the product?

Maybe Mr. Wardrop can answer the question, but this looks pretty optimistic to me. Boy, if I was in that business and I had the raw product, all the offal product....

Of course, another question I have is, how does that relate back to Mr. Bezan's question? Now we have some value to it. Is this reflecting back as value to the producer?

Anyhow, I think you want to get into it.

Mr. Ron Wardrop: Thanks for the question.

We're looking at what you need: demand for the renewable fuels. That's why the renewable fuels standard is going to be so important. It's nice to have the returns and some of the things we're looking at, and we are trying to value-add to our products, but you need somewhere to sell it. That's where you come back to the level playing field around incentives and making sure there's a demand within the Canadian market.

It's a very poor business model that relies on another jurisdiction, like the U.S., to keep allowing us to export our fuel to them. You're not going to get huge in a business just to export. You should have some domestic demand. The renewable fuel standard is that opportunity, and making sure that biodiesel is well represented within that standard is also very important.

So don't just make it an ethanol standard, make it a biodiesel and an ethanol standard. Make it a renewable fuel standard and get the demand started. Get people using renewable fuels and biofuels in Canada, and you will see plants come. There will be job creation. There will be capital spent on these plants. But we need the market, and that's why the renewable fuel standard is so very important to getting this all going.

● (1015)

Mr. Paul Steckle: From an environmental standpoint, we all know that for environmental reasons alone we need to bring these two industries on at a much quicker pace than we have been. But can you perhaps dispel this morning, once and for all, the argument that has been put forward by certain groups, particularly the oil industry, that energy in, energy out does not equate? Can you put that on the table and have us understand it better, perhaps, once and for all?

The Chair: You have 28 seconds.

Mr. Lionel LaBelle: Thanks very much.

This is fundamentally a flawed debate, and I have spent the last four years of my life debating this and challenging people on the debate. You really have a couple of scientists out there who are making some bold claims, and you have another hundred on the other side of the page who are doing some really remarkable things. Every hour the technology gets better in ethanol. Every hour there's new fermentation, cold cook technology, etc.—we're just getting better. And if we take dry distillers grain and use it as an energy source, we're going to go from one to two or two and a half. It's unbelievable. But the bigger picture, the one that frustrates me the most, is why the question isn't asked in the same sentence, “As compared to what?”

If you want to really talk about life cycle analysis, let's talk about coal. It is absolutely abysmal. It's godawful. For every unit going in, about 0.39 comes out. It's terrible. The tar sands are just as bad. With coal, you extract it from the ground, you burn it, you create steam, you run a generator, and then you put electricity in a line where you can have as much as 50% line loss, and yet that never comes out in the discussion. If at the very least we displace fossil fuel with renewable fuel, we've hit a home run.

So with all due respect, I welcome the debate.

Is that my 28 seconds?

The Chair: Very well done, Lionel, thank you.

Mr. Jeff Passmore: Mr. Chairman, could I have just 10 seconds?

I just heard a really good answer to that question provided by a professor at Argonne National Lab. He said, in terms of just showing what a red herring this is, society does not make energy decisions based on the question of energy balance. We make decisions based on the question of energy value. So what's more important, that lump of coal that's sitting out in the pit or the fact that these lights are on and we have electricity so that we can see in this room today? The energy balance of electricity is negative. The energy balance of a gallon of gasoline is negative. But it's energy value that society makes its choices on.

The Chair: Good point.

Mr. Ron Wardrop: Very quickly, NRCan has studied our plant, since it's up and new and running, and has come back showing that for every unit of energy in, there are about four units of energy out.

The Chair: Thank you, gentlemen.

Mr. Gourde, you have five minutes.

[*Translation*]

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): Good morning. I think that we are all aware of the opportunities that the use of ethanol will provide for Canadian farmers and for the industry.

The industry is proposing a partnership with the farmers, and I think that they will be very happy with it. On the other hand, in the North American market, the price of corn or grain used for making ethanol is much too low. There was a great deal of discussion about advantages, and it would certainly be a great advantage if we could find a new market for Canadian and North American grain. However, the price of grain is currently so low that the ethanol industry is very profitable. Currently, Canada's best average farm gate price is $125 per tonne. Normally, if the United States produced less grain, the prices would probably be somewhere around $185 or $190 per tonne.

Could the ethanol industry survive if the price of the raw material was less competitive, or should we choose to use biomass? We could use annual plants that could be produced at costs below $100 or $125 per tonne, and it would be no doubt be better for the environment.

Given the amount of arable land that Canada currently has, would we be better off if we produced less traditional crops? Things could evolve, and around the year 2015 or 2020, these crops could yield two or three tonnes per hectare rather than 1.25 tonne per acre.

● (1020)

[*English*]

The Chair: Mr. Baker, you seem keenest.

Mr. Bliss Baker: Thanks.

