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Chair

Mr. Larry Miller

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● (1110)

[*English*]

The Chair (Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC)): Could everyone come to the table, please?

Because we're limited for time, I'm going to open it up.

We have with us Mr. Peter Clark, from Grey, Clark, Shih and Associates Limited, and Mr. Colin Busby from the C.D. Howe Institute.

Mr. Clark, we'll start off with you. You have ten minutes or less, please.

Mr. Peter Clark (President, Grey, Clark, Shih and Associates Limited): Thank you, Mr. Chair.

I'm sorry, I was travelling a bit and didn't have time to finish my text in time, but I will get it to the committee in both languages in the next few days. I'll try to hit a few of the high points.

I have reviewed what's been happening before you over the last few weeks, and it seems to me that the principal reasons why a more competitive agricultural sector in Canada is being inhibited are: a lack of free and open markets internationally; the pervasive and extensive use of subsidies by primarily the United States and the EU, but also other countries; excessive interference in the market due to sanitary and phytosanitary concerns that are not based in science; the disparity in size and market power between farmers and ranchers and their suppliers and customers; and frustration with the apparently contradictory goals of competition policy in Canada.

I was quite interested to review your hearings with the Competition Bureau, and a number of the members seemed to experience frustration. I would attribute that to the dual goals of Canadian competition policy, on the one hand to ensure that there's competitiveness in our marketplaces and on the other hand to not apply the rules so tightly that the large players in a rather small market are not prevented from competing internationally with much bigger players.

My normal focus is trade negotiations and trade policy, and international competition is the essential focus of trade policy. If we're not competitive, we won't be able to take advantage of the access we negotiate internationally, so competition is extremely important. But when it comes to competition issues, the farmer is really the ham in the sandwich. It's a function of size. There are tools to deal with abuse of marketing power, but these seem to run head-on into the dual responsibility of the competition law administrators.

With very few exceptions, farmers are dealing with oligopolies, in terms of their suppliers, and oligopsonies, in terms of their customers. The disadvantages of dealing with these customers can be reduced by joint selling activities, such as those that exist in supply-managed sectors and where there are government-mandated marketing boards.

As for suppliers, it's more difficult to cope with that because rationalization within North America in particular has led to consolidation, which has reduced competition and goes right across the board. For many farmers this lack of competition on both ends reduces their gross margins and incomes.

In the brief introductory period I have available to me, I want to touch a little on what's happening in our international competitive markets. There are still very heavy subsidies to the grains and oilseeds sectors in the United States and Europe. These subsidies promote the competitiveness of the livestock, poultry, and dairy industries in those countries.

On recent developments, the USDA was appropriated $28 billion in a stimulus package for U.S. farmers. Almost $20 billion of that is to increase the monthly amount of nutrition assistance, and that's about 40% of their normal budget.

There is money for other factors. The Farm Bill has expanded its scope. It's still very generous and it still deals with the basic root problems we have in competing in the grains and oilseeds sector and through the chain.

Just this morning the European Union decided—they've been looking at it for a while, so it's not an overnight decision—that direct payments, their so-called decoupled payments that aren't decoupled, will be much less relevant in the common agricultural policy beyond 2013.

● (1115)

I think I sent members of the committee a copy of the release this morning, but you may not have it yet.

This is very intriguing because the Europeans have nearly 30 countries and 30 agriculture ministers, all with different views, and Commissioner Fischer Boel with a view of her own, which is probably very appropriate. On the one hand, you have the Nordic countries like Sweden that would rather spend less and aren't terribly concerned about agriculture. On the other hand, you have the more southern countries.

The general view is that it is difficult to wean people off direct payments. One of the bigger problems appears to be that a number of the member states consider that in fact to be the modulation, as they call it—they have wonderful words, and that is where we get modalities, that is where we get modulation—of direct payment support into regional development support, from pillar one to pillar two, which has already gone too far.

They are not keen on more modulation. They are not keen on sharing for regional development. There are imbalances that have been pointed out by the new member states, in which the amount of direct aid per hectare, for example, in Greece is 20 times what it is in Latvia. So they are looking for a more uniform system within the EU.

What we can be sure of from what is said in that release is that the support to agriculture in the European Union is going to continue to be very generous.

Some of you may recall that when I appeared here a few years ago to talk to you about EU agricultural support, I characterized their single farm payment system as one that paid them support based on what they got in 2000 to 2002 and let them top up from the market. That works when the market is up, but when the market is down, as it is now, it creates problems.

That is why we've had Denmark trying to reinstitute its export restitutions on swine. The same thing has happened in France. In fact, there have been more general discussions on that issue within the European Union.

There have been problems with dairy throughout the European Union, and those problems, as they are with hogs, are related to significant oversupply and very low prices. The export restitutions on dairy have been reintroduced in the European Union, which has caused the United States to reintroduce the dairy export incentives program.

Mr. Chairman, we are in a race for the bottom, except Canada is not in the race. We don't have the money. We have never really dealt with export subsidies in that way, and we do have serious problems.

Other issues I'd be happy to touch on during the questions and answers relate to regulation and some of the deficiencies we see with the Food Inspection Agency. In my view, the Food Inspection Agency does a very good job of inspecting food in Canada, but it just doesn't have the staff or the funding to get involved in having other markets approved for us. And that is a serious matter. It takes far too long to negotiate these veterinary agreements. That could be addressed by funding.

Why do young farmers want to go into farming with all the uncertainties they face? The presentation the Canadian Pork Council made to you last week I believe touched on a lot of the problems that have affected the pork producers.

Pork producers and cattlemen deal with cyclical movements in the marketplace all the time. In some years there is too much and in other years there's not enough. The herd is either rebuilding or it's being culled. Those things they can deal with, but they really haven't been able to deal with the high grain prices, which were driven by U. S. energy policy. They haven't been able to cope with the dollar going up so rapidly. They haven't been able to cope with the country of origin labelling regulations and a number of others.

Why are young farmers going to go into farming unless they can really see something at the end of the road? I don't think we have the proper risk management policies to deal with that.

● (1120)

I was interested in Mr. Meredith's discussion with you and his staff on Bill C-29. It was all very interesting, but why are we putting people further into debt? That's not what's happening in other countries. There are grants in France for young farmers and other people.

I'll be happy to deal with this in more detail, Mr. Chairman. I think my ten minutes are up.

The Chair: Thank you very much.

Now we'll have Mr. Colin Busby from the C. D. Howe Institute. You have ten minutes or less, please.

● (1125)

Mr. Colin Busby (Policy Analyst, C.D. Howe Institute): Thank you, Mr. Chair. I'd also like to thank the committee for inviting me to speak here today.

I'd like to talk to everyone about the supply managed farm sector. It's Canada's dairy, poultry, and egg farmers that together comprise roughly 20% of Canada's agriculture. Under a supply managed system, domestic producers are able to control the price and the supply of their goods. Production quotas limit what leaves farm gates, and large trade tariffs block the entry of similar goods into the country.

Because this type of market intervention has benefits and costs, a straightforward economic analysis cannot answer whether it's a good policy. However, it can outline the issues and the affected parties. Such an analysis leads to some simple conclusions. Although a supply management system allows local producers to obtain larger and likely more stable revenues than otherwise possible, this comes at the expense of domestic consumers and robust competition.

New entrants are restrained. Tariffs shelter existing Canadian producers from foreign competition, and production limits prevent farmers from raising or lowering supplies to respond to changing economic conditions. Farmers who benefit from this system fiercely defend the policy, but competition and domestic consumers are harmed. Looking to the future, it's my opinion that we should develop a greater willingness for a gradual reduction in supply managed support.

The costs of supply management are most easily understood by examining the market value of quotas. Quotas are valuable to farmers because a quota entitles the holder access to the Canadian market and statutorily restrains others who might wish to do so from producing similar goods. The inflation-adjusted value of quotas sold in Canada has increased from $10 billion in 1982 to $30 billion in 2007. Each supply managed farm today possesses on average approximately $1.5 million worth of quota, but purchase quota has nothing to do with the costs of machinery, feed, land, labour, and knowledge that go into making the product.

Many factors have influenced the dramatic rise in quota prices: for instance, higher expectations that the government will maintain the current policy, expectations of higher future profits from production, lower costs of borrowing, and expectations of government buyouts. Further, financial innovation in the past two decades, such as treating quota as collateral, may have also increased its market value.

Since most quotas are openly traded, the quota price captures the value of future profits associated with producing a good, the supply of which is restrained by the quota system rather than by the market clearing price. People can invest money freely, and because all investors are searching for the best and most profitable returns, the rate of return on alternative investments tends to even out over time.

If people see higher profits from producing dairy, for example, they would invest in quota until the return matches investments with similar risks, so the extra profits from the supply managed system get built into the price of a quota. This is why many new entrants are discouraged. They perceive that they can earn similar profits in other lines of production.

Because the quota system restricts the supply of products that would otherwise make it to the market, the benefits that flow to supply managed producers come at high consumer costs. The Organisation for Economic Co-operation and Development measures the cost of Canadian supply management on domestic consumers in 2007 at $2.6 billion. This amounts to a transfer to farmers of roughly $209 annually by each Canadian household.

[*Translation*]

Despite rising global demand for milk and poultry products, Canadian producers have opted for control over the domestic market, which due to high domestic prices and an aging population appears likely to shrink in the future. They deter foreign access into Canada by imposing a tariff rate quota, otherwise known as a two-part tariff, under which high tariffs are applied on imports above a set level, a minimum access commitment, at a combined average around 250%.

Canada's support of supply management clearly has made it difficult to sustain a credible case for freer trade. As a matter of trade policy, the Canadian dairy and oat producer position is becoming entrenched. Agricultural subsidies, particularly those in the U.S., EU, India and China, led to the July 2008 negotiation collapse of the Doha Development Agenda.

In the short run, the quota system reduces revenue uncertainty for farmers, making supply-managed production less risky than other forms of agricultural production. In the short and long run, quotas act as a barrier to new entrants, because the price of quotas requires financial investments far beyond what would be otherwise be needed to enter the sector. By reducing competitive pressure, existing farmers benefit the most from owning the quota and can out-compete new firms. The ban on interprovincial quota transfers also limits cost-efficient production movements across provinces.

[*English*]

Finally, local restaurants, which compete for market share with food processors, must pay higher input costs because they are not permitted the same exemption from supply managed prices that processors have. Hence, they're placed at a competitive disadvantage.

Other countries' experience in moving away from supply management has not been painless, but it has been successful nonetheless, and not as bad as many had anticipated. Canadian dairy policy could look to Australia and New Zealand for examples. Australia had a similar system in place until the year 2000, when quotas were eliminated. Prices were allowed to float, and transitional assistance programs were put in place. Dairy farmers reacted quickly. Some farmers expanded their herd sizes, others cut back production, and some producers also left the business. Importantly, however, milk production stabilized quickly and consumer prices dropped.

Canadians can ensure high-quality goods, diverse products, and lower retail prices by moving away gradually from a system of supply management to a system where production costs and consumer demand determine grocery store prices. But before import barriers are lowered, the industry would benefit from having time to adjust to international competitors.

In this context, the following intuitively appealing solutions exist for policy-makers: gradually increase the supply of quotas, forcing the quota price downwards; a full quota buyout, which is an expensive option, but likely the most politically attractive; policy-makers could also conduct a series of reverse quota auctions; offer transitional assistance based on the book value, not the market value, of quota—this would prevent producers from earning returns above the original purchase value of quota; and finally, they could apply a tax on consumers to help pay for transitional assistance.

Because consumers will be the main beneficiaries from reform, the last option, which is the tax on consumers to pay for transitional assistance, probably matches benefits the best in terms of lower prices to the total cost of any potential reform. Transitional assistance that's slightly below the book value of quotas is a sensible option. The obvious downside when phasing out supply management is that it leaves the door open for influence groups to reverse or dampen the reforms. Immediate and decisive reforms, like those in New Zealand and Australia, could be more successful.

