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Chair

Mr. Larry Miller

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● (1110)

[*English*]

The Chair (Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC)): We'll call our meeting to order.

I want to thank all our witnesses for being here today. We have the Canadian Bankers Association, Farm Credit Canada, and Credit Union Central Canada.

Just to let you know, there may be votes we have to slip away for. You may hear bells shortly after 12 o'clock. Unfortunately, we do have to break to go to that, but there should be enough time to get back here and finish. I apologize in advance for that. It may not happen, but in all likelihood it will.

With no further ado, we'll move to our presentations of 10 minutes or less per organization. The Canadian Bankers Association is first. Who would like to lead off?

Go ahead, Mr. Wrobel.

Mr. Marion Wrobel (Director, Market and Regulatory Developments, Canadian Bankers Association): On behalf of the Canadian Bankers Association, its 50 members, and its quarter-million employees in Canada, I would like to thank you very much for the invitation to speak to the committee on the subject of the competitiveness of Canadian agriculture. My members are here to answer your specific questions, so I will keep my comments brief. I will, however, take a moment at the outset to put the banking industry and its association with agriculture and rural communities into some perspective.

Needless to say, the prosperity of the agricultural community and rural Canada go hand in hand. The banking sector, of course, has a strong commitment to both. CBA member banks have about one-third of their branches in rural and small-town Canada. Through these roughly 2,100 branches, they provide a wide range of products and services to farmers, their families, and ancillary service providers in the overall rural community.

On the business side, banks provide deposit and operating accounts, insurance, investments, and financial advice, in addition to operating term and mortgage loans. On the personal side, they help rural customers save for their children's education and their own retirements through mutual funds, specialized advice, and specialized accounts. They provide lines of credit, loans and mortgages, and everyday banking needs. In short, customers in rural Canada have access to the same services and prices as customers in Canada's largest cities.

While banks are private sector, profit-seeking institutions that provide financial services to customers, they also work closely with government to provide delivery channels for a number of government programs, such as the advance payments program, FIMCLA loans, the soon to be established AgriInvest accounts, and CALA loans. We look forward to continuing this positive relationship with government. The banks are also working with the government on a broader range of credit initiatives, such as BCAP, the business credit availability program.

While I will discuss non-credit aspects of banking in a few minutes, let me first speak to credit issues, as they are on everyone's minds today.

In granting credit to any household or business, banks look to the ability of the borrower to repay the loan. They make decisions on an individual, case-by-case basis. But there are also macro conditions that need to be considered, such as the prospects for the business sector the borrower operates in, economic prospects in general, the cost to the bank of raising funds, and so on.

The agricultural sector is an important market for bank lending. Eighteen per cent of total funds lent to small and medium-sized enterprises is dedicated to this sector. That's almost one dollar in five. The amounts authorized for agricultural producers and related services tend to be higher, on average, than in other industry segments in recognition of the capital- and land-intensive nature of farming. Moreover, growth in bank lending has been in line with the sector's growth. Between 2001 and 2008, banks have expanded lending in Canada at roughly the same rate of growth as farming output. The provision of bank credit has been consistent with and appropriate for growth in the sector.

Each individual bank provides credit to the sector in competition with other banks, credit unions, caisses populaires, Farm Credit Canada, finance companies, and provincial government agencies. In aggregate, banks had authorized almost $30 billion in financing to the sector at the end of 2008. That is the amount banks actually offered to provide to their customers. Chartered banks provided 39% of total farm credit in 2008.

It's also important to look at the nature of financing banks provide. Banks are the largest providers of non-mortgage credit. Banks accounted for 51% of this lending, close to $14.7 billion, in 2008. As this type of financing is more complex than lending against assets, it requires the banks to truly understand their customers and to work closely with them over time. The Canadian banking system is today internationally recognized for its safety and soundness due to its prudent lending practices and excellent risk management systems, practices and systems that we use in agricultural lending as well. These are what enable Canada's banks to continue to extend credit to businesses, even if some other parts of the financial marketplace are contracting. Moreover, as the experience in other jurisdictions shows, poor risk management is not just bad for lenders, it can have negative effects on borrowers as well.

As noted earlier, banking is about more than simply lending money. It's a relationship business, and nowhere is this more evident than in the agricultural sector. The relationships we build with our farming clients and agricultural stakeholders help us play an important role in supporting the sector. These relationships have helped us work with our customers through the inevitable peaks and troughs that come with working with this sector.

● (1115)

In this past decade, we have seen farmers withstand BSE, avian influenza, drought, floods, and now H1N1 virus and country-of-origin labelling. When these inevitable events occur, we work with farmers on a client-by-client basis, taking into account their individual situations, to find solutions that are sustainable and in their best interests.

Sometimes banks need to have tough conversations with clients so that farmers can make decisions that preserve the capital of the farming operation. The banking industry's work during these events is testament to the importance we give to the sector and to our interest in contributing to its long-term viability and competitiveness.

The key to the strong relationships we have with farmers is understanding their circumstances. Banks hire individuals with a P. Ag. designation: university graduates with an understanding of the agricultural sector. These individuals are account managers and specialists who advise farmers on matters such as farm loans, economic forecasting, farm business planning, and general farm management.

They serve their clients through non-traditional means and modern technology. They employ cars and laptops to meet with clients at their farms in order for them to spend more time on their business and with their family. The banks dedicate resources to educate them through programs such as Olds College bankers school. These account managers and specialists often move up the agriculture-specific credit and risk adjudication positions.

We also educate our clients through presentations dedicated to the agricultural sector, such as business and succession planning. We also sponsor events and groups of farmers such as the Royal Winter Fair and 4-H groups.

Mr. Chair, I'm sitting here with my colleague Bob Funk, and we have a number of bankers who are sitting on the side. They all have specific stories that they would like to tell the committee. I hope we have an opportunity for them to tell their stories, because individual banks have different products.

I'd like to thank you for the opportunity to appear before this committee. I've tried to keep my opening remarks short, but we would like to talk about some specific initiatives for the sector, such as the full service approach to banking, new flexible credit products, initiatives for young farmers, client education, mobile banking, and a wide range of banking channels.

We would be pleased to answer your questions. Thank you.

The Chair: Thank you very much. I knew there was a bunch of your colleagues here from different banks. There are some empty chairs, and your colleagues are more than welcome to join us if they so wish.

Mr. Marion Wrobel: Thank you very much, Chairman.

The Chair: You're welcome.

We'll now turn it over to Farm Credit Canada. Mr. Stewart.

Mr. Greg Stewart (President and Chief Executive Officer, Farm Credit Canada): Thank you, Mr. Chair.

Good morning, honourable members. It's a pleasure to appear before the standing committee on behalf of Farm Credit Canada. My name is Greg Stewart, and I am the president and CEO of FCC. With me today is Lyndon Carlson, our senior vice-president of marketing.

FCC is a financially self-sustaining crown corporation. We provide financial and business services to Canadian agriculture and agrifood. This year, we are celebrating our 50th anniversary. Our corporate office is in Regina, and we have over 100 offices, most of them located in rural Canada, and we have about 1,500 employees. We provide customers with flexible, competitively priced financing, equity, insurance, management software, information, and learning. Our innovative products and services are tailored to the unique needs of agriculture.

In the past year, we made over 18,000 loans and nearly 25% of those loans were to new customers. We focus on the primary producer as well as suppliers and processors along the full value chain.

We know from our customers that one of the most important factors that determine the future success of a producer or agribusiness operator is their management capability. We received positive feedback on our FCC learning programs. Over the past two years, we've had over 25,000 people attend an FCC learning event. The FCC portfolio has grown for each of the last 16 consecutive years and now stands at the $17 billion mark. FCC profits are reinvested to develop more loans and services to benefit agriculture and agrifood.

Agriculture is an incredibly diverse industry. Some sectors are doing very well despite the global economic situation, while others, as we know, are struggling. Eight to ten months ago, there was concern about the availability of credit. We continue to see very strong competition for higher-quality, supply-managed, and larger loans; and for the most part, the predictions regarding tighter credit have not materialized. Canadian financial institutions have done a good job of ensuring that credit is available to Canadian producers and agribusiness operators. FCC customers were able to access credit in all sectors and all parts of the country, as evidenced by our lending results.

Our portfolio continues to grow. It grew 14% in 2008-09 and net disbursements reached $5.1 billion. Our portfolio has increased in every sector except hogs. Primary production is our core business and that represents 88% of our portfolio. The remaining 12% is agribusiness and agrifood lending.

We know that many farms will be transferred to the next generation in the next five years and new farmers are entering the industry. In 2008-09, FCC disbursed nearly $1.6 billion to young farmers, those under the age of 40. That represents more than 30% of total net disbursements in the past year. This new generation of producers is innovative, technologically advanced, and willing to try new things. They are the future of agriculture. Recognizing that interest and enthusiasm for agriculture starts early, FCC supports young farmers at every stage, from up-and-coming farmers in 4-H clubs and college students to products and services tailored to meet the needs of first-time borrowers.

ln the 2007 federal budget, the government decided to consolidate more of its borrowing. They mandated that some crowns, including FCC, borrow through the consolidated revenue fund. Our goal is not to be the lowest or the highest priced lender, but to be competitive and to provide a fair alternative to farmers and agribusiness operators. Our strategy is not to undercut competitors to win business, but it is to be competitive. We believe our customers value our innovative products, knowledge of agriculture, and our customer service.

FCC is supporting agriculture and lending in all sectors. At the same time, we pay close attention to the business plans of the customers and businesses we lend to. Before FCC lends money, a thorough assessment is conducted. We take into account the risk associated with the loan, and the ability to repay. FCC arrears have been low for several years. Currently, approximately one quarter of one per cent of principal not due is in arrears, slightly lower than last year. Our customers are committed to following through on their loan repayment agreements even in challenging times, and when they can't make payments, we offer our customer support program to help them make it through.

● (1120)

I certainly can't predict the future of Canadian agriculture, but there is optimism out there. In January 2009, we released the results of FCC research with our Vision panel. This is a group of 9,000 producers and agribusiness operators across Canada who share their opinions with us. The survey showed optimism in spite of the current economic situation. More than half of the 4,300 respondents said that they are optimistic about the future of agriculture, up 1% from the previous year. At the time of the survey, nearly one-quarter of respondents planned on expanding their operation in the next five years, and two-thirds believed that their business was in better shape than it was five years ago. This, for us, was very positive news.

But it's not all rosy. There certainly are challenges. Producers have experienced volatile commodity and input prices, and that is likely to continue. The Canadian dollar has been strengthening, impacting those businesses that rely on the export market. In addition, in 2009, the World Bank expects global trade to decline for the first time in over 25 years.

On the other hand, interest rates are low, and the average value of Canadian farmland increased 5.6% during the last six months of 2008. This is the third-highest increase since 1997. As a result, the asset base of producers has increased in value.

For 2009-10, we see optimism regarding growth, and margins are projected to improve in the crops, dairy, and poultry sectors, despite continued increases in production costs. Hog and beef producers will continue to be challenged, with prices below the five-year average and input costs above the five-year average. As this committee well knows, the recent COOL legislation is another challenge facing these sectors.

In closing, it is only when our customers succeed that FCC succeeds. We are very fortunate that 50,000 customers have chosen to do business with FCC, including nearly 4,000 new customers last year. Our financial strength allows us to invest in initiatives that enhance the ability of Canadian producers and agribusiness operators to compete globally.