Let me just address that first by saying that our company—certainly our industry, but our company—will not survive if we don't have a healthy, sustainable, and profitable agriculture sector in Canada. That's a given.

You asked whether we could sustain higher grain prices as an industry. The answer is absolutely, yes, if all grain prices went up. The problem we get into is when one jurisdiction has higher prices than another. If you had trade barriers, or something happened, and all of a sudden our corn prices in Quebec were higher than those in any other jurisdiction in North America, yet we were still competing with U.S. and Ontario ethanol, where their input costs are different, that's where we'd run into big problems. If all grain prices rose, as we expect them to in North America with the increase in ethanol demand, then yes, of course we can survive, as long as it's done equally across jurisdictions.

Mr. Kory Teneycke: Just to add another element to that, though I know it's a little bit beyond your question, the selling price for ethanol right now is at record highs. That's because it doesn't just track the price of inputs; the market is also affected by what the price for gasoline is. When you have refining shortages, as we experienced last year as a result of hurricanes in the gulf, there's pressure on the refining system even above what is naturally there. Ethanol can have a value that is very heavily affected by that.

Also, North America is being very heavily affected by bans of MTBE, which is a fuel additive. There are about nine billion gallons of it in the U.S. right now, and it's being banned, basically, state by state. That's creating some demand for ethanol, because ethanol is a sort of replacement product as a gasoline additive that can raise the oxygenated level of fuel.

So you have a bunch of things going on that are driving the price of ethanol to record highs in this market, which is one of the reasons why so many plants are being built. I think one thing that is important to remember is that this market will not always be as good as it is today, not just because of potential changes in agricultural commodity prices, but because ethanol prices themselves are unlikely to maintain the high levels they're at today. You could make a business case for making ethanol in a bucket right now and it would be profitable, because the market price is so outrageously high compared with what it has historically been.

Just to give you an example from the last energy crisis in the U.S., in the mid-eighties, in 1985 there were 163 ethanol plants operating in the United States, and by 1990 there were 21; 140 ethanol plants had gone bankrupt when energy prices went down. It's important to take a longer view at not just the agricultural market—commodity prices—but also at the energy market.

The Chair: Is there anyone else with a quick redirect on that?

Your comment about making ethanol in a bucket puts a wrinkle in your economies of scale argument, Kory. You might want to be careful with that one.

Madame DeBellefeuille.

[*Translation*]

Mrs. Claude DeBellefeuille (Beauharnois—Salaberry, BQ): We are responsible citizens. In 2006, if we want to develop profitable opportunities both for the processing industry and for producers, we must not forget the concept of sustainable development.

You said little about the environmental impact of this production. In Quebec, we make ethanol mainly from farm products and from forest residues. Do you not think that this would be a more profitable option? In Quebec, 90% of corn production goes to domestic consumption and there is no real surplus.

● (1025)

[*English*]

Mr. Kory Teneycke: I would love to talk at length about the environmental benefits. Because this is the agriculture committee, we focus more on the benefits to producers. But you're right, sustainable development is a big part of this story, and GHG reductions are a big part of the story.

I'll let Bliss answer the corn portion of the question, but I would encourage anyone who's in town on Thursday and interested in that part of our story on the sustainable development side to attend when we're hosting a breakfast speaker. Paul Roberts, who writes for the *L. A. Times*, *Harper's Magazine*, and is the author of a book called *The End of Oil*, will be speaking at 7:30 a.m. at the Westin Hotel, and you are all invited to attend.

Mr. Bliss Baker: On the issue of grain surplus supplies in Quebec, the number one reason we're in Quebec and building a plant there is because of the surplus corn. Farmers—again, a big part of the reason for us being there—attracted us to that region because they had corn to sell. We located in Varennes because it was close to surplus corn. The last time I checked the stats, Quebec was still a net exporter of corn, so those farmers will now have an opportunity to sell their corn in their backyard, directly to our plants, as opposed to shipping it to the U.S.

Mr. Jeff Passmore: I'd like to address the question from the point of view of agricultural residues. As Kory said, a big part of our story is sustainability, and as Bliss said, if we don't have successful agriculture, we don't really have a business.

From the point of view of gathering corn stover—the cobs and stocks and leaves—in western Canada or Quebec, we don't pretend to know more about land husbandry than the farmer. If you were the farmer and had a thousand acres and I came to you and said, “Listen, can I have the stover or the straw from your farm? I'd like 300 acres a year”, you'd say to me—and this is actually in real cases, some farmers have said to me—“Three hundred acres? You can have the straw from all 1,000 acres”, or they've said, “Three hundred acres? You can't have any.”

It depends on all sorts of issues around soil types and farming practices and whether they want to switch from low-till to no-till agriculture. The point is that we leave that decision up to the farmer. He decides how much residue he wants to part with. Typically, it's about one-third to no more than 50% of the available residue, and then he rotates the land that he takes the residue from on an annual basis.