To conclude, Canada and other nations seem deeply entrenched in their trade positions. Canada aggressively defends supply management, while developing countries make firm demands for proper access to foreign markets. I am aware of the political sensitivity of this issue, but the durability of a competitive Canadian agriculture and agrifood sector could be enhanced by seizing opportunities in growing international markets and expanding domestic producers' export potential.

The costs of supply management fall squarely on domestic consumers. All Canadians would have a stake in reform.

Thank you.

● (1130)

The Chair: Thank you, gentlemen, for your time.

Mr. Routledge, just as late as yesterday, indicated he would be here. Maybe he got held up with his flight, or whatever. If it's okay with everybody, if he does come in, maybe we'll just allow him to present then.

In the meantime, we'll start our questioning.

Mr. Valeriote, you're up for your seven minutes.

Mr. Francis Valeriote (Guelph, Lib.): Thank you, Mr. Clark and Mr. Busby, for your time and for coming up here.

Mr. Clark, I met with a group of cattlemen from a particular province in Canada. They expressed concern about a disadvantage they are at with respect to the AgriFlex program, particularly the business risk management part of that program. They feel disadvantaged because Alberta has provided funds to fill the gap that exists—that they perceive, at least, exists—under the AgriFlex program business risk management.

I am just wondering if you feel that gap exists and whether, if one province subsidizes or pays money to fill that gap, they place people in other provinces at a disadvantage and how you might deal with that situation.

The Chair: A point of order, Mr. Storseth?

Mr. Brian Storseth (Westlock—St. Paul, CPC): Thank you, Mr. Chair.

Every one of the Liberals has taken a shot at this during the competitiveness study, and it's really getting quite tiresome to hear the constant attacks on Alberta producers. I would appreciate if the opposition would take the interests of Alberta producers the same as they do other producers across the country—

Mr. Francis Valeriote: I'm happy to rephrase the question. Let's leave Alberta—

Hon. Wayne Easter (Malpeque, Lib.): Just on that, Brian has said this several times. Nobody is questioning the farmer position in Alberta. But the reality is, in free-enterprise Alberta—they claim they're free enterprise—when they subsidize an operation in Alberta, it does have an impact on the rest of the country. That's the reality. It's a patchwork quilt of programs. We're not attacking Alberta, but what we need is a government with a national vision instead of this patchwork quilt of policies.

The Chair: Mr. Valeriote.

Mr. Francis Valeriote: I'm just wondering if you could respond to my question and see if you have any opinion about whether the federal government, regardless of who forms that government, should be harmonizing and making sure those circumstances, those disincentives, don't exist in the future.

Mr. Peter Clark: I should indicate that from time to time I do work for the Canadian Cattlemen's Association, which as I recall is located in Alberta, as well as for the Ontario cattlemen.

The issues, which I began to address, about the European Union changing their single-farm payments where there are differences from state to state, are designed to achieve uniform benefits across the whole EU to avoid the type of situation where one area benefits over another. That's a basic fairness issue. But in Canada we have provinces that have the right to do what they want to do in a number of areas, including agricultural support, and that's a fact of life. I don't know if we want to end up in the Supreme Court, challenging Alberta's right to do that.

Mr. Francis Valeriote: I'm not suggesting we challenge Alberta's right to do that. I'm wondering how the federal government might level the playing field for all farmers across Canada.

Mr. Peter Clark: The federal government could put a cap on the benefits across the country and reduce the federal payment or increase the federal payment to that level, related to provincial production.

Mr. Francis Valeriote: Let me ask you about COOL. You mentioned COOL.

This committee is leaving for Washington on Wednesday evening to discuss the matter with those who are in the know in Washington—obviously an effort on our part to influence their efforts under COOL.

I'm wondering, given that Minister Ritz and Minister Day, as I understand it, both raised the issue—thankfully—but have been unsuccessful, if you have any advice to this committee before we go to Washington.

● (1135)

Mr. Peter Clark: The Secretary of Agriculture in the United States has been quite a surprise to me. Since he was appointed, he reversed previous decisions. I can't believe that Senator Chuck Grassley supports that position. I think that whom you see is going to matter as much as what you say. But I just can't understand where the Secretary of Agriculture in the United States is coming from.

Mr. Francis Valeriote: Do you have any specific advice for us in our approach to these—

Mr. Peter Clark: Well, you haven't got anything you can really threaten them with, and that's the only thing they understand.

A two-by-four sometimes helps.

Voices: Oh, oh!

Mr. Francis Valeriote: All right.

Mr. Busby, perhaps I can ask you a question. I'm a believer in supply management, just so it's obvious where I'm coming from. You say that it makes those who are in it sustainable; they profit, they grow. These are things that we're all struggling to achieve for various industries. We're told that we can't do it in the cattle or pork industry, that it just wouldn't work, and yet you're suggesting that we unveil and remove the system.

Would we not simply be exposing them to the same difficulties? We're losing 3,600 farms a year. I just see doing what you're suggesting as being a downward spiral for that industry.

Mr. Colin Busby: That's fine. I mean, you raise some of the obvious positive aspects about the program. It does provide a more stable source of income to a lot of farmers. It does protect them against good production years, bad production years, and those potential cyclical flows. I see that.

Like any policy, though, the costs of supply management can be shifted but not avoided. What I'm saying here is that the system itself shifts the cost of it squarely on domestic consumers. For example, by withholding what makes it to the market, essentially what you're doing is restricting supply and forcing the market price up above what it would otherwise be. That's where that steady income stream flows.

Now, how does that affect the average person? I mentioned the type of transfer the average Canadian is making to support the system. On average, per year, the OECD calculates that it's roughly $210 per household. Granted, dairy products and egg products make up only a small portion of what I walk out of the grocery store with, but when you look at the ripple effects on, say, a lower-income family, it becomes more significant.

Somewhat anecdotally, I was reading Jeffrey Simpson's article this Saturday in the *Globe and Mail*. In it he mentioned the fact that a lot of countries in the world, such as the United States, are considering creating a tax on soda pop, let's say, because it's just too cheap; we have this problem with obesity, and too many kids are getting fat because people are buying these goods. Well, consider it another way. If you are a low-income family and you go into a grocery store with $7 in your pocket to buy the appropriate amount of goods for a healthy meal for your kids, that $4.50 two-litre carton of milk looks a lot different when you compare it with an 89¢ two-litre bottle of pop.

What I'm saying is that I look at the benefits versus the costs, which have to be weighed against one another. Then I look at what's happening right now with the Doha development agenda. The fact is that it's being stalled. What potentially might come out of that we still don't exactly know. Essentially it's going to give us a 15-year time horizon looking in the future.

Mr. Francis Valeriote: I have one last small question, Mr. Chair.

Can I ask you, if it weren't supply managed, what would a litre of milk cost? Any idea?

Mr. Colin Busby: I know that American prices are relatively 30% to 40% lower.

The Chair: Mr. Bellavance, seven minutes.

[*Translation*]

Mr. André Bellavance (Richmond—Arthabaska, BQ): Thank you for your testimony.

Mr. Busby, I could spend the remainder of the meeting arguing and contradicting you. I completely disagree with your vision of supply management. I would image that this comes as no surprise to you.

I will instead turn to Mr. Clark, someone with whom we have an excellent exchange of information. I really appreciate your informing us about your work and thoughts on international trade and many other topics. I'm pleased that you're here to discuss these issues with us. I know that you have a particular interest in international trade. Earlier, you spoke about what is currently going on in Europe, etc., and you said that this could have an impact on the future free trade agreement that Canada has begun with the European Union, obviously.

Have you read the Joint Report on the EU-Canada Scoping Exercise? Usually, when Canada proceeds with free trade agreements, it conducts a broad consultation on the free trade opportunities with such a country. However, in the case of the European Union, the government set out, on paper, before conducting these consultations—at least I never heard of any taking place—the subjects that it wanted to explore. To my great surprise, this report states the following "no tariff line should be excluded a priori." The way I read this—and this is how Mr. Richard Doyle, from the Dairy Producers of Canada reads it—supply management is open for discussion during the course of these negotiations. We are trying to find out what is occurring, because this has raised a great deal of concern amongst our producers.

First of all, are you aware of this report? Have you read it? What do you think about it? Is my interpretation and that of the Dairy Producers of Canada correct in that supply management will be negotiable during the course of these discussions?

● (1140)

[*English*]

Mr. Peter Clark: Yes, I'm aware of the report. I'm aware of the discussions in the House and the comments and the concerns about everything being on the table. That's a pretty standard approach to negotiations at the outset—that everything's on the table. Then you talk about exclusions.

I met with the European Community's delegation at the ambassador's residence when they were in town a few months ago, and I asked them about the comprehensiveness of the negotiations from their perspective. They said they had to start that way, though they knew there would be problems with the comprehensive approach. From the European side, I would be surprised to see my clients in the pork and beef industry benefit much more than they might in the WTO—and that's not going to be very much.

With respect to supply management, they understand our concerns about it. This comprehensive approach is something that people do when they start negotiations. I can understand from the perspective of the supply managed sectors why they would be concerned about this. In every other bilateral negotiation we've had, there has been from the outset an indication that the supply managed sectors would not be on the table. They certainly would not be on the table bilaterally before there was anything resolved in the context of the WTO.

I was involved with supply management back when I was in the Department of Finance, when they were extending it to the feather industries. I was sent over to Geneva by Mr. Whelan to defend the egg quotas, with the instruction that if we didn't win I shouldn't come back. As an economist in the Department of Finance, I had concerns about supply management. Having come back from Geneva as the Canadian liaison officer with the GATT, I had some problems with the levels of imports. Later, though, I was converted, because the policy was designed to insulate farmers from fluctuations in supply. Demand is pretty stable. It's supply that's the problem, and that's what it was for.

I have a place in Florida because it's too damn cold up here for me in the wintertime now. I'm getting too old, so I go down to Florida in the winter, and there's Canadian cheese down there—the stuff from Quebec, the artisanal cheeses. They're there. They're priced better in the United States than cheeses coming in from Europe. They're priced about the same as they are here. I don't see that much difference in milk prices between the United States and Canada, and I have six kids and seven grandkids, so I know what milk prices are.

I have a bit of a problem with the OECD numbers, because they're based on various measures of world prices. The fact is that the distribution systems don't move those prices to the basic customer, and the difference in price between Canada and the United States depends very much on exchange rates.

● (1145)

[*Translation*]

Mr. André Bellavance: Since you raise the topic of prices, I would really like to hear your opinion of what Mr. Busby, from the C.D. Howe Institute, and the people from the Montreal Economic Institute, are alleging, together with all the other organizations that are denigrating supply management, claiming that it poses a problem for consumers. Indeed, according to all these people, consumers would be paying a lot less for their milk were it not for supply management. Of course, if we had access to Chinese milk containing melamine, it perhaps would be less expensive, but I am not sure that consumers would wind up being the winners. I am exasperated by the fact that these people do not provide evidence. In addition, the evidence that we do have contradicts their opinion. You yourself said that, in the United States, milk is not necessarily less expensive, and that the prices fluctuate a lot more than they do here.

The C.D. Howe Institute and other organizations that attack supply management cite New Zealand and Australia as an example. However, the elimination of supply management merely allowed big operators to establish huge farms. Agricultural producers became employees or became unemployed, or went into something else. I never heard that consumers in New Zealand paid 20¢ per litre of milk. Statistics show that there are no advantages for the consumers. And yet, this is the main argument used by people who attack supply management. In Canada, we can count on stable prices. We may pay slightly more for our milk than elsewhere in the world for a certain period of time, but at other times, we have the price advantage. I would like to know what you think about this.

