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Mr. Lee Richardson

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● (0905)

[*English*]

The Chair (Mr. Lee Richardson (Calgary Centre, CPC)): I think we'll begin. We're still missing a few important players, but we're going to begin because our witnesses are ready to go. We're delighted to have them here today at the 13th meeting this session of the Standing Committee on International Trade.

In our ongoing discussion of Canada-United States trade relations, I'm happy to welcome back to the committee our friends from the Canadian Cattlemen's Association—John Masswohl, who has been with us before, and Dennis Laycraft; nice to see you, Dennis.

From the Canadian Beef Export Federation, we have Ted Haney, who is from Alberta as well.

From the Canadian Pork Council, we have Jurgen Preugschas; and Martin Rice, executive director.

Thank you for coming.

I think we're all familiar with the format. We're going to start off with some opening comments. I haven't had a chance to speak with you, so maybe you'll just give me an indication of what you are going to do. Are we going to have three statements today? Okay.

So I take it, Dennis, Ted, and Jurgen, that you are going to give brief opening statements, somewhat under 10 minutes if you can. And then we'll proceed to questions from the committee.

Maybe I could ask Jurgen, from the Canadian Pork Council, to start.

Mr. Jurgen Preugschas (Chair, Canadian Pork Council): Thank you very much, Mr. Chairman.

I do appreciate the opportunity to present to this international trade committee meeting.

As you well know, our Canadian hog producers are continuing to battle an unprecedented period of losses on their farms. The hog sector crisis is now into its third year, as we're trying to struggle with the shocks hitting our system every month, it seems. While the crisis was started with the rapidly rising exchange rates and high feed costs, these variables have moderated. They've been replaced by the global economic crisis, which has reduced access to credit, and by the U.S. introduction of mandatory country-of-origin labelling.

As our sector relies tremendously on exports—in fact, two out of every three hogs born in Canada are exported either as live hogs or in the form of pork products—we are totally exposed to global shocks. We're facing serious challenges in terms of our ability to compete in the world market, and we must not lose sight of the Canadian hog industry's long-term interests. The world economy will continue to evolve, and we cannot afford to suspend any efforts that can improve our market access. In the short term, we encourage you to ensure that Export Development Canada has the tools in place to ensure that lines of credit are available to exporters for emerging markets.

The Canadian pork industry enjoys a solid worldwide reputation for superior quality and animal health status. For example, in 2005 Canada set new pork export records by shipping for the first time over a million tonnes of pork to over 100 countries around the world, valued at over $2.8 billion. A study from the George Morris Centre found that those pork exports alone account for about 42,000 jobs and $7.7 billion in economic activity in Canada. In 2008 the export value was $2.7 billion.

In today's economic crisis, I think we have to remember that we want to protect these jobs in our country. And given that hog and pork production occurs in every province in this country, there's no denying our industry's significant contribution to Canada's economy and labour force.

We must point out that the creation of the Market Access Secretariat for livestock producers is a positive step, but it's necessary that the government properly fund the secretariat, aggressively explore trade opportunities, and assist our sector in developing measures to increase exports to other markets.

We've been downsizing in Canada because of the shocks, and the number of farms reporting hogs continues to decline. In fact, we've had dramatic decreases in the past two years, with 28% fewer farms reporting hogs than in 2006. Our inventories have fallen 18% since January 2006.

Today we want to remind this committee that while we try to remain optimistic about the long-term potential of the Canadian hog sector, it's increasingly difficult to be prepared for, and manage, the shocks that continue to hit us. The most recent and most pressing is COOL.

The many associations and governments representing livestock and meat producers who have been dealing with the U.S. country-of-origin labelling regulations since they were introduced in 2002 received some very disappointing news on February 20. While the U.S. Secretary of Agriculture, Tom Vilsack, announced that he would not reopen the final COOL rule issued by the Bush administration, he is asking U.S. processors to do several things: first, to "voluntarily include information about what production step occurred in each country when multiple countries appear on the label"; second, to extend COOL to processed products, that is, the ones subject to curing, cooking, smoking, etc.; and third, to reduce the inventory allowance for ground meat from 60 to 10 days.

● (0910)

American processors are now faced with extreme uncertainty. If they simply satisfy the law as it currently reads, they risk having the rules changed once again, changes that will make it more, not less, difficult to operate within an integrated North American market—as has increasingly been the operating environment since free trade was implemented 20 years ago this past January.

Furthermore, they're being asked to function as if COOL now applies to a vast range of processed pork products that, in the past, were never included, or intended to be included, in the scope of mandatory labelling.

Secretary Vilsack's suggestions would make COOL as restrictive for live animals as what was in the original 2002 bill. This more restrictive version was rejected as too costly to implement by the U. S. Congress in the 2008 Farm Bill.

The expansion of the COOL mandate to include processed meat products would put at severe risk more than 165,000 tonnes of Canada's pork exports to the U.S. in 2008. This is more than half of our shipments, which were $1.2 billion in total last year.