[*Translation*]

Mrs. Claude DeBellefeuille: Do the new technologies allow us to make a transition towards other kinds of raw material, like beets? For instance, you said that there is a great deal of wheat in Saskatchewan. Could we make transfers? Currently, does technology allow us to use other kinds of raw materials, such as beets?

[*English*]

Mr. Kory Teneycke: It depends on the local growing region. There's an interesting case right now on tobacco lands around Lake Erie. They're looking at using a combination of sweet potatoes and millet as feedstock for ethanol. It really depends on your local growing conditions.

This industry looks very different all around the world. On the biodiesel side, you'll end up using whatever oil-producing commodities you have in your local area. In some parts of the world, like Indonesia, it will be palm oil. For the ethanol industry, it will always be sugars and starches. When you look at places like Brazil, it's all about sugar cane, not about corn and wheat. So it really depends.

If sugar beets can be grown effectively in your area, and this is a market that makes sense, then yes, absolutely, you can certainly make ethanol out of them.

Mr. Lionel LaBelle: If I could respond, one of the things that's unique, I think, is some of the new technologies that are being attempted. I'll give you an example. In our part of the world, we have green-based technology. From my understanding from the engineers, a corn ethanol plant will just be able to handle corn. A wheat-based ethanol plant will be able to handle wheat and corn. We think that's a nice flexibility, from that perspective.

But there are some unique things going on, and I'll give you an example. In Nebraska, a company called Abengoa has partnered with a firm called SunOpta. They're doing a pilot plant, building a pre-treatment plant beside a grain-based plant, where they're attempting to take a cellulose product and converting it into ethanol within the same factory. So whether they're successful or not, time will only tell. But it's really unique, if you think that, going forward, this plant may be able to handle two streams of material. That really makes it quite dynamic. That's what's happening in research and development just in North America alone.

● (1030)

The Chair: Thank you, Madam.

Mr. Boshcoff, five minutes, please.

Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.): Thank you, Mr. Chair.

To all the presenters, I think you've set a new record for enthusiasm and response, from all parties, to any witnesses who have ever appeared before any committee. You can tell that we're keen.

On the capacity, Mr. Passmore, is the hesitancy in Canada incentive driven or a fear that if we develop the industry it will be swamped by American capacity if they're building at such a pace?

Mr. Jeff Passmore: Are you talking about cellulose ethanol?

Mr. Ken Boshcoff: Yes.

Mr. Jeff Passmore: The hesitancy has to do primarily with the size of the plant. In cellulose ethanol, we have the opposite situation compared to grain-based ethanol. Grain-based ethanol is low capital cost, higher operating cost. In cellulose ethanol, we have the reverse. We have high upfront capital cost, lower operating cost, because, of course, we're using an agricultural residue so the cost of operating is less. For the capital costs, you're looking at between $300 million and $400 million to build the first commercial plant.

So there's the issue of the quantum and then there's the issue of the mechanism. It's been made quite clear to us by the Department of Finance that they do not have any desire to issue loan guarantees to cover the debt portion of the plant.

The idea is that 100% of the project is financed in the private sector through a combination of equity and debt. We have the equity players at the table. On the debt, there's a fundamental lack of understanding in Canada, I think, of the problems associated with the commercialization of emerging technologies. This has nothing to do with cellulose ethanol; this is any emerging technologies. Lenders don't lend debt to technology that's never been proven at that scale before. So sure, we have a demonstration plant on Hunt Club Road, but they won't lend you the debt unless that debt is guaranteed by a strong credit rating, such as the government—hence, the U.S. government's loan guarantee program, which a Republic Senate and a Republican Congress and a Republican president passed.

Mr. Ken Boshcoff: Mr. Teneycke, when you talk about the end of oil and that some of the vehicles may have a capacity of 85% to use alternative fuels, right now we're looking at 5%, generally, but eventually in the long range do you see that 85% or even 100% will be a possibility?

Mr. Kory Teneycke: Not if we continue to drive the types of vehicles we drive today. Renewable fuels are not a solution to anything in isolation. Unless you're able to convince people that they don't need a four-wheel drive truck to drive their kids to soccer practice and you address things like fuel efficiency simultaneously, you're not going to have a sole solution.

I think we had a bit of criticism in the media on the announcement of the RFS, which is environmentally a very good story...not talking about the fact that in terms of that sustainability package, this is only one piece of a comprehensive solution. It's not reasonable for us to change all the vehicles we drive overnight, or anything like that, but to start positioning ourselves where we have more diversified, cleaner, renewable sources of fuel in vehicles that can use more of them and that are more fuel efficient, with lower emission profiles. I think everyone agrees that is the end goal.

I was just at the Windsor workshop, at a meeting of the auto industry in Canada, and that's what they're all talking about. It's not something that I think is revolutionary. This is one important step on that larger journey.