[*English*]

Mr. Peter Clark: I'll go back, Mr. Bellavance, to my last job in government, when I was on assignment in Montreal as head of the garment manufacturers institute. The basic problem was that we were always getting complaints that quotas on garments raised prices. When the quotas came off, the prices didn't come down, because the retailers didn't allow them to come down. There's a very good study that I can send you. It was prepared by Richard Volpe at the University of California Davis. He indicated that when prices at the farm gate change, there's not that much change at retail. Retail prices go up faster than they come down. There's much more concentration in the retail sector and the distribution sector.

I think Mr. Doyle gave you a number of slides, one of them showing that the three major Canadian processors process 70% of the milk in Canada. I think he also indicated that since 2004, the concentration at retail, the big retailers in groceries, had gone from 68% to 74%. That really tells the story.

The Chair: Thank you very much.

Mr. Routledge, we'll let you present right now. I'm sorry to rush you. Mr. Atamanenko thought it might be appropriate that you be up next.

Mr. Les Routledge (Frontier Centre for Public Policy): Good afternoon, ladies and gentlemen. Sorry for my delay; it seems to have been the day that I went through every wrong door.

The Chair: It happens.

Mr. Les Routledge: It is with great pleasure that I meet with you here today to discuss policy in the agriculture and agrifood sector.

As all members of this committee are aware, in most provinces, agriculture and agrifood is either the largest or one of the largest sectors of industry in the province. As such, it's a key sector in contributing to the vitality of our nation and playing a role in pulling our country out of our current economic difficulties.

The issues this committee is exploring are a vital part of our charting a path to a more competitive industry and a more prosperous economy in rural Canada.

Today I am here representing the Frontier Centre, an independent, non-partisan think-tank that is based in Manitoba, Saskatchewan, and Alberta. Our goal is to foster public policy debate and stimulate economic development across the country.

We have three areas of primary focus—namely, social policy review, the open economy, and high-performance government.

My name is Les Routledge. I come from a rural background. I grew up on a farm in southwest Manitoba, and that is where I was educated. Agriculture is in my genes and in my blood.

Like many farm youth, I had to leave the farm to pursue a career in the late 1970s and early 1980s. My choice was to move into the field of engineering and later to get educated with a master's of business administration degree.

During my off-farm career I had the opportunity to start one of the leading transportation informatics companies in Saskatchewan, and later to play a role in the deregulation of the telecom, broadcasting, and information technology sectors here in Ottawa.

I have worked on assignments in all 10 provinces and territories. It's an understatement to say I've built up a lot of frequent flyer points over my lifetime, and I've put more than one car into the grave, travelling across the country. I know this country from end to end.

Today I live a changed life. I'm semi-retired and have reacquired the habit of farming. I have a farm in southwest Manitoba. I must say, I'm much happier having made that transition.

I will now turn to the terms of reference. As a starting point, I want to speak about my perception of the business of agriculture, what it is and what it's about. To me, it is about much more than providing food.

How many people in this room today are wearing a piece of clothing made of either cotton or wool? I know I am. That is just one indication.

Agriculture is also becoming more important in our energy industry through biomass, biogas, and ethanol production. For the most part, this energy is produced by crop residues or processing residues and does not reduce the level of food available to our economy.

In the future, I see great opportunities for biorefineries to be developed, where we can start seeing biochemicals and biopharmaceuticals being produced from the fruits of our land.

This committee needs to understand that the scope of the mandate, in looking at agriculture, needs to extend well beyond agrifood. We all need to think of agriculture as being part of a giant biorefinery that produces hundreds and hundreds of different types of products and services.

We should also think about how agriculture can play a role in those services, such as tourism, recreation, and preservation of our ecology and natural environment.

To put it simply, agriculture is about much more than loading up a truck and delivering a load of grain to your local elevator.

Issue number one is competition levels. When talking about competition in agriculture and agrifood value chains, it's important to realize that we live in a globally competitive environment. In order to ensure that agriculture and agrifood maintains its globally competitive stance, perhaps it is time to explore further harmonization of the regulatory standards for input products coming into our country and how we can access export markets.

Input products that are used in other countries with comparable regulatory and policy standards, such as the United States, the European Union, and Australia, in general, should be allowed into Canada.

● (1150)

As a country, we also need to be much more aggressive in challenging non-compliance with trade commitments by other countries. Issues such as MCOOL, carbon emissions trading, and distorting health or environmental regulations are definitely causing problems down on the farm.

The second issue is the impact of competition. The impact of competition, or lack thereof, has received a fair amount of press coverage in the last year in the agricultural sector. The price of input products soared last year, and so did the prices at the food retail level.

While some people have been calling for price regulations, we learned in the 1970s that wage and price controls were not really an effective policy tool. The more sustainable action is to turn to trade and the harmonization of trade standards with other countries to stimulate fair and open competition.

Competitive legislation can play a role in this process. For organizations that operate in mandated or natural monopolies, perhaps the government needs to examine if the current situation is in the best interests of the economy. In my previous career in the telecommunications sector, I saw the prices in that industry decline substantially once we changed the policy framework to introduce competition.

The third issue is finding solutions to improve competition. In this respect I again want to emphasize that neither I nor my organization believes direct price regulations are the answer. They didn't work in the 1970s, and we don't see any reason they should work today.

What does work is establishing a policy framework that stimulates competition among both domestic and foreign organizations. In particular, the harmonization of standards with our trading partners in both upstream and downstream sectors is a very important element. We should be able to see the full, open trade of inputs and outputs among our trading partners. Any deviation from this should be dependent upon the applicant's demonstrating a compelling policy rationale for not having open trade and commerce.

The government and industry should continue to expand efforts to liberalize trade on both a bilateral and multilateral basis, but it is perhaps more important for us to become much more aggressive on challenging non-compliance of our trading partners with existing trade agreements. The alphabet soup of BSE, MCOOL, A(H1N1), GMO, and other non-tariff trade barriers out there just befuddles you down at the farm. Canada has to become much more aggressive in challenging how other countries are using those issues to create non-tariff trade barriers.

We also need to walk the walk here in Canada. We need to recognize that every value chain exists in an ecosystem with other value chains. Maximizing choice and competition in areas such as transportation services, education and training, access to labour, housing, and energy all have important impacts.

Other solutions are that safety nets need to encourage research and innovation instead of the status quo. We need to encourage a diverse ecosystem of businesses, enterprises, and value-added chain models. We need more inbound migration to rural communities. A lot of rural tigers out there are suffering from a labour force shortage, and inbound migration is serving our interests.

The fourth issue is areas of competitive advantage. The era of Canada serving as the breadbasket of the world and exporting low-priced products is coming to an end. We have to look beyond food and fibre and the commodity export markets to materials with higher added value, particularly beyond the food and fibre sectors.

The fifth issue is regulations. Regulations provide assurance of quality and safety. Any regulation should be designed to achieve explicit and articulated public policy goals, and before new regulations are implemented, there should be a clear examination of whether alternatives to regulations can work.

The sixth and final issue is innovation. Innovation has to benefit all members of the value chain. It does not stop at the door of the research lab or with the owner of the intellectual property. We need to figure out how to stimulate rapid adoption and diffusion of innovations throughout the value chain.

I thank you.

● (1155)

The Chair: Mr. Atamanenko, you have seven minutes.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): Thank you, gentlemen, for coming and sharing your knowledge with us.

We started off the discussion with a reference to Alberta, and I would like to say, throwing my two cents' worth in, that I think here we have a province that's doing something to help cattle producers, and I think that perhaps other provinces should be following suit, as maybe should the federal government. If they're doing something and helping our folks there, that's great, and I applaud them for that.

I've been at something like 20 hearings on food sovereignty and food security across the country. One theme that's appearing over and over again is the fact that many feel we're losing control of our food supply. In other words, we're losing our food sovereignty in our nation. It seems to me that supply management is one way we can retain and are retaining control of what we're doing.

I have a statistic here. Mr. Busby, I'd like you to comment on this. In March 2008, a New Zealand study noted that the price of a two-litre container of milk in New Zealand currency was—and obviously this is an average price—in the United States, $2.53; Britain, $2.94; Australia, $3.10; New Zealand, $3.25; France, $3.43; and Canada, the only country with supply management, $2.36. That was in March 2008, based on average prices in New Zealand currency. That's the first thing. You kept referring to the fact that consumers are going to benefit if we do away with or modify the system. If in fact this statistic is correct, and it's possible that's not the case....

I do know, for example, that countries like New Zealand would just love to get into our market and flood our market with their cheap butter and milk products. So far we're able to protect one sector of our agricultural community from this. Then it comes around that, if the system is working—and there are flaws, as there are in other systems—and if it's keeping money in Canada, it's not costing the government anything, and the consumer prices are reasonably low, and we're getting good Canadian produce, in this day and age of pressure coming from the World Trade Organization and other countries to modify this system, why would we even think of trying to tamper with it? I'll ask you that question. If others would like to comment, I'd be happy to hear the comments.

● (1200)

Mr. Colin Busby: That's a fair question. I would respond very quickly to the notion of this adjusted set of prices, whether they're adjusted by exchange rates or purchasing power parity, to project the notion that essentially the price of this policy has no consequence for the consumer. I would object to that. It's textbook introductory microeconomics, essentially, that a lot of the—

Mr. Alex Atamanenko: Well, you see the prices. The quotation is $2.36 compared to other prices.

Mr. Colin Busby: But the problems with those types of numbers, when you're comparing prices across countries—I don't know what statistics you have—is that a lot of them depend on what the price levels are in the country in general and on the exchange rate. You can have two different factors that can affect what goes into those.

What I would say in response to the second part of your question is that in the case of New Zealand and Australia, when their reforms took place, essentially there was a long-sighted view amongst policy-makers in those countries that there was going to be potential to export their goods in the future, and that they'd be better off to prepare themselves for those types of markets, increase their competitiveness within their country, and then try to export their goods, try to lobby, and try to reduce tariff barriers. That was exactly their notion.

The way I would rephrase my conclusion in a Canadian context is to say that the most important question facing the supply managed industry and the government, following what happens with the Doha development agenda, is really whether the supply managed system should merely realign with the new trade rules that come about, or whether or not more fundamental changes should be made to better position this sector for 2021 and beyond, which is when whatever happens at the Doha development agenda expires.

Mr. Alex Atamanenko: I'm just going to interrupt here. You're talking about the agenda. It's my understanding that if some of those things on the table go through, according to the Dairy Farmers of Canada, each dairy producer stands to lose $70,000. Is that worthwhile doing to get some kind of agreement on the table, or should we be saying no and protecting our system as it is?

Mr. Colin Busby: Clearly, I think a slow phasing out of this system is what's best. Yes, as you mentioned, what's likely to come out of the Doha development agenda will have some impact on supply management. My fear is that 15 years down the road, what likely comes out of that will be even more significant. I think there's a strong argument to do more in this sector. Should we not slowly increase competitiveness within our country, because if tariff barriers fall rapidly in 2021, the consequences could be much, much more severe?

Mr. Alex Atamanenko: Thank you.

Mr. Clark, you mentioned the U.S. Farm Bill and you talked about the European Union. Obviously, they're not going to go away; they're here for a while.

Also, Mr. Routledge, you mentioned that we have to become more aggressive when we try to combat these things that are in place. How do we do that? You talked about debt. Here we are, with a bill that's increasing our debt, and these guys are giving money to farmers. Philosophically, should we be tying another commodity to this, or should we be tying another sector when we're negotiating for agriculture?

We're going to Washington and we're going to be talking to our counterparts there, and we'll have nice meetings and we'll let our views be known. But that program is still going to go ahead. So what's the answer to make sure that the farmers who are not in supply management make some money in our country?

● (1205)

Mr. Peter Clark: Back in 2003 we prepared a very detailed summary of subsidies to agriculture in the United States, and in New Zealand, because it's a myth that New Zealand agriculture is not subsidized. It's also a myth that Australian agriculture is not subsidized, given the extent of free irrigation they provide to their agriculture. It could wipe out our low-end wine industry, because in Australia they just have too many grapes, so they have to put them in Yellow Tail bottles.