Thank you very much for your time and attention. Lyndon and I would be pleased to answer your questions.

The Chair: Thank you very much.

We'll hear now from Ms. Skotnitsky of the Credit Union Central of Canada.

Ms. Pam Skotnitsky (Associate Vice-President, Government Affairs, Credit Union Central of Canada): Mr. Chair and members of the committee, thank you for the opportunity to speak today.

My name is Pam Skotnitsky and I'm the associate vice-president of government affairs at SaskCentral, which is the provincial trade association for credit unions in Saskatchewan. However, today I appear before you in my role as chair of the agricultural subcommittee of Credit Union Central of Canada's legislative affairs policy committee. I'm joined by Mr. Frank Kennes, vice-president of credit, Libro Financial Group, a credit union situated in southwestern Ontario.

Before addressing the issue that brings us before you today, I'm going to make a few preliminary comments about Canadian Central and the role the credit union system plays in Canada.

Canadian Central is a federally regulated financial institution that operates as a national trade association and finance facility for its owners, the provincial credit union centrals. Through those provincial credit union centrals, Canadian Central provides service to 440 affiliated credit unions across Canada outside of Quebec. Credit unions represent an important component of the Canadian economy. We deliver services through 1,700 locations to five million members. We employ 2,400 people, and we represent $114 billion in assets.

Credit unions in Canada come in all shapes and sizes and operate in almost every community, including large urban centres. Credit unions are the first choice for many members. In fact, one in three Canadians is a member of a credit union or caisse populaire. We believe these numbers reflect the system's strong cooperative values and commitment to the economic development of their communities in good times and in bad. This commitment is illustrated by our continuing presence in more than 380 communities in Canada where we are the only financial institution in town. It is also evidenced by the high level of the system's charitable donations, which in recent years have reached nearly $36 million annually.

Credit unions are significant lenders to the Canadian agricultural economy and in rural Canada outside of Quebec. In fact, over the past 15 years credit unions have been increasing their market share in agriculture. Using the most recent available data from Statistics Canada, there is currently $47.3 billion in farm debt outstanding in provinces outside of Quebec. This debt has been issued by chartered banks, Farm Credit Canada, credit unions, and other smaller lenders. Of that total, credit unions account for approximately $5.37 billion or 10.9%. This figure is up considerably from the 5.3% in 1993. In short, credit unions have more than doubled their share in the issuance of farm debt over the past 15 years.

Regionally, the Manitoba and Saskatchewan credit union systems are major shareholders of the farm debt outstanding in their provinces, controlling 25.7% and 22.8% respectively. The Manitoba credit union system has steadily reported remarkable growth over the last 15 years, with an average annual growth rate of 9.8%. Strong growth is consistently reported by the Ontario credit union/caisse populaire system each year, with an average annual growth rate of 10.3% over the last 15 years. The system's market share in Ontario stands at 5.6%. Meanwhile, the Alberta credit union system holds 5.8% of the province's debt load, with farm loans growing at an average annual rate of 7.9% over the last 15 years.

Canadian Central has reviewed some of the recent testimony before this committee, and we are aware that you have heard from a wide variety of stakeholders in regard to the broad issues. With that in mind, we wish to focus on the policy development process as it relates to agriculture and the financial sector.

In recent years, the Government of Canada has increasingly called on financial institutions to play an important role in agricultural program delivery. This is evident in business risk management programs such as the old net income stabilization account program, or NISA; the Canadian agricultural income stabilization program, CAIS; and now AgriInvest. Financial institutions are central to the delivery of loan guarantee programs such as FIMCLA, the Farm Improvement and Marketing Cooperatives Loans Act, and previously financial institutions were asked to participate in loan programs to support the creation of slaughterhouse capacity in Canada. Also, there are advance payment programs where financial institutions play a key role.

Finally, changes to the policy relating to Farm Credit Canada continue to impact the way the financial markets evolve in relation to agriculture. Canadian Central views the deepening relationship with Agriculture and Agri-Food as having positive potential for producers, the Government of Canada, and for financial institutions.

● (1125)

However, it is our view that agriculture programs and policies that impinge on producers and FIs can only be successful if financial institutions are brought into the policy-making process in the early stages of development, rather than at the tail end. It is our concern that in the absence of appropriate and regular dialogue, policy and program outcomes will be less than optimal.

We can illustrate this point in relation to three areas of policy: that concerning the recent reforms of FIMCLA, the rollout of AgriInvest, and recent developments related to Farm Credit Canada.

Canadian Central considers the recent proposed reforms of FIMCLA, found in Bill C-29, to be the outcome of successful dialogue. To elaborate, when the federal government made the announcement that the FIMCLA program was to be cancelled, credit unions and other stakeholders were quite concerned. Canadian Central and other stakeholders immediately began a dialogue with Agriculture and Agri-Food Canada about these concerns, and the government quickly reinstated the program and undertook consultations aimed at reforming the legislation.

Through the consultation process, it was suggested that loan guarantee limits be increased, that the program be open to new farmers, and that the program parameters be changed to include increased cooperative eligibility and to assist new farmers and the intergenerational transfers of farms. It was satisfying to see that many of these suggestions were incorporated into Bill C-29.

In our view, this stands as an example of a fruitful consultation that will ultimately benefit all stakeholders. Credit unions were brought in at the front end of the program reform, and to its credit, the government was attentive to the suggestions to strengthen the program.

Unfortunately, similar discussions did not take place as policy was developing in relation to the old Canadian agricultural income stabilization program and the new AgriInvest program. Instead, financial institutions were brought into the dialogue with government as it sought to have aspects of the program delivered by financial institutions. This made for some difficult discussions and delayed the rollout of the programs as issues requiring attention were identified.

Finally, we would like to conclude with some observations about policy development as it relates to Farm Credit Canada.

Since Farm Credit Canada had its lending mandate expanded in 2001, credit unions have become increasingly concerned about the growing presence of FCC in agriculture lending and the rapid manner in which the FCC is increasing its market share. In fact, credit unions would readily admit that the strongest competition faced by credit unions in the agriculture market comes from Farm Credit Canada.

To illustrate, excluding Quebec market share numbers for comparative purposes, federal government agencies, specifically Farm Credit Canada, held 28.2% of the farm debt outstanding in 2008. In 1993, this number was around 9.5%. This number has been consistently growing over the years. In fact, over the last 15 years, the average annual growth rate has been 10.8%.

Today we have a situation in which smaller local community-based credit unions have to compete for producer business with a large crown financial institution that is able to source funds at lower rates because of government backing, and seemingly with underwriting criteria that are often more liberal than credit unions can comfortably accept. In some areas, continued competition from the FCC puts into question the future of credit unions in some communities.

To be clear, our concern is not with competition. Credit unions face competition from the banking sector every day. We welcome it and we manage to do quite well.

In our view, it is doubtful that the government envisioned this as its preferred policy outcome or that it knowingly tilted the playing field in favour of the FCC when drafting reforms to the FCC's legislation. However, there was little or no consultation with the credit union system or other financial institutions in the period preceding the reforms, and the parliamentary process associated with the passage of the bill was severely truncated.

● (1130)

It is our view that such an outcome could have been avoided if the Government of Canada had entered into a dialogue with financial institutions at an early date about potential reforms to the FCC Act. This could have been an opportunity to explore ways in which the FCC, credit unions, and other financial institutions could complement one another with their strengths and help serve producers in a mutually beneficial way. Unfortunately that opportunity was missed. Of course, it's an issue that will be taken up with government down the road. However, we include it to illustrate the need for closer dialogue as policy is being developed.

To conclude, we wish to thank you for the opportunity to appear before this committee. We look forward to answering any questions you may have.

● (1135)

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

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

Welcome, folks.

Pam—I'll say your first name because it's easier to pronounce than your last—on your point about Farm Credit, this is something I've been hearing for quite a number of years, and from the banks. I'm surprised the banks haven't mentioned it. There seems to be a concern that Farm Credit is getting into more markets. Competition is fine, but I hear on the ground that their objective is to go after the lower-risk loans and attract more secure money, and they're not in the business of the high-risk loans for which they were originally established. Farm Credit began as a lender to assist in the more high-risk field, and I know things have changed over the years and they have to go to the market for money.

So what's your view on that? Is what I'm hearing correct or wrong? Does anybody from the bank want to make a comment?

Mr. Frank Kennes (Vice-President, Credit, Libro Financial Group, Credit Union Central of Canada): That's exactly the concern we have. As Pam said, we're not concerned about competition, but we're concerned at this point about the cost of funds. The cost of funds that the credit unions and banks have don't allow us to put loans out at rates that Farm Credit can at this point, so from that standpoint we have concerns about the competition.

Hon. Wayne Easter: Marion.

Mr. Marion Wrobel: Thank you, Mr. Chairman.

To put it in context, the kinds of principles we would like to see that govern federal crown corporations like FCC are the ones that have been very well espoused in the current extraordinary financing framework the government announced in its previous budget. The financing should be incremental. It should add to what the private sector is doing. It should be on commercial terms, so it should be consistent with the prudent and sound practices that private sector financial institutions operate under. It should be directed toward businesses that have viable business plans. We'd also like to see it within the framework of a very well-defined public policy mandate.

For example, the Business Development Bank of Canada has a very well-defined public policy mandate to provide incremental financing. So where there are gaps in the financial marketplace, it should provide financing that the private sector doesn't. We think that governs the way it behaves, and those principles are very good and should be applied to something like the FCC as well.

Hon. Wayne Easter: Before I go to Farm Credit—and I imagine Mr. Stewart has a comment—I support the need for a federal crown corporation in lending. But I can tell you, Mr. Stewart, from my experience dealing with farmers in trouble, that I'd rather deal any day with the chartered banks. When farmers are in trouble the banks are willing to cut a deal, but Farm Credit is not willing to negotiate and come to some kind of settlement. In these times, I think that's needed.

Mr. Stewart.

Mr. Greg Stewart: Thank you.

On the last point, I would be disappointed if our staff were behaving that way. Our mandate and goal is to clearly work with our customers through difficult times. We stand behind them. We have a customer support strategy that we proactively roll out to producers when they're experiencing challenges—specifically in the last year in the hog and beef sectors. In all cases, we have nowhere else to go but agriculture. So we support all sizes of producers in all areas of Canada and in all sectors. We absolutely are not targeting only the large or high-quality loans. Our average loan size is still under $200,000. We have 50,000 customers, and the gross receipts for over half of them are under $500,000 a year.

Hon. Wayne Easter: I don't want to cut you off, Mr. Stewart, but I do want to get another question in.

In general—and this is a problem in these low-interest times—I know regular mortgage consumers are not getting the benefits of the low interest that they should. I'm wondering if you can answer this in the banking sector on farm mortgages and loans. What's happened is that interest rates have come down. The spread between Bank of Canada prime and lending or bank prime has increased. This is what we're seeing in the general mortgage area. Even though interest rates have come down, they have not come down to the consumer as much as they have come down generally. Is it the same thing in the agricultural loans?

We have heard at this committee—and it's a competitiveness study—that one of our biggest problems is that farmers can be competitive, but what we need is competitive policy. You know the industry that's in crisis right now as well as we do, I imagine, because you're looking at the figures. The hog industry and the Canada Pork Council have asked for an ad hoc payment of $800 million, $30 a hog, based on last year's number. We believe the government should be coming out with it. It's what was done in the beef industry when they were in trouble.

