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Chair

Mr. James Bezan

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● (1530)

[*English*]

The Chair (Mr. James Bezan (Selkirk—Interlake, CPC)): I want to welcome everybody to our meeting as we kick off our study on business risk management and the way it applies to the overall APF.

We are looking at the livestock side of it today, and I'd like to invite to the table Clare Schlegel, with the Canadian Pork Council; Stephen Moffett, with the Canadian Pork Council Safety Net Committee; Jennifer Fleming, who is the executive director of the Canadian Sheep Federation; and from the Canadian Cattlemen's Association, Travis Toews and Ryder Lee, who will be making their presentation.

I ask that everybody keep under their 10 minutes so that we can have as much time as possible for questions. Bells are going to ring at a quarter after five, so we do want to wrap up well in advance of that. We do have some housekeeping business that we have to take care of before that time, so I will be adjourning this discussion and suspending the meeting at about five after five so that we can deal with the business and our travels to eastern Canada.

With that, I'll turn the floor over to you, Clare, if you'd kick off the presentations.

Mr. Clare Schlegel (President, Canadian Pork Council): Good afternoon, everyone. It's a pleasure to be here today to speak with you about business risk management. I'm Clare Schlegel, president of the Canadian Pork Council, and l farm in southwestern Ontario, halfway between Buffalo and Detroit—there's no humour here. With me is Stephen Moffett, and Stephen farms in New Brunswick.

The Canadian hog sector is a large segment of Canadian agriculture, with production occurring in every province. In 2006, 30.8 million hogs were produced in Canada. Approximately 8.5 million of these hogs were exported live to the U.S., either as weaner pigs or market hogs. Of the remaining 22.3 million hogs processed in Canada, 50% of the pork was exported to 88 countries around the world.

While our success in export markets has allowed the sector to grow, it also places very large demands on producers to meet the expectations of customers in both the domestic and international marketplaces. Risk management, therefore, is part of the everyday decisions made by producers. Currency fluctuations, interest rate changes, input costs and availability, management challenges, and increasingly sophisticated customer demands are all big risks. The vast majority of these risks are borne directly by producers.

The question facing us today is where governments can play a role in helping to mitigate risks. We have read the discussion paper developed to help frame the debate around business risk management, as well as the next generation of agriculture and agrifood policy framework. We support many of the concepts within the paper, and we will touch on them below, beginning with the design principles.

The first principle outlined in the paper and identified as the most basic principle is to ensure that funds are used in an equitable manner, treating producers across commodities and regions equitably.

The CPC is fully supportive of this principle and asks governments to focus on this. It is clear that the current suite of programs does not meet this principle, particularly where programs originally intended for crop producers are not expanded to livestock production. We will speak more on this in terms of production insurance.

We support the principle that government funding should focus on mitigating the negative impacts of uncontrollable and unforeseen events, and we support that programming must conform to international trade obligations and minimize the threat of trade actions. The hog sector is no stranger to trade challenges, as you well know, having experienced countervail and anti-dumping actions. It is well aware of the costs of such actions in direct expenses and, more importantly, of the damage that arises in a sector as a result of the uncertainty created.

The design principle that looks for producer involvement in sharing the program costs is, as in many cases, unnecessary. As noted above, the majority of risks facing hog producers are borne directly by producers. Producers already assume considerable risk in production, and sharing in the program cost is simply an added expense.

Regarding the new suite of business risk management programs, we have the following comments to make—and I'll turn it to Stephen at this point.

● (1535)

Mr. Stephen Moffett (Chair, Canadian Pork Council Safety Net Committee): Mr. Chairman, we want to stress that the Canadian Pork Council supports the continuation of a margin-based income stabilization program. The current CAIS program has met the needs of many hog producers across the country, although there certainly can be some improvements. There have been some significant improvements made, but there still are a few more things we could do.

We would like to see a deeper negative-margin coverage, that is, 70% instead of 60%. We would like to see the historical reference margin based on the better of the past three years or the Olympic average; we think that would make the program more responsive, and it would certainly work better for a larger percentage of the producers. We would like to see eliminating the risk of government prorating of payments, and we would like to improve timeliness and reduce the administrative burden.

Program payments should be considered as income in the year of the hurt. Often we receive the money the next year or later, and of course there are tax implications related to that.

Predictability and bankability is one of the things we hear most from producers, and we would like to see improvements around that. I think there have been improvements made. I know the department is trying very hard to make the forms more simple, but there's still difficulty in predicting what you're going to receive. There is a commitment to put some calculators on the Internet, but they're not there yet. I think we need to persevere and have those available so producers are better able to calculate what they're going to receive and better able to understand the program, especially as it relates to structural change.

There have been many complaints about the current CAIS program, but the whole farm program available to all commodities is a useful approach, and we feel it should be maintained. It's whole farm, and from a trade point of view, we feel it's a good way to go.

Regarding the special disaster coverage, the Pork Council supports the creation of a framework for disaster relief. It is recognized that governments will not be able to provide a suite of business risk management programs that can address all eventualities. Therefore, having a framework to guide special situations will be valuable and will provide producers with the confidence that assistance will be available in extreme situations. Efforts must be made to see this framework finalized. That would give producers more confidence that they don't have to rely on ad hoc payments, that there is a framework there and there'll be something they can draw on, and that they won't necessarily need national publicity in order to get an ad hoc payment. I think having that framework would be very helpful.

It is in the area of production insurance that the Pork Council has the most frustration. With the launching of the first agricultural policy framework, promises were made that production insurance would be extended to other commodities, including livestock. Despite work that has been done by both industry and government, we are no closer to the implementation of a suitable production insurance program for livestock. The result is a huge gap between crop producers and livestock producers, and we feel this needs to be addressed.

This gap has been made painfully clear to the hog sector in the past several years. As you know, many producers have been hit hard by this new disease caused by a circovirus. It's very devastating. It's a disease that has actually put producers out of business. We don't feel that this needs to have happened. Had we had good production insurance, we would have addressed the losses that producers suffered.

Of course, from our point of view, it's twofold. You could say that many of those producers would receive benefits under CAIS. That's true, and they have, but the problem is that it erodes their historical margin. Then when they get into a situation where the price collapses, the CAIS isn't able to do what it was meant to do, because they've already used up that portion of their margin.

Fortunately, vaccines are now available, and that appears to be working effectively to control the disease, but the industry cannot afford another circovirus situation. We certainly appreciate the work that has been done by Agriculture and Agri-Food Canada to look at production insurance, but it is difficult to see that a viable scheme would be available in the near future, and that's our concern. As I mentioned, the second effect of the lack of production insurance is the impact it has on our CAIS reference margin.

● (1540)

The discussion paper notes that any perils covered by existing private insurance policies would be excluded by production insurance. That's a little bit of a concern for us, because we want assurance that the federal and provincial governments will continue to be committed to providing equitable treatment to livestock producers as they do to crop producers. The federal government is providing funding to research projects examining what private insurance would look like, and these projects could actually result in a private insurance tool. Obviously we wouldn't want to see a private insurance tool come in and then negate the need for production insurance for livestock.

I just want to stress that we're really concerned that production insurance be similar from province to province. Crop insurance, as you know, is provincial territory. We're really worried that it would be very different in each province, and that has trade implications for us. So it's a big concern from the federal government's point of view.