Mr. Ken Boshcoff: Mr. LaBelle, some small businesses have approached probably all members of Parliament here. They have been nervous that any incentives for research and development or for even getting into production...whatever is available gets snapped up by larger corporations, as opposed to smaller operations.

Do you have any feelings about that? Is that the experience in Saskatchewan?

● (1035)

Mr. Lionel LaBelle: I think clearly that's the experience. Jeff touches on it a lot, and then one of the concerns I have is there's a lot of new technology, whether it's biodigesters, whether it's a liquid fluid bed. With all due respect, community groups look at this—and I don't mean to be disrespectful—but they're somewhat naive in understanding some of these concepts. More importantly, they don't understand the bankers' position in all of this.

So our role within the Ethanol Development Council is to be quite articulate with community groups, and say, focus on template models; focus on models that we can replicate over and over again. I think we're having some success with that.

Mr. Ken Boshcoff: This is a technical question that was asked to us today, and that is, on gas station liners, for their fuel supply tanks, as you add more ethanol, apparently the liner has to be changed because of the solubility. Is that one of those urban myths?

Mr. Kory Teneycke: We're working very closely with the Ontario government right now on looking at these issues. There are certain types of tanks. To give you an idea of the magnitude, there may be 30 to 40 in all of Ontario, which would have north of...3,000 or 4,000 tanks. So a very tiny percentage of tanks will have some softening as a result of ethanol being added. So that's not really a huge issue. The bigger issue is when you add ethanol. Because it's a solvent, it will pick up any grime that's in the tank. So you need to be very vigilant about having a clean tank when you add ethanol to your market, and vigilant for the first little while when changing the fuel filters in the pump.

Markets like California, which is larger than the entire Canadian market, went from virtually no ethanol to 5.75% ethanol in less than two years without any problems of vehicles or tanks. So it's a bit of a red herring, I think. I won't say that there isn't anything to address there, but it's easily addressed and it's been done in many different jurisdictions.

The Chair: Thank you, Kory.

Mr. Miller, you have five minutes, please.

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

I share your enthusiasm, gentlemen, and I think this is something society and government has to get behind so we can get to our targets as soon as possible.

I have three questions. I'll just give them all to you, and I'd like to hear various comments.

I'd like to know what the possible financial opportunities are for a combination plant for livestock by-products, which Mr. Wardrop can maybe answer, and things such as soya, canola, and wheat. Is there is potential for that, and what might the savings be? Now, I realize that transportation costs might override some of them, but I'd like to hear some comments on that to see if it's feasible.

Secondly, as far as the benefits of getting into the biofuel industry are concerned, we know there are going to be spinoffs for the environment and agriculture, those kinds of things. But what potential do any of you gentlemen see? If we get enough benefit for the agriculture sector, what, if any, long-term impact is that going to have on reducing the amount that government has to spend to support agriculture? So basically, I guess you're freeing up money to support this industry. I'd like to hear some comments on that.

And in reality, how fast can we actually expect to get to 25% or 50% here? Somebody said that Sweden is aiming for 100%. We're a long way from there, and we're just taking baby steps, but I'd like to hear some long-term thoughts on just how fast we can get there?

Mr. Ron Wardrop: I'll start with your first question.

The animal by-products have to be rendered, or they have to be processed in some way first, and once they become the fats and oils that turn into biodiesel, they're quite easily transported. In fact, our company, before we got into biodiesel, exported them around the world to places such as South America. So they do transport very well.

The thing to remember, though, is that there's a finite supply of animal by-products, because they're by-products of what we eat. So it is a low-cost input for biodiesel at the moment, but there is a limited supply. We are going to need the oilseed crops and the soybean and the canola oils to make this industry big. There will be plants that will use both products very successfully, and there's technology in Canada that works very well for that. In fact, one of the plants is being built in Hamilton.

What we need to remember, though, is that eventually we will run out of animal by-products and animal fats, and it is going to be very important to have primary producers, like the canola and soybean producers, involved as well.

● (1040)

Mr. Larry Miller: You're basically saying, Mr. Wardrop, that there's not a lot of benefit in building a combination plant to do the rendering and to transport it. It's easier and cheaper—

Mr. Ron Wardrop: Well, the rendering plants already exist. The by-products in Canada are already being processed. It's not as if there's a bunch of them that aren't going to be processed. So we're already turning them into the fats and oils. All we need to do is put the biodiesel plants close by to value-add to those products and have cost avoidance for cattle and livestock producers. It's not as if there's a bunch that aren't being processed now. It's just a matter of using them as products for biodiesel.

Mr. Lionel LaBelle: I'd like to comment on some of those questions.