The industry is telling us they can't survive without a substantial infusion of cash. They're tapped out in loans, as you well know. Where do you see this hog industry going if the government doesn't step up to the plate and provide funding that will at least make us competitive with the United States?

● (1140)

The Chair: Mr. Wrobel.

Mr. Marion Wrobel: I believe the interest rate in question was addressed to the banking sector. Again, let me try to put it in context.

Since its peak in the fall of 2007, the Bank of Canada benchmark rate has declined by 425 basis points. The bank's prime rate has declined by 400 basis points. That's about 95% of the Bank of Canada decline. When the banks make loans to households and businesses, they do not source their funds at the Bank of Canada; they source their funds by either raising deposits from customers or by going into markets for either short-term or long-term money. They have the bank deposits, they have GICs, and that sort of thing. On average, the cost of funds to the banks has not declined nearly as much as the 425 basis points. On the long side, five-year money, it has been pretty sticky. It has declined by maybe 100 basis points in some cases, or 200 basis points. Those costs of funds are something that goes into the formula to determine what a customer pays. Customers who have existing prime-plus contracts, mortgages, with banks have seen their mortgages decline by 400 basis points. There has been quite a substantial decline in what customers are paying, on average, for mortgages from banks.

The Chair: Thank you very much.

Mr. Bellavance, seven minutes.

[*Translation*]

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

Ms. Skotnitsky, I do not want to misinterpret your comments. Do you feel that the presence of Farm Credit Canada constitutes unfair competition for credit institutions?

[*English*]

Mrs. Pam Skotnitsky: Yes, exactly, as stated in my comments.

We believe FCC is unfair competition. The source of funds they have access to from the Government of Canada is definitely something that credit unions don't have. When we're looking at what kind of lending rates we're able to provide and what type of terms, we have to be cognizant of where we're raising our capital as well as where we're raising our funds and our deposit rates on the other side, so all of this is considered when we're providing a loan to our members. Our income taxes and policies, at the end of the day, also need to be considered in our cost equation. We're not able to compete in the marketplace to the extent that FCC is.

Mr. Easter made another comment about seeing movement into credit that could be granted by credit unions where the member would be qualified for loans from a credit union. Absolutely, so where they used to be a lender of last resort, they're definitely not; they are our biggest competition in the marketplace today. Credit unions are competing as best they can. We are in a circumstance in rural Saskatchewan, or rural Canada—I'll broaden that—where we have the margin squeeze because of the Bank of Canada rates, where we're not able to continue to sustain all our branch network on a go-forward basis. We have a very difficult balancing act to try to maintain the extensive infrastructure we have and honour the reduced rates we're trying to provide to our membership.

● (1145)

[*Translation*]

Mr. André Bellavance: So, even if you are very imaginative in your attempts to compete, you do not have the same tools. For someone like me who is a defender of agriculture, it is good news that there are a number of players in the market and that agricultural producers can get lower interest rates. That there is as much competition as possible, in a word. That benefits producers directly. Your concern is more with the tools that Farm Credit Canada has and that you do not.

[*English*]

Mrs. Pam Skotnitsky: I guess when we take a look at it, we believe that the crown corporations definitely have a role to play when the needs aren't being met. When it comes to agriculture lending, we want to step up and we want to participate. So we didn't see that as a marketplace where there were needs being unmet. Actually, in trying to address this issue, it would be a number of years ago that we met with Farm Credit Canada because we had pockets of credit unions that were having some success in cooperating with Farm Credit Canada in partnerships. So at that point we determined to encourage credit unions to establish partnerships with Farm Credit Canada. In those instances where there were successful partnerships, the credit union was providing operating credit and Farm Credit Canada was providing the fixed credit. Those were very effective partnerships. Those partnerships have fallen away, where FCC is even providing the operating credit out there.

So they're very aggressive in the marketplace, and it's a difficult marketplace for credit unions to continue to exist in. The fact that they have government backing is really an issue for us. We want to play a thorough role with our agriculture members and we're finding ourselves not being able to do so.

[*Translation*]

Mr. André Bellavance: Mr. Stewart, I assume that you want to comment. The people from Farm Credit Canada have always told me that the organization wants to offer services to complement the banks, the credit unions and other credit institutions. Now we have just heard another story and I would like to know what you think.

[*English*]

Mr. Greg Stewart: Thank you.

Historically, many years ago FCC was a lender of last resort, and in fact, they went under and got a large capital injection from the federal government. At that time the government requested that FCC be a self-sustaining crown corporation and be competitive in the marketplace. That is, I would suggest, exactly what we've done since then. We are not out there trying to be the lowest-cost provider. Contrary to that, I would say a few things of evidence.

We have a custom pricing pool in which we track all competitive business. We have a committee, and two-thirds of it are the banks and the credit unions seeking to have FCC clients switch and the other one-third is us attracting new business. In 70% of those cases, on $660 million in the past year, our interest rates were higher than those of our colleagues around the table here. In 23% of those cases we matched the interest rate to retain our customer, and in only 7% of those cases was our interest rate lower than another offer by the other members around this table.

We are not able to take deposits. When we were requested to borrow from the consolidated revenue fund, from the government, we did not change the transfer pricing rate to our staff. So that means we have continued to behave exactly as we have in the years past in terms of our price setting to staff, so that they did not have an unfair competitive advantage compared to the banks or credit unions. Our clients are telling us they deal with FCC because we understand agriculture, our staff are totally dedicated to agriculture and aren't asked to be involved in many other different small businesses, and we are there through their good times and the bad times. In fact, there was a brief mention of the hog industry earlier. We just received a reward from the Manitoba Pork Council, as a friend of the industry in April of this year, for sticking with them if they're not perceiving that others are.

So we are out there to support our customer base and to help them succeed in growing their operations, and 50,000 customers have a choice of anywhere to do business—and we are not a full-service institution—and they choose to do business with us because of our staff's knowledge and dedication to agriculture, not because we're providing the lowest price in town.

● (1150)

The Chair: Thank you.

We'll now move to Mr. Atamanenko for seven minutes.

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

I'd like to come back to this question, but I have another question that has been flagged by some small businesses in my riding. I'm wondering if you could reply in regard to small agribusinesses that you folks may deal with.

It's about the whole problem or the whole perception that the banks will be applying to get into the Interac business. Also, I believe Interac has made an application to charge higher fees. Apparently, now it's only 5¢ a transaction, but if they're allowed to do this by the Competition Bureau, they will then be allowed to charge percentage fees. Also, the banks, it's my understanding, want to get into the Interac business.

This could have a hugely devastating effect on those small businesses in our small communities, whether they're car dealerships or supermarkets or are selling agricultural instruments. Have you received any feedback on this out there in the communities? Do you have any position on what I've just stated? Would you just like to comment? I'd like to throw that open to anybody who would like to comment.

Maybe, Mr. Wrobel, you could start first.

Mr. Marion Wrobel: Thank you, Mr. Chairman.

The CBA appeared before a joint session of the House finance committee and industry committee on precisely this issue and brought some members with them to discuss our position on that. I think what we said there is reflective of the CBA's and the industry's position.

We came here to talk about agriculture. My members here have experience and expertise in agriculture. This is not something that we feel we can comment on as individuals; we sort of brought the wrong people. If you really want to know what the banking industry's position is, I would suggest that members look to the testimony before that joint session.

Mr. Alex Atamanenko: What about the credit union?

Mrs. Pam Skotnitsky: I would be in the same position. I wouldn't be able to make knowledgeable comments on the situation.

A witness: We'd be pleased to provide you with our previous brief on this.

Mr. Alex Atamanenko: What about Farm Credit Canada?

Mr. Greg Stewart: We don't do any of that business.

Mr. Alex Atamanenko: Just so I understand this correctly—even though this isn't the purpose of this meeting—you don't have a position or an opinion in regard to the possible devastating effect on small businesses in our agriculture communities.

Mrs. Pam Skotnitsky: If I could just paraphrase the question so I understand, I don't think I have the information you're looking for, but it's small agribusinesses that probably use Interac as a payment method, and there's some potential that the pricing could be increasing, so that's going to have an impact on small agribusinesses. That's the essence of it. I can't even comment on what our submission is.

Mr. Alex Atamanenko: Okay. I just wanted to flag that to see if you had any comments.

In regard to the question Ms. Skotnitsky raised, you haven't said much on that, Mr. Wrobel, in regard to Farm Credit versus the banks and the credit unions. Could you comment on that, please?

Mr. Marion Wrobel: Well, I indicated that we have these general principles that we think should guide crown financials' behaviour in the marketplace. For example, there should be a well-defined public policy mandate and they should provide incremental financing. They should provide niche financing. If there are gaps in the financial marketplace, we believe that crowns should be there.

Government has a variety of instruments by which it tries to extend additional credit to the marketplace. It now has the CALA loans. It has the Canada Small Business Financing Act, BDC, and FCC. We support those kinds of initiatives if they are done within well-defined public policy parameters and complement what the private sector is already doing.

If FCC behaves within that framework, we support the activities of FCC. Now, I think in all of their initiatives, in all of their deals, we have members who have some issues with some of the things they are doing. Perhaps some of my members would like to talk to that—Dave Rinneard from BMO—but I think generally, if there's a well-defined framework, we are supportive.

● (1155)

Mr. Alex Atamanenko: Go ahead, please.

Mr. David Rinneard (National Manager, Agriculture, BMO, Canadian Bankers Association): Thank you, Mr. Chair.

With respect to Farm Credit Canada, as of the last few years we certainly view them as a competitor. What's increasingly transpiring is that we, as financial institutions, are becoming more or less the complementary lender as opposed to the one that was initially complemented. It's as though the void that was initially there is no longer the case and is being filled by the federal government as opposed to being filled by the private sector. We'd certainly prefer things to revert to how they were and to have FCC fill the void in instances of the kind Marion alluded to, filling in when we're simply unable to or when there is incremental risk that we no longer can embrace.

Mr. Alex Atamanenko: Would you have a comment on that, Mr. Stewart?

Mr. Greg Stewart: Sure.

Our mandate is to be a self-sustaining crown corporation, so we no longer only take on deals that the banks or credit unions are not interested in. That was done many years ago, and as I mentioned before, we went bankrupt. Our mandate is to be competitive.

I would say that gaps exist in the industry. Our 50,000 clients are perceiving some kind of gap, because they're dealing with us. We are in every market in Canada, for every size of producer, and in every industry. Our largest growth comes in difficult times, and this past year is no exception. Our clients and other clients perceive a backing away of interest in agriculture during tough times. One of the reasons we were created and one of the reasons we are around is to ensure that there is a lender out there willing to support family farms in every marketplace and in every sector, not only during the good times, when everybody would like to be involved in agriculture, but also during the difficult times, and that is what we do.

Mr. Alex Atamanenko: Basically, in regard to financing, you're in the same kind of—

The Chair: Mr. Atamanenko, your time has actually expired. If you have a closing comment, I'll allow it.

Mr. Alex Atamanenko: It's just a quick question. You're in the same kind of situation as Canada Post, in other words: you have to be self-sufficient—

The Chair: If you have a question—

Mr. Greg Stewart: Yes.