On the cash advance program, we're really pleased that there have been amendments made that will make a cash advance program more workable for livestock. In reality, for small producers, I think it's going to work really well, and I commend the government for that. There are some limitations on the maximums, so a significant-sized producer, in reality, will only be able to access the program half as much as he would have had he been a crop producer, because of our shorter cycle. So we encourage the government to look at that issue.

I'm running out of time here, but I have one more point. Regarding the latest announcements and the idea of the deposit-based program, as you know, we did support the federation's concept that the federal government look at the idea of a NISA-type program, which could replace the top 15% of CAIS. We feel that this idea has a lot of merit and we're interested in it, and we would like the federal government to take a look at it. We probably don't have a real position, because we don't know all the information, so our position is that we need to take a look at this and see how it works. There's a little bit of concern that there are winners and losers, but we're looking forward to working with the government on that.

Those, in a nutshell, are many of the issues we're interested in, so we look forward to answering questions.

The Chair: Thank you. You went over by only about four seconds, so that's great.

Madame Fleming, would you begin your presentation?

Ms. Jennifer Fleming (Executive Director, Canadian Sheep Federation): Sure. I'll try to make up for the time he went over and make mine really brief.

First of all, I'd like to thank you for the opportunity to speak to you today. The Canadian sheep industry definitely appreciates the opportunity to be here to present our thoughts on business risk management.

The Canadian Sheep Federation represents all 13,000 producers in Canada. We have nine provincial members and two associate members.

The national sheep producer organizations—the Canadian Sheep Federation, the Canadian Sheep Breeders' Association, and the Canadian Co-operative Wool Growers—have all accessed the programs provided to the agricultural industry through the APF programs. We've used these programs to address some of the risks that sheep producers face and to increase our industry's viability and sustainability.

In particular, these programs were beneficial to us as we navigated our way through the May 2003 border closure that had a devastating effect on our industry. Our imports had been set to increase in 2003 by 71% over our 2002 exports. To have that border closed to the U. S. and subsequently to Mexico really devastated our purebred sector in particular.

While we have benefited from the programs that were available to us, we do have concerns over their effectiveness and their ability to meet the immediate needs of producers.

Just by way of some overall comments, any effective business risk management program has to be easy to understand and simple to use in order to facilitate producers' access to the program and the speed with which assistance can be provided.

In addition, the programs must also be flexible not only on a national basis for each commodity but also on a regional basis. For example, the OIE is moving away from zoning countries as free of a disease and moving towards declaring regions as free of a disease. We may see an increase in the need to have programs available for certain areas of Canada, not necessarily to the country as a whole. So any kind of program that's implemented needs to be adaptable and flexible, but it also needs to minimize any kind of interprovincial competition.

The sheep industry recognizes the importance these programs have in mitigating risks to producer organizations that rely largely on exports. We also, however, have a need for the programs to focus on our ability to expand our production and meet our domestic needs. Currently we fill only 50% of the demand for lamb in the country.

In order for programs to be effective at supporting both international and domestic needs, they have to be comprehensive in nature, encompassing all aspects of the value chain.

I'll now just make a few other more specific comments.

In terms of farm income, the sheep industry would like to see a long-term strategy dedicated to addressing the declining farm incomes. Despite government intervention during crises such as the BSE border closure, incomes dropped. We feel this can be partially attributed to the fact that assistance programs do not react readily enough to producer needs and they don't generally provide business interruption assistance. So producers are often left accumulating debt while awaiting assistance.

In terms of business interruption assistance, there can be issues such as loss in production, cost of feeding animals that don't have a market, welfare slaughter, carcass disposal, and cleanup.

We'd also like to see expanding agricultural lending capabilities for organizations such as FCC, for production issues and programs for producers, which can result in positive changes to farm incomes. Additional benefits of these would be an increase in the understanding and transparency of business risk management programs.

In terms of production insurance, as does the pork industry, we do appreciate the fact that this issue is being expanded to incorporate livestock. However, as it's currently proposed, it doesn't adequately address the needs of producers.

The current model covers only mortality caused by insurable disease, mandatory slaughters, and preventive elimination ordered by a vet. It does not cover losses due to accidents, weather, production, or predation, which is a large reason we're not having as much flock expansion as we'd like.

The production insurance programs need to be developed in full partnership with the commodity organizations to ensure they're meeting the commodities' specific needs.

In regard to CAIS, this program was ineffective for many sheep producers and was complex in nature. It was ineffective primarily because the inventory date was set to be at a time of year when the majority of market lambs had already been sold.

● (1545)

In addition, some producers were asked to pay back the money as their margin values were not adequate in a downturning market. In short, producers invested time, deposits, fees, and accounting costs into a program that they felt was unpredictable and slow and to which they are now indebted.

To wrap up that brief presentation, I'd like to express our thanks for the March 9 announcement of the $1 billion investment in agriculture to improve farmer incomes. We welcome any and all support to agriculture. However, we do realize that the funding will not be available until after the budget is approved and that further details are required. And again, I would like to thank you for the opportunity to give this presentation today.

The Chair: Thank you very much, Madam Fleming.

We'll now go over to Mr. Toews of the Canadian Cattlemen's Association.

Mr. Travis Toews (Director and Vice-Chair, Domestic Agricultural Policy, Canadian Cattlemen's Association): Thank you, Mr. Chair, for holding this hearing on business risk management and for inviting us to advise the committee on the policy views of the Canadian Cattlemen's Association, an organization that represents over 90,000 cattle producers across Canada.

My name is Travis Toews. I am an elected director of the Canadian Cattlemen's Association. I serve as vice-chair on the Domestic Agriculture Policy and Regulations Committee and am also chair of the Biofuels Subcommittee. My family and I ranch west of Grande Prairie, Alberta, and operate a cow-calf backgrounding and yearling operation.

As I'm sure you know, Canadian agriculture is exposed to many risks, and the cattle industry is no exception. While many of these risks are difficult to mitigate, some can be managed with reasonable effectiveness. Risk management options available to producers include diversification, private insurance, commodity hedging and forward contracting, stockpiling feed, and robust vaccination programs, to name a few.

The Canadian Cattlemen's Association sees these and other private sector means as the preferred tools for business risk management in Canadian agriculture. We do acknowledge that government programs play a role in agriculture risk management and believe that in exceptional circumstances this role is legitimate.

Accordingly, we have a number of principles that we believe government programs should comply with. These are:

- Normal income fluctuation risk should be the responsibility of producers;

- Programs must be as market-neutral as possible and structured to minimize influence on business decisions;

- Programs should not alter the competitive balance within industry, between regions, between sectors, and between operation structure types, including operation size;

- Programs must allow industry to be driven by clear market signals;

- Programs must be structured to minimize risk of foreign trade action; and

- Programs should be transparent and predictable.

The Canadian Cattlemen's Association's first priority regarding government's involvement in business risk management is that Canada develop a national disaster program framework. In May 2003, Canada experienced its first case of BSE. In the following weeks and months the industry struggled to avoid complete shutdown and worked with governments attempting to address the issues. If a predictable disaster framework had been in place, solutions to the issues would have been timelier and the industry could have functioned with more certainty.

A national disaster program would address both natural disasters such as floods and massive droughts and “like natural” disasters such as border closures. This framework would pre-emptively define a disaster and set out funding parameters, governance, and, to the extent possible, program details specific to the disaster.