I mentioned the cattle feedlot model as a really unique opportunity. This particular model—we're speaking of Poundmaker as an example—consumes two million bushels of grain a year, and there are hundreds of thousands of hectares of land for forage applications, and so on. Then at the end of the day, we have a manure application we can put back on the land that will reduce our fertilizer costs. So it's really a unique opportunity in those particular models.

In terms of benefits, in our model we've talked about 10% in this country. With Saskatchewan at 50% of the land mass, if we produce three billion litres, it would equate to 10,000 jobs in our rural economy. There's no government talking about creating 10,000 jobs in the rural economy, except us, with the renewable fuel opportunity.

Last is the build-up. I think, clearly, 20% is absolutely doable, and we can do it by the year 2020, and I think it should be our goal.

Mr. Bliss Baker: If I could address the second question as well, which is about benefits and reducing subsidies, etc., anecdotally, let me explain what happens in Quebec with the farmers who supply our plant.

Today, Quebec is an exporter of corn. Many farmers send their corn out of the province. It costs you between 20¢ and 40¢ a bushel to do that, depending on where you are and where the market is you're going to. So if you're selling your ethanol to our plant and you're nearby, you're saving that 20¢ to 40¢ a bushel, minus local transportation. But you're saving a quarter, at least.

Kory undersold it. He made reference to the 10¢. We know that in Chatham, corn goes up 10¢ a bushel in that local area because of the demand we draw on the marketplace. So you're talking about saving transportation costs in Quebec. You have an increased local price of at least 10¢ a bushel. Now you're up to 20¢, 30¢, to 45¢ a bushel that you're saving. Plus, we know that the U.S. Department of Agriculture is predicting that the local basis for corn on the Chicago Board of Trade is going to go up by about 20¢ to 25¢ a bushel, long term, permanently, because of ethanol demand. The 20-year average for corn on the Chicago Board of Trade is $2.40. They're predicting $2.65 as a floor for corn on the Chicago Board of Trade. You add the 20¢ plus the 10¢ plus the 25¢ in Chicago, and now you have real dollars in farmers' pockets as a result of ethanol demand.

Mr. Jeff Passmore: I have a quick answer to that question as well. Again, it's a little bit anecdotal.

In the Birch Hills area in Saskatchewan we have 32 rural municipalities. I mentioned that we have 600-odd farmers signed up, representing 32 rural municipalities. Earl Mickelson, who is kind of the lead farmer trying to get everybody all enthused about the project, says he can't walk down the main street of Birch Hills without people asking, "When is Iogen going to break ground? When's the shovel going to go in the ground? My son will be able to stay on the farm as a result of the increased income."

It's a two-step process here. The first is, what's the average age of farmers in Saskatchewan? It's pushing 60. Fifty-nine is the average age of a Saskatchewan farmer. Where are all the young people going to come from when these guys all retire? So step one is, keep my son on the farm; keep the family farm going.

Step two is that once they've earned $10 an acre for selling their straw, a lot of them are going to start looking at growing dedicated grasses—switchgrasses and native prairie grass from back in the days when the buffalo roamed. The yields of those per acre are three, four, and five times what the straw yields are. Obviously they're going to have to do the basic arithmetic—lost income from grain versus supplanted income from dedicated grasses. They'll have an opportunity there to do those numbers and make even more money per acre.

The Chair: Thank you, Mr. Miller.

Mr. Merasty.

Mr. Gary Merasty (Desnethé—Missinippi—Churchill River, Lib.): Thank you for the presentation. Most of the questions have been asked.

I'm trying to get to the nub of the issue with respect to the value chain. We've all talked about this and agreed that it is extremely worthwhile.

In one of the previous committee meetings a statement was made by one of our witnesses that within 12 to 18 months we could be shut out of this refinery game because of the increased activity in the States. I don't know if that's the truth or not. But one of the worries I have—coming from a Saskatchewan perspective and knowing the crisis we have with farmers—is what do we need to have happen now to begin movement?

We've had the announcement of the 5%. We know we need incentives for the farmers to participate in the refineries. We need incentives for the refineries to proceed. If what I heard in the last committee meeting is indeed true, that within 12 to 18 months there is a potential we'll be shut out of the refinery game, what needs to happen first, and how quickly do we need to make it happen before we potentially lose out?

● (1045)

Mr. Kory Teneycke: There is no time like the present. I actually think that the timelines agreed to on May 23 in Regina by federal ministers and provincial ministers responsible for our industry are a pretty good plan. They actually had a pretty good plan, a pretty aggressive plan and timeline for getting this done, basically by consulting with industry and governments over the course of the summer, with some sort of agreement on how to proceed in early fall. I think that's a pretty aggressive timeline. We certainly support it.

We think the main elements are there in terms of what the government's saying about wanting to have production here, which means being competitive as well a creating a market with a renewable fuel standard. All those elements are there.