Mr. Alex Atamanenko: Thank you.

The Chair: Thank you, Mr. Atamanenko.

Mr. Hoback, you have seven minutes.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair.

Thank you, gentlemen, for coming today. I know you're all very busy. June is a busy time of year for everybody in the agriculture sector, so we appreciate your making the effort to come here.

I've a couple of areas that I want go to. One is wholesale financing and the other is competition, which we're talking about in general. I'll start off with the competition side of it.

I want to say credit unions have been the backbone of Saskatchewan. You guys have done a heck of a job. One thing we really appreciate about credit unions is the ability to go and talk to somebody face to face and have a decision made face to face.

The one concern I have with credit unions right now is the ratios that some of these smaller branches have in these smaller communities. They don't have the mortgages or the credit cards or the other areas of business to keep that credit union on a good financial footing. How are you addressing that issue?

Mrs. Pam Skotnitsky: The system is addressing that issue through the regionalization that you're seeing. Merger and amalgamation activity is happening across Canada through partnerships among credit unions that are coming together in regional centres. The branch network is still being supported, so we still have those face-to-face individuals across the desk, but we have fewer credit unions. I'll use Saskatchewan numbers because I'm most familiar with them. When I started with the credit union system 20 years ago, we had 330 individual credit unions; we're down to 65.

That's how they're getting at that. They get together and diversify their operation to spread out the risk so that they can continue to be in agriculture. That's the solution we have been using.

● (1200)

Mr. Randy Hoback: You would agree, then, that it has been a problem for some of these smaller credit unions. The sheer volume of agriculture is too much for the portfolio, and they just couldn't take some of that business. Is that correct?

Mrs. Pam Skotnitsky: We've been continuing to be out there. The loan demand has been met. We also, through other entities such as Credit Union Central of Canada and Concentra Financial, have been able to syndicate loans so that we are able to off-lay some of that risk, and we continue to do that. Behind the scenes, members might not know that the loan has been syndicated, but if they qualify for credit, we're definitely still able to serve those needs.

Mr. Randy Hoback: Okay. I'll move forward, then, to the wholesale financing.

We have a lot of small manufacturers in western Canada, such as Morris and Easy-On. They are tremendous people and they employ a lot of people. When Textron pulled out of the industry last December, there was a gap left, and it was a gap that nobody in the banking industry in Canada seemed to want to take up.

I'll address my question to Mr. Wrobel. Do you do wholesale financing to agriculture dealers? Have you guys looked at that area?

Mr. Marion Wrobel: I think that's a question better directed towards my members, and I will start with Bob Funk.

Mr. Bob Funk (Vice-President, Agriculture, Scotiabank, Canadian Bankers Association): In the course of the last six years, Mr. Chairman, we've—

Mr. Randy Hoback: You'll have to be quick, we've only got seven minutes, sir.

Mr. Bob Funk: —undertaken a pretty significant initiative to finance the accounts receivable that independent dealers who supply inputs—

Mr. Randy Hoback: Are you doing that through tied-to-serial-numbers financing or are you doing it through general lines of credit?

Mr. Bob Funk: We're doing it through individual credit facilities through to the producer who would require it.

Mr. Randy Hoback: Okay, so that producer is buying a piece of machinery where the breakdown is happening in the markets. When the machinery is built.... I'll use Bourgault as an example, because it's close to my riding. They build air drills, and they make a damn good air drill, but the concern is about after they've built it; they might build it in July and it won't get used until next spring. The dealers need to bring that inventory in to sell it. So they'll speculate a bit. They'll basically base it on knowing their farmers, who's going to buy what, or based on programs at the time. They'll bring that inventory in and Bourgault gets paid usually, historically, from Textron and then basically the interest would be paid by the dealer or by Bourgault, depending on their arrangement.

And then when the machinery is paid out, Textron is paid out, they make the capital and the interest rate, and FCC or somebody else may come in and actually finance it for the farmer, or the credit union in this case too. But what's missing is that link. That link is tied to a serial number. What I think a lot of people don't understand is that the banks come in and say, we'll up your operating line. They go to the dealer and say, we'll up your operating line, we'll take you from $1 million to $2 million, but we're going to up it about two or three points. What the dealer's really asking for is, no, don't up our operating line, just give me the wholesale financing that's tied to that serial number. So when that air drill comes in, that security is that piece's serial number. That's what we need in the industry.

I'm just curious, have any of you guys looked at that or are you going to? I know FCC was talking about that. Where are we at?

Greg, can you comment on that maybe first?

Mr. Greg Stewart: Thank you.

This past year we were named the preferred retail and lease supplier for the Canada West Equipment Dealers Association, which we're very pleased about. We have been working with John Schmeiser and Canada West to try to find a way to help their members, and specifically short-line dealers, get through the challenges with Textron out, for example. We're trying to use some of our existing products or advance a product. We're working with the dealerships one on one. Our capacity right now is tapped, as they well know. We have been trying to do whatever we can to help and we're continuing to look at it over the next year with them to see if we can develop a product that may work.

For us, it's simply capacity and timing. We're doing a major IT overhaul and we're having lots of demand from clients in the industry, so we're busy. They're well aware of it, and we're continuing to work with them to try to find a solution.

Mr. Randy Hoback: Do you have a deadline for when you're going to be approaching something?

Mr. Greg Stewart: We don't have an exact deadline. The talks are ongoing. A lot of it depends on how complex the solution will be. We're working together with Canada West to hopefully find something that's suitable.

Mr. Randy Hoback: Where I get a little confused is that there's already a process for how to go about doing this business, and it's not just Textron; other companies have been doing it. Why are we trying to reinvent the wheel with the balance of loans and stuff like that? Why wouldn't we just look at this process and put the tools in place? Maybe I'm oversimplifying it, but why don't we just get to work and bring some security to that industry? Right now there's a lot of instability because of so many pieces missing.

● (1205)

Mr. Greg Stewart: We don't have any of the systems to monitor. We have never done it. Historically we don't monitor inventories, like for car dealerships or anything like that, as the banks do. We don't have any of that experience. We don't have any of the systems that would track the inventory or the skill set. We would have to develop those systems and attract that skill set.

In the immediate interim, because the situation was just this spring, we said, we can't do it right now; send the dealers to us who are really having difficulty, and we'll see if we can make our existing products work for them to help get them through this year.

Mr. Randy Hoback: So you're just bridging this year, nothing else?

Mr. Greg Stewart: That's correct.

The Chair: Okay, your time has expired, Mr. Hoback.

I have a question before we go on to our second round. I know I did meet with a number of you in the room over an issue a few months back. It was to do with an increase when it came time for different farmers to renew their credit lines, regardless of what prime was. And some of them had negotiated deals where they could be at prime, or 1% over prime, 0.5% over prime, or whatever. But all of a sudden a number of them were asked to increase that by 2%, 3%, or 4%, depending on the circumstances.

Of course, I heard a lot of complaints from them, and it upset me. If I ever sat down and figured out the amount of interest that I've paid to banks and farm credit over the years, it would probably ruin my day, so I just don't bother doing it. There is this love-hate thing out there about banks and government and insurance. They lump all three together, but unfortunately we need them all.

Anyway, from the meeting I had with a number of you, what I found out was—and some of it has been touched on today—that the cost of borrowing money worldwide has increased, and I recognize that. But I have also been told by more than one banker in my riding that they have had instructions from the top to make sure you keep your profit levels at the same price. I do have an issue with that; I know you've heard that from me.

Back during the BSE crisis, I remember there were a couple of banks that I found were not going to play ball in a tough situation with some producers. I brought that up with the Canadian Bankers Association when I met with them, and to their credit, they backed off. Overall. I don't have a lot of complaints on how the banking system handled our agricultural producers through that.

But this time around I'm still seeing what I think are extra interest rates that I certainly don't see as being totally justified. If your interest rates are costing you more to borrow worldwide, then you have to pass that on to the consumer. But it's more than that. As in the BSE time, when there are tough times out there, everybody has to absorb a little bit of it, and frankly, I don't see the banking and lending institutions doing that.

Would anybody like to comment on any of that?

Mr. Wrobel.

Mr. Marion Wrobel: In addition to what has been happening in the financial markets—and we all know there has been quite a bit of turmoil there—in the last two quarters we've now entered into one of the more serious recessions that people can remember. From the banking side, I know that provisions for credit losses have been increased quite substantially. Our losses are going up.

In my opening remarks I said that we lend to individual businesses but that the lending rates are affected by the general environment that is out there. And the recession means that a lot of the loans are substantially riskier today simply because those borrowers are operating in an environment that is tougher for them. I think some of the increases in the rates we charge are reflective of the increased costs to us, but some of it is also reflective of the higher risk that is associated with this recession.

I don't know if I have a member who would like to comment on that.

Mr. Brian Little (National Manager, Agriculture and Agri-business, RBC Royal Bank, Canadian Bankers Association): I'm Brian Little.

As everyone is aware, we do an annual review process with our clients and we evaluate each client on a client-by-client situation. In some of those situations whereby the position has deteriorated, yes, we may need to implement a slight premium for that change year over year. But we don't do that across the board. We only do it in situations that perhaps have weakened.

In fact, looking at our past six to eight months, we continue to grow so we are writing more business as time goes forward and dealing with more clients, which is our goal for the future. We want to continue to maintain our role and continue with our goal for this.

● (1210)

The Chair: My last comment, Mr. Little, is one I may have said to you before. By increasing the interest rate on somebody's borrowing loan or just a straight-out mortgage, by increasing it on a less than stable loan, or whatever, you're actually making the client's position inward. And to me it's either a viable loan or it isn't.

Mr. Eyking, five minutes.

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

I thank the guests for coming here today.

Mr. Easter alluded to some of the numbers that are out there on the financial situation in the industry, whether it's the higher debt load or the shortage of cashflow, especially for the hog and beef producers. I think the other thing you see when that is happening, as was mentioned, is some of the banks getting a little gun shy in making loans. I also think a lot of potential young farmers start looking at this situation and wonder if they want to get into this business.

My question is, can we have a better environment out there, especially for young farmers, to get into agriculture?

I remember a program we had before called NISA. I thought it was a really good program in which banks, farmers, and the provincial and federal governments were involved. It was like a nest egg. Everybody put into it, took out, and there was a good interest rate. I thought that was a good program where you had a bit of partnership.

Also, you see in Europe and other countries now that they have what I think they call a perpetual mortgage. For example, for a young farmer getting in, it's a $1 million or $2 million operation. The way I understand it is that the mortgage continues on with the farm; and where you have the governments, banks, and the young farmer involved, the pressure is not as much. It's not only in the interest of the young farmer, but it's also in the interest of the agriculture community and the governments that that farm is viable.

I'd like to have some comments on the NISA program that we had, but also, looking forward, are there other things out there to encourage a better financial arrangement for young people getting into farming?

Mr. Lyndon Carlson (Senior Vice-President, Marketing, Farm Credit Canada): Mr. Chair, one of the things we do see is a great interest from young people to enter agriculture. In the past year, of the $5.1 billion that we've made in new disbursements, $1.6 billion was to loans with young farmers as participants, so we do know that on the conventional side there is great interest. In fact, in a survey we did late this fall, 67% of Canadian farmers said they would recommend a career in agriculture to their son and daughter—

Hon. Mark Eyking: I don't mean to cut you off, but the numbers don't qualify for that. The average farmer is 50-some years old, or close to 60. There might be interest, but it doesn't resonate to the average farmer.