Producer groups and organizations could work with governments to proactively develop plans that could fit into this framework. The predictability created by this type of framework would reduce industry uncertainty and encourage investment in Canadian agriculture. Without a disaster program framework in place, some disasters receive ad hoc support while others do not. Just last spring, an area of Saskatchewan and Manitoba farm land was flooded out. It was not seeded, and a disaster that nobody could plan for occurred. The government stepped in with a program to partially offset producer losses incurred as a result of that disaster. This type of program is something cattle producers in southwest Saskatchewan and the Peace region of B.C. and northwestern Ontario look at now when they consider the drought they have experienced for up to the last three years. They wonder why one disaster qualifies for aid while another one does not. Without a framework in place, events are not treated consistently by governments, and tensions and competitive imbalances occur.

Last year a draft disaster program framework was presented to us by AAFC. Discussions involving industry stopped in November. We fear that progress on this framework has been stalled by federal-provincial negotiations, and we believe that development of this program framework should be a top priority for agriculture policy moving forward and that industry needs to be involved in the process.

I would like to now discuss the CAIS program, the government's cornerstone income disaster and stabilization program.

● (1550)

While the CAIS program has undergone some recent improvements, it fails to comply with a number of the principles I outlined earlier, particularly as the program applies to income stabilization. The CAIS program can be intrusive on business decisions, including organization structure, breeding herd buy/sell decisions, and cropping rotations.

CAIS provides a disincentive to producer risk management. It is most lucrative in times of increased volatility. This discourages the use of risk management tools available to producers, such as diversification. In our area, some producers who used to rotate crops to ensure that they had a balance of exposure to risk each year have changed their operation to increase their swings in income. They now realize relatively high margins in some years and very poor margins in other years, increasing their income volatility and their CAIS payments.

CAIS is complicated, unpredictable, and non-transparent. While efforts are being made to improve the program in this regard, margin-based, targeted programs that adjust to structural change will tend to be complex, poorly understood, and difficult to assess on a timely basis.

The support in the stabilization tiers of CAIS is amber, which is always a concern for trade action. The recent announcement made by the Prime Minister and federal agriculture minister, creating a contributory-style producer savings account, appears like a step in the right direction.

There is a piece of the budget that does concern us. The recent announcement allocating $500 million to address high costs of production concerns us for several reasons. Our primary concern is the potential effect this type of program may have on foreign trade. The cattle industry in Canada exports approximately one-half of its production in the form of live cattle and beef. This leaves the viability of the industry extremely vulnerable if a trade action were to occur. Government support that is based on the cost of production can be vulnerable to countervail actions by our trading partners, including, and most likely, the U.S., which is overwhelmingly our largest customer.

Support programs based on cost of production can alter the competitive marketplace and, in time, undermine productivity. When an industry receives ongoing government support, the support tends to be capitalized in the cost of land and inputs. Over time, ongoing government support will lead to reduced competitiveness for agriculture in Canada. Any reduction in industry competitiveness will be met with calls for increased support, creating an economic environment that is unsustainable.

We also have concerns in this regard as it applies to an emerging North American ethanol industry that is a competitor with livestock producers for feedstuffs. Based on information available to us, the viability of the ethanol industry in North America at this point is largely dependent on government support and mandated use. We are concerned that government support to a competitor of the cattle industry may indirectly reduce the competitiveness of the livestock sector.

While it is our opinion that sound industry planning and innovation, along with private sector tools, should be the preferred means of business risk management in Canadian agriculture, we do believe governments can play a vital role in creating and administering a national disaster program.

Thank you for the opportunity to speak to these important issues. We would be pleased to answer any questions you may have.

● (1555)

The Chair: Thank you very much.

Just to remind those members who were out of the room when we kicked off, we are going to suspend at about 5:05 to do some housekeeping. The bells start ringing at 5:15 for votes tonight.

We'll open up the first round to you, Mr. Steckle. You have seven minutes.

Mr. Paul Steckle (Huron—Bruce, Lib.): Good afternoon. Thank you for appearing. This is a very timely subject, given that we've just had a budget delivered and some new programming announced.

I'm going to direct my questions first to Mr. Toews and to Mr. Schlegel, and then perhaps to the three of you in terms of the three industries that are here today.

Mr. Toews, you mentioned in your presentation to us today that the viability of the industry would be extremely vulnerable if trade action were to occur, largely due to the fact that half of our production goes outside the country, particularly south. During the crisis from 2003 to 2005, there was a great effort made by both your industry and the government to increase our slaughter capacity. To some relative success, that was accomplished, but now we're seeing that capacity not being utilized because farmers have chosen to send their beef south. Are we not setting ourselves up for another disaster if something were to happen again? Is the industry as shortsighted as I might think it is, in the fact that it is allowing this to happen? Even though there may be a dollar or two more made by doing that, should we not be boxing this beef and sending it south?

We have tried to help your industry. Prior to 1993, there wasn't much interest in the cattle industry being involved in programming. The cattle industry was pretty independent. I know the industry quite well. I know that in the past they have frowned at us helping other sectors, but they found that their independence came to a point where they could no longer sustain the losses without government intervention. Where do you see your industry on this issue going forward?

● (1600)

Mr. Travis Toews: Thank you for that.

Since 2003, processing capacity in this country has expanded. We can now process or have the capacity to process all the cattle we produce if we run at maximum capacity or near maximum capacity. We do have a challenge in this country, in this industry, to maintain that capacity and not leave ourselves in the risky peril that we were in prior to 2003.

The question really comes down to competitiveness. Cattle producers will sell their cattle to the highest bidder. If American packing plants are more competitive, to the point that they can outbid Canadian plants on Canadian cattle, there will be a tendency for the cattle to move south and an underutilization of capacity in Canada.

I believe it's vitally important that we have a regulation structure in place in the business environment, as much as possible, to allow our plants to be competitive with their U.S. counterparts.

Mr. Paul Steckle: Is that something that has to come from within your industry and not from government?

Mr. Travis Toews: It's a combination. Obviously the cattle industry doesn't control the regulatory environment. That's a combination of municipal, provincial, and federal legislation. From that standpoint, there is some government involvement.

At this stage of the game, again, cattle producers will sell their cattle to the highest bidders. At this point, U.S. plants are vigorously bidding for our cattle.

Mr. Paul Steckle: I don't want to leave that, but I must.

To you, Clare, we share a common geography in terms of where we come from. I myself am a pork producer. At least, my operation is still operating, even though I'm not there.

The pork industry is at a crossroads, given that there is the possibility of our major slaughtering capacity operation moving its operations into Manitoba. That is on the horizon.

What kind of a backup plan do we have, given that we sell a lot of our live hogs to the States? We send a lot of our weaner pigs to the States. What if, tomorrow, there was to be some sort of an intervention on the part of the Americans to say they no longer wanted Canadian pigs, whether they be weaners, whether they be shoats, or whether they be market pigs? What is the backup plan, particularly relative to the Maple Leaf issue?

Mr. Clare Schlegel: Just a lot of prayer, Paul.

That's probably one of the largest areas that has consumed our time in the last two years. Working through the pork value chain round table, we've given thought to this whole question of market collapse. What happens if a border shuts? What happens if foot-and-mouth disease appears in Virginia, for instance, instead of north of the border? We still would have problems moving pigs around.

We're probably one of the most vulnerable countries in the world in terms of being exposed to border action. We have to work toward integrated solutions. We have to work toward harmonized standards, particularly in Canada and the U.S., but beyond that in terms of pricing, in terms of OIE standards with regard to animal welfare.

In terms of actual plant closures, it's not only Burlington. The Maritimes are potentially threatened. In the Saskatoon situation, producers there are very concerned. A report will be coming from the round table to the federal government, hopefully next week, outlining some of our thoughts in those areas.