U.S. processors are being forced to make business decisions that will have market-closing effects on Canadian hog and pork exports, as well as detrimental impacts on hundreds of U.S. hog farmers who depend upon Canada for their feeder pigs, and on the many U.S. processors who rely on Canadian hogs and pork. Already in the first quarter, total exports of live hogs to the U.S. are down by 45%, of which feeder export are down 35% and market hogs down by 66% year-to-date.

Moving on to the trade agreements, the CPC's support for the completion of the Doha Round of multilateral trade negotiations remains strong and unequivocal. However, the slower pace of the negotiations has led many of our competitors, such as the U.S. and Chile, to pursue bilateral and regional trade agreements. We cannot rely on multilateral trade negotiations to offset the preferential access obtained in bilateral trade agreements. Without a dual focus on both multilateral and bilateral trade agreements, Canada's ability to supply current export markets, as well as breaking into emerging markets, will be undermined.

The Canadian Pork Council has been following with great interest the developments since the 2008 Canada-European Union Summit, which explored an economic partnership. We strongly support the negotiation of a comprehensive free trade agreement between our country and the EU, but we will oppose any exemptions if, as a result, our access to the EU for pork is in any way diminished.

With a population of over 500 million in the EU, the majority of whom view pork as their favoured meat, the Canadian industry is making important investments to be able to respond to this increased demand. In fact, our first plant for exports to the EU was just approved. We strongly urge the committee to give its support to Canada engaging in negotiations for an ambitious trade and economic agreement with the European Union.

Bilateral trade agreements help diversify our market abilities; and the legislation that was recently tabled for agreements with Colombia and Peru needs to be approved. The Canadian Pork Council, furthermore, is an avid supporter of current negotiations to liberalize trade with Korea, Panama, and the CA4 countries. The CPC also encourages trade negotiations with Japan, India, and the Dominican Republic.

To conclude, we would ask you to continue to pursue a better outcome on COOL, one that recognizes the important trade flow between Canada and the U.S. We need to encourage you to pursue the WTO action, which has been on hold at the present time, in order to encourage the U.S. not to make things more restrictive on the COOL front.

● (0915)

It is critical for Canadian exporters to have continued access to markets. We therefore ask that when you visit U.S. representatives, you should raise COOL and the detrimental impact it is having on free and open trade on both sides of the border. And you should engage in bilateral trade agreements and support the Canada-Colombia and Canada-Peru agreements, and others on the way.

Thank you.

The Chair: Thank you very much. It's been very helpful.

Mr. Haney, would you like to carry on? Or perhaps Mr. Laycraft would like to.

Mr. Dennis Laycraft (Executive Vice-President, Canadian Cattlemen's Association): Thanks, Mr. Chairman.

We've worked with the Beef Export Federation closely on this.

First of all, thank you for taking an interest in this topic, which is important to our industry. We have a close relationship with our good friends in the pork industry and have worked on the country-of-origin labelling issue on an almost daily basis with them.

Like the pork industry, we are an export-dependent industry. Almost half of our production is exported; and with the United States, we've had a very long and integrated, as many would argue, market relationship with them. Last year, we had an almost $2 billion positive trade balance in live cattle and beef trade with them, and it's extraordinarily important to the viability of our industry to have unfettered access to that market and other significant export markets.

We have, over the last number of years, significantly increased our activity regarding our relations with the United States, as well as promoting improved access around the world.

I'm very pleased to turn the mic over to John Masswohl, who coordinates our efforts in this area. He was stationed in Washington for three years with the Government of Canada, and we certainly are very proud, as an organization, to have someone with his expertise working on behalf of our industry.

Mr. John Masswohl (Director , Governmental and International Relations, Canadian Cattlemen's Association): Thanks, Dennis.

COOL has been portrayed by its proponents as a consumer marketing initiative, and has sometimes even been misrepresented as a food safety measure. We believe it's purely a trade protectionist measure. The main target really isn't Canadian beef; it is actually the live cattle trade and live cattle imports into the U.S. particularly.

The new rules that came into effect last year were so complex that many U.S. cattle buyers either restricted their purchases of Canadian cattle or just stopped buying them altogether due to the cost and difficulty of handling Canadian cattle and of segregating those products from what we believe are otherwise superior animals.

This measure really has nothing to do with food safety. Indeed, under the Bush administration, it was not portrayed as a food safety initiative; it was portrayed as a consumer marketing initiative. Unfortunately, USDA now, under the Obama administration, doesn't seem to have quite made up its mind as to what it thinks COOL is. It's not quite sure whether it's a marketing initiative or a food safety initiative.

The law came into effect at the end of September 2008, on an interim basis. It immediately caused a number of U.S. cattle slaughter facilities to stop purchasing Canadian-fed cattle for immediate slaughter. That's the so-called C category. The C category is cattle that we ship directly to the U.S. for immediate slaughter. The few U.S. facilities that continued to purchase C cattle started to limit production days. And they reduced the price they were willing to pay so they could recoup their increased logistics expenses.

I've passed around a map. It has map 1 on one side and map 2 on the other. Map 1 illustrates what occurred under the interim final rule. That was the period from the end of September 2008 to March.