So there are subsidies. There are subsidies in Europe; there are subsidies in the United States. They're not going to go away. We prepared a very detailed analysis of all the subsidies in the United States and of the activities of the New Zealand Dairy Board/ Fonterra, and presented it to the government. It took them three years to do anything with it. The approach they took has not been terribly aggressive in pursuing this.

In the Uruguay Round, we bought and paid for better behaviour by other countries on their subsidies. That hasn't been delivered. We're at risk of paying for the same "fish" twice. We have to have a more focused, more aggressive, and more farmer friendly farm policy in Canada.

The Chair: Thank you very much.

Mr. Lemieux, for seven minutes.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): Thank you very much, Chair.

Thank you to our guests for being here today.

I need only a few moments to make a few comments on discussions that have gone on around the table. I want to address what Mr. Valeriote said regarding provincial versus federal programming.

Certainly, the federal government has a mandate in agriculture, but I want to say, "as do the provinces". Oftentimes, certainly what I hear as parliamentary secretary and what I've heard as an MP for a rural riding with lots of agriculture, is that farmers don't want a one-size-fits-all type of program. They do want regional flexibility.

What I would put forward is that there is a balance here between the federal responsibilities and the provincial responsibilities. The provincial responsibilities and how they act on their initiatives actually give some regional flexibility. So in a sense, it's very hard to have a level playing field and to have regional flexibility all at the same time. So there is a tension, I would say, between local provincial endeavours and what the federal government is trying to achieve. But I also think it offers flexibility and national programming at the same time, so in a sense we have a foot in either camp.

On the supply management side, I feel supply management works extremely well. It is supported by the consumers, and I do think consumers are happy to support Canadian agriculture. Again, this is something I'm hearing across the country, that consumers want to support our farmers, they want to buy Canadian product, they want to know it's Canadian product, and they know that Canadian product is high quality and is beneficial to our society and to them. Here is a way that consumers do support agriculture, through supply management. And I do think they accept pricing where it's at. There doesn't seem to be rioting in the streets over the price of milk or the price of eggs. I think consumers are actually pleased with the way things are priced.

I think, too, supply management offers great stability, especially in difficult times. The supply management system helps mitigate risk. This is important, because when we look around the world, for example, at the collapsing milk prices, what difficult circumstance farmers of other countries have found themselves in with this collapsing milk price, yet our farmers have some stability thanks to supply management.

I'm kind of going on a little bit here, but I want to underline that. I think the stability offered by supply management helps with the future of farming. Certainly, when pork farmers are communicating with the government, they're saying they're in very difficult times. This does not attract the new and upcoming generation to take on farming when they see the turbulence in the pork market. When they see the stability in the supply managed sectors, there are young people getting involved. I'm always impressed with the young farmers involved, for example, with egg farming. It's a very young generation that is taking over the egg farms. So I think there are lots of benefits to supply management.

I want to ask Mr. Busby what your comments are on that, in terms of the advantages that supply management offers, and the impact of the stability in encouraging new farmers and youth to get involved. There will be financial challenges, it's true, but the stability actually helps mitigate the high costs that can sometimes be attached to buying into supply management farms.

● (1210)

Mr. Colin Busby: That was very well put, and I'll try to be brief in response.

Quite simply, I mentioned at the outset that a very simple economic analysis cannot answer whether it's a good policy. It can't. You're ultimately weighing benefits versus costs. And you mentioned a few other benefits that are obviously part of this—keeping robust rural communities in Canada—and there are all these other benefits that go into it. But at the end of the day they have to be weighed against the costs.

If I could turn it quickly into a question of competitiveness, essentially the consequences of it are that for these young farmers you mentioned, it is really tough to be a young farmer and get into those industries. You have to be able to come up with a lot of money and quota to get in. That turns a lot of young farmers away from the industry and a lot of the subsequent generations of farmers who are involved in the supply management industry don't really want to take it over.

Mr. Pierre Lemieux: All right.

Yes, Mr. Routledge.

Mr. Les Routledge: I was wondering if I could add something on getting into farming, from both the Frontier Centre's perspective and my own. You mentioned young farmers. I wish people could think of it as “new farmers”. That's a better term. I'm facing every challenge a young 20-year-old person is in getting into farming. Quite frankly, I've put in over half a million dollars of pure equity to get into farming, and I'm still a very small farmer.

I'd like to make two points on supply management. First, we should be focused on ensuring that supply management can maximize the adoption and diffusion of new technologies and production techniques. Whether or not supply management is in place, out west, or at the Wheat Board, is irrelevant to me. We should be making sure that innovation and new technologies are adopted.

My second point is a little closer to home. I sell over 80% of my product directly to consumers. Why do they come to me? It's a little about quality, but it's more about the relationship. I don't know how we can do it with supply management or the Wheat Board, but somehow or other we have to respond to the desire of a significant portion of the market, of the consumers, to know where their food is coming from, to know specifically who produced it, and to be able to develop a relationship with that food. You can't develop a relationship with food you pick up at Loblaws. You can develop a relationship with food you pick up at the farmer's market or at the farm. We've heard in the news about how the combination of health and safety standards and quotas inhibit the development of that relationship. I'm not saying we should get rid of the marketing boards, but somehow or other we have to come up with a system that allows consumers the choice and flexibility to create a relationship with the food they consume.

Thank you.

The Chair: That was inspired.

Our time for this session has expired. I'd like to thank our witnesses for being here.

While we're changing up with new witnesses, I'd ask the members to remain at the table. We have a couple of orders of business that we have to deal with, to make good use of our time. The clerk is passing around the first one. It's the report from the subcommittee on the agenda that was asked for. We didn't get a chance at last Thursday's meeting to deal with it. The first thing on the report is the schedule. It was passed unanimously by the subcommittee and it's before you. We need to have a motion to accept it. I'd entertain a motion to adopt that report. The motion would read that the subcommittee met on May 26 to consider the business and agreed to make the following recommendations. Without reading the whole thing, I can tell you that it was supported unanimously by Mr. Eyking, Mr. Bellavance, Mr. Allen or Mr. Atamanenko, and me.

As I said, I'd entertain a motion to adopt the report as presented.

Mr. Lemieux.

● (1215)

Mr. Pierre Lemieux: Can we have some time to digest this? Can we look at this and consider it before we vote on it? This is the first I've seen of it. Did it come around to the office before, or is this the first time it's been handed out?

The Chair: The biggest part of it did. It was just the last meeting.... Basically, for the understanding of the committee, the witnesses that we had were all passed around before now. The subcommittee decided to extend some of the meetings, including this one, to two and a half to three hours, depending on....

Mr. Randy Hoback (Prince Albert, CPC): Why is the NFU coming back? They were already here for an hour.

Mr. Pierre Lemieux: That's what I mean, Chair. This is the first time I've seen the report, so we haven't had time to really digest this.

A voice: We had the steering committee.

Mr. Pierre Lemieux: Yes, but the steering committee makes a report to the committee, and I think it's fair that the committee members—because we're the ones who are going to vote on the report—have time to look at it to see what the steering committee is actually proposing.

The Chair: Okay. Could I recommend, then, that we deal with this one at the end of this meeting? That will give you time to peruse.

Ladies and gentlemen, I believe it's pretty straightforward.

Mr. Pierre Lemieux: Chair, we have time to come back to this.

The Chair: Okay. The clerk was just pointing out to me that this was circulated earlier last month, and really, the only change to it is that there have been a couple of witnesses—I'm not even sure who presented them—who have been included, which means we have to extend our last couple of meetings a little. That's basically the only change.

Mr. Eyking, do you want to speak to it?

Hon. Mark Eyking (Sydney—Victoria, Lib.): Mr. Chair, you're right.

There was a feeling on our side that we didn't have enough representation from the east coast, so we added two in there, Horticulture Nova Scotia and the P.E.I. potato producers. The rest is pretty straightforward. It's where we were going all along. I don't know what the big surprise is here. This was tabled....That's why we have a steering committee.

I'm confused about the push-back we're getting from the Conservatives.

Mr. Pierre Lemieux: Chair, it's not really push-back. It's just asking for time to look at the changes. Mr. Hoback brought up a good point. The National Farmers Union has already been in front of the committee. They spoke much longer than the normal ten minutes that we're allocating other witnesses. They're now coming back. We don't know why. Are we going to be inviting other witnesses back a second time? That's a question I have.

We did agree that if necessary, we could have longer meetings, but I think we also realize it has a great impact on our schedules. We're all extremely busy, particularly in these last couple of weeks. So if the National Farmers Union is coming back and they're extending our schedule, I don't understand why, and I'd like some discussion on that.

And I'm not sure we should keep our witnesses waiting while we're discussing business from a steering committee.

● (1220)

The Chair: I agree.

The NFU was not here under the competitiveness study. They were here under the red meat sector study. So it was a different thing that we were studying. That answers that question.

Mr. Eyking.

Hon. Mark Eyking: Just to follow up on that, the NFU represents a lot of farmers, plus they were here on another issue. We're dealing with competitiveness now.

Just for the record, there were witnesses brought here by the Conservatives who spoke over two times, on two different occasions. So it's not a big shock that a witness would come here twice over a couple of months. It's not like it's something new.

The Chair: I have the motion. I'm going to call the question.

Oh, you wanted to speak to it, Monsieur Bellavance. Briefly, please.

[*Translation*]

Mr. André Bellavance: I would like to ask a question.

With respect to June 11, we are talking about people who have yet to be invited, but the word "confirmed" is written beside the name of certain witnesses.

The Clerk of the Committee (Ms. Isabelle Duford): I apologize. They have, in fact, all been invited, and we are in the process of confirming.

[*English*]

The Chair: I'll call the vote on the motion.

(Motion agreed to)

The Chair: We have one other motion, a housekeeping one that we need to deal with concerning our trip to Washington tomorrow. I'll read the motion:

> That the committee defray the hospitality expenses related to working meals to be held during its travel to Washington, D.C. from June 3 to June 5, 2009.

There are a couple of meals. If you need the explanation, the clerk just passed this to me today. It's something we need to do. I think there's a breakfast and a lunch.

Hon. Wayne Easter: Mr. Chair, is that with invited guests from the American side?

The Clerk: Yes.

Hon. Wayne Easter: So moved.

The Chair: It is moved by Mr. Easter. Is there any further discussion?

(Motion agreed to)

The Chair: Now we go back to our witnesses.

From the Railway Association of Canada, we have Mr. Cliff Mackay. You have 10 minutes or less, please.

Mr. Cliff Mackay (President and Chief Executive Officer, Railway Association of Canada): Thank you, Mr. Chair.

As president and CEO of the Railway Association of Canada, I am pleased to have the opportunity to appear before the standing committee as part of your study on the competitiveness of Canadian agriculture.

The RAC represents some 50 operating railways in Canada. Our membership includes Canada's class 1 railways—CN and CP—U.S. class 1 railways such as BNSF and others, and close to 40 short-line freight railways. We also represent regional railways such as Ontario Northland; Canada's national intercity railway, VIA; major commuter railways like GO Transit, AMT, and West Coast Express; and a number of tourism railways.

I am here today because my members believe it is important that a study of competitiveness of Canadian agriculture include the views of the rail industry. As you all know, there is a long history between rail and agriculture in this country. Both rail and agriculture have been key players in Canada's development into a prosperous, modern nation with a standard of living and quality of life that is frankly second to none.

Both rail and agriculture have also undergone significant transformations in recent years. The reality of the global economy has changed us and our business models. It is a challenging time for railways. A solid strategy of revitalizing our infrastructure, reducing costs, and improving the use of our assets, along with strong demand for transportation services—with the exception, of course, of the last six to twelve months—has led to steady growth in our industry over the last number of years.

Currently, all business lines are suffering dramatically from the recession, with one very notable exception, and that is grain. Our grain traffic has actually grown in the last six months. In fact, we are making exceptional progress in serving our grain customers in 2009. The system is complex but it's working well, and delivering grain reliably and effectively is a key part of our strategy.