Ron and many others alluded to the need to coordinate provincial policy as a part of this, so it's very important that the government is consulting with the provinces. That's always a slow process, but we are very supportive when you say you are going to do something this complicated over that short a period of time. We're even more enthusiastic because it is the same approach in policy that the Liberals were talking about in their platform and it's very similar to what was in the NDP platform. We have provincial governments of every political colour participating in this process and agreeing that this is the way to proceed. Provinces and the federal government agreeing, different political parties agreeing, farmers and agribusiness agreeing—this is a rare occasion in Canadian politics.

Mr. Jeff Passmore: I have a very short answer: tax policy, tax policy, tax policy. What instruments does the federal government have at its disposal? It has public education, so it can create some market demand by educating people about ethanol; it has its own procurement, through its own vehicle fleet and buildings and that sort of thing; and it has tax policy.

How did we create a small- and medium-cap oil and gas industry in Saskatchewan and Alberta? It was through flow-through shares to passive investors. Finance hated it then and they hate it now, so the problem isn't with the politicians in this room. The problem is with getting the system to actually deliver on the government's policy objectives, and the biggest single instrument the federal government has is tax policy.

How did we create a wind energy industry in this country? It was by flow-through shares for passive investors. Finance hated it then and they hate it now, but guess what? Suddenly wind farms are going up in Quebec and Alberta and everywhere else. The same thing is true of.... That's the only instrument you've got: tax policy.

Mr. Lionel LaBelle: I have just a quick comment on the 12- to 18-month shutout: absolutely not. That is just a bogus story. There is one piece in this puzzle we're not remembering, and that is the consumer. The consumer loves renewable fuel. This industry is on a growth curve that is exponential. The concept of being shut out is just not in the cards.

The Chair: Mr. Bellavance is next.

[*Translation*]

Mr. André Bellavance: Mr. Baker, a moment ago I called you Mr. Passmore. I apologize to both of you. My question is for both of you. It may be a little more technical.

Quebec has an energy strategy that favours developing biofuels from agricultural and forest residues. We know that this alternative is being used at our Varennes plant. In the magazine *La Terre de Chez Nous*, I read that Mr. Roberge, the director of the commercial alcohol plant at Varennes, said that these technologies based on cellulose ethanol could not be used on a large scale for a long time yet. It might be up to seven years and we might even have to wait until 2020 before producing ethanol from wood.

Mr. Baker, do forest and agricultural residues still present future opportunities for the Varennes plant? If such is the case, what is the current state of the technology? Will both technologies be really profitable someday, whether we use wheat, barley or corn, as well as forest residues?

Mr. Passmore, my question is also for you because I read that your company was very hard at work on this matter. You are producing a new type of ethanol that will be made from forest biomass. I think that if you continue doing this, there must be some future in it.

● (1050)

[*English*]

Mr. Bliss Baker: With respect to Mr. Roberge and our Varennes project, we have a very good R and D program right now, a very active R and D program, looking at those kinds of things. We have an R and D project that we've been working on for a couple of years now in partnership with another Canadian technology company, and we're looking at those kinds of things. I don't want to get you too excited. It's still several years off, but the goal of our company is to be able to have as much flexibility for feedstocks as possible, and that is probably true of the entire industy. At some point down the road, all ethanol producers would like to be able to use a variety of feedstocks to get ethanol at the end of the day. Many companies are looking in the direction we are as well.

Mr. Jeff Passmore: I guess I could only say that we started off looking at forest residues. The history of the country was first forest residues and then agricultural residues, but it was much easier to collect agricultural residues. The baling equipment and everything is all there, available. Gathering forest residues is a bit of a challenge, but eventually we would expect to be able to not just use agricultural residues but also eventually forest residues.

As to the question of whether or not you can have a grain ethanol plant and then switch it to a cellulose ethanol plant, some of the parts would be complementary. There are tanks and distillation columns that you could use. Obviously we use different yeasts and different enzymes, and there's pre-treatment that is different. You couldn't switch back and forth between starch and cellulose, but you could perhaps convert a plant at some point if it seemed like a sensible business decision.

The Chair: Mr. Atamanenko, do you have any last questions? You have a minute.

Mr. Alex Atamanenko: I have three quick questions.

It's my understanding that vehicles up to 10% ethanol or biodiesel are okay. You don't have to change the motors. Secondly, on energy efficiency, how much fossil fuel, say a litre, would it take to produce one litre of ethanol or biodiesel? Also, on CO_2 emissions, what is the difference between emissions from a litre of biodiesel or ethanol in comparison with gasoline?

Mr. Kory Teneycke: I'll give you three really quick answers. Yes, on the 10% for ethanol. For biodiesel, it's up to 100% in a diesel engine, although blending standards only exist for up to 5% today—although many people are blending far more than that.

In terms of the energy balance, how much fuel you're using, on a life cycle basis based on Agriculture Canada's most recent analysis, it's 2:1 net energy out of ethanol versus use in the growing of the crop, gas for the tractor, and all of that. That's on the Ag Canada website. You can download the study.