Take a company like Tyson Foods, for example. They operate eight slaughter facilities across the U.S. Four of those eight Tyson plants used to purchase cattle directly from Canada for immediate slaughter. As soon as the COOL interim rule came into effect, they made three of those eight unavailable to Canadian cattle. The only Tyson facility that, under the interim final rule, was accepting Canadian cattle was up in Pasco, Washington. That's one of those little cattle-crossing symbols on map 1.

JBS Swift adopted a similar policy and restricted a number of its facilities from buying Canadian cattle. JBS is only taking them at Hyrum, Utah.

The end result is that in the middle of the United States, you see a whole lot of “do not enter” signs where we used to ship the C cattle. They're not taking them anymore. That is just the first part of the impact.

The second part is that even though those facilities in Washington or Utah or Pennsylvania continue to take cattle, they have limited them to a number of days per week. For example, Tyson at Pasco is only taking them two days per week so they can further segregate them.

The final blow was that they reduced the price, because they still had the additional cost of segregating those animals. On average, the price discount was about $3 U.S. per hundred pounds of animal.

If you take those impacts together, considering the longer distances travelled, more shrinkage of the cattle on those longer journeys, more competition for trucks, and more border congestion on those limited days on which they accept those cattle, we estimate that the additional transportation logistics expenses are about $40 to $50 per head. The price discounts worked out to about another $40 to $50 per animal. So we're estimating that the total combined impact, on average, is about $90 per animal.

In addition, U.S. cattle feeders who purchased and fed Canadian feeder cattle, which became category B, the younger animals we ship to the U.S.—they finish them off in the U.S. and then sell them—started experiencing similar price discounts and discrimination by late November and December of 2008.

● (0920)

With respect to cattle imported after the initial grandfathering period, if they'd been in the U.S. up until July 15, they were considered as U.S. when they went to slaughter. But the cattle that came in after the grandfathering period started to come to market and see those discriminations.

In response to this situation that had been occurring in the fall, the Government of Canada requested formal WTO consultations in December. The result of these consultations was a change that has now been implemented in the final rule as of March 16. So now, under the final rule, beef from B cattle and C cattle can be sold under a single label. This final rule affects Canadian-fed cattle shipped for immediate slaughter. It should provide some relief on the shipping costs and increase the delivery opportunities, but the delivery days are continuing to be limited. The price discounts have become less formal, but they are continuing according to what the market will bear. While this final rule is an improvement, it remains far from a resolution. That's what we've been experiencing.

Now I want to talk a bit about the strategy and where we think this needs to go. The first element of our strategy is that we believe the government should pursue all available means to address the situation, including a resumption of the formal WTO process. To enable this process, we're working with our friends in the hog industry and with government officials to determine and document the market reaction to this final rule. We're not yet sure how much of the $90 per head we're getting back under this revised scenario.

As Jurgen explained, a recent twist on this issue was a new element of uncertainty introduced by Secretary Vilsack the day after President Obama's visit to Ottawa. The day after the president was here saying he does not want to constrain trade, Secretary Vilsack was telling the U.S. industry that he wants every meat label to identify the country of birth, growth, and slaughter. He further wants this information to appear on processed meat products that were supposed to be excluded from COOL.

Although we're not aware of any U.S. companies that are volunteering to comply with Secretary Vilsack's suggestions, he has advised USDA that he will audit U.S. companies to determine the uptake of those suggestions. And the implication is that if companies don't comply voluntarily, USDA will force compliance.

CCA is working with our U.S. allies to create an assessment of what it would cost the U.S. to implement Secretary Vilsack's suggestions. Once completed, this analysis is going to form part of the second element of our strategy, which is our ongoing effort to let Americans know why an onerous COOL law is not in their long-term interest. We would also, as Jurgen did, encourage all Canadian government officials, federal and provincial, to ensure that any and all U.S.-Canada political or diplomatic meetings include a discussion of COOL.

The third element of our strategy involves marketing the Canadian beef advantage in the United States. The Beef Information Centre, which is the market development arm of the CCA, works with our U. S. trade clients to grow Canadian beef opportunities in the U.S. market and mitigate the impact of COOL legislation. BIC's approach has been to align with Canada's packers and U.S. distributor partners to build awareness of the Canadian beef advantage. The Canadian beef advantage includes key points of differentiation between ourselves and our competitors in animal health and safety, genetics, animal ID, product quality, yield and profitability, service, technical support, and potential age verification and traceability. BIC provides educational resources and market development support that promote our comparative advantages to U.S. meat buyers.

I brought copies of some of the materials they use. Our French versions are still in production. They will be available to the committee once they're all prepared.

The BIC is working to promote Canadian beef in the U.S. by securing premium positioning in U.S. retail and food service locations as well as by building Canadian brand identity among certain U.S. demographic groups, such as the rapidly growing U.S. Hispanic and Asian populations. BIC's communications activities include trade advertisements, education seminars, trade missions, partnerships with U.S. distributors and retailers, distribution of technical materials, and the creation of www.MeatCool.info.

● (0925)

Much of this activity is funded in part through the Canadian cattlemen market development fund, sometimes known as the “legacy fund”.

The legacy fund was created in 2005 with investments from the Government of Canada, plus the Government of Alberta, and a check-off collected on cattle sales. We have submitted to the clerk a document providing additional detail on how BIC utilizes the legacy fund to promote Canadian beef in the U.S.