Mr. Paul Steckle: This is for the three of you, and you may answer however you wish and in whatever order you wish.

Since we're talking about risk management today, the grains and oilseeds producers in Ontario put forward a proposed plan about a year and a half ago. I realize that's based on units. Would you like to see a risk management plan for cattle, hogs, and sheep? Would it work on a unit-based system for you, or would you see it going forward as a margin-based program? That is rather more difficult, but again we have to look at the trade issues.

Where would you see that going? Could the proposal put forward by the grains and oilseeds producers be adapted to work for the livestock sector as well?

● (1605)

The Chair: Let me ask everyone to make a brief response to that. We're almost out of time on this round.

Mr. Stephen Moffett: From the point of view of the pork council, we went on record as being very sympathetic to the plight of the grain producers. At that time many of them were losing their farms as a result of currency changes and programs in the U.S., and it was a real issue. At that time we said we would support some kind of support program for grains because there was a real need there. We look at it with a bit of trepidation, because, as you know, we're extremely paranoid about any kind of action that would make us countervailable. If there were a program specific to grain that was deemed to be a pass-through and a subsidy to pork, we could be affected.

So our position is that there certainly is a risk. Whether we can say we absolutely want zero risk...I'm not sure how far we can go. Whatever we do, we have to be very careful and have the trade people involved to make sure it's not deemed as a pass-through subsidy to livestock.

Ms. Jennifer Fleming: I think it's something we'd be willing to look into. It's not something we've actually discussed in any great detail. All of our conversations have focused on margins.

Mr. Travis Toews: From the Canadian Cattlemen's perspective, a program that basically worked off units of production would concern us initially, from the standpoint of trade and countervail risk. Without looking at the details, that would be my comment up front. Access to trade, countervail risk, and vulnerability are of utmost importance to our sector.

The Chair: Thank you, Mr. Steckle.

Monsieur Bellavance.

[*Translation*]

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

Good afternoon, and— thank you for your testimony.

This is not the first time the Standing Committee on Agriculture and Agri-Food has examined the issue of risk management, and it will undoubtedly not be the last. Whatever the case may be, it is always good to conduct an update, especially of the malfunctioning of the Canadian Agriculture Income Stabilization program. I think we around this table, and even in Parliament, agree that that program is far from being as effective as it could be.

We are starting to hear witnesses, but the fact remains that documents from a number of associations are telling us that one of the viable solutions for replacing the CAIS program would be to implement a self-management component for the first 15% of risk, as was the case for the NISA program. Here we're talking about a program by sector, including the livestock sector, managed by the producer. There are various criteria, of course. We're also talking about maintaining a program like the CAIS program to cover significant risks.

I'd like to know whether, with a view to replacing the present CAIS program, you at the Pork Council consider that that is one of the potentially promising solutions.

[*English*]

Mr. Stephen Moffett: Mr. Chairman, as I said earlier, we were very interested in the announcement of a NISA-type program. We didn't make many commitments beyond that.

We certainly have experience with NISA. When we had the NISA program before we felt it was trade friendly, and I think it could continue to be trade friendly. So we're supportive of that.

I think the NISA program was not a real benefit to hog producers in the old days because there wasn't enough money there. NISA was based on eligible net sales. At the end we were starting to look at some other kind of trigger that would be a little more useful for livestock.

The easy answer is that it would be great if there's enough money in the program. I think that's the case here.

We think NISA would work well for crops, because eligible net sales is a much larger percentage of their total sale, whereas in our case you start to deduct some of the other commodities you buy and your eligible net sales become a smaller percentage.

If we do go to that type of a program, we would probably like to look at some other kind of mechanism other than eligible net sales— something more like a gross margin or some kind of a net value-added trigger. If that was the case, I think we would certainly be willing to look at it. We have been saying for some time that we would like to have more information on how that would impact producers. I understood from the minister last week that there has been some work done. We've asked to see the work that has been done and how that would impact pork producers.

● (1610)

Ms. Jennifer Fleming: We looked at the NISA program. Historically, sheep producers did not take advantage of it, for a number of different reasons. One reason I've heard is because it didn't help producers who were pasture-based, which is a lot of the sheep production in the country.

I think our first reaction would be a bit of hesitation. But we definitely want to discuss it further.

We're also a bit hesitant because there is a feeling that some of the other programs that have been implemented didn't adequately meet our needs. As I stated earlier, the inventory date wasn't adequate with CAIS. We didn't have enough animals on farm in order for it to be effective for sheep producers. So there would be a bit of hesitation, I'm sure.

Mr. Travis Toews: Consistent with the principles of the Canadian Cattlemen's Association regarding safety nets, we would basically be in favour of at least investigating the movement to a broad-based contributory-style program, particularly for the income stabilization tiers. I think CAIS, the targeted margin-based program, works reasonably well in the disaster tiers. But in our opinion, when that targeted margin-based approach is applied to income stabilization, it can be intrusive on business decision-making. It can provide a disincentive to producers for managing their own risk and using all tools available to manage their risk, and it rewards volatility.

We would see value in investigating the broad-based, non-targeted, contributory-style approach for the stabilization tiers in our safety net program.

[*Translation*]

Mr. André Bellavance: Mr. Schlegel, last November, we heard from the Fédération des producteurs de porcs du Québec. At the time, we were examining the crisis in the pork industry. In its brief, which I have recovered and which is very interesting, the Federation talks about the advisory committee that looked into income protection. It talks about that program, and says that a definition of the term "insurable disease" used in the report of that advisory committee is not adapted to the hog sector. It states:

> This proposal specifies that losses resulting from diseases which the insured knew were present before the contract took effect are not covered.

Once again, consultations are being conducted on certain programs without coming to an acceptable solution for all sectors.

Have you had any news of this study since then? Has that advisory committee made progress? Have you had any news of about what is going on? Do you know whether it has corrected certain deficiencies?

[*English*]

Mr. Stephen Moffett: I think you're asking about production insurance and whether we think we're making some progress. I certainly mentioned production insurance earlier when I spoke. I indicated that it's probably one of our greatest sources of frustration.

We want to see a good, viable production insurance program. A tremendous amount of work went on over the past year. We had the opportunity to have some input in that, and we appreciate it, but we're not there yet. We have discussed some ideas as to how production insurance could work, but we have not come up with the ideal solution.

There are some ideas being talked about as far as a mortality-type program is concerned. We've talked a lot about how that would work. We would not want to name specific diseases. In our industry, often diseases come along that you don't.... We get a new disease every 10 years or so, like this circovirus. We wouldn't have named that a few years ago. It wasn't even on the radar.

In answer to your question, we probably have not made as much headway as we would like. The government has commissioned a study by an accounting firm, Meyers Norris Penny. At this point, we have spent a lot of time trying to decide how many of the principles we would need in that program. This accounting firm is supposed to suggest some options for dealing with some of the gaps they have identified. I think once we get that, we'll really want to see a lot more of a concerted effort put into developing the production insurance program.

I guess the answer to your question is, no, we don't think we've made as much headway as we would like.

● (1615)

[*Translation*]

The Chair: Thank you, Mr. Bellavance.

Mr. Gourde.

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): Thank you.

We're going to continue in the same vein because I'm interested in this subject. We talked about circovirus, but there are other diseases, such as scrapie. Among cattle, there is bovine viral diarrhea. There's also foot and mouth disease, which can affect all three sectors.