Mr. Lyndon Carlson: As I said, $1.6 billion of new lending went to young farmers.

The other thing we have is unique products like our transition accelerator loan, which allows young farmers specifically to work with a patient vendor and get into a mortgage product with a modest down payment and still have a sound repayment capacity because of the way we handle the disbursement of the principal amount of the loan.

We also do have products, called a cash flow optimizer loan and an advancer loan, where we don't have a prescribed principal pay-down period. For those well-established operations that do want to have a long-term mortgage and take advantage of the low—

Hon. Mark Eyking: You're missing the point.

The Chair: Mr. Eyking, we're going to have to run here.

Mr. Carlson, perhaps you could wrap up, because we have an urgent vote we have to go to.

Hon. Mark Eyking: How can government help?

Mr. Randy Hoback: On a point of order, Chair, I think we should adjourn right now and get to the vote.

● (1215)

The Chair: Can you finish up briefly, Mr. Carlson?

Mr. Lyndon Carlson: Only to say that we continue to support young farmers, not only through loan products but also through the learning programs, software, and that's from 4-H, to colleges, to lending.

The Chair: Thank you very much.

My apologies to the witnesses, but thank you very much for coming. We have to suspend and cut you off in the last 15 minutes, but we have to go.

We'll return here right after votes to our next round of witnesses.

Thanks again for being here.

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(Pause)

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● (1250)

The Chair: We will resume our meeting. We've already lost some time, and I apologize to our witnesses for that.

We will start with Ms. Robin Dawes from K&C Silviculture Ltd., for 10 minutes or less.

Ms. Robin Dawes (Nursery Manager, K&C Silviculture Ltd.): Mr. Chair, honourable members, thank you very much for the opportunity to make this presentation.

While I'm here as an individual, it's really important that you know I am also here to represent nursery producers in similar circumstances across Canada. I'd like to spend the next 10 minutes having you get to know me by correcting a case of mistaken identity and letting you know how that case of mistaken identity has impacted agricultural producers' competitive ability across Canada.

First and foremost, I am a farmer and I'm here to represent other farming nurseries.

A little historical background is important. In the early 1980s the nursery I now work for won the right to expand its market beyond the production of grafted fruit tree stock for orchardists by providing trees to the Province of B.C. for its reforestation program. In the brief I provided, you'll see an article written in 1981 explaining that under the Forestry Act a number of nurseries were established in 1980, “all by forest companies with one notable exception: World Silviculture Ltd., the province's first fully independent seedling nursery, started last year by Oliver Nurseries (1975) Ltd. in the south Okanagan”. That is a reference to us. While the name of our nursery has changed slightly, the nursery continues to be owned by the same family.

It was a hard-fought battle on the part of the owner, Mr. Ron Powell, to earn the right as an agricultural nursery to gain access to this market. But pursuing this market for seedlings enabled us to become a stable agricultural employer with approximately 60 full-time equivalent employees in the small rural community of Oliver, with a population of approximately 4,000.

There was never any question at the time that pursuing this market meant we had abandoned our status as farmers. In fact, our nursery remains one of only seven agricultural nurseries in all of Canada to have ever earned certification under the Canadian nursery certification program administered by the Canadian Food Inspection Agency.

We have survived in competition with those forest company nurseries mentioned that are able to write off their losses and expenses against their forestry revenues. We have survived in competition with the privatization of provincial nurseries that, as publicly traded income trusts, are able to minimize taxation and raise capital on the stock market. We've survived the ups and downs of business and have successfully expanded our business into the United States.

The anti-competitive actions being implemented under the Minister of Agriculture and Agri-Food's stabilization programs discriminate against us, not for the product we grow but because of we sell to. This has negated our long-term success as independent agricultural primary producers operating in this market. We may not survive this.

Over the years some independent nurseries made modest use of NISA, but their eligibility was never questioned. In 2002 and 2003, a series of events put some financial pressure on these agricultural nurseries. Some were awarded payments under CAIS, and some were denied payments under CAIS. But in 2006 we were asked to repay those awards because we were not a farming activity as defined by the Income Tax Act.

We were very quickly able to correct this misconception, and we illustrated that we were distinct from and independent of the forest company nurseries. When we did that, the B.C. provincial Ministry of Agriculture quickly apologized to us and acknowledged that they had simply forgotten the existence of the fully independent agricultural nurseries.

● (1255)

The province changed its position and supported our inclusion in CAIS. But the official answer for our exclusion changed. Recognizing that we had been misidentified as an offshoot of a forest entity, but unwilling to right the wrong created by that misidentification, they now told us that we were excluded because we had pursued a market that was non-agricultural in nature simply because the primary agricultural product that we produced was being sold to someone else who used or might use the product in reforestation. I have provided you a reference from the Minister of Agriculturestating exactly that.

We were also told that if we sold the same product, grown side by side in a greenhouse, to anyone else, we would be eligible. And indeed our competitors, who do sell to a different market, are eligible.

Our professional organization, the Canadian Nursery Landscape Association, and other forum groups who have also provided letters of support in that reference quickly saw the implications for themselves should this precedent-setting action be enacted. Imagine the surprise of oilseed producers in Saskatchewan, and agricultural biomass suppliers in Ontario and other provinces when they discovered that though they had been encouraged to pursue sales to bioenergy markets, a precedent had been set which put at risk their eligibility to participate in farm income stabilization programs, because non-traditional market choices have become fair game in applying farm income stabilization eligibility.

All of the supporting organizations recognize that this precedent contravenes the Farm Income Protection Act, paragraphs 4(2)(a) and 4(2)(b), and is inconsistent with Agriculture Canada policy and principles that establish that agricultural entities shall not be excluded from entitlement under the act based on market choices, but are to be encouraged under the program to diversify market. I have provided references from those pieces of legislation as well.

A reasonable person can see that excluding primary agricultural producers solely and exclusively on the basis of their market is inconsistent, contravenes the principles of the Farm Income Protection Act, and is uncompetitive in its market prejudice.

In addition, as part of the implementation agreements, the Government of Canada and the provinces agreed—and this is stated clearly in the implementation agreements—that no provisions in the agreement are to be put into effect that are inconsistent with federal or provincial legislation unless and until that legislation is amended. There has been no such amendment.

To give you some example of the immediate impact that this legislative breach will have, let me give you the following examples. Two years ago seedling production in B.C. alone was 270 million seedlings. This year it is 185 million seedlings. Next year we expect it to be 139 million seedlings. And while we do expect the business to recover in the next couple of years, the picture is pretty much the same across Canada. Should these demands for repayment and lack of entitlement to income stabilization go ahead at the same time as our businesses are in the most stressful economic situations that we have ever faced, nurseries will fail—nurseries have failed—jobs will be lost, and small agricultural communities will suffer.

And I want to make this perfectly clear: we do not have access to any forest community diversification funds. We have no forestry revenues against which we can write off our losses. We are not a publicly traded income trust. We are farmers, and we file our taxes as farms. We sell our produce at the farm gate. Our businesses reside on agricultural reserve land, not on public or private forest licensee land. No forest entity has any ownership whatsoever in our businesses.

I am appealing to you to help us correct this injustice resulting from this case of mistaken identity and to recognize our legitimate entitlement as farmers. I am appealing to your reason and asking that you move, as a committee, to uphold federal legislative principles and policies and support our access to farm income stabilization programs based on our legitimacy as independent primary producers.

● (1300)

With the greatest of urgency—and I have to stress this—I am asking you to move to have all requests for repayment of these funds stopped immediately. I ask you to imagine how in the world any program that professes to stick up for the agricultural community and farmers can support this unfair, anti-competitive breach of federal legislation, principles, and policy and allow it to carry on as an instrument of our demise.

In my humble opinion as a farmer, this is a matter of trust and honour.

Thank you.

The Chair: Thank you very much, Ms. Dawes.

We'll now go to the Farmers of North America, and Mr. James Mann, for 10 minutes or less.

Mr. James Mann (President and Chief Executive Officer, Farmers of North America Inc.): Thank you, honourable Chairman.

I look forward to the opportunity to address this group on matters of utmost importance to most farmers across Canada. As we've seen, particularly in the last year, the competitive position of Canadian farmers relative to other farmers around the globe with whom they compete when they're selling their products has diminished considerably.

Before I get into some of the details of these issues, I want you to know that I have two documents here that I'd like to file with the clerk. I hope you'll take the time to read them. They're more extensive than the little bit of time I have to spend with you today.

Further to that, I want to talk a bit about the fertilizer situation, in which I know all of you have a keen interest in what's been happening, and why we see the lack of competitiveness occurring there. But I want to spend most of my time talking about generic registration in the crop protection area, which is another huge expense to grain farmers across Canada and something we know a little bit about and have been active in the market on for some time.

Some of you may not know a lot about our organization, but just to give you a bit of a highlight, we negotiate for farmers across Canada. We're a national organization that takes memberships, and with that membership we work on behalf of farmers to level the playing field in the marketplace. Generally, the farm marketplace is characterized by many large corporations who sell their goods and services and buy farmers' good and services. Of course, we have tens of thousands of farmers and only a handful of these corporations. Of course, a little bit of economic theory tells you that this marketplace is unbalanced. What we try to do is to balance the marketplace.

It is interesting that where government has had a role, including some of the agencies, it has helped contribute to that imbalance in the marketplace. When I start talking about crop protection and generic registration, you'll have what I think will be a historic opportunity to have some input in influencing where we go in that whole competitive area.

Needless to say, we embody the word “competitiveness”. That's our job. It's our mission to make the market more competitive and to make Canadian farmers more competitive relative to their neighbours to the south and other places around the world.

The three agencies the government has—PMRA, Farm Credit Canada, and of course the Competition Bureau—are there and do have an influence on contributing to making this market a fairer market. Part of the reason we exist today is that we don't feel they've really done their job as best they could have done.

To get into the fertilizer piece now, I recall that 20 years ago when Veridian was wanting to merge with Cominco and would have had about 60% of the market, the Competition Bureau felt there would be new players coming into the marketplace and that all would be fine. It was 20 years ago that I was asked that question by the Competition Bureau, and I told them that it was not the way the marketplace worked and that, indeed, we would have pricing to what the market would bear. And most of you will know that's what happens today: it's the NOLA, plus freight, plus a risk premium. And as you get closer to seeding, when of course you can't utilize the logistics to get it to market, quite often you'll see even higher prices.

When we are export based and have excess capacity in western Canada, why is it that our costs are so much higher than those of a U. S. farmer or other farmers around the world? We're the farthest placed from tidewater, so they have a natural competitive advantage to price to what the market will bear. We should have some of the lowest-cost fertilizers. But we put out tenders, and they don't respond to the tenders. We in fact have to bring in product from Russia and the Middle East, when we have product we can get access to here. We can bring it across by boat, by rail, by truck, and still be cost-competitive and create the market that growers need in order to compete.

So 20 years ago we were asked the question. Veridian, of course, did merge with Cominco and became Agrium. Just recently we've seen a request—and we've been interviewed on this one as well—by Agrium and CF Industries. We say, “It's too late, boys. The cat's out of the door. It doesn't matter now.” The market still is priced to what the market will bear, and it's based on NOLA plus freight. And there's not a whole lot we can do about that, unless you want the government to get involved in building and producing fertilizer on behalf of farmers.