The last element of our strategy to mitigate the impact of COOL involves increasing export opportunities around the world. For that I'm pleased that Ted Haney from the Canada Beef Export Federation is with us to elaborate on those marketing activities around the rest of the world.

Thank you.

The Chair: All right, that's helpful. Thanks, John.

Mr. Haney.

● (0930)

Mr. Ted Haney (President, Canada Beef Export Federation): Committee chair and committee members, thank you very much for the invitation to present to you today.

The Canada Beef Export Federation is an independent, non-profit industry association. It was created in 1989 to build export demand for Canadian beef in a global marketplace. Since that time, the federation has established representative offices in Japan, South Korea, Taiwan, Hong Kong, Shanghai, and Mexico.

Today the federation's 53 members represent over 90% of the Canadian cattle and beef industry from Quebec through British Columbia. The stability of our membership through the last six difficult years speaks clearly to our industry's unwavering commitment to international exports.

The competitive advantage of the federation and its members is created through the industry's working together to increase worldwide recognition and demand for Canadian beef and veal products. The federation's role is to coordinate strategies and coordinate funding so that we end up with a critical mass of activities. Those are focused primarily on market identification and competitive intelligence, market access and trade advocacy, local representation and international market services, as well as beef promotion in strategic and emerging markets.

The federation, backed with private and public resources, invested almost $8 million in its export programs last year. The federation was able to leverage $20 million of additional export-oriented capital and marketing investments from our export members over the past five years, creating just in that very difficult five-year period 200 new high-quality manufacturing jobs directly associated with export sales and marketing.

I would like to specifically note the value of the Canadian Beef and Cattle Market Development Fund as delivered to the federation through the Canadian Cattlemen Market Development Council. I have submitted a document, which I think the secretariat will be forwarding to committee members, but I would like to say that the legacy fund has delivered $7.7 million worth of support to the federation over the last three fiscal years and represents 40% of our total promotion budget.

This visionary decision of the governments of Canada and Alberta to create a $50-million ten-year market recovery fund and program is highly valuable. Without that support, the federation would likely have had to close two international representative offices, likely in mainland China and South Korea. We would have had an incredibly difficult time delivering pure market research as well as our brand promotion and research activities.

Quite frankly, we would have been much more passive in attempting to stimulate a recovery from the trade crisis—that is, from BSE. That fund has been valuable. That fund has underpinned our success and will continue to do so for many years to come. A moment of recognition is deserved for these two governments working cooperatively in this way with industry.

The federations delivered 388 separate export development projects in our last fiscal year, which just ended on March 31, averaging more than one completion every day of the year. These projects were grouped into 10 different program areas, the partner market development programs, in which we cooperatively work with our export members delivering programming that is of interest and is valuable to the individual companies—brand building, market exploration, attendance at major activities—as well as being of interest to the industry.

We do market information and liaison whereby we ensure that the Canadian export community is informed of emerging opportunities and constraints and is focused on addressing them: market research; incoming beef buyers' missions; beef seminars in our key and emerging markets; 106 retail and food service promotions, featuring the Canadian beef advantage brand in our products, with our members in front of consumers in these key international markets; food shows; promotional materials; newsletters; as well as a limited advertising and public relations program worldwide.

We know that these programs are vital and relevant, as Canadian beef and veal exporters last year attributed 23% of their total exports to Asia and Mexico to the federation's programming, its services, and its projects.

Success over time is measured in many ways. This is not just for the federation; it is also a measure of success and return on the public and private investments made in the federation.

Prior to our May 2003 BSE closure, we were able to see Canadian beef exports outside the United States increase from some 9,000 tonnes—less than $30 million—in 1990 to 158,000 tonnes, worth $540 million, in 2002.

● (0935)

Export trade dependence on the United States dropped from over 90%, which was our typical long-term dependence on the United States, definitely since the post-civil war era, to less than 70%. Our industry is very focused on continuing to serve the U.S. market, as important as it is, but by increasing sales outside of the United States, to decrease our dependence on that one market to around 50%.

Commercially viable access to our major markets in Asia and Mexico has the ability to add some $85 per head of additional value as compared with selling the same products in our domestic Canadian market. This is for beef derived from animals under 30 months of age. Further, those international markets have the ability to add some $100 per head in value over what those products can sell for in the United States. It is that premium, that directional, changing premium, that we really need to tap into, and primarily through the provision of market access in all markets.

Canada's beef and dairy cow herd is estimated as now 5.6 million head. Production in 2009 is estimated at 1.5 million tonnes. It takes the production of only about three million cattle to meet the total domestic consumption needs here in Canada. The Canadian market is an excellent one, but it's not large enough to absorb the production from our six-million-head national cow herd.

The message is that we must trade, and we must profitably trade. One of our coping mechanisms in dealing with dependency on the United States is to increase trade outside the United States. That's a positive reaction, and a reaction that takes a team created out of both private sector and public sector resources.