There have been significant improvements in the system's performance in recent years. These have come about from the introduction of market-based mechanisms and because of ongoing collaborative efforts between all entities in the supply chain that drive overall efficiencies in the grain handling and transportation system.

Grain transportation is competitive. All grain movements begin with truck off the farm, and 80% of those volumes are within 50 miles of competing railway providers.

Railways have invested more than $11 billion into their business over the last five years. Several important developments have given us the confidence that the time was right to make major investments.

Amendments to the Canada Transportation Act were tabled that specifically ruled out forced access and set the stage for a stable regulatory environment in Canada for the foreseeable future.

Uncertainty about covered hopper cars has been removed. We also have confidence that there would be no major changes to the maximum revenue entitlement. There is a very real and direct link between the maximum revenue entitlement and the investment in the grain handling transportation system by railways. For example, currently the covered hopper car fleet for the movement of Canadian grain is aging. Many of the hopper cars in service are in excess of 40 years old, and although they are operationally in reasonable condition, they are nearing the end of their normal interchange-approved life. Railways and governments will require further investment in the short term to replace these aging assets. It's important that returns are sufficient to ensure that a fleet of this magnitude is maintained at its current level and modernized over time.

As you know, the maximum revenue entitlement was introduced as part of the package to reform the western grain handling and transportation system that came into effect on August 1, 2000.

Unlike any other commodity, railway revenues are subject to a cap. Total revenue for moving grain in any crop year—and crop years are August 1 to July 31—cannot exceed a set amount based on a volume and length-of-haul formula. It was, in effect, a replacement for the highly regulated previous environment, and it followed the removal of hundreds of millions in federal subsidies that were paid over many years, the highest being close to $700 million in 1995. Clearly these ongoing subsidies became an unsustainable burden to Canadian taxpayers.

● (1225)

The policy goal of the maximum revenue entitlement was to allow flexibility in grain transportation rates while simultaneously providing a benefit to western Canadian farmers by limiting the total revenues railways could recover from moving grain. This is a development that grew out of the Crow rate changes and the subsequent statutory government subsidies that follow the decision on the Crow rate. Under the Canada Transportation Act today, the revenue cap applies to all western Canadian grain moving from the Prairies to export positions in Vancouver, Prince Rupert, and to Thunder Bay, no matter what happens to the grain after it reaches Thunder Bay.

We believe strongly that a market-based system for rail transportation has benefited our customers overall. Average freight rates are down 7.5% in real terms from 1998 to 2007, including rates for the movement of agricultural products. I think we would all agree, including our customers, that the product offerings to shippers have improved considerably since the days of fully regulated markets. From 2002 to 2007, transportation rates have had the lowest rate of growth of any farm input, rising by only 3% in real terms over that time, compared to the 96% growth in the cost of diesel fuel, the 62% growth in the cost of gasoline, and 75% growth in the cost of fertilizers over the same period. For ease of reference, I have included a chart that displays the changes in farm input costs from 2002 to 2007 as an appendix to my remarks. I hope you all have that in front of you for your reference.

Railways recognize that a viable, efficient grain-handling and transportation system is critical if our producers are to be competitive in world markets. It's important to note there are many players in the grain logistics system: grain marketers, including the Canadian Wheat Board and the marketers of non-board grains and specialty crops; terminal elevator operators; country elevator operators; producers, some of whom are also producer car loaders; grain company head offices; processors that use grains and oilseeds for higher-value products such as flour, malt, and canola oil; and of course, both class 1 railways and many short lines. We are one part of this system.

As you note, I certainly haven't even started talking about the maritime end of the business for long distance export. Without question, agricultural producers in western Canada, whose well-being is vital to our industry among others, have experienced difficulty in recent years. As I see it, the major problems have been changes in weather patterns, excess global capacity, the global recession we are currently facing, and perhaps the most problematic —I was listening to some of the previous comments on this—is market-distorting policies like direct subsidies in many jurisdictions around the world. These problems must be addressed to ensure a competitive Canadian agricultural sector, and the work you are doing here, we hope, will keep a focus on these priorities. I would just ask not to use the transportation system to try to solve non-transportation problems in that context.

In conclusion, Mr. Chair, I'm here today to respectfully submit that a radical change in the maximum revenue entitlement provisions under the Canada Transportation Act would have a significant and negative impact on the competitiveness of Canadian agriculture. Market-based mechanisms have proven successful and a move back to increased government intervention, we believe, would hurt all parties. The key to improved rail service is investment, which drives efficiency and productivity. The key to investment is regulatory stability and a transportation system based on market principles.

Thank you very much, Mr. Chair.

● (1230)

The Chair: Thank you very much.

We'll now move to Mr. Ron Lennox from the Canadian Trucking Alliance.

Mr. Ron Lennox (Vice-President, Trade and Security, Canadian Trucking Alliance): Good afternoon, Mr. Chairman and committee members.

My name is Ron Lennox. I'm a vice-president with the Canadian Trucking Alliance, the federation of Canada's provincial trucking associations, representing some 4,500 carriers and trucking industry suppliers nationwide.

I very much appreciate the opportunity to participate in your study on the competitiveness of the Canadian agrifood industry.

I must admit, I don't recall that CTA has ever appeared before this committee. We're more likely to be found in hearings on international trade, transport, or finance. But I don't think you can get a full picture of any sector of the economy without looking at the impact of transportation, so the inclusion of a broad spectrum of trade-chain partners in your deliberations is most welcome.

There are four subjects I would like to speak to today. The first is some industry background, and then I would like to talk about the general competitive conditions in trucking. Third, I will cover off some of the domestic and transborder challenges that currently affect trucking industry costs and productivity. Finally, I would like to talk briefly about some of the unique competitive situations that for-hire carriers face when operating in the agrifood sector.

It is important at the outset to give you a snapshot of the industry. In a nutshell, it's big. There are roughly 10,000 trucking companies in Canada, employing a quarter of a million drivers and about 375,000 people overall.

The for-hire part of the industry generates about $30 billion in annual revenue. This amount would more than double if you factored in couriers and private trucking—that is, businesses that haul their own products.

The industry contributes 1.2% to Canada's overall GDP and moves about half of our exports to the United States and about 75% of Canada's U.S. imports.

I fully expect that the committee staff will have provided you with detailed statistics on the agricultural sector that are beyond anything I could present, but I can safely say that just about every food product you buy in your supermarket or order in a restaurant got there on a truck. So if you desire a competitive agrifood industry, you need a competitive trucking industry.

There probably isn't a more competitive industry in Canada than trucking. As mentioned, there are roughly 10,000 carriers operating in an economically deregulated market, with low barriers to entry. Throw on top of that a deep recession, steep declines in exports to the United States, and competition from U.S. carriers on transborder routes and you begin to get a picture of the significant downward pressure on rates that the industry is experiencing.

The beneficiary of that downward rate pressure is shippers and producers, obviously not the carriers themselves. Statistics Canada reported that in the third quarter of 2008, the trucking industry operating ratio, a measure of operating expenses over operating revenues, stood at 0.94. In other words, for every dollar of revenue, 94¢ went to paying expenses.

Certainly there is an ebb and flow to this situation. When times are good, trucking capacity becomes tight and carriers have more leverage with shippers in negotiating freight contracts. But I don't think I would be overgeneralizing if I were to say that the upper hand at the moment rests squarely with shippers, and carriers are struggling to hold the line on rates.

In order for a carrier to compete in the trucking marketplace, it must keep a tight rein on costs. There are things within the purview of a carrier to control: the speed with which its drivers operate, the prices it negotiates with shippers, the service levels it provides to keep customers on board, and so forth. At the same time, there are pressures coming from a whole host of areas in both Canada and the United States that are making trucking and the shipment of goods generally more expensive.

Here are a few examples.

One is border-crossing fees. I'm sure I don't have to remind the committee about fees introduced several years ago by the U.S. Animal and Plant Health Inspection Service. The net impact was to more than double the annual fee each truck must pay to enter the United States, which now stands at U.S. $205. It doesn't matter that the truck is a flatbed hauling steel, the carrier pays, and, to the degree possible, passes the cost on to Canadian shippers.

Another one is security programs. Carrier costs have been rising with the introduction of supply chain security programs such as C-TPAT in the U.S. and Partners in Protection in Canada. As of yesterday, a truck driver needed a passport at $87, or a card issued under the free and secure trade program at $50, to enter the U.S. If products are moving to or from a U.S. port, another security credential is required, the so-called transportation worker identity credential, at a cost of U.S. $132.50. Some Canadian ports are also charging drivers for access cards. It all adds up, and it all gets passed on.

● (1235)

Our customers are also facing an increasingly complex set of requirements at the border. One recent example is the so-called Lacey Act in the U.S., which requires Canadian exporters to provide detailed genus and species information on all wood products exported to the U.S. This doesn't directly impact trucking, but if problems arise, that is to say, if information is missing or inaccurate, it is the truck and the driver that are stuck at the border, and obviously a truck that's not moving does not generate any revenue.

Next is permits and hours. In a similar vein, shippers are required to send various permits required by CFIA, USDA, or APHIS to their brokers in order to get agricultural goods across the border. Usually the process works, but when it doesn't, the trucking company ends up paying the price. Also, even though the agrifood and trucking industries both operate on a 24/7 basis, not all crossings offer 24/7 service to process agrifood shipments. If a carrier does arrive after hours and wants service from CFIA, they must pay for it.

Emission standards introduced several years ago by the U.S. Environmental Protection Agency and by Environment Canada have added thousands of dollars to the cost of purchasing a truck. Make no mistake, CTA has been supportive of these regulations despite the cost, but like all other costs, they must be factored into the rate that carriers charge their customers. They simply can't be absorbed.

For many years, the prairie provinces and Quebec were the only ones to allow so-called long combination vehicles on their highways, despite safety performance that exceeds the rest of the industry. This means higher fuel, driver, and equipment costs and more GHGs. Thankfully, the other provinces are beginning to come around, most notably Ontario, New Brunswick, and Nova Scotia.

One should not come away with the impression that all is negative.

The introduction of electronic manifests for cross-border truck trips, which the U.S. has completed and Canada is about to introduce, holds the promise of a more efficient border-crossing process. Both the U.S. and Canada are working on ways to eliminate the processing of paper permits at the border, which Canada refers to as a single window approach. The introduction of truck speed-limiters in Ontario and Quebec should result in lower overall fuel consumption by the industry, as will the introduction of various aerodynamic advances, such as trailer fairings and low rolling resistance tires.

The common thread running through all of these things is that government action is required to bring them about so that the benefits can be realized by carriers and the customers they serve.

In closing, I would like to point to a few areas where farm vehicles in fact may have competitive advantages over the for-hire trucking sector. Information received for this presentation from the Manitoba Trucking Association, one of CTA's members, indicates that in that province farm vehicles pay a fraction of the registration fees, are subject to less frequent vehicle inspections, and can be operated without a driver logbook. Needless to say, these are considered unfair competitive advantages by those in the for-hire trucking industry, making it more difficult for us to compete for that business.

Once again, I'd like to thank you for providing me with the opportunity to appear here today.

I welcome any questions you may have.

The Chair: Thank you very much for keeping under the time.

We'll now move to Mr. John Schmeiser, from North American Equipment Dealers Association, for 10 minutes or less.

Mr. John Schmeiser (Vice-President, Canadian Government Affairs, North American Equipment Dealers Association): Thank you, Mr. Chair and committee members.

Thank you for the opportunity to make a presentation on behalf of our 800 dealers in Canada. Canadian farm equipment dealers are represented by three regional associations that are part of 18 like organizations that comprise the North American Equipment Dealers Association. I'm pleased to make this submission to the standing committee as the government considers the competitiveness of Canadian agriculture. Our dealer members retail equipment that is primarily used in agricultural or farming practices. Our members are sensitive to the changing needs and demographics of farmers. We have seen many advances in equipment offered for sale. As members of the committee know, farming today is vastly different from 30, 20, or even 10 years ago. However, we believe government policy affecting our industry has not moved as fast. Therefore, in my presentation today I would like to provide a state-of-the-industry report, address some competitive concerns, and provide a perspective on an emerging issue affecting the farm equipment industry.