You talked about a draft in principle. Where does the study with your accounting firm stand? Do you anticipate any developments in the short term? Could we see that draft?

[*English*]

Mr. Stephen Moffett: The accountants have made their initial presentation of their study and have not come up with the options. The information I have from some of the people dealing with them is that the firm is not going to get paid yet, because they haven't finished their work. So we are still looking forward to them coming back with some options.

I think then, at that stage, we, the industry, and the government need to get together and try to come up with some ideas.

Our understanding is that there may be a production insurance program put in place in Quebec before 2008. Most of the other provinces are probably farther behind than that. We are very concerned that progress is not being made in that area.

[*Translation*]

Mr. Jacques Gourde: Is it an initiative only involving the Fédération des producteurs de porcs, or a collaborative effort with the other sectors, including the sheep and cattle sectors?

[*English*]

Mr. Stephen Moffett: There was a task force that worked all last summer. There was representation on that task force from various areas of production, as well as from the federal and provincial governments. The task force wound up in the fall.

I think there is still some work being done in the federal government, but our impression is that production insurance is normally a provincial jurisdiction. Our impression is that the federal government has only gone this far and is waiting to see what the provinces are going to do. At this point, the provinces do not seem to be forging ahead, so our concern is that progress has been stalled. We would really like to see a concerted effort to get everyone back to the table.

As I mentioned, probably the reason we want to see that process led at the federal level is because we really need this program to be similar from province to province. It's a tremendous issue for us if it's one program in Quebec, something totally different in Alberta, and something different again in New Brunswick. This would be seen as a program that's not generally available across the country, and it could very well be a major trade issue. So we're very concerned about that.

[*Translation*]

Mr. Jacques Gourde: Earlier some concerns were raised about the biodiesel, ethanol market. Could the by-products of those plants benefit the cattle industry, for example, since we know there will be residues? Could that enable the cattle industry in Canada to be more competitive in the market? I don't think that we in Canada currently have enough access to these by-products, which are available in the United States.

● (1620)

[*English*]

Mr. Travis Toews: Yes, there could be. By-products from biofuels production are usable in cattle feeding rations. One thing we must remember is that there's basically a 3:1 ratio in the ethanol process, whereby it takes approximately three parts of feed stuff to produce one part of by-product that is then roughly equivalent, nutritionally and on an energy basis, to feed barley. So there is a fairly significant feed loss in the equation.

At this point, we are encouraging research on utilization of biofuels by-products, and at this time what we've seen across North America is not significantly discounted ethanol by-products available for cattle feeding rations.

A lot of the plant announcements that have been made for western Canada have been large plants, and large plants would almost certainly be required to dry their by-products in order to handle them. Once that by-product is dried, it is very stable. It is a commodity as stable as any feed grain, so it takes on the value of that commodity. Consequently, we're not seeing at this point significant discounts on biofuels by-products available to cattle producers.

I would suspect until usage of that by-product started to run up against total demand, we wouldn't see any significant discount versus other feed sources.

[*Translation*]

Mr. Jacques Gourde: I'd like to know whether the average farm of a sheep producer in Canada is responding well to the new agricultural products marketing program for sheep producers. Would that benefit farmers?

[*English*]

Ms. Jennifer Fleming: The marketing program is wrapping up at the end of this month, and all indications we've had are that it's been very positive both for the producers and people along the value chain.

One of the key things it has done is increase the communication between the processors and the producers and the end-users, the consumers. We're trying to create an industry now that is responding more to market demands and what the end consumer wants.

Right now, as it stands, anything you produce you can sell, because we don't have enough lambs in the country. We're refocusing producers into ensuring they're meeting what the consumers are looking for, and it's working very well so far, although it's still in the very early stages of implementation.

[*Translation*]

Mr. Jacques Gourde: We know that the cattle cycle is usually 10 years and that it appears to be declining in terms of prices. For hog producers—I find it hard to make an assessment for sheep—the trend for the next five or six years seems to be negative. I know that's a concern for you; it's a concern for us as well.

In addition to our CAIS program, which takes into account historical margins, what are you proposing to the government in order to meet these expectations?

[*English*]

Ms. Jennifer Fleming: Right now, prices for lamb are very high. Again, it goes back to the fact that we don't have enough lambs in the country. We've seen a significant decrease in our ewe-flock numbers due both to the border closure and to the drought in western Canada. We know the prices will drop. We're hoping they'll be compensated for, though, by the quality of production, based on the quality of the product they're using.

I'm not really sure how much help historical data for the CAIS program are going to give to the sheep producers, because they haven't really historically used the program. They found it very complex, and those who did use it now owe the program money; if they go looking for help, they owe you guys money anyway. So I'm not sure how it's going to help them.

● (1625)

Mr. Travis Toews: There's no doubt the cattle industry has had some rough times in the last five years, and we're not out of the woods yet. We are anticipating further expansion of trade with the U. S.—hopefully, sooner than later—and we expect that will brighten our prospects. But as you've noted, we probably missed the top of the cattle cycle when there was BSE. Consequently, producers will have relatively low reference margins for CAIS, probably for a number of years. And the remedies within CAIS to artificially set reference margins based on historical levels, or other potential remedies, would concern us from a trade standpoint.

I think the other consideration is that, typically, our industry has expanded—and I dare say contracted at times—based on market signals and supply-demand fundamentals. I would suggest that a program should not interfere significantly with those market signals.

The Chair: *Merci beaucoup*.

Mr. Atamanenko, you are last in the seven-minute round.

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

I must apologize for being late. So I didn't have a chance to hear some of the other presentations.

My first question is for the cattle industry. I've talked with some representatives of the industry in my area of southern British Columbia, and I guess the whole biofuel industry is of concern and specifically, now, the price of corn. I'm wondering if you could expand on that and maybe expand on some of the other concerns you have in regard to biofuel—not only that, but also on whether you have any answers on how we can go ahead with that industry and still maintain a viable cattle industry.

Mr. Travis Toews: Thank you for that question.

The rapid expansion of the biofuels industry in North America is on our radar screen and is a concern. We have established a task force to study the issue. At this point in time, we haven't been privy to or don't know of any broad studies available showing how the beef industry may be restructured in North America as a result of this quickly growing industry.

Our concerns do not lie with grain producers; grain producers, we believe, are partners in production with us. We recognize there has to be profit potential for them to continue to produce feed grains. But we are concerned about a competitor for feedstuffs for the cattle industry, one that has access to very significant government support within various jurisdictions in North America. We are particularly concerned about a drought year, or a scenario where there would be a shortage of feed grains within North America; it would be very difficult for the livestock industry to compete in that scenario with a subsidized biofuels sector.

Mr. Alex Atamanenko: So right now, the problem is corn, I guess. Corn is becoming more expensive for producers, and then obviously they don't get as much for the cattle if they take them to the feedlots.

Corn isn't the best of crops for biofuels. If we were to shift to other forms of biofuels, would that help the cattle industry? Apparently, it is a problem now, not only here but also in the United States, because of the volume of corn; the prices are going up and it's affecting producers. Yet it's not the most environmentally friendly thing, and the ratio of input to output isn't that good.

Could you comment on that a bit, please?

Mr. Travis Toews: Well, certainly, from our information, you're correct. The energy coefficient of corn-produced ethanol is not great. As that industry matures and technologies improve, we would expect that industry will likely move to cellulosic technology, perhaps, and wouldn't then compete directly with the livestock industries.