We have to remain focused on deriving full value from international markets. The extent to which we're successful in creating commercially viable access not only in Asia and Mexico, but also in Europe, Russia, the Middle East, South America, and Central America, will determine the eventual size of our national cow herd—three million or six million head. What lies in the balance is the difference between a further long-term contraction and a healthy and prosperous growth industry.

Our industry cannot promote itself through market access barriers—either prohibitive tariffs, continuing quotas, or protection such as country of origin labelling.

Mandatory country of origin labelling in the United States, as we know, came into effect September 30, 2008. The implementation of the final COOL rule was the conclusion of a long-standing campaign, which was led by protectionist forces in the United States, designed to secure their position in their domestic market by discriminating against imported products. Since that date, the final impacts on a per-head basis have been as high as $90 per head in reduced revenues to Canadian cattle producers.

Canada and Mexico have indicated their initial intent to pursue action through the WTO. Mexico has continuously suggested that this is where they want to go, and I think increasingly the Canadian industry has agreed that even with the changes that have been suggested and the potential moderation of effects, the WTO challenge may well still be called for.

We were pleased that the final rules saw some relaxation; however, the very public letter that Secretary Vilsack distributed, indicating his request for much more stringent measures, is not acceptable. While the U.S. offers an alternative market for Canadian cattle that is helpful, the emergence of COOL is an important reminder of the urgency of diversifying beef exports.

There is some cause for optimism. The federation believes we have reached a turning point concerning international markets. In 2008 world exports of Canadian beef increased 8.4% over the previous year to 393,000 tonnes, worth $1.36 billion. Exports to the federation's key markets in Asia and Mexico increased 15% to 83,000 tonnes, worth $321 million, in the same period. Exports to markets outside the United States now account for 23% of total world exports.

● (0940)

The Canadian cattle and beef industries have strongly endorsed the creation and operation of the agriculture Market Access Secretariat. This is a perspective that I know is shared by the pork industry and many other agriculture trading sectors that need a more fundamental and strategic approach from Canada to managing our trade relationships on a technical front with our trading partners worldwide.

We are cautiously optimistic that the announcement made by the Government of Canada on January 9 will result in an efficient and effective centre of excellence in export trade management. The federation is cautiously optimistic that utilizing the government's new approach of pursuing incremental access in key export markets such as South Korea, mainland China, and Japan would also be a tremendous benefit.

The reward for accomplishing the objective of removing technical barriers while seizing opportunities as they become available to Canada is significant. Again, we believe it could represent as much as $85 per animal processed in Canada.

The inevitable export diversification caused by mandatory country of origin labelling in the United States must continue to be recognized as only the small silver lining on an otherwise very dark cloud. The U.S. must live up to its trade obligations and respect WTO-compliant country of origin labelling on all beef and other agrifood products.

Every major product transformation, every that a product moves from one harmonized code to another harmonized code, should reset origin of the resulting product. In our particular case, slaughter confers origin, fabrication confers origin, and value-added processing confers origin.

Restrictive labelling at retail is not a matter of food safety. It is not a matter of consumer rights. It is a matter of trade protection. If we get it right and if we fully engage in the United States on trade regulation and fully engage internationally, I believe our industry can turn direction and move from a survival mentality to one of growth and prosperity.

We should have the ability to export up to 800,000 tonnes of beef products from Canada, with up to half of that trading to markets outside of the United States. It will take that in order for Canada to become self-sufficient again in beef processing capacity and even have the potential to process 4.5 million cattle in Canada—1.4 million just to service markets in Asia and Mexico.

It's high time for the Canadian industry to be allowed to focus on pursuit of prosperity and growth, rather than to focus all of its efforts on mere survival.

Thank you very much.

The Chair: Thank you. That's all very helpful, if not slightly confusing. I hope we can have some of those points that I'm confused on recognized in questions asked by our members.

We're going to start with seven-minute rounds, first with Mr. Dhaliwal.

Mr. Sukh Dhaliwal (Newton—North Delta, Lib.): Thank you, Mr. Chair.

I would like to thank and welcome the panel members for coming out and giving an excellent presentation to inform us.

Mr. Chair, last week I was travelling through western Canada in my role as western economic diversification critic. What I found is that Saskatchewan has more trade with countries other than the U.S. than any other province. I see the theme here as well. The way we see it is that the pork and beef industries are dependent on the U.S.

What can the panel suggest that we, as elected representatives and the government, can do to diversify the export market?

Mr. Jurgen Preugschas: Thank you for the question. I think there are several things that can be done, and I think you heard the very positive comments on the beef legacy fund.

I think for the pork industry, we need to develop a similar fund. As you realize, the pork industry exports over one million tonnes around the world, and as I mentioned, it's a key economic driver. Certainly, there's some help from federal funding through CAFI programs and others, but we feel that we definitely could use some more help there, looking at the development of something like a legacy fund to help diversify our markets even more.

We've been quite successful since 1990 in moving from a 75% dependence on the U.S. market for our pork down to 28% dependence.

Now, the live animal market is different. We export nearly 10 million live animals to the U.S., so that is still there, and that's where COOL is affecting it so drastically.

● (0945)

Mr. Sukh Dhaliwal: With regard to COOL, when you export the processed products, are you better off that way or are you better off exporting the live animals?