The final one was CO_2 emissions. It depends on what you use. For cellulose ethanol, it's about 90% reduction over gasoline on a life cycle basis; for corn and wheat you're looking in the 40% to 50% range, depending on the particular plant; and for tallow—this is rendered animal fat similar to cellulose—you're looking in the range of 90% reduction. For oilseeds like soy and canola, you're also looking at the 40% to 50% range.

Recycled materials have a smaller GHG footprint than grains and oilseeds, but both are very large percentage reductions over petroleum.

The Chair: Thank you.

Mr. Easter, you have one last, short question—very short.

Hon. Wayne Easter: Always short, Mr. Chair.

● (1055)

The Chair: That's why I reminded you.

Hon. Wayne Easter: On the commodities to produce ethanol, Lionel mentioned earlier that there needs to be Canadian Grain Commission changes. How critical is that and how fast does it need to happen?

The other thing is, in the U.S.—I was talking to the vice-chair of their agriculture committee—they are really high on switchgrass. Now, I personally don't know much about switchgrass. If anybody can explain that to me and what potential it has in Canada, I'd like to hear that. There is some resistance to using food for fuel, and I think switchgrass would kill that argument.

Mr. Lionel LaBelle: Mr. Easter, clearly we think the Canadian Grain Commission plays a real role here. One of the caveats in the province is something called KVD registration. We have been producing milling wheat for 100 years and there's a worry that somehow we would pollute this particular grain source and harm our export capabilities. There's new technology out today where it's no longer a kernel verification, but it's done electronically. So there has been an industrial wheat group added to the Canadian Grain Commission's portfolio.

They seem to be tentative. I think they need some pushing just to get them down the ladder. So I think that'll happen fairly quickly, but we do need some political force on that.

Mr. Jeff Passmore: Switchgrass is a native prairie grass. It grew back in the days when the buffalo roamed. It's drought resistant, sends its roots down six feet, grows six feet tall, and is really thick and really dense. If you were looking at straw yields of a tonne an acre, you'd be looking at switchgrass yields of anywhere between three tonnes and six tonnes an acre. Because it's drought resistant, farmers like it because, hey, you don't have to worry about irrigation.

We have a plot of 100 acres of switchgrass growing up here in Renfrew County. We decided that we would like to grow some ourselves and run it through our demo plant and test it. Yes, it grows great in Renfrew County too. It doesn't have to just be a prairie grass. It's a wild grass with a very high yield.

The Chair: You don't want to talk about it too positively, or Wayne will want it under the Canadian Wheat Board.

Some hon. members: Oh, oh!

The Chair: Thank you, gentlemen. It's been a great morning. We've had a tremendous amount of information. Thank you so much for coming.

Mr. Wardrop.

Mr. Ron Wardrop: Some interest has been expressed in seeing a plant. We're having an open house on June 20 specifically for government representatives. If anybody is interested in coming, I would be more than happy to have you at our Ville Ste. Catherine plant on June 20 at 10:30.

The Chair: So we have a breakfast by Mr. Teneycke and a tour by Mr. Wardrop. Mark this on your calendar, folks.

Thank you so much, gentlemen.

Ladies and gentlemen of the committee, we have a couple of housekeeping issues to work on at the moment, so please stay in your seats.

The first one won't take any votes or anything like that. Bill C-15 passed by unanimous consent yesterday and has gone to the Senate. There was some consideration or discussion about changing some of the default mechanisms, which were lost in the wash of getting it through the House quickly. It won't come to this committee, but are you folks opposed to my writing a letter to the Senate? Apparently they're going to have a hearing on Thursday morning. Can we point out to them that we'd like some changes to the default?

I've chatted with Mr. Easter. I haven't had a chance to chat with Mr. Bellavance or Mr. Atamanenko.

Right at the moment the default mechanism is very punitive on cash advances: 10% is added to your loan; the interest rate starts the day you take out the loan, not the day you defaulted; you're considered in default even if you still have the grain commodity in the bin but haven't been able to sell it. So there are some punitive sides to this that I would like to see addressed in Bill C-15.

Does anyone have a concern about that letter going to the Senate? I've talked to the minister about it already. All right? We will do that.

Mr. Anderson, do you have a comment on that at all?

Mr. David Anderson (Cypress Hills—Grasslands, CPC): I'd just comment that I agree with you and Mr. Easter on this; it's something we can do to improve the bill. You've spent time at it, we've spent time, and that's one of the places where we can make some change that might help out.

The Chair: Is everybody okay with that? Good. We'll keep you apprised of the progress.

Also, we had notice of motion from Mr. Bellavance the other day. The 48 hours, of course, are now up.

Mr. Bellavance, do you care to speak to the motion?

[*Translation*]

Mr. André Bellavance: Thank you, Mr. Chairman.