We're somewhat concerned in this transition period, should we encounter a shortage of feed grain within North America, about the effect it could have on the livestock industry. And we're concerned about the potential long-term negative effect it could have on the grains and oilseeds sector if the livestock industry shrinks because it's unable to compete with an industry that's really in place because of government policy. I think there's risk for the grains sector there as well.

● (1630)

Mr. Alex Atamanenko: Thank you.

On another matter, you mentioned slaughterhouses and that producers are shipping or would like to ship across the border. Rule 2 still isn't settled. Once that's settled, if it is settled, there will be the free movement of over-30-month cattle. If the slaughterhouse industry is competitive, and the producer can get more for selling cattle in Canada, then theoretically we don't really have to worry about that—am I right?—with the border and some of the ramifications and all those things. You implied in your statement that one reason we're shipping cattle south is because the prices are better. If that's the case, and if we were to have a more competitive slaughterhouse industry, would that help alleviate some of the problem?

Mr. Travis Toews: Our packing industry in Canada needs to be as competitive as it can be, as I'm sure it needs to be in the pork sector as well. We have to ensure that the environment is there for every competitive advantage possible in order to maintain that capacity within Canada and thereby reduce our risk to border closure for live animals, which is much greater than it is for border closure to the product, whether it be boxed beef or pork.

We see Rule 2 as potentially assisting some of our new and emerging packing plants in Canada, as they will then have access to the U.S. market for over-30-month product. We also know there'll be vigorous competition from American packers for those over-30-month animals as well, so it will come down to competitiveness.

A lot of our capacity is in Alberta. In Alberta right now there are high labour costs and there are high costs to doing business. Consequently, our packers are struggling with competitiveness.

Mr. Alex Atamanenko: Will you be getting some assistance from any level of government to be competitive, in your opinion? You said earlier on in your statement that this could be detrimental in regard to foreign trade.

Mr. Travis Toews: I would say no, I don't believe they should get any direct assistance to offset high costs of production. I think government's role would be to ensure that the regulatory environment is as competitive as possible, but I think direct assistance could be counterproductive.

Mr. Clare Schlegel: I think we would concur with Travis. We're concerned about the regulatory burden, about an on-level playing field in Canada compared to the rest of the world, costs that our industries are facing, including our processing industry, that our competitors are not.

All of agriculture is facing the same dilemma as manufacturing responding to competitiveness issues in the face of currency change. So now we're trying to adjust, and the people who work for us are not interested in a wage rollback of 30%. That's the dilemma we're facing on both the beef and the pork side. We need to find solutions to that, and part of that is having government help us out in regulatory areas.

We have to have similar input pricing, specifically in the area of vaccines and drugs. There are groups working at that now, because we are operating in an integrated marketplace. You're probably aware, for instance, that there are 130,000 tonnes of pork that came north this past year. We're only sending 380,000 tonnes south. Just about 10 or 15 years ago, that ratio was about 12 or 13 to 1. So you can see the dynamic is changing and that product is moving north and south; it's going east and west. In that kind of environment, in an integrated marketplace, you need to have an open market, where all prices adjust to capitalistic signals.

● (1635)

The Chair: Thank you.

I'm going to Mr. Easter for five minutes.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair, and welcome, folks.

The thrust of our hearings is to try to narrow in on business risk management, and I can see it's going to be difficult. Where can we go on the last point that was made on the regulatory environment, or the regulatory burden placed on Canada versus our competitors? That's an important one, and it's one that we should be able to deal with that does not affect our trade relationship. I mean, I expect it's green, right?

Mr. Clare Schlegel: I think there are some pretty simple suggestions. I would have two for you, very simple ones, and maybe we'd want to look more closely at those.

In Canada, we have a cost-recovery program. CFIA is trying to recover cost fees. Our meat packing competitors in the United States are not exposed to that. We think there is $20 million to $30 million on the table there. We should probably do more work to see exactly what those are. So we're in a cost-recovery mode on the north side of the border and they're not on the south, and that clearly wouldn't have a trade impact.

The other is a general comment, but we think CFIA needs to be in favour of Canadian business. We deeply appreciate the work that CFIA does for us, but we could cite a few different examples where it feels like they've been restricting trade and putting up barriers to helping us access world markets, instead of working on our behalf.

Hon. Wayne Easter: Thanks, Clare. It's the same thing in the potato industry, for instance, with cost recovery. It costs more to inspect a load of potatoes now, which our competitors don't have to pay, than it does to transport them. You pull three bags off the truck and it costs you about $200, and more if you're paying overtime. So that is an area.

Canada is a big country. There are different regions and considerably different diversity within the regions, so I think it's hard to have a blanket program under business risk management. What's your view on companion programs attached to business risk management in one form or another?

There's some opposition among the provinces because they think it will cost them money, but there is a lot of diversity out there and there may be the need. What's your view on companion programs?

Mr. Stephen Moffett: We would not be opposed to companion programs. The biggest problem with companion programs, from our point of view, is that they tend to vary from province to province. The biggest issue, of course, is that wealthy provinces are better able to support their producers than a less wealthy province.

In the days when there was federal money that went to provinces, which they could use to develop companion programs, that sometimes was very, very helpful, because you're right, they could be targeted to that particular province and the situation in that particular region. But from our point of view, companion programs or provincial programs can be very much of a risk because they are in fact different from one province to the other. As you know, our biggest thrust normally is that programs be similar across the country and generally available.

So that's the issue. The issue is very much a trade issue and very much, from province to province, a fairness issue, an equity issue.

Mr. Travis Toews: I would really echo Stephen's comments. I think one danger as well with companion programs or provincial programs is that cumulatively they can increase our countervail risk. Depending on how the programs are designed—and at times there have been provincial programs that have not been designed well, from the standpoint of trade vulnerability; consequently, a provincial program can actually put a national industry at risk.

That is one concern we have with provincial companion programs, recognizing that at times they may seem to be the best fit of the day, but we do have a concern about trade in those types of programs.

● (1640)

The Chair: Madame Fleming, do you have anything to say?

Ms. Jennifer Fleming: I have nothing further to add.

The Chair: Thank you, Mr. Easter.

Mr. Miller, you have five minutes, please.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): Thanks, Mr. Chairman, and thanks to all of you for being here today.

I want to touch on a couple of things that have been discussed a little bit, but I would like a little more detail.

First of all, Mr. Toews, being a beef farmer, I know back with the BSE, when we were short of slaughter capacity—which Mr. Steckle touched on—I made the comment at the time that if we want the government to help increase slaughter capacity, which of course I was all in favour of, and I made the statement many times here at the committee and at home, we as producers have to stay loyal. Of course, I knew what would happen the minute higher prices were offered: we'd go to it. That's human nature. It's in all of us.

The industry has a responsibility here, and government as well, but it goes against my grain as a taxpayer, whether I'm a beef farmer or not, to keep going back to the well, to the government, to say, basically, every time we get in trouble, “Let's get them in there and we'll build up the capacity.”

Is there an easy answer to how we get the industry involved, to try to stay a little bit more loyal, to keep the packing facilities going? Government has a role as well, I know, but what could the industry do?

Mr. Travis Toews: That's a tough question, because the minute we start to prescribe what the industry does, we begin to suggest or, maybe beyond suggestion, tell producers who they can sell to and who they can't. I do expect that there has been some increase to loyalty of Canadian plants since 2003. In fact, I know that for a fact. But Canadian producers also have to remain competitive. If they can sell their cattle to an American plant for even a small margin higher than the Canadian plant, they really need to do that to remain competitive with their American counterparts. So it really comes down to the competitiveness of our plants. That's really the answer. We recognize there is an ebb and flow there. At certain times the U. S. plants are more competitive and historically there have been times when Canadian plants have been quite competitive. I see that as the key.