But there are considerable margins in fertilizer. We're seeing the cost of production relative to the market price being almost double what it should be if you were to have a true competitive industry and be pricing closer to the cost of production.

● (1305)

There's not, in my mind, a whole lot you can do on fertilizer. We're doing what we can. We've brought four boatloads of product into Montreal. We've brought product into Churchill. We've probably saved \$100 to \$150 a tonne, in a lot of instances, on nitrogen fertilizers. That's the best we can do. I'm not sure what the answers are, but at this point in time, really, the horse is out of the barn.

On generic products, however, we do have an opportunity to make a difference in terms of crop protection. That, of course, is the next big expense that farmers have in their operations today. We're in a unique situation. We have regulations being drafted that will determine how the generic registration process goes on in Canada. I know the PMRA is looking for and would like to see something coming from this committee, because they're being lobbied pretty hard by other interests in the sector—not the farmer, although we're trying to do some of that.

Basically, when a product comes off patent, a competitor should be allowed to come into the marketplace immediately to try to create that competition. In August last year, a draft document that came out from the PMRA indicated that once a product came off market and the generic had gone through the health and environment science issues with the PMRA, they could go into the market immediately. That, by the way, is what happens in the U.S. The generic can make an offer to pay and he's on the market the next day. The offer to pay with regard to data compensation still is compensable, because during the lifetime of a registration, there's data that may be required, and of course those that bring that data to bear should be compensated for it.

Here, though, the PMRA is suggesting that maybe there should be 120 days to allow the innovator to negotiate with the generic and then, if that doesn't work out, another 120 days to go through binding arbitration. By the way, it's time-limited arbitration, which is a good policy that could come into regulation.

The problem is that crop protection products are seasonal, and 120 days can mean a full season. Look at graminicides; if you know Horizon or Puma, those products are coming off patent. The bulk of the chemistries out there today are coming off patent in short order, by the way, or they are off patent now. And 120 days can mean a full year, which literally is tens of millions of dollars.

There is an opportunity for this committee to put some pressure on the PMRA to talk about how and why generics should be able to come into the marketplace right away. There have been suggestions that there may be some intermediate ground. We're suggesting some of those, but we need some help. We need your help right away. They're hoping to bring this into regulation fairly shortly. I'd really press upon you to become familiar with the issues and see what can be done; talk to your friends in Health Canada and at the PMRA.

In closing, Mr. Chairman, I'd like to mention a study that was done by the Ridgetown Campus at the University of Guelph. It has just recently come out. It's part of the documents that I'm going to be presenting to the clerk. It compares Ontario with the U.S., and you will see massive differences in the cost of basic inputs—fertilizer, chemicals, seed, fuel. Why is that? It shouldn't be. Take a look at it, and hopefully it will inspire you to see what needs to be done in that area.

The whole area of the Competition Bureau is where I want to finish. What really bothers me is that when we take a look at what really propels the economy of Canada, it's the small and medium-sized businesses. They're the heartbeat. They're the engine that makes this economy grow.

The Competition Bureau in its rulings, for as long as I can remember, has favoured the large company over the small business. There are logical reasons for doing that. We want to see our big businesses here be able to compete with other big businesses around the world. Unfortunately, when they do that, and they create it in such a way that they have such a large control of the marketplace that they can price to what the market will bear, it affects the competitiveness of the small and medium businesses, including farmers, and it makes us less competitive around the world. This needs to be put in check.

● (1310)

Our Competition Bureau needs to have the same kind of teeth the U.S. has. Let's get on with making this economy competitive and making us much better in the world. We have some of the best farmers in the world, and they need the tools, and you can help them get there.

Thank you, Mr. Chairman.

The Chair: Mr. Godin from Pampev Incorporated.

[*Translation*]

Mr. Luc Godin (Vice-President, Pampev Inc.): Thank you, Mr. Chair.

Ladies and gentlemen, thank you for the invitation to this meeting of the committee.

First of all, I would like to quickly introduce Pampev. We are an agricultural company from Quebec City, founded in 1980. Our main product is forest seedlings.

I would like to use these few minutes to bring to your attention a situation that adversely affects forest seedling producers, who have been excluded from the CAIS program since 2003, and, most recently, from the AgriInvest and AgriStability programs. This leads to dysfunctional competition between producers, their products and other similar products.

In 2004-2005, after applying for compensation under CAIS, after some nurseries had gone through all the administrative steps, after others had received cheques, some nurseries were excluded from the program, had their applications turned down, and received demands for cheques to be returned and money to be reimbursed. We believe that others received the amounts they had asked for and have not been bothered since, and that they have received money under subsequent programs until very recently in 2009.

The first indication of the exclusion from the programs comes in paragraph 4.3.4 of the program guidelines, entitled “Wood Sales and Tree Production“. This contains the words: “for use in reforestation“.

Then, in Canada Revenue Agency documents—the *Farming Income and the AgriStability and AgriInvest Programs Guide*, number RC4060, the *Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide - Joint Forms and Guide*, number RC4408, and the *Farming Income* form, number T4003—we see the same text, word for word, as in the program guidelines. One paragraph mentions woodlots. A nursery is not a woodlot. Seedlings are generally grown in greenhouses, tended, fertilized, irrigated, and monitored for growth, health and quality. These are the same production infrastructures that are found, for example, in market gardens, or ornamental and horticultural operations.

Seedlings can be sold for reforestation, afforestation, soil rehabilitation, the prevention of erosion, windbreaks, education, ornamentation and even promotional gifts. Often the nursery operator does not know what his products are going to be used for. The client can do whatever he wants with them.

The same documents jointly issued by the Canadian Revenue Agency and the NISA program in 2001 and 2002 make no mention of any exclusion. It is only in 2007, in the Canada Revenue Agency documents *Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide - Joint Forms and Guide*, that the words “trees and seedlings for use in reforestation“ occur as one of the categories that are ineligible for the program. It is interesting because the word “seedling“ is an addition. A seedling is defined as a young tree, grown from seed, having a diameter at breast height equal to or less than 1 cm and a maximum height of 1.5 m. The word “tree“ is generally used for something bigger. Before, only the word “tree“ was used. Seedlings are usually described as growing from seeds, but products used in reforestation can also come from cuttings, root cuttings, tips of branches or even tissue culture. This is another injustice that the use of the word “seedling“ causes. An analogy might be with the exclusion of aquaculture products. Salmon was not excluded in order to keep trout; young fish were not excluded while mature fish were kept; there was no difference between fish for processing, whether for smoking, for fish paste or even for omega-3 capsules, and fish for stocking bodies of water, lakes and rivers. There was no difference.

It goes further. On the first page of the guidelines, we read that where discrepancies exist between the guidelines and the text of Part II of the federal-provincial-territorial agreement on a policy on agriculture, food or agri-industrial product—on implementation—the text in the federal-provincial-territorial agreement shall be deemed to be correct. The text of the agreement mentions no exclusions.

● (1315)

Seedling producers meet the requirements for participant eligibility and for the definition of farming income in all respects.

In a CAIS program handbook that came into effect on January 1, 2003 and in two subsequent handbooks, the only exclusion is in point 10.8 that reads: “Income and expenses related to the sale of wood are not eligible“ and “Income from sales of wood or agricultural activities conducted outside Canada are not eligible...“

In the various guidelines, there is no consistency in the way in which the text is interpreted.

In all the research that we did to understand when and how we were excluded, we found no evidence to support the legality of the exclusion. Under which section of the federal-provincial-territorial framework agreement can an exclusion of this kind be made? Do the agreement or the guidelines reflect the Farm Income Protection Act, 1991, as to the agricultural products covered and the eligibility criteria? Paragraph 5(1)(b) of that act, dealing with the content of agreements, states that an agreement must list the products and the criteria for determining their eligibility. Neither in the agreement nor in the guidelines is any restriction placed on seedlings.

What has happened since the meeting of this committee on November 7, 2006, in which Danny Foster confirmed that, in the specific case of forest seedling producers, the condition for eligibility to the program was that it would be farming income as defined by the Canada Revenue Agency? What has happened? A new element appeared in the text of the handbook that came into effect on January 1, 2007, for the 2006 year. Let me read you point 8.10: “Tree production for the purposes of reforestation is not allowable under the Program.“ But point 8.9, which was there previously, remains: “Income and expenses related to wood sales are considered non-allowable.“ It is interesting to note that a distinction is now made between the two products, a distinction that was not made beforehand.

In the *Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide - Joint Forms and Guide*, we can see on page 19, in the paragraph on non-allowable items, “Trees and seedlings for reforestation“.

Mr. Chair, our only hope is that our presence before this committee will not further block our initiatives, but, rather, will resolve a situation where the competitiveness and the survival of some agricultural companies are threatened.

Mr. Chair, ladies and gentlemen, thank you for the attention that you have given to my remarks.

● (1320)

[*English*]

The Chair: Thanks very much for honouring the time, Mr. Godin.

We'll now turn it over to questions.

Mr. Valeriote, for seven minutes.

Mr. Francis Valeriote (Guelph, Lib.): Thank you, Ms. Dawes and Mr. Godin, for coming out today.

This question is for Ms. Dawes and Mr. Godin. I read with interest a letter to Minister Ritz from the National Farmers Union, dated October 25, 2007. It speaks to the issue of silviculture and the exclusion of silviculture. In one of the paragraphs, a final version of the exclusion reads: “Income and expenses generated in the production or harvesting of trees for use...in reforestation are considered non-allowable under the Program”.

To me, it seems they're specifically targeting silviculture. Have you had discussions with the minister to see what is the reason for the exclusion? What is it based upon? As I understand it, the ultimate market is what it's based upon, but why are they excluding silviculture? Did they explain that?

Ms. Robin Dawes: If you don't mind, Mr. Godin, I'll answer first.

That's why I tried to spend so much time on this “misidentification”, and I really actually believe that. We haven't directly had an opportunity to speak to the Minister of Agriculture. We certainly have had a lot of opportunities to speak to political people in our own province.

In the case of British Columbia, I had the Deputy Minister of Agriculture admit it to me, face to face, and apologize to me. He said, “We didn't know you existed.” He said they thought all of these nurseries producing seedlings for reforestation were offshoots of forest companies and had the ability to write off their losses against revenues generated in reforestation, and that makes sense—

Mr. Francis Valeriote: But you haven't been given a specific reason why you're excluded?

Ms. Robin Dawes: First we were given the explicit reason that we weren't eligible for farm tax. We corrected that. The second explicit reason is articulated in the letter from Mr. Strahl that says the eligibility of tree production under the program is directly related to end use of the product. And that's the only reason.

So that's the only basis on which we can argue this, and in our opinion, end use is not a legitimate reason for exclusion under the legislation.

Mr. Francis Valeriote: Mr. Godin, were you given any specific reason?

[*Translation*]

Mr. Luc Godin: We have never been given a specific reason. I can only think that the nature of our situation is misunderstood inside the program administration.

For example, in Quebec, the program is administered by La Financière agricole du Québec. Even at La Financière, no one can tell us when and how we were excluded.

[*English*]

Mr. Francis Valeriote: All right.

Have either of you done any calculations on what compensation you would have been entitled to had you not been excluded? Would you have been making claims under the agriStability program?