Mr. Jurgen Preugschas: Let me put it this way. Because of the rules in the past, we've developed an integrated North American market. Manitoba has become a leader in producing weanling hogs, sending them down to the midwest to finish. So it's been good for Manitoba producers, and it's been good for the American producers that have been finishing them. It is an integrated market. What COOL is doing is putting these types of individuals out of business and into bankruptcy, and we feel that this is unfair.

Of course, we could say that we don't want an integrated market, that we should pull back and finish those animals in Canada and develop more of a packing industry. Long term, that will work. But short term, it will put some of our producers and families in financial stress. We believe it's wrong for politicians to be doing that.

The Chair: Mr. Laycraft.

Mr. Dennis Laycraft: We believe in striking the right balance between exports to the U.S and exports to other nations. It's not as if the rest of the world has treated us particularly fairly. Before 1983, the European Union was our second-largest export market, but they've subsequently come up with every possible measure to exclude us. We're encouraged that we finally see an opportunity to re-examine that relationship, and we're very positive about the potential in other markets. But the U.S. is the largest beef market in the world. They're also the world's largest importer. It's always going to be important, but the rest of the world is important, too. Mr. Haney talked about increasing our capabilities to get through some of these barriers and dramatically increase our investment. We're talking a few million dollars. We're not talking billions like you're hearing everywhere else these days.

When we take a look at the incredible work that some of our competitors have done in getting through some of these initiatives, we realize that countries like New Zealand have really done a remarkable job. We have some good people representing us in these markets, but we need more, and we need a stronger commitment as a country to get this done. Our product is very good. We've actually exceeded pre-BSE market levels. So once we get through the encumbrances, there's great opportunity.

The beef and pork trade, particularly beef trade, is one of the most protected areas in the world. So a successful WTO outcome is very important to our industry. Frankly, we are looking for a little different leadership from the federal government, with greater flexibility in their negotiating position.

Mr. Sukh Dhaliwal: Mr. Haney, you mentioned that you have scope in Japan and India. Would you be able to compete in those markets? Do you think we could have fair trade with those two nations?

● (0950)

Mr. Ted Haney: Japan, I did mention; India, I don't believe so. I mentioned Japan, South Korea, Taiwan, Hong Kong, mainland China, and Mexico with increasing focus on the European Union, Russia, and the Middle East, North Africa. Those are the regions of current priority and emerging....

Canadian industry is world-competitive. We export and we compete against the world in export competitors. In Asia we come up against the great South American exporters. In Russia we come up against them in some of our Asian markets and we compete well against them. We're absolutely competitive.

Pre-BSE, in 2003 Canada exported up to 30,000 tonnes of beef in Japan with significant increases. In fact, one commercial contract was signed by one of our export members in March 2003, which would have seen a 50% increase in our sales to Japan just on the back of one trade deal. So we were in fact gaining competitive momentum prior to the trade disruptions associated with BSE.

Are we competitive? Yes. Were we? Yes. How can we be more competitive? With a federal government taking a strategic approach to agriculture market access through the creation of what I would call a centre of excellence in agriculture trade policy, and that through the agriculture Market Access Secretariat.... This is really required as a way of consolidating resources and expertise.

Agriculture trade is complex. It's been complex since the Uruguay Round, when countries weren't allowed to slap on massive import tariffs and put in arbitrary quotas. Since then, all they've had is trumped-up safety protection, and that requires great technical resources, great policy resources, and great political resources to break down those new, very difficult-to-define barriers. When done, we will always trade on that activity. These are the things we need.

The Chair: Thank you.

Monsieur Guimond.

[*Translation*]

Mr. Claude Guimond (Rimouski-Neigette—Témiscouata—Les Basques, BQ): Thank you, Mr. Chair.

Good morning, gentlemen.

I am a farmer myself and I have been involved in the Union des producteurs agricoles in Quebec. So I know Michel Dessureault well, whom you must know too, since you work in the cattle industry.

I found your presentations very interesting. You know where you are going and how you want to get there. I would like to hear what you have to say about the possibility of doing things differently in the future, so that our domestic agriculture can continue to develop.

We have talked about the American COOL program and about labelling products by their origin. In Quebec, we have traceability. Agri-Traçabilité Québec is a mandatory traceability system that keeps track of where animals come from, their dates of birth and their movements. While this puts a lot of restrictions on producers, consumers seem to like it. For the continued development of agriculture, how would you see possibly extending a traceability system to Canada, for beef and for pork? In Quebec, they are even thinking of extending it to plant products. What is your opinion on identifying our products, especially as it applies to the traceability of animals?

[*English*]

Mr. Jurgen Preugschas: I'll have Martin answer this one, if you don't mind.

Mr. Martin Rice (Executive Director, Canadian Pork Council): I think traceability, as seen for some time as having more than just animal disease trace-back capabilities, is the thing that I guess is the most topical for livestock producers who depend on foreign market access and depend on the country being able to assure its customers that we can carve out an area that may have a foreign animal disease occurrence. I think Canada has been fortunate among pork-producing countries in that we're the only one that hasn't had a serious foreign animal disease outbreak in the last 40 or 50 years. However, we need to be prepared to deal with one, because the ways it can happen are very difficult to prevent in all cases.