Farm equipment sales in Canada are driven by a number of factors. However the most important are weather and commodity prices. If we have a combination of good crops and strong commodity prices, our customers will reinvest in their equipment and our dealers will benefit through stronger equipment sales. That is what our members across Canada saw in 2008. Last week StatsCanada said that 2008 realized net farm income increased by more than 63% over 2007, and our members benefited from this, as every category of farm equipment saw an increase in sales in 2008 over 2007. There were 28,722 new tractors sold in Canada in 2008, which represents a 20% sales increase over 2007. Additionally, Canadian dealers sold 2,206 new combines in 2008, which represented an increase of 33% over 2007. However, for 2009, Canadian dealers were not as enthused on their sales prospects. For the first four months of the year we are seeing year-to-date tractor sales down 20% over 2008. We look toward the rest of the year with cautious optimism and are hopeful that commodity prices will rise and the weather will cooperate.

Our industry has been in transition for many years. There is continuing consolidation within the dealer network, and dealerships have had no choice but to merge with neighbouring locations to reduce costs and improve efficiencies. Mainline farm equipment manufacturers such as John Deere, Case IH, AGCO, and New Holland continually reinforce their desire to consolidate the dealer network. Although some dealers see this approach as a threat, many of our members see this as an opportunity to grow their businesses. This is a significant issue within our membership, and all our affiliates are providing assistance to dealers to help them through this transition.

We would like to advise the committee that this is a trend we don't see changing over the foreseeable future, nor one we wish to intervene in. From our perspective, farm equipment and agriculture in general is in a North America-wide market. Farm policy on both sides of the border has an impact on our business. As an example, the U.S. stimulus package last fall enacted an accelerated depreciation provision for agricultural equipment purchases. This measure allows U.S. farmers to fully write off their equipment after five years. The American Recovery and Reinvestment Act of 2009 also makes an additional $250,000 of equipment depreciation available, in addition to another measure of a 50% bonus depreciation provision for farm equipment purchases. All of these recent U.S. initiatives put a Canadian farmer at a huge disadvantage compared to their U.S. counterpart.

Our organization has appeared before both this committee and the Standing Committee on Finance in the past requesting an increase in the capital cost allowance schedule on new farm equipment purchases. The current depreciation rate of 30% on class 10 equipment is not reflective of today's environment nor competitive in North America. We feel the CCA rates should be increased to 40% in the first year from the current 30% for investments in new class 10 agricultural equipment, and that class 8 agricultural equipment be increased from 20% to 30% in the first year. Furthermore, we believe that larger items such as air seeders, air drills, corn planters, and high clearance sprayers should be reclassified to class 10.

Although the federal government has recently made changes to CCA rates in other areas, the rates on agricultural equipment have not changed since the 1970s. Our experience is that today's equipment is larger, more efficient, and more environmentally friendly. Today's farm equipment farms more acres in a shorter period of time and thus has a shorter effective life. Today's farmer and the innovative farmer of the future are trading in their equipment at a faster rate than in the past. An increase in the depreciation rate is warranted to reflect the current purchasing pattern. As we are starting to see declining sales numbers in 2009, and the government is looking at areas to stimulate the Canadian economy, such a change should be considered. With that, all sectors in the Canadian agricultural equipment market would benefit, but the major benefactor of this change would be our farmer customers.

● (1240)

Our second issue addresses environmental concerns. We're requesting that the committee propose and support the introduction of a program that would see financial incentives to farmers to replace, repower, and retrofit older diesel engines. We base this initiative on a program currently in place in the United States that is successfully reducing emissions from diesel engines.

Recently the Obama administration announced a new directive to reduce carbon dioxide emissions. Soon the State of California will be requiring all tractors to have a tier 4 engine. We don't envision that tractor manufacturers will be making tractors with two different engines for the North American market, so Canadian dealers and farmers will be impacted by these changes. We feel that manufacturers, dealers, and our farmer customers are ready for environmentally responsible changes; however, our concern is who pays, and what value will the farmers' old equipment have once new environmental standards are imposed?

To keep the Canadian farmer competitive, we believe financial incentives are needed as we transition to newer, cleaner farm equipment. Such support at the federal level would place Canada as a leader in reducing pollution emitted from farm equipment.

The most challenging issue facing the farm equipment industry today is credit availability. When the credit crisis hit North America in September 2008, it severely affected the lenders that were providing wholesale financing to Canadian farm equipment dealers and specialty or short-line manufacturers. Wholesale financing is separate and distinct from retail financing. Canadian lenders, such as Farm Credit Canada, Agrifinance, and Canadian chartered banks, have more than adequately provided retail financing at very competitive rates to the Canadian farmer. Wholesale financing is lending that helps finance a dealer's inventory and improves a manufacturer's cashflow. Short-line farm equipment manufacturers and dealers utilize this credit to help them manage the financial burden of building and subsequently carrying equipment inventory at the dealership level.

Prior to the credit crisis there were very few organizations that provided this highly specialized type of financing; however, wholesale credit had been readily available for many years to dealers and manufacturers. Since last fall, the non-captive finance companies have either pulled out of the industry altogether or have scaled back their lending options. Captive finance companies have also tightened credit, raised their interest rates, or limited the brands of equipment they will finance.

Unlike the auto dealer network, a Canadian farm equipment dealer could carry multiple lines of farm equipment, which are manufactured by one of the five main-line manufacturers or a short-line manufacturer. Also unlike the automotive industry, where sales occur daily, Canadian sales of farm equipment are more seasonal in nature, so short-line manufacturers typically build on seasonal demand. This requires the dealer or short-line manufacturer to arrange credit facilities for the months before the retail sale.

Our climate only allows for a single production season, versus multiple harvests that can occur in parts of the United States. That forces Canadian dealers to stock larger ticket inventory items for longer periods. A typical Canadian dealer will carry, on average, $800,000 more in inventory than his American counterpart because of these reasons.

Due to their volume and limited product lines, short-line manufacturers typically do not have their own finance companies. These manufacturers and their respective dealers had to rely on outside, non-captive credit providers to finance those products. We have surveyed our members on the severity of the situation and over two-thirds have stated that they do not have a wholesale financing alternative in place. Additionally, over 80% of our members have indicated that the lack of wholesale credit will result in reduced short-line equipment orders.

In the 2009 federal budget, the government announced a new $12 billion secured credit facility that would be administered through BDC. The terms of reference of this new initiative place our industry outside the lending parameters. At present this program does not provide any relief for our industry.

The tightening of wholesale credit is having a disturbing effect on Canadian farm equipment manufacturers and dealers. Without the participation of a new Canadian wholesale financer in our marketplace, the result will be further slowdowns in sales, layoffs in Canadian farm equipment plants, restricted product availability at equipment dealerships, equipment delivery delays, and higher costs to Canadian farmers.

● (1245)

The credit availability crisis is threatening the momentum we saw in 2008, as well as the entrepreneurial spirit of Canadian agriculture. This ultimately will severely limit the growth of Canadian farm equipment manufacturing and equipment sales and will subsequently reduce the competitiveness of Canadian agriculture. Our industry is not looking for a bailout, just access to capital at a competitive price.

In closing, our members remain committed to selling and servicing quality products for Canadian farmers. We are hopeful that all sectors of the industry will be profitable in 2009.

On behalf of our dealer members across the country, I would like to thank the committee for the opportunity to make this presentation on their behalf, and I look forward to your questions and comments.

● (1250)

The Chair: We'll go to Mr. Howard Mains, for the Association of Equipment Manufacturers, for 10 minutes or less.

Mr. Howard Mains (Canada consultant, Public Policy, Association of Equipment Manufacturers): Good afternoon, and thank you, Mr. Chair, for allowing me to address the committee today. I want to be brief in my comments. But first let me say a few words about the members of the Association of Equipment Manufacturers.

AEM is the trade association representing manufacturers of agriculture, forestry, construction, and mining equipment. In addition to Canadian equipment manufacturers, such as MacDon Industries of Winnipeg, there are about 700 other members, including those that manufacture the tractors, tillage, harvest, and electronic equipment Canadian farmers depend upon to plant, manage, and harvest their crops.

This afternoon I wish to speak about three areas of interest to the committee as it studies the competitiveness of Canadian agriculture: the sales history of agricultural equipment and the forecast for 2009, capital cost allowance rates, and trade with Russia.

I have provided the clerk of the committee with a report showing the 20-year history of sales of combines and tractors in Canada. As you will see, by comparing the sales data over the last few years with the 20-year average, with the exception of last year it is not a rapidly growing market. Simply put, there are fewer farmers using fewer machines to cover the same amount of ground. However, this is also a good measure of how Canadian farmers are becoming more efficient and are remaining competitive on a global basis.

AEM recently published an outlook for sales of agricultural equipment in Canada and the United States for the coming year. This updated forecast suggests that tractor sales in Canada for the coming year—2009—for four-wheel drive tractors and 100-horsepower and over two-wheel drive tractors are expected to be down anywhere from 10% to 20%, if current sales data trend out for the rest of the year. Combines have maintained their growth rates over the last two years and during the first four months of 2009, but that is expected to taper off over the rest of the year.

The last time I had the privilege of appearing before this committee, I spoke about the issue of capital cost allowances. Last December, a coalition of some 14 producer, dealer, and manufacturer groups—three of us are represented at the table today—wrote to the Minister of Finance asking the government to modernize CCA rates. We were disappointed that this request was not addressed in the budget. Since then, however, the U.S. government has introduced very aggressive depreciation rates on new capital expenditures.

I've included in the package I've provided to the clerk a document that summarizes this. To help you understand its significance, for an investment of $250,000 in new equipment, farmers would benefit from a 100% writeoff in the first year. For a $500,000 investment, they would benefit from a 78% writeoff in the first year. We would urge this committee to recommend CCA rate changes, and what John spoke about earlier, to the government and that the government incorporate those in its next budget.

Allow me now to turn to a significant concern of AEM members about increasing protectionist measures coming out of the Russian Federation. I know that the information I provide to you is current, given that one of our members, Scott MacDonald, from MacDon in Winnipeg, was just in Russia last week.

The Russian government has increasingly resorted to industrial policies that limit market access of goods of non-Russian origin and that further create barriers to trade, particularly in the area of agricultural equipment. Today agricultural equipment trade with Russia is becoming progressively less transparent, and it is now affecting Canadian exports. For example, Russia recently placed temporary import duties on combine harvesters and self-propelled forage harvesters of up to 15%. This action will not be reviewed until November 2009. While limited to only two types of equipment today, there are growing concerns that these tariffs will expand to include all agricultural equipment in other sectors, such as the equipment made in Canada by AEM member companies.

• (1255)

Moreover, Canadian exporters are being harmed by a loan program delivered through the Russian Agricultural Bank that gives Russian farmers a 20% discount on loans if they buy domestically made machines.

Protectionism is harmful to any industry. In an effort either to raise tax revenues or protect their domestic producers, countries like Russia are stifling the growth of their agriculture sector and their own infrastructure. Russia has emerged as one of the world's largest markets for agricultural equipment, especially in combine harvesters, tractors, and air seeders. As some of you from out west know, we are pretty good makers of air seeders in this country.

As long as the agricultural economy continues to improve, the demand is a long way from being satisfied. Canadian companies exporting to Russia have already experienced a significant decrease in exports in their first quarter of 2009. It's important that the Canadian government heighten the urgency of this issue with its Russian counterparts.

AEM and the Agricultural Manufacturers of Canada, an association based in Saskatchewan, jointly wrote to the Minister of International Trade on May 12 asking that this matter be addressed in future meetings with the Russian government. We would ask that this committee urge the Minister of International Trade to add this trade concern to the agenda for discussion when he meets with his counterpart during the week of June 22.