[*Translation*]

Mr. Luc Godin: Our company has not claimed benefits under the program since it has existed because we have been in a good situation, but other Quebec nurseries have. They have in Alberta too. It is difficult to provide an amount, because people have not done their calculations yet.

[*English*]

Mr. Francis Valeriote: Ms. Dawes, is that your experience?

Ms. Robin Dawes: Yes, and my nursery was one of the nurseries that were awarded claims and were asked to repay. I grew seedlings in Ontario for a number of years and I do know a number of nurseries in Ontario would have been eligible and have not received moneys. I know of other nurseries who have and have not been asked to repay.

● (1325)

Mr. Francis Valeriote: I'd like to ask Mr. Mann a question about country-of-origin labelling. I know that wasn't part of your discussion this morning.

Our committee had the opportunity to go to the United States last week and meet with the chair of the House agriculture committee. Some of us, in direct conversation with him, asked him about COOL. We were left with the impression from our farmers here that beef farmers were getting on average $100 less a head because of the application of COOL rules in the United States.

He led us to believe it's not the problem we are claiming it to be. Though the segregation issue may be applicable in areas where meat is destined for hospitals or military and has to be segregated, the fact is that you just separate the herds—Canadian, American—and you don't have to clean the equipment; you put the American through and then you put the Canadian through. Perhaps Mr. Shipley can confirm—maybe even the chair—that it is a tactic being used by American processors claiming that COOL should be pressing the price of our head downward.

Can you comment on that?

Mr. James Mann: If that were true, it would speak to how much collusion, if you wish, or how much lack of competitiveness there is in the U.S. market. Certainly if one were able to get an advantage over the other to the last dollar being saved in the acquisition of their stock to go to their abattoir, you'd think it would naturally happen that the price would rise to that point.

I'm not an expert on this topic, but I have been asked to speak to a number of U.S. farm organizations, including R-CALF, about COOL and the processes they use to discriminate against the Canadian marketplace to keep their costs down and of course capture a higher margin for U.S. beef. I believe it's a tactic. How widespread and how they are able to use it I'm not sure. But I do know that if you talk to a killing plant in the U.S. they will claim greater costs. It's not as simple as separating the two herds, because the processes they have are not readily conducive to that type of system.

My comment to them is to be careful what you wish for, because if the Canadian product is labelled “Made in Canada”.... We have some of the best beef and the best pork in the world, and when consumers start tasting what barley-fed beef is compared to corn-fed beef, there may be a reverse situation occurring. I say that somewhat tongue-in-cheek because the market is always right, and right now it's that much of a differential and it should not be. I'm not sure what the answers are, but definitely more work needs to be done with politicians in the U.S. to get that one fixed.

The Chair: Thank you very much.

Before I go to Mr. Bellavance, coming from a part of the country that has a lot of corn-fed beef, I won't bother commenting. We have some friendly kidding each other about it with my western colleagues.

Mr. Bellavance, seven minutes.

[*Translation*]

Mr. André Bellavance: Thank you very much for your testimony.

Mr. Godin, I have met you before because you are in my constituency. I am honoured that you are here with us today. Your testimony reflects the discussions that you and I have had together.

Mr. Valeriote has asked the minister why your industry was excluded. I can tell him that I have written to the minister to ask for the precise reason for the exclusion, but I have not had an answer yet. As soon as I receive it, I will share it with committee members.

Since we have been discussing this situation, it seems to me that you have been in administrative limbo, in a sense.

Before CAIS became AgriInvest, and such, some people in your industry already received benefits under the program. Some had to repay money that they had received, others did not. It was not very clear. Then changes were made to the guidelines that meant that you could all be stacked into one corner.

For the benefit of the committee, and for those who read our transcripts—I am sure that they do at Agriculture and Agri-Food Canada—can you tell me if someone who grows Christmas trees, for example, and sells them during the holidays, is an agricultural producer who is eligible for CAIS?

● (1330)

Mr. Luc Godin: You are right, I think. In Revenue Canada documents, Christmas tree producers are defined as agricultural producers, meaning that they can declare that income as farming income.

Mr. André Bellavance: Mr. Godin, if you produce Christmas tree seedlings, are you excluded?

Mr. Luc Godin: If I grow seedlings to sell to Christmas tree producers, I would not be excluded.

Mr. André Bellavance: How does the government know?

Mr. Luc Godin: We have no idea.

Mr. André Bellavance: They do not tell you?

Mr. Luc Godin: We declare our income by using product codes. We put "nursery" and "ornamental".

As you said, there is an administrative limbo, and we really do not know where we fit. When we have asked, we have never been told when and why we were excluded, nor which piece of paper allows it.

Mr. André Bellavance: Let me continue with the same example. When the Christmas tree seedlings go to a producer, you are telling me that you are not excluded. But, still, you produce large quantities of them. You do not know exactly where your product ends up.

Mr. Luc Godin: No. The same seedlings, the same species, can be used for soil rehabilitation. In Alberta, for example, a lot of seedlings are used to rehabilitate the tar sands. The same client can buy seedlings and use them for reforestation or just for planting on waste land. That is reforestation too, it is making a new forest. They can also be used to protect the soil or for energy.

When the seedlings are used for energy plantations, will they be excluded? Is that reforestation? Nothing is clear.

Mr. André Bellavance: This committee has considered you agricultural producers. You said that, in 2006, Danny Foster, of Agriculture and Agri-Food Canada appeared before the Standing Committee on Agriculture and Agri-Food. Mr. Atamanenko spoke to him specifically about the nursery operators' situation. Mr. Foster's answer was that it depended on whether Revenue Canada and Revenu Québec felt that producers were conducting an agricultural activity, which you do. You are also established in western Canada. I imagine that the province where you became established considers you...

Mr. Luc Godin: We have been agricultural producers since 1980.

Mr. André Bellavance: We have to understand that all producers do not necessarily qualify for all programs. Mr. Foster said that, to qualify, you had to be considered an agricultural producer by Revenue Canada, which you are.

So how come something has been added that excludes you?

Mr. Luc Godin: We operate in good faith. We explain, we provide details, we make our case. People take our arguments and sort of use them against us. This was only added afterwards and spelled out in that way in the documents of Revenue Canada, the AgriInvest and AgriStability programs, even CAIS. They did not make the same claim before, but they interpreted it that way and then they added it, as if to slam a door.

Mr. André Bellavance: Ms. Dawes, if I understood correctly, earlier, you read a passage from a letter from Mr. Stahl, the former Minister of Agriculture.

[*English*]

Ms. Robin Dawes: Yes, the reference I read was from a letter that Mr. Strahl wrote to the B.C. Landscape Nurseries Association when they queried him on this. But you know, similar to Luc's experience, our applications were filed before we even had access to guidelines that even mentioned seedlings. They were processed before those guidelines were available.

Going back to the question of whether we were ever given a reason, I have to say the reason we were given was that the committee voted us out. To me, that's a rather circular argument, because there was a vote apparently, but no one will provide us with the minutes to prove that. They say they voted us out.

My position is that clearly under legislation and under the implementation agreements, they had no right to vote us out, because they had agreed not to make any of those changes without changes to the legislation first, which clearly do not allow them to exclude agricultural producers on the basis of who they market to. So I still don't have a legitimate reason for why we have been excluded.

● (1335)

The Chair: Thank you, Mr. Bellavance.

We'll go to Mr. Atamanenko for seven minutes.

Mr. Alex Atamanenko: Thanks to all of you for being here.

By the way, Robin, thanks for taking the time to show me your nursery sometime last year.

I would like to have a clarification.

[*Translation*]

Do not hesitate to comment, Mr. Godin.

[*English*]

If I have a nursery and this year I'm growing seedlings and they're sold to a company for reforestation, I'm not eligible for any programs.

Ms. Robin Dawes: That's correct.

Mr. Alex Atamanenko: What happens if next year I decide to sell the seedlings for ornamental use or for Christmas trees? Does the same form for funding apply ?

Ms. Robin Dawes: Apparently that's the case, but I have to add that it's even more bizarre than that. This truly has happened.

We've sold trees to forest companies who were forest companies when we sold the trees to them, and I'm sure you've read this in British Columbia. Most forest companies have been allowed to sell those forest-licensed lands now for real estate. So the trees that were planted on them, even though ostensibly we thought they were going for reforestation, they were going to land beautification and landscaping for a real estate project. But we don't get to retroactively go back and say "Hey, wait a second, the end-user changed his purpose for those trees." We're not in control of what the end-user does with the trees once they've left our farm, so it's even more than that.

But yes, in answer to your question.

Mr. Alex Atamanenko: Do you normally sell to a distributor who then sells to the forest company or to Christmas tree people? Do you have to then disclose who the end-user is right away?

Ms. Robin Dawes: Some of our contracts are directly with forest companies, for example, TimberWest, which has now become a real estate company. Some of our producers sell through food cooperatives. In the case of Alberta, they sell through a cooperative, and some of our product is sold to brokers. We sell to brokers in both Alberta and in the United States, and we have no idea where those seedlings are sold afterwards.

Mr. Alex Atamanenko: I noticed in your brief you have a request for repayment of funds to be stopped immediately. What impact is the non-inclusion having on nurseries, and what would be the impact of having to repay? That's my first question. The other one is, in what way are agricultural nurseries different from other producers of seedlings used in reforestation? I think both of you have explained that. Maybe you could each clarify those two questions for me.

Ms. Robin Dawes: Briefly, there's no difference between us and other landscape nurseries. We produce in exactly the same way. In fact, as Luc has mentioned, we sell trees out of the same greenhouse, off the same benches. For ornamentals, we're producing conifers. They are Christmas trees.

The impact? I have a nursery in British Columbia whose deadline is tomorrow, and they can't repay those funds, so the impacts for them are rather immediate. This excludes us from all kinds of other.... We're required under law in British Columbia, in order to move our trees and sell them to the United States, to be Phytopthora ramorum certified. That's a disease that is rampant in the United States. If we wish to sell to that market, we need that certification. But under this program, because we're not eligible for farm income stabilization, we're one of the only nurseries who wouldn't be eligible for funding should we lose product as beef farmers do to BSE.

We have the same rules: if we have P. ramorum in our greenhouse, it's isolated and the crop is destroyed. Other landscape nurseries get compensation for that. We don't, because they're destined for a different market.

The other thing I have to say, having had the bankers here, is that I actually had a case representative say I should consider myself lucky, should consider this payment as an interest-free loan, and should consider myself lucky to have had interest-free access to those funds. Unfortunately, when I add that debt to my debt load at the bank, the bank doesn't quite see it that way, and I suddenly come out of covenants. It doesn't matter how benign the terms of repayment are: I'm not meeting my bank covenants. There are many nurseries in the same situation. We'll be gone.

● (1340)

Mr. Alex Atamanenko: Mr. Godin?

[*Translation*]

Mr. Luc Godin: You had bankers here this morning.

If a company requesting a loan has insurance coverage or some kind of protection, it is an asset both for the company and the creditor. At the moment, our companies have nothing of that kind. We did before, but it has been withdrawn for one reason or another.

It is much easier for us to get loans if we can prove that we have something concrete to fall back on if there is a problem.

[*English*]

Mr. Alex Atamanenko: I have just one last question. I think I have half a minute or so.

The Chair: You have one minute.