Producers do appreciate that there are also some opportunities for traceability to make customers more confident that we can provide them with opportunities to identify origin of the meat and the ability to trace back in the case of a food safety incident. Again, we have an excellent record on the world scale, but customers are increasingly interested in having those opportunities to have confidence in knowing the chain the animals have followed through to the point of marketing.

However, I think we need to have the benefits communicated back to producers. I think this is where we haven't seen very much happen yet. It's not just going to be a cost for producers to make investments in traceability. I think more of the market advantages have to be identified and captured by our marketing partners. I think that will help facilitate the producers buying into the additional investment and the time this is going to require.

● (0955)

Mr. Dennis Laycraft: Mr. Chairman, I think it's a refreshing question to ask what we're doing in terms of positioning ourselves for the future. We are working actively. Behind that beef advantage initiative, we're working on a couple of pilot projects. One is currently under way. We're really working to try to get a traceability system that works, as we describe it, at the speed of commerce. We've seen some traceability systems around the world that only work if they're heavily subsidized, and witness how some of those countries are the most protectionist when it comes to reducing barriers.

On the other hand, we have seen some other programs that work well, and we believe Canada is one of the leading countries in the development of technologies that allow for the electronic transfer of information.

We're not necessarily expecting there will be huge premiums as a result of this, but there's going to be a growing expectation of improved traceability. Certainly our identification system, which our industry put in place, which gives you at least the herd of origin and the point at which that animal was processed, is better than almost all other countries that attended a forum in Argentina last week to take a look at where the world is at on that. We intend to work actively with efficient systems in between to fill that in.

What we really want to couple with that is a market-based system that will allow us to make industry improvement at the same time. Anytime a person is purchasing your product, it's the sum of its attributes they're interested in. It's how we continue our lead in quality, how we use it to produce more efficiently, and how we meet a whole variety of consumer preferences around the world. There are some who are very interested in traceability. There are some who are very interested in other particular attributes, who are going to be increasingly important to serve.

We're not going to be the low-cost producer in the world. We're the leading exporter in grain-fed beef products in the world or the high-quality beef that's sold throughout the world. We view this as important. We want to build our future on what we refer to as the value proposition, which is quality, safety, animal health, and our ability to service those markets.

We are working closely with Agriculture and Agri-Food Canada—the Growing Forward initiative—and we intend this to be a major part of our activity over the next two years.

[*Translation*]

Mr. Claude Guimond: At the beginning of your presentations, you talked about slaughtering being done to a greater and greater extent in the United States, as I understand it. I know very well that trucks loaded with steers leave Quebec for slaughter facilities in the United States. Those animals are travelling thousands and thousands of kilometres in the trucks. Environmentally, that is not very well-regarded these days. Consumers and the general public might raise questions about the procedure from the standpoint of the animals' health and comfort.

Is there a way to have a Canadian strategy to increase our slaughter and processing capability so that our producers can get added value from their products? What is your opinion, your vision, on any real possibility of better slaughter facilities at home, and of policies to support them?

● (1000)

[*English*]

Mr. Dennis Laycraft: I'll start on that.

We worked pretty actively from 2005 on to increase capacity. Pre-BSE, which is the term in our industry from May 2003, we were processing up to around 70,000 head of cattle a week in Canada. We increased that capacity to over 100,000 head, if we were operating the full number of days with double shifting. And then, when the market opened to the United States for live cattle, of course they came back as competitive bidders in our market. We saw that capacity fall back to around 60,000 to 70,000 head a week.

It wasn't that we didn't have enough capacity to kill more cattle in Canada. A whole number of issues started to come into play. Some regulatory issues have created a higher cost structure in Canada. We presented before a number of committees on how we have applied the policies differently, like the feed ban and the impact of that. So there are some competitiveness issues that are greater than just simply do we have enough hooks in this country to process cattle.

Ontario is a really good example. If you take a look at the last two months, when U.S. plants, as a result of the change in the rules, started buying Ontario cattle again, we saw the price in Ontario improve by over $100 a head in relation to the rest of the country. In other words, they were being discounted just because of the concentration.

The fact that we've been integrated and those plants are all part of the daily bidding process creates more competition every day when a person is selling cattle. So it is healthy to have a certain amount of product and a certain number of people bidding on it every day.

We would prefer more of those cattle be processed in Canada. Part of it gets back to market access that Mr. Haney could talk about.

A range of those products capture more value outside Canada than it will inside of Canada, and one of those, I believe, is that you don't really have domestic markets any longer in our trade. You have larger or smaller markets. Every time we process an animal, probably different parts of that animal should find their way around the world. Long cut feet should be sold into Korea. You take a look at the value of livers in countries like Egypt and so forth, that all adds value. For us to compete against U.S. plants, we have to be able to optimize the value of every animal we process. And that is part of our overall strategy.

We believe there are some improvements in technology. We've just written to the Government of Canada, as we move ahead with some new technologies for quality assessment, that now, we think, is the ideal time to move forward with that, because it also links nicely to your question about traceability. We link the ability to go back to the original farm and add more information through the system. Not only do we show our customers we have a better system, we're able to use it better as an industry.