I will not take up much of your time because we have already heard all the testimony we need on milk protein concentrates. I will not take time to read the motion either, unless you wish me to. The motion is before you, and as you so clearly said, Mr. Chairman, it was submitted in time.

I thank the committee for agreeing to study this issue very quickly. Following the Federal Court decision rendered in January, the door to milk protein imports into Canada is now wide open. You heard—as I did—Canadian and Quebec dairy farmers explain how serious the situation is.

Since 1994, Canada has protected the dairy industry by imposing strict regulations on milk protein imports. We might have lost the case in court, but that does not mean we have no avenues for action, no measures we can take to prevent a serious increase in milk protein imports. Even the witnesses, the minister and the departmental officials who appeared before the committee stated we did have such measures.

I am therefore submitting a motion that is in line with what dairy producers are asking for. I am tabling it now and I would like it to be heard in Parliament. I would like the government to take note of it, because the situation outlined by our witnesses is extremely serious. I would therefore ask the committee to pass this motion so that we can table a report in the House as quickly as possible.

● (1100)

[*English*]

The Chair: Thank you, André.

Speaking to this issue is Mr. Bezan.

Mr. James Bezan: I'd like to table this motion to a future date. I don't disagree with the intent of what Mr. Bellavance is bringing forward, but I think the timing is wrong. Right now we have a situation where the DFC and the processors are meeting—they have a working group. We should wait to see what the outcome is before we move ahead, see what consensus they've come to.

Also, we're in a sensitive time in negotiations with the WTO. I think we need to be working to protect our supply-managed industries. By moving ahead on article 28 all we're doing is taking a sharp stick and poking it at our competitors. We're going to make it very difficult to deal at Geneva. It think we should table this for now and deal with it at a later date and let the processes that are under way right now continue.

The Chair: We have a motion to table. Do we have discussion on that motion?

Mr. Miller.

Mr. Larry Miller: I agree. I would have suggested the same thing.

Mr. Bellavance, I agree 100% with the intention of what you have here, but the timing is not good. I'm a farmer. I was in the supply management business—milking, at one time—as well. My heart is there and I have a lot of producers in my riding. We're doing the wrong thing if we pass this motion right now, André; I really believe that.

The Chair: Mr. Easter.

Hon. Wayne Easter: I don't agree with the position to table, Mr. Chair. I think this is a recommendation to the government. The government will see fit to act on it, either quickly or not. But all along, it seems to be the case with primary producers that the pressure is always on them to make compromises and make changes. I understand and recognize that processors will not be pleased with this motion because it makes them a little bit non-competitive. Well, currently farmers are non-competitive as a result of this and are losing money.

It puts the pressure on the agrifood side, and maybe then they will be a little more compromising in terms of trying to deal with what is the farm problem. The agrifood sector has been doing well. So I think this motion puts the pressure where it should be, which is on the agrifood side, which needs to start to deal with this question rather than all the costs being borne by producers.

Therefore, I oppose tabling and I support the motion.

The Chair: Thank you, Mr. Easter.

Mr. Atamanenko.

Mr. Alex Atamanenko: I support the motion as it stands. I think it underscores the important of this and it's a statement that we as a committee can make and ensure the process will go through. I understand that. I don't think the timing will hurt what's happening right now.

The Chair: Are you ready for the question on tabling the motion? Those in favour of tabling this motion, please raise your hands. Those opposed?

(Motion negatived)

The Chair: We're now back to the main motion as it stands.

Mr. Bellavance, are there any amendments or changes to this?

Does anyone want to speak to it? Mr. Anderson.

Mr. David Anderson: As James did with his motion, I'd like to make the same point, that we think the timing on this is poor. A working group needs to be encouraged to take their discussion seriously and try to come to some resolution of this. We've heard article 28 is likely a very poor solution to this problem, and WTO negotiations continue, so we support the intent of it.

The Chair: Thank you, Mr. Anderson.

The question is on the motion as tabled by Mr. Bellavance.

(Motion agreed to)

● (1105)

The Chair: Now, down to the housekeeping of this, André. Did you have in mind that we will be doing a report on the MPCs? Did you want this tabled as part of the recommendations when we table that report? We've had our hearings now.

[*Translation*]

Mr. André Bellavance: No, Mr. Chairman. I want this to be our report, and I want it to be tabled in the House in its current form as quickly as possible. With respect to the timetable, I imagine the clerk can tell us exactly how the process works.

[*English*]

The Chair: Sure. We'll have it done up in the proper format, in both official languages, then get it into the House as quickly as possible.

Mr. Easter.

Hon. Wayne Easter: I have a point of order. I agree that this could be tabled as a separate report, but I think we still have to do a report on the hearing that we held as well.

The Chair: I agree. Is everyone okay with that? We're good to go.

All right. We'll work it out, André, thank you.

This meeting stands adjourned.

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