Mr. Larry Miller: There are a couple of other things we touched on, and I'll get Mr. Schlegel and maybe Ms. Fleming to comment on this.

I will go back to that profitability, which you just touched on. It can happen in all industries. For example, when grain prices are up again like they are, it hurts all sectors, any livestock industry. So it's a catch-22.

I guess as a general question...a comment from all of you. We've almost become so one dimensional in agriculture. Should we be more diverse? Instead of my owning 250 or 300 cows, should I own 100 cows and 100 sows and cast off a bit more? I realize you lose some efficiencies in there in numbers and other things. I know this is like a mother and apple pie question. Are there any comments towards that from any of the industries?

Ms. Jennifer Fleming: If Mother Nature has taught us anything, it's that if you try to homogenize you put yourself at risk. I think anybody who can diversify and has the ability to—this is my personal opinion; I'm sure there are producers out there who might disagree. It's not a bad idea to encourage producers to focus on different areas of production or different commodities to produce. The risk, though, is that if you take the focus away from what you're trying to do really well, then you may influence the quality of products you're producing. I'm not sure it's something we can prescribe to people, but it's an idea.

Mr. Clare Schlegel: I believe 2006 was either the first or second year that Canadian agriculture actually had a negative net income. That's a concern. The same issue that's hurting grain producers is hurting livestock producers. And the issue is not high grain prices. It's the relative value of the Canadian dollar to the American currency, and the ability of the Americans, due to the weakness of the American currency, to out-compete us in markets around the world. Don't forget that for the first time ever the Brazilian government paid subsidies to their farmers in 2003-04. There's something going on here. We in Canada have to recognize we're in an integrated marketplace. While grain prices seem high in Canada now, they should be a whole lot higher relative to where they are. On the hog cycle we're above break-even in U.S. terms, but we're below break-even in Canadian terms.

We're in trouble and we have to find a way to respond to that. The Canadian government has to think about monetary policy and other ways to reduce risk, because we have to have a profitable sector.

● (1645)

The Chair: Thank you.

Monsieur Gaudet.

[*Translation*]

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

I'm curious, Mr. Toews. What does the word “yearling” mean? In your document, you state:

> My family and I ranch west of Grand Prairie, Alberta and operate a cow calf, backgrounding and yearling operation.

What does that mean? I didn't understand your sentence, and I want to know what it means. I don't know whether anyone here knows, but I would like someone to explain it to me.

[*English*]

Mr. Travis Toews: A yearling is an animal that is between one year and two years of age. We have a sector of the cattle industry that backgrounds yearlings. They take those yearlings to grass and they grow them on grass, and then they go into a feedlot, at about 900 to 1,000 pounds. That's what a yearling is. It's an important segment of the industry.

[*Translation*]

Mr. Roger Gaudet: Thank you very much. That had troubled me from the start.

Earlier Mr. Schlegel or Mr. Moffett said that he would like the CAIS program to be equal across Canada, that is to say to be a national program. Are you really in favour of the CAIS program being a national program that would serve all 10 provinces and three territories?

[*English*]

Mr. Stephen Moffett: We do want to see a national CAIS program, and we do want to see it similar all across the country. The CAIS program is a margin-based, whole farm program, and there are a lot of problems around it. It's complex and hard to predict. But if it's whole farm and generally available, then it's trade friendly. Trade is probably one of our biggest paranoias. We're really concerned about trade.

There are all kinds of programs that would be simpler. If you just wrote cheques and sent them out to producers, that would be a lot nicer, but it would be a trade issue.

But in answer to your question, we want it to be similar from province to province and we want it to be national.

[*Translation*]

Mr. Roger Gaudet: Ms. Fleming, do you agree with that?

[*English*]

Ms. Jennifer Fleming: Yes.

[*Translation*]

Mr. Roger Gaudet: Mr. Toews, do you agree as well?

[*English*]

Mr. Travis Toews: We certainly agree with the need for a safety net program that applies to producers on a national basis, versus one-off provinces going in different directions.

We have some concerns about the targeted-margin CAIS approach within the income stabilization tiers, for reasons I've already mentioned. But we certainly believe in a national safety net program that doesn't advantage one region over another.

[*Translation*]

Mr. Roger Gaudet: I'm going to give you two examples. On March 9, the federal government gave out $1 billion, $400 million of which was paid to farmers, to Canadian producers. If my memory serves me, 20% of farmers are in Quebec. It was said that Quebec would only have 10% of that $400 million. The former government had given $750 million for field crops, and Quebec received on $42 million. That's why Quebec farmers asked that Quebec's share be for a certain amount. Otherwise, we are always short. May I have your opinion on that subject?

In both cases—the one concerning the $750 million, and the other the $400 million—Quebec received only 10%, even though its production represents 20%. Field crops received $42 million out of $755 million. Quebec definitely cannot agree with that. At least I don't. I'd like to know your opinion on that subject, since the same will be true for all crops, for livestock, both sheep and hogs.

I'd like to know your opinion on the subject.

● (1650)

[*English*]

Mr. Stephen Moffett: I'm glad you asked that question. That's one of the issues we're also very concerned about. We have talked often about this concept of equity. I mentioned earlier that we don't know exactly how some of this money is going to be given out. We think the $600 million will be used to kickstart the NISA-type program, and we're not exactly sure about the rest. We assume it will be some form of eligible net sales, or something like that.

I indicated earlier that we have some concerns about eligible net sales for exactly the reason you mentioned. Without getting into issues from province to province, from our point of view it needs to be equitable from producer to producer. So whatever they decide on for that formula, it needs to be equitable so that crop producers get their fair share, as well as hog, beef, and sheep producers. We're really concerned about that.

I neglected to mention that we are also a little concerned about how it goes to individual producers. It's a little different from your question, but large producers versus small producers is a bit of an issue. There has been a tremendous change since we had the NISA program before. There are some structure issues around ownership and the structure of farms that prevented producers from participating in the program. I can't get into more specifics because we don't know them, but that's definitely an issue from our point of view. We agree it needs to be equitable.

The Chair: *Merci beaucoup*.

We'll go to Mr. Devolin for five minutes, please.

Mr. Barry Devolin (Haliburton—Kawartha Lakes—Brock, CPC): Thanks.

Thanks for being here today.

Before I get to my question, I just wanted to point out something that's relevant to this discussion.

Earlier this morning, a group of parliamentarians—today it was Conservatives and Liberals, but sometimes it includes Bloc and NDP members—who are members of the Canada-Korea interparliamentary group, met with a group of Korean legislators who were here in Canada. We had a nice discussion with them, and as always, our lead issue was to try to get the borders opened for Canadian beef. We were teasing them that probably last night they had beef here somewhere in Ottawa and they all looked fine today. So we told them that at least between those four walls we could all agree that Canadian beef was safe and that now we just needed to solve the political problems.

In terms of risk management, as I sit at this committee and I learn about agriculture at the national level, we hear from groups such as yours that represent large numbers of commodity producers. And we hear about all the challenges of the international market in terms of the prices we can get in the market being determined by forces beyond your control or our control.

In my own riding, which is about an hour north of Toronto, I have a very mixed bag of farming in that area. I've had young people come to me and say they want a future in agriculture. I don't present myself as an expert, but I tell them to avoid producing commodities and to maybe find some other product that's a value-added product or something so they can have a little more control over their lives.