Thank you.

The Chair: Thanks, gentlemen.

Mr. Easter.

Hon. Wayne Easter: Mr. Lennox, you had in your presentation some of the costs and the slowdowns that I think Ambassador Wilson talks about as thickening the Canada-U.S. border. It seems like an impressive list. Could you get what you have on that to the committee quickly? I know it was in your statement, but we are going down to Washington tomorrow. Could we get that from you?

Mr. Ron Lennox: Yes, I can send something to the clerk by the end of the day.

Hon. Wayne Easter: That would be helpful. When you start to compile them, you see huge problems at our border that are making us non-competitive.

Mr. Schmeiser, would you tell us specifically what you're suggesting in the way of financial incentives, beyond the capital cost allowance? Are you talking about investment tax credits, or what?

Mr. John Schmeiser: Are you referring to the environmental aspect of the tractors?

Hon. Wayne Easter: I want to hear about any aspect that will encourage producers to modernize their equipment. If it improves the environment at the same time, that would be great.

Mr. John Schmeiser: The State of California has a program called the Carl Moyer program, to which it annually commits $150 million. If a farmer has an older tractor with a tier 0, 1, or 2 engine in it, and the engine needs to be rebuilt or replaced, the State of California will make up the difference between the cost of the rebuild and the tier 3 engine. It commits $150 million to that program.

We fear what might happen when we move to a tier 4 engine. The concept of the tier 4 engine is that the air coming out of the engine is cleaner than the air going into it. There are frame adjustments that will have to be made. We're not even sure if we'll be able to get a tier 4 engine on an older tractor. We have a lot of customers who have made investments in farm equipment over the years, and many dealers have their used inventory. Who's going to absorb the cost? If a farmer's 10-year-old tractor is no longer compliant with environmental standards, who's going to absorb that cost?

• (1300)

Hon. Wayne Easter: If you have any more ideas, we'd like to get them as well.

On the railways, Cliff, we're not hearing as pretty a picture from the farm community as you present here. I understand your changes on the maximum revenue cap, but to get over your concern about that cap, wouldn't it make more sense if the costing review of the railways were done immediately? The farm community clearly believes—and I agree with them—that the railway efficiency gains haven't been passed on to the primary producers. The Canadian Wheat Board study clearly showed that the railways were basically gouging farmers to the tune of substantial millions. I forget whether it was $32 million or $72 million. So why not have a costing review right away?

Mr. Cliff Mackay: As you know, the government is engaged in a service review as we speak. We strongly believe that's a very positive development. Over the years, we and a number of people involved in the supply chain in the transportation industry have been frustrated by the abysmal lack of good, independent data on what's really going on out there. It doesn't matter whether you're talking about trucking, railways, shipping, maritime shipping, or whatever.

We are very hopeful that this study will result in some good data on what is happening in the overall supply chain when it comes to moving freight. And frankly, 75% of the freight in this country moves by rail. We think that's a first good step to take. We're hopeful that a panel discussion on that will identify where the soft points are and the good and bad aspects of the overall service levels in the industry. We think that's a much more constructive approach than going directly to cost.

I think the number you referred to was a specific dispute that went on with regard to hopper cars. That was arbitrated by the CTA and the matter was resolved. Going forward, I don't think there will be that difference in view between railways and suppliers on that item. In the last couple of years, my members have invested $35 million in addressing some of the design problems in the existing fleet of hopper cars, and we're fully committed to continuing that.

The Chair: Thank you very much.

Mr. Bellavance.

[*Translation*]

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

Mr. Lennox, you no doubt know that since yesterday, the Americans have been requiring Canadians who want to cross the border to have a passport. I would like you to give me some information about the impact this new requirement is having on our trucking industry.

I would imagine that most truckers have had to acquire a passport. I also know that truckers can use a FAST card or a NEXUS card—I think that this is what they are called. We have heard a great deal about the fact that—and you alluded to this in your testimony—since September 2001, it is much more difficult, or at least it takes a lot longer, to cross the border. Moreover, we know that agri-food products cannot be kept waiting very long.

Do you see any positive impact resulting from the fact that nearly everybody must now have a passport? They are going to have to show it, which may speed things up. Do you not see any difference or, if so, do you think that there will be any negative impact resulting from the fact that truckers must now all obtain passports? How do you see the future as far as this is concerned?

[*English*]

Mr. Ron Lennox: First of all, in terms of our own industry, what we have been saying for quite some time is that we weren't overly concerned about our own preparedness for June 1 and the introduction of this passport or other document requirement.

Our members have been preparing for it. We've known about this for well over a year, and frankly, any trucking company that sends a driver to the border who is not prepared is really their own worst enemy right now. Our biggest fear has always been that perhaps the travelling public might not be prepared. If there are backups that move beyond the actual customs compound into the lanes leading to the border crossing, that's where we would get hit, and that's where trade would get hit.

Yesterday, of course, we were all watching the news very carefully, and we were making phone calls to various border crossings. Things actually went quite well. The U.S., quite correctly, used an informed compliance approach. They were issuing warning cards as opposed to actually turning people back. We're glad that happened.

Monday, of course, is not the busiest time of the week, and we might want to take a look at what happens this weekend. Maybe we'll get a better feel for how this is going to go. Again, I'm not concerned about the ability of our industry to comply.

In terms of whether it will speed up border crossings overall, I suppose, especially as more and more people adopt the frequent traveller cards, the NEXUS cards on the passenger's side and the FAST cards on the driver's side, that will likely speed up the processing of people through the borders.

We've been a big proponent of the FAST program. There are tens of thousands of truck drivers with them in their wallets right now. I don't think NEXUS has taken off quite the way they had expected it to so far, but hopefully now that it's a passport alternative, more and more people will use that as well.

● (1305)

[*Translation*]

Ms. France Bonsant (Compton—Stanstead, BQ): I have a question for Mr. Lennox. There are seven border crossings in my riding. I see all kinds of situations.

I would draw your attention to the case of a trucker who must travel approximately 30 km from his place before reaching the border, where he has to have his truck go through an insect detector. He was compelled to unload all of the fir trees from his truck because there was a mouse inside. In order to speed up transportation, do you think that all of the border crossings should be equipped with an x-ray reader such as the ones we find at big border crossings?

Also, having a special lane reserved only for truckers would free up the other lanes, used by tourists. Highway 55 has a truck lane, but everything is mixed up when it comes to the other six highways in my riding. My sister is a trucker and she tells me about certain things.

I would like to know your opinion about the special lane reserved for trucks and transportation of goods.

[*English*]

Mr. Ron Lennox: We already do have special lanes reserved for truckers. At all but the smallest of border crossings, there is commercial processing and then there's passenger processing. They are separate.

In addition to that, I spoke of cards issued under the free and secure trade program. They're meant to expedite the flow of frequent trade across the border by known entities. At a number of our border crossings we have dedicated lanes even for that. So they really do exist already.

I must admit, I didn't understand the first part of your question. I'm familiar with the radiation detection portals at the border. Is that what you're referring to?

They're just a reality. What I think about them is immaterial. They're already in place at all U.S. border crossings. They don't emit any radiation. They're just there to detect radiation. I can tell you that every single U.S. customs and border protection officer at the border also carries one as part of his kit.

They haven't caused any major disruptions for us. Every now and then they do malfunction, and that can cause problems. However, it has not been a major issue for us.

The Chair: Time is up.

Mr. Atamanenko, go ahead for five minutes, please.

Mr. Alex Atamanenko: Mr. Mackay, in regard to the costing review that was mentioned earlier on, in my riding we have a major employer, a pulp mill, that has really been hit hard by CP Rail.

In their difficult times over the past few months, they've actually had an increase in rates of 15%. This is at a time when they've had bad service over the Christmas holidays. Their feeling is that this railway in particular isn't cooperating with our particular pulp mill.

I'm wondering whether it would be wise, as the service review continues, to at least do a separate costing review, and to get that done quickly, so we know exactly what's going on, and if something is wrong, we know whether we can fix it.

● (1310)

Mr. Cliff Mackay: My immediate response is that obviously I'd like to know more detail, and we'll follow it up with CP Rail. That's something we always do.

I will give you a quote from Fred Green, who is the CEO of CP Rail: "Please, if anybody raises a service problem, tell him to call me directly." And he means it. I'll give you his phone number.

Mr. Alex Atamanenko: Okay, thank you.

Mr. Cliff Mackay: On the broader question, we very strongly believe that the first step is to get some reasonable information as to what is going on across the whole system: who does what to whom, what is the general ebb and flow, what are the rates, what have the rates been. It's very similar to the kind of work the grain monitor has been doing on grain transportation in the last two or three years, which has frankly been very helpful in addressing any disputes or issues within that sector of the transportation system.

We would very much like to see similar kinds of data out there, and we would argue that this data would give us the basis to address some of your questions. If we try to jump-start a cost study in the absence of that overall data, we think we'll become very confused very quickly and will be back to antidotes one more time.

Mr. Alex Atamanenko: Thank you.

My next question deals with short-line railways. There are a couple of situations, actually, in my riding also. There's one railway that goes from the United States to a community called Grand Forks on the border, and it's in danger of being shut down because OmniTRAX has applied to leave this area, and it is, of course...I'm not sure. The community is trying to get together with industry to work with them.

There is another incident near Summerland in British Columbia. There's another short line; I believe it's OmniTRAX also. I know the member of Parliament there is working on this and trying to... because I've had a letter from the Federation of Agriculture wondering whether we can do something here.

Is there something we should be doing, that government should be doing, to assist your industry to keep these small lines open? They are the lifeline of a lot of our small communities.

Mr. Cliff Mackay: The short answer is yes. The dilemma that short lines find themselves in is that they are very low-density operators. Our industry is the most capital-intensive industry in the country by far. We spend 20% of our revenues—not of our profits, but of our revenues—every year on infrastructure, and that's just to maintain the system.

Short-line railways just don't generate enough revenue to be able to do that on a consistent, ongoing basis. What happens over time, and it has been happening in the last few years, is that the infrastructure starts to degrade. We're now seeing a number of short-line railways in Canada with operating ratios greater than one, i.e., they are losing money on their operations, and that's simply not sustainable.

We have in a number of jurisdictions tried to pursue an infrastructure upgrade program. The most successful so far has been in Quebec, where we have a $75 million package—split three ways between the province, the federal government, and the industry—that is specifically targeted to short lines for upgrading their infrastructure. We have a package before the Ontario government now for slightly less than $90 million to do the same thing, and we are talking to other provincial jurisdictions across the country on precisely that issue.

We believe very strongly that the loss of that capability would be frankly catastrophic to small towns in Canada and to regions. They are critically important to the local economy and development. Just to give you a sense of the importance of these short lines, 25% of all the rail freight, where it originates or at final destination, moves on these railways. They are not at the margin; they are a very important part of the overall system.

We would encourage the committee to pursue that line of inquiry with the government and others. If you need more details, Mr. Chair, I would be happy to provide them.

The Chair: Okay. Thank you very much.

Mr. Hoback, you have five minutes.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Mr. Chair, and thank you, gentlemen, for coming out this morning and this afternoon. It's been enlightening for sure.

I guess my first question will be to you, Mr. MacKay. The level of service is always an issue at the farm gate, and it has been in a quite substantial way. As a farmer, what always bugs me is that we have these things called computer programs, with programs such as Outlook on them that have a calendar. We'll have the trains phone and say "Yes, the train is going to show up on Friday. You have 24 hours to load that train, and if you don't load it in 24 hours, we're going to start charging you an hour and twenty flat."

That Friday comes along. As Mr. Farmer, I load all my trucks on Thursday. I'm three and a half hours from the terminal, so I load my trucks, because I know that train is going to be there on Friday. They said it would be there on Friday, so it's going to be there Friday.

Heaven behold, Friday comes along, my trucks are on the road, and your train doesn't show up.