Mr. Alex Atamanenko: If you sell your seedlings to a company that replants them, say, on tar sands reclamation lands or for beautification, then you're eligible for the program, but if you sell to a company that replants them so that the trees eventually will be cut down, you're not eligible. That's the difference; is that right?

[*Translation*]

Mr. Luc Godin: In theory, that is what makes the difference. In Alberta, for example, six nurseries sell their products to a cooperative, which in turn distributes the trees. The people in the nurseries do not know if the trees are going to be used ornamentally, for reforestation, or for soil rehabilitation. They do not know. It is the same in Quebec. Most of the trees are probably going to be sold to the government, but the government can provide them to the ministère des Transports or to schools just as easily. In many cases, we have no way of tracking where the products go.

[*English*]

The Chair: Thank you very much.

Mr. Shipley is next, for seven minutes.

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

Thank you, witnesses, for being here today. I have enjoyed the discussion on an area I don't know much about: reforestation.

I would like to go to Mr. Mann with some questions. I'm trying to understand Farmers of North America Inc. I think you've set up a distribution centre in my riding—in Wallaceburg, I believe—this past year. I'm trying to understand a little bit about it. Your organization didn't really touch on it, but what is it? How do you become a member? Is there a fee? Who makes it up? Is it like a co-op? Is there a board of a directors? Who owns it? Where do those fees go?

I'm just trying to understand. It is a large organization, and I understand it to be a buyer for farmers.

Mr. James Mann: Yes. We're quite a bit more complex than just a buyer for farmers. There are a lot of techniques that we use to bring competition into the marketplace. The group of companies, other than just Farmers of North America, now goes well beyond just negotiating on behalf of farmers.

What happened when we entered the marketplace was that we couldn't get the companies to compete, so we had to find and bring in new entities and form joint ventures with companies to access products for our members. We sent out tenders; in fact, it was front-page news in *The Western Producer*. Back in 2002 we put out a tender for a million litres of product to distributors, retailers, and manufacturers and didn't get one response back. It went back to the Competition Bureau and it just died there. They said suppliers didn't have to supply if they didn't want to.

So Farmers of North America has had to become quite creative. Basically the organization is a for-profit corporation that is owned by my brother and me. We sell memberships—they're $600 apiece—to farmers across Canada. They have to buy that membership every year, and that's really how they vote. If we're doing a great job for them, they will continue with their membership.

We have an advisory board of members from right across Canada who provide input to what the organization does and provide ideas and things we can do to move the organization forward.

We represent approximately 8,000 farmers across Canada, about 15 million acres of production. We go beyond just farm inputs. Our members have asked us to get into marketing of grains. As a matter of fact, we were at a food ingredients conference in L.A. over the weekend and Monday, and I flew through the night so that I could be here today. We are doing such things as trying to find ways of putting lentils and chickpeas and peas into other products that can be used in the ingredient market, and moving our members up the chain. So we have a foods division.

We work in the fertilizer sector. And in crop protection, we have a division that is working on getting registrations so that we can again bring generics into Canada to compete with products that exist here. We have manoeuvred through the difficulties of working with the PMRA to get those registrations.

And we serve grain growers and livestock producers—

● (1345)

Mr. Bev Shipley: Just so that I understand that part, am I to understand that you're trying to get the permit or licence to bring products in from among the patented ones, to be licensed as generics?

Mr. James Mann: There used to be two systems whereby you could bring.... One was to get a full registration for a product in Canada, passing the science review, ensuring that a product was off patent, and coming in and competing in the marketplace on a regular basis.

When the registration process was put in place back in the eighties —it was called PSR-2—there was a clause put in such that if this did not create price discipline and there were excessive barriers in the Canadian marketplace, farmers had the right to own-use import when there were lower-cost products elsewhere. We did that successfully with Glyphosate product, and we had several others for which we had gone through the process.

There was a significant lobby to have that suspended and replaced with a group program, which is where it sits right now. Unfortunately, the group program is totally ineffective. It's fundamentally flawed and is not providing any value in price discipline whatsoever.

Under the other method, we are actively working with other generics from around the world to get their products registered in Canada so that we can create competition. As I said earlier, the bulk of the chemistries that are used on the farm today are off patent, and with Canada only being 3% of the global market, there is a reluctance, with all the hoops that have to be jumped through specifically in Canada, to put those generics in here.

We're different, of course, because our membership base is saying that they want us to bring access to those products here in Canada, and that's what we do.

Mr. Bev Shipley: You mentioned that you have 8,000 farmers, and I didn't get the number of acres. I think the farms, regardless of the size, pay a flat rate per year.

We just had a number of financial institutions talk to us this morning. When you are doing the negotiation for farmers—and actually, in some ways I think you're in competition with co-ops, but likely in other ways you're beyond what co-ops do—do you provide financing for your members to purchase inputs and products?

Mr. James Mann: Actually, I'm quite glad you brought that question up, because we do have a financing source through John Deere with their AgLine program, which our members can get access to. It's somewhat higher than market, but it is a useful tool; it's not that much higher than market. It's a fairly good source of capital. Unfortunately, Farm Credit Corporation, which provides a lot of financing tools to some of the larger input suppliers, has sort of a tied selling arrangement whereby that financing can be used only for their product. In fact, it can reduce competition.

When we originally looked at trying to get that type of financing through Farm Credit Corporation for our members, Farm Credit Corporation saw us as being in competition with some of their existing partners, which really flies in the face of creating additional competition and giving farmers more choice in the marketplace. We'd like to revisit that with Farm Credit and see that farmers have access to those tools to buy wherever they would like to buy at the lowest cost and create that true competition.

Financing is an issue with growers. Even with today's prices, it's a major issue. In fact, the last time I was here, we talked a bit about buying fertilizer maybe a year and a half in advance of the need, when you're already deep into your existing year's operating line. You may want to buy right now for 2010, because normally in one year out of ten that's not the case, like last year. You can buy in advance, but you need additional financing tools to be able to do that.

● (1350)

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

Mr. Bev Shipley: Thank you.

The Chair: Mr. Mann, you mentioned the Competition Bureau earlier, and of course they were one of our witnesses here. Do you or the other witnesses have any suggestions for the committee on the kinds of tools or changes you'd like to see or that you think would be beneficial for the Competition Bureau?

Mr. James Mann: I have made some comments in what I'm going to submit to the clerk here.

Fundamentally, I truly believe that there is a position within the Competition Bureau to lean on the side of larger corporations becoming more efficient in Canada as compared to the smaller, and decisions as a result have tended to lean towards allowing amalgamations and mergers, which creates less competition just by the nature of how that occurs. I think they need more and greater investigative tools. If you want to hear about some of the terms that are there, like price dominance, refusal to supply, abuse of dominance, and those things, you need to have witnesses that will testify that these kinds of things are going on. And if they can't get access to the witnesses to find out what's going on.... Maybe they have the tools and they just don't exercise them, but they certainly need to find out what the answers are and why the marketplace is behaving as it is. There is just no way that our products and services should be priced as high as they are compared to those of the U.S. It just doesn't makes sense. There is more detail in my document and certainly more than I can take the time here today to talk about.

The Chair: Ms. Dawes or Mr. Godin, do you have any comments on that?

Ms. Robin Dawes: I think I would like to say that I admire the efforts of the Competition Bureau. In the case that we're bringing forward to you, however, it's a little bit bizarre because the Minister of Agriculture and the application of the farm income stabilization are agents for a non-competitive situation. There are reasons these principles and legislation about not discriminating against producers on the basis of market were put in place. When we allow that legislation to be breached, we're creating a non-competitive situation for farmers internally amongst themselves.

The very program has become a non-competitive agent, and I would ask you to recommend strongly that this not be allowed to happen any longer.

The Chair: If there are any comments on how we did it, I certainly would like hear them, as would, I presume, the rest of the committee. A lot of this study leads back or points back in some way to the Competition Bureau. If this committee is going to put forward some recommendation to the government, it's nice to have input. I always tell people it's one thing to come up with a problem, but it's always even better if you can come with a suggestion for a solution.

Thank you.

Mr. Easter, you have five minutes.

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

I thank you folks for coming.

It is clear that the Competition Bureau absolutely does not work when it comes to the farm sector and farm inputs. There's a farm expression I could use about how useless it is, but I wouldn't want to put it on the record.

I want to turn mainly to your area, Mr. Mann, and the whole area of generics. But I want to make a comment on fertilizer first.

I think you said that you brought in four boatloads of fertilizer. We have some individuals in my neck of the woods who are bringing in fertilizer. It's mostly triple-16 from Russia. For the committee's information, the saving on that fertilizer for a 400-acre potato grower, as compared to buying it from commercial companies—and there are basically only two big ones in our area—would be $60,000. That is just on purchasing triple-16, mainly from Russia. That's astronomical. Somebody, somewhere, is making money in this system.

The fertilizer companies bought at high prices, and now they want to download their purchasing at high commodity prices to farmers. I understand that. But farmers have no protection against it. There's no question as well that in that marketplace, from what I'm hearing from producers, the pressure is on: if you don't buy your fertilizer from some of the companies that traditionally sold it, then you may not have a market for your end product, if you're in that particular business. I think that's something we have to look at as well.

You mentioned generics in the beginning. I think you've made specific proposals to PMRA to get on with generic registration. You mentioned in your evidence that even where they are at the moment, we'll not have access to generics as quickly or as easily as they do in United States. Could you expand on that a little bit? Basically, what does this committee have to recommend to PMRA on generics to put us on a level playing field with the United States?

● (1355)

Mr. James Mann: That's a good sense of the words. How do you put us on a level playing field with the U.S.?

In the U.S., when a generic has passed the science, is proved equivalent, and is safe for health and the environment, there is a form called "Offer to Pay", and they provide that form to the owner of any compensable data, if there is compensable data. They can enter the market immediately upon completion of that review by the EPA.

What is being suggested in Canada is that we go through a 120-day negotiation period afterwards, and if that doesn't work, another 120 days of binding arbitration.

Hon. Wayne Easter: So I don't run out of time, what we need on the record from you is specifically what has to be done. I think what you're saying is that there should be no need to go to these 120-day extensions, single or double, and that generics should be opened up immediately when the same conditions are met as are met in the United States.

Mr. James Mann: Absolutely. We should be able to go to market immediately upon passing the science review at the PMRA.

I can give you some background behind the logic of the PMRA's thinking on this. There may be data compensation owing to an innovator here in Canada. PMRA thinks that a company may enter the market and in that 240 days market the product and run away with their profits and not pay the innovator. In the U.S., that doesn't happen.

There is concern. And somehow the other major companies have convinced PMRA that it is an issue or could be an issue in the future. There are ways of circumventing that. But you have to think about a generic coming into the marketplace here. They probably spent three years and close to $1 million getting that product registered. Are they going to walk away after one year of marketing? It's highly unlikely. There are ways of bonding your escrow that could be used as a middle ground, and we've suggested some of that.

Certainly we have to be on a level playing field if we want generic competition here in Canada, and that means getting into the market as soon as that product is off patent.

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

It is now two o'clock and question period is about to start, so we're going to head over there.

I would like to thank all of you for coming here. We look forward to any written submissions that you want to present to us, especially if they have some suggestions on where we go from here. Thanks very much for competing in our competitiveness study.

The meeting is adjourned until Thursday.

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