I can tell you that for lamb producers, in particular organic lamb producers—we're less than an hour from Toronto—there's a huge market there to be filled.

I'm not suggesting that this would apply across the country. It wouldn't apply to a grain producer in Saskatchewan, but certainly it would in parts of Ontario and Quebec. Risk management isn't just about diversifying the different things you produce. Isn't risk management also about maybe controlling a little more of the value chain and getting more involved so you're selling a product for which you're not at the mercy of a market in Chicago or some trade decision in another country?

I have a goat cheese producer in my riding. They can't make the stuff fast enough. They consume 4,000 goats' worth of milk every day to make their cheese, and they need more.

As national organizations, have you looked at that in terms of how your members may actually look at controlling the value chain? We need to fight for fairness in international markets. But is there another way to look at business risk management?

● (1655)

Mr. Travis Toews: Well, that's a good question, and becoming a participant up the value chain is an option for producers for risk mitigation. Obviously, there are some challenges, depending on what type of value chain they're trying to establish and what type of process they're trying to get into. There can be capital challenges and investment challenges.

In the cattle industry we are seeing an increase in supply chains—n targeted beef production, in branded beef production—where producers basically control that product right into the retail store. Typically, that type of product is differentiated in one way, shape, or form. It is an opportunity for producers, a niche opportunity, and it's a sector of our industry that we will see expansion in.

There are challenges, however, in receiving the labelling approvals. I know of one value chain in particular that had a very difficult time working with CFIA on that issue, and they were set back time and time again regarding the labelling requirement. To echo Clare's and Stephen's comments, while the CFIA has a duty to protect and provide regulatory protection of the food industry in Canada, it has to recognize that its decisions and attitudes impact trade and competitiveness. And we need that attitude from CFIA.

Ms. Jennifer Fleming: I would just echo what Travis has said. In the sheep industry, especially in Ontario, you are seeing more producers becoming more active in the value chain. We have some issues around supply and getting a consistent supply of product. We also have issues around kill capacity. We're losing kill capacity. A lot of that has to do with waste disposal issues.

So we have some roadblocks that we definitely need to overcome in the value chain in order to meet the growing demand for lamb in the country, for sure.

Mr. Clare Schlegel: It's one of the solutions, but by definition, Canada exports over 50% of its beef and 50% of its pork, and that's going to be a high-quality commodity that competes around the world. So it won't take care of our business risk management issues completely.

The Chair: Thank you, Mr. Devolin.

Mr. Hubbard, five minutes please.

Hon. Charles Hubbard (Miramichi, Lib.): Thank you, Mr. Chair.

I guess all of us argue over how much money is being put into agriculture. Somebody mentioned $1 billion last week, $3 billion, and all of this. Does it really get down to the good that we think it should do? In terms of each of your sectors, how do you benefit from the money that somebody puts on the table? Does it really do what it should do? We hear so much about working with government, in terms of the farmers of this country. There's so darned much red tape that some just get so frustrated, they throw it out. Others have to hire all types of accountants to try to meet the demands of our public servants. Are we really doing what we should do?

Statistics Canada is involved in a big way, too. They're doing all these surveys. Every month you get something. They're checking to see how many calves you have, or how many steers are going to have calves next spring, Larry—some of them ask. But do you have good access? Does the government give you the infrastructure you need to make good decisions?

The hog industry is one that's really so volatile, because you can get into a mess so quickly, and such a mess that it's difficult to get out of. I read the Nova Scotia paper about a month ago, and their people were after the minister for more and more money. You get a big barn full of hogs, and they all demand grain, and the farmers have no money. How do you get in? How do you get out?

Stephen was all ready to give some reaction to those comments, but what could we do better? Because the minister is saying to the public—and he announces all these things. Does it get to where it should go in order to make your industry more viable?

● (1700)

Mr. Stephen Moffett: Thanks, Charlie for asking that. I can't wait to respond.

Mr. Clare Schlegel: And I wanted to respond.

Mr. Stephen Moffett: First of all, I certainly echo Travis' comment. We don't want to have programs that influence producers' decision-making. We talk about all the things we can do in the supply chain. Can we go after niche markets? Can we specialize, or should we diversify? There's no question that we think, and I expect you people also think, that the producers should be the ones to make those decisions.

But whatever the producers decide to do, one of the biggest factors in our industry now is that we're tremendously capital intensive. We need money to operate, and you know what that means. We borrow it from the bank or from a farm credit corporation, or from wherever else we can borrow it. There's no question that when I sit down and talk to my banker, it has an impact. I need my banker to have confidence in me. If I say, “Jonathan, I need this much money to build a barn and fill it full of pigs,” he needs to be confident that I'm going to pay him back. He knows that agriculture is one of the higher-risk businesses that he could lend to. Why would he lend to farmers? There are all kinds of other people to lend to. The fact that I have a good business plan and I have a good place to sell my pigs, that it looks like I can probably pay him back and that I also have a good risk management program that I can rely on makes him a little bit more confident, and he'll lend me that money. Otherwise, I just couldn't do the things I do.

So to answer your question, there's no question that the risk management programs we have do help. We're all farmers here and we all hopefully have collected from these programs in the past. There's no question that they help.

I've often thought that if I had gone into some other form of business and worked as hard as I've worked in agriculture, I probably would have been a little bit better off. We farm because we love to farm, but we need to have that security, we need to have that backdrop. Obviously, the more money that is in these programs, the better. That's a very general statement, but we know we have to be very careful with these programs.

The answer to your question also is that it's very easy for the money to go in the wrong direction, you're right. We need to be very careful about how they're designed.

I'm going on too long, but yes, the answer to your question is they do help.

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

Travis.

Mr. Travis Toews: That is a good question. We would contend that it is usually in the public's best interest to underpin a sector, an agriculture sector, in times of short-term disaster. Our industry, the cattle industry, has been a recipient of some of that support during our recent disaster, and there's no doubt that the infrastructure within our industry would not have remained as intact as it has except for some assistance from governments during that time.

So I do see a role when it comes to a disaster program framework and potential funding to fall out of that.

I also see a danger in ongoing support of a sector, regardless of which agriculture sector it may be, to prop up a sector or producers that really aren't viable. That tends to create uncompetitive participants within the industry, and as they become less competitive, the cry for more will just become louder.

So we see a role from a disaster standpoint and a much lesser role as far as ongoing support is concerned.

The Chair: Thank you, Mr. Hubbard.

I want to give you guys a bit of a homework assignment. We're almost out of time here, but the one thing we heard today in your presentations and in some of the discussions is we're talking about business risk management. We heard from Canadian Pork that they like margin-based programs. We heard from all of you that you want trade-neutral programs and a whole farm approach, if possible.

We never heard about exactly how we do that. How do we structure this NISA program? We aren't hearing it from CCA or from the Canadian Sheep Federation. What is the ideal program? We're talking about companion programs, and I believe in the past that we've had companion programs that have been calculated in trade injury, especially with the United States. The preliminary duties they charged against us during the nineties in cattle and hogs included some of those provincial companion programs.

Some advice to the committee here, in writing, on how to move ahead with the whole business risk management programming would be very useful for us. So I do ask that you do that as homework and submit that back to the committee.

With that, we're going to suspend for a couple of minutes. I ask that the room be cleared. We will be going in camera to quickly do some committee business before the bells ring.

[*Proceedings continue in camera*]

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