Who should pay for that? I know that right now the person paying for it is the farmer. But who should pay for it?

● (1315)

Mr. Cliff Mackay: That's a good question. I think the nature of the contractual relationship in this context is going to be one of the key questions that comes up in the service review. I will tell you frankly that it varies all over the map, depending on the individual shipper and what goes on.

The reason my members, particularly the larger members, are becoming more insistent all the time on demurrage charges and this sort of thing is that one of the fundamental changes that has taken place in railways, particularly in the last 10 years, is a clear indication that if you're going to be productive, competitive, and profitable, you must keep your assets moving. It's no different from any other kind of transportation business. Over many years, one of the big issues in railways was that their performance in that context was, frankly, not very good in the old days.

Mr. Randy Hoback: I'd say it's not good right now, and I have some strong concerns with that. Mr. Easter mentioned what it's costing farmers. That doesn't show up in any report. As a farmer, all of a sudden I could have five or six trucks on the road, because it's no longer one three-tonne load of grain; it's three or four B-trains. I've got a neighbour who actually has to ship out three B-trains a day, so when you guys hiccup, it hics him up.

You don't seem to appreciate that. You don't even seem to care. I know you mentioned that guy's phone number; if we put it in the *The Western Producer*, I think he'll get a lot of phone calls.

Mr. Cliff Mackay: That's fine. He's said that. Quite frankly, he has told me on more than one occasion, “If you have a specific complaint and it's CP rail, tell them to call me.”

Mr. Randy Hoback: Okay. That's good to know.

Mr. Schmeiser, you talked about wholesale financing. I just want to touch on that, because it is a big issue. I come from a background of Flexi-Coil and then Case New Holland. Because Flexi-Coil is a small short-line company, wholesale financing is very important.

I understand the minister has said he is rather hopeful that FCC is going to step in on that. Can you give us an update on where that's at?

Mr. John Schmeiser: Absolutely. First of all, on the retail side, we're very grateful that FCC has entered the market, because they're providing the most competitive retail finance program in the equipment industry right now.

We've met with FCC numerous times to encourage them to get into the wholesale finance business. We do not view their cost of funds as the barrier that other finance companies may have.

Through these numerous discussions, they have told us that at this time they are not prepared to put in place a wholesale finance program. It would take them 12 to 18 months to do that. They don't have the system in place; they would have to build that system to actually provide that service to our members. For the time being, all they are going to do is tweak their advancer loan program, which is pretty much a short-term solution; instead of requiring a piece of equipment for security for lending purposes, they want the security to be on the land and the building.

We're hopeful that our continued discussions with them will lead to a better solution.

Mr. Randy Hoback: Okay.

Mr. Mains, I used to be quite involved in exporting into eastern and western Europe. I can definitely talk about the MacDon family and their industry. MacDon is a great organization and a great company that sells all over the world. You mentioned their name and that they're having problems. I've heard little inklings of that, but you're the first one to identify it.

Do you have any suggestions on how we should handle it?

Mr. Howard Mains: One thing the members of the committee can do is speak to the Minister of International Trade, who is going to be meeting with his Russian counterpart three weeks from today, and put this on as an issue to be addressed between the two ministers. That would be of great help. I'm sure that whether it's MacDon in Winnipeg or the folks who make air seeders out in your neck of the woods, the companies would be quite grateful for that.

Mr. Randy Hoback: Okay, good.

I don't want to leave you out, Ron.

The opposition leader keeps on talking about a carbon tax. How would that affect your industry?

● (1320)

Hon. Wayne Easter: I have a point of order, Mr. Chair. The member knows that's not true. I don't know why they perpetuate these myths.

An hon. member: He said it.

Hon. Wayne Easter: No, he did not. Get off it, guys. Get off it.

Mr. Randy Hoback: I'd like an answer to the question, Mr. Chair.

The Chair: Mr. Lennox, answer it briefly, if you can.

Mr. Ron Lennox: The cost would simply be passed through to the shippers of goods. We handle our fuel charges through a surcharge; as the price of fuel goes up and down, people who use our services pay more or less for those goods to be shipped. My feeling is that if there were a carbon tax, it would simply be more expensive to ship goods.

The Chair: Go ahead, Mr. Eyking.

Hon. Mark Eyking: Thank you, Mr. Chair.

Thanks to the guests for coming here today.

Last week we had visiting Ottawa the Federation of Canadian Municipalities. Some of the things in their report, especially on the conditions of secondary roads and short-line railroads.... They said it was almost coming to a point of no repair, which will have a future impact on these rural areas. You mentioned how many goods come out of the rural communities.

So what needs to be done? What lead should the federal government be taking now, especially when you look at the fact that we're supposed to be rolling out this infrastructure? How can we put more into those secondary roads and secondary lines?

Second, how could this government help you to be more efficient with your equipment, such as locomotives and trucks? Some other countries are pushing for equipment—there was talk here about tractors—that would help when you're idling and stopping and things like that. What is out there that could help your industries be more efficient and environmentally friendly?

Those are my two questions.

Mr. Ron Lennox: In terms of the condition of rural roads, roads are a provincial responsibility, but we've always felt that the federal government could do a better job of allocating the diesel fuel tax to highway infrastructure through federal-provincial agreements with the provinces. The current tax is 4¢ per litre. I've got to admit, it's been a while since I've looked at the numbers, but the federal government puts just a small fraction of that back into the road infrastructure. It's been a long-standing position of ours that we'd like to see more of that money go back to the provinces so they can maintain their road infrastructure.

In terms of specific things that we can do, if I understand your question correctly, to make our operations more efficient, I've mentioned some of the things that are coming in terms of border crossings, in terms of electronic manifests, which I think are a good thing. There were some hiccups as we introduced them, at least as the U.S. introduced them, but we'll get over that hurdle, and that will help.

I can give you an example of one efficiency measure that we'd like to see. When trucks idle, to keep the cab warm or cool, it burns a lot of fuel. There are devices out there called auxiliary power units, APUs. At one time, NRCan had a program to help fund these things. Those are the sorts of programs we'd like to see. We'd also like to see the provinces allow some discretion on weights. For example, if an APU weighs 600 pounds or 800 pounds, we'd like to see additional carrying capacity, because that's money out of our pockets.

There are lots of things that could be done.

Hon. Mark Eyking: Are you suggesting they should be more standardized across the country, amongst the provinces?

Mr. Ron Lennox: What should be standardized?

Hon. Mark Eyking: Rules.

Mr. Ron Lennox: Absolutely. We have ten provinces as well as the territories. They all set their own weight and dimension limits, for example. It does make it complicated for the trucking industry. We also obviously operate cross-border, so we have to deal with U.S. limits.

So yes, there's a whole slew of things on the trucking side that are inconsistent from one part of the country to another.

Mr. Cliff Mackay: On the rail side—I've already spoken briefly on the short-line issues—very pragmatically, the programs are ready to go. What needs to happen is some political decision-making to say, "Do it now." That decision-making has to come directly out of the provincial government ministers who are directly responsible for the stimulus program and, on the federal side, of course, out of Minister Baird's office.

Frankly, we've been ready to go. I'm very concerned that we're going to find ourselves in a crisis mode fairly soon, with a few railways across the country. We would like to avoid that, if possible. Anything this committee can do on that side....

On the technology side, it's very similar to trucks. We're spending a lot of time and money on fuel efficiency issues, going to what's called type 4 EPA standards for locomotives. We already have systems that will shut down our systems, hybrid locomotives for yardwork, and a whole range of different technologies.

The big issue is to focus more time and money on technology development in these areas. We've been pushing the federal government to get back into the transportation R and D business in a much more substantive way. They essentially exited the business in the nineties, when we had to deal with the deficit. While they have a couple of small, fairly effective programs, they are not significant players in the way the FRA and other agencies in the U.S. are.

● (1325)

The Chair: Thank you.

Mr. Shipley.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, witnesses, and thank you, Mr. Chair.

Mr. Lennox, I just have a comment. You mentioned that you'd like to see the federal government doing more in terms of gas fuel tax. I think you mentioned diesel.

Just for clarification, the Federation of Canadian Municipalities, a number of years ago, had asked for the gas tax to go back up to 5¢. So that actually was to be on a program that we accelerated, and now they get all of that 5¢.

The provinces, quite honestly, also collect a tax. I think what you will find is that they also have that option of doing something within their own tax structure. Something that wasn't done prior to our coming in is we've actually increased the transfers to provinces. We've done equalizations that were not there before. I think in terms of what the federal government has done for roads and what we've done for municipalities and what we've done for provinces is likely much more than has been done for generations, quite honestly. So I think in terms of that gas tax going back up, we all understand the need for infrastructure—that being roads—and I think that's where we've stepped up to the plate on it.

Mr. Schmeiser, you made a comment earlier regarding California, with the tier 4 engines. I may have got it wrong that they will actually determine that it's going to be tier 4 engines that will be used.

Are they large enough, then, to determine that this is what is needed for North America and that all manufacturers now will do that, whether it meets the requirement of the provinces or a state or the rest of the country?

Mr. John Schmeiser: Yes, absolutely. California is a significantly large agricultural market. In our conversation with members of Howard's association, specifically, John Deere, Case IH, New Holland, they're not going to make two different engines. Because of the financial challenges from some of the other states, they're not going to duplicate the efforts of CARB, the California Air Resources Board. They're just going to adopt those standards, and it is going to be a domino effect across North America.

Mr. Bev Shipley: What sort of a domino effect, in terms of cost, is that going to mean on an engine, comparable to a tier 3, to a tier 4?

Mr. John Schmeiser: An example that we were given by John Deere is on a 400-horsepower, four-wheel-drive tractor. It could be a sizeable increase of 20% to get to the tier 4 engine over the current price.

An hon. member: Sixty grand.

Mr. Bev Shipley: Again, the unfortunate part is someone is making that decision and the primary producer ends up paying for it, and he has no way of dispensing those costs down the road to anyone else.

Mr. John Schmeiser: Absolutely.

Mr. Bev Shipley: That is part of the concern I think too, certainly between you and Mr. Mains. I've actually had the dealers and the manufacturers in and was talking to them. I'm going to say if there's anything we can actually do, perhaps there's some further recommendation we can have from you. We recognize the need and the importance of that to our farmers, to actually have fair and accessible financing for the dealers, and also for the manufacturers, so they can provide it to the dealers so that they can be competitive.

Can I comment on a remark made by I think Mr. Mains regarding the Russian Federation? Actually, there is a small manufacturer not too far from me that manufacturers equipment. I was surprised actually at the amount of equipment, percentage-wise, that they were shipping over to the Ukraine and to the Russian areas.

I think you said they were putting out a loan incentive of a 20% reduction on interest. Just explain that a little bit for me. It's sort of a protectionist issue, I guess. If you buy Russian equipment, you would get a break on your interest rate of up to 20% of the interest that's being charged. Is that what you're saying?

● (1330)

Mr. Howard Mains: Yes, and the other thing we picked up from those people who were over there last week is that the government has made it very clear to buyers of agricultural equipment that the banks will only finance equipment that was made in Russia. It's not written down anywhere, but it's a very clear threat that has been stated.

Mr. Bev Shipley: So what are the farmers going to do in terms of access? My understanding is that the Russian manufacturers can't manufacture enough equipment for their needs.

Mr. Howard Mains: I think you hit the nail on the head. The demand is huge in that country. The opportunity for Canadian manufacturers, especially like the company that's in your own riding, is tremendous. So here is an untapped potential, and yet the domestic market is not going to be able to supply it.

Mr. Bev Shipley: It's because they love it, because of the quality and the value. When I was in Kazakhstan, that was clearly an indication we got.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Shipley.

Thanks, Mr. Mackay, Mr. Lennox, Mr. Mains, and Mr. Schmeiser, for coming in. We appreciate your input into our study, and I'm sure you'll want to see our report when it's all done. Thanks again for coming here.

The meeting is adjourned.

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