So a whole competitiveness relationship goes right from what does it cost to process products in Canada all the way through to what value can we obtain through the marketplace for them.

Mr. Ted Haney: There are many arguments that would favour trade in meat over trade in live animals. We appreciate the ability to trade, in our industry, live cattle to the United States, again for competition reasons. But from a strategic perspective, and based on economic argument alone, trade in meat is the direction we need to focus on.

Trade in meat is less vulnerable than the trade in live cattle. From trade policy, from the ability of countries to restrict trade, trade in meat is less vulnerable.

Also, we have the ability to diversify that trade much more than we have the ability to diversify the trade in live cattle. So we don't apologize for our ability to trade live cattle, and our focus on trading meat is absolutely vital to the long-term health, prosperity, and decreased risk profiles within our industry.

Any time you decrease risk through diversification and reduce independence on a vulnerable product, you increase overall returns to an industry. It's this that creates optimism. It's this that moves us to an area of stability and eventual growth and prosperity.

So economic arguments alone at a strategic level will lead us toward trade in meat.

● (1005)

The Chair: I think you want to comment.

Mr. Jurgen Preugschas: Yes.

I agree with a lot of the points, but we have to remember as well that the ability to trade live animals into the U.S. also creates an advantage. When you have fluctuations in numbers and we don't have an ability—if there's a breakdown, or a strike, or there are seasonal differences—the ability to ship live animals into the U.S. is quite critical. I don't think we want to lose sight of that.

The other fact is that we do want to sell more pork out of Canada, but we have issues like labour. Certainly the market access issue is very critical. This is maybe where we can work with government. It's value chain development that we haven't really done a good job at, where we do have interrelationship and cross-pollination, if you will, of all the sectors in the value chain.

I know we're looking at it in the Pork Value Chain Roundtable. I know Alberta is looking at it with the Alberta livestock and meat strategy. These are strategies where I think the federal government also needs to get involved to really take a look at what our industry needs to look like to be strongly sustainable in the future.

The Chair: Thank you.

Mr. Julian.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thanks to our witnesses.

I can understand it's very frustrating when you're looking at an export market and the goalposts keep changing. I just want to clarify your comments in regard to COOL.

In all three of the presentations, it seems clear you're very concerned about the voluntary guidelines that are essentially being imposed on the industry by Secretary Vilsack. Can you live with the COOL rules as they were announced in January? Are you seeking us, when we go down to Washington, to push back on the voluntary guidelines? Or are you concerned about both the voluntary guidelines and the COOL rules?

Mr. John Masswohl: Yes, both.

Ultimately, it's not that we're afraid to market Canadian beef in the United States. If we were required to label beef that we ship from Canada to the U.S. as Canadian, I don't think the U.S. would be offside in asking us to do that. Where we run into the whole problem is where they're requiring beef sold at retail to be labelled with where the animal was born.

There are two parts to how they violate their WTO agreement and NAFTA.

Ted mentioned the first part. When an animal is transformed into meat, under the trade rules, the meat is the origin of the country that does that transformation.

There's an additional provision in the NAFTA that says when you manufacture product—it doesn't matter whether we're talking about meat or furniture—you do not label the finished good with where the inputs came from.

So they're violating the trade agreement on those counts. Ultimately, where we want to get to is for the United States to acknowledge that slaughtering animals confers origin on the meat.

Mr. Jurgen Preugschas: I think what it also does is it makes North America less competitive with the rest of the world. On the pork side, Canada and the U.S. jointly make up nearly 50% of the world trade in pork. What this is now doing is making North America less competitive with the rest of the world, simply from the added costs that are being incurred by the processors in the U.S.

Mr. Peter Julian: Okay. So you concur that it's both.

Mr. Jurgen Preugschas: Absolutely, yes.

Mr. Peter Julian: Okay. I wasn't sure about that just from your presentation.

I'd like to move on to the next question—

Mr. Martin Rice: May we just confirm, though, that we were willing to give some time, after that final rule was put out in January and before the Secretary of Agriculture indicated that he wanted this additional compliance, these additional steps, to see whether this would have corrected. We are looking for ways to practically change the system so that it reduces or largely eliminates this distortion, this cost discount, that's being applied now to our animals. We weren't willing to give up entirely on the opportunity to pursue this, because we believe COOL does conflict with the trade obligations the U.S. and we have undertaken.

● (1010)

Mr. Peter Julian: Thank you.

Mr. Haney particularly, you've been very passionate about your advocacy. I can certainly appreciate that. We have been hearing a lot of evidence over the past couple of years at this committee about how minuscule Canada's product promotion budget is compared with that of other countries: the European Union, with $25 million in product promotion around the world for wine products from the European Union; Australia, with $0.5 billion. We have these huge amounts in product promotion, and yet you were speaking, Mr. Haney, to an amount of $7.7 million over three years, much of it essentially maintaining infrastructure.

I'd like to know how much there is available, both for the U.S. and around the world, for product promotion of Canada's beef exports and Canada's pork exports. That's my first question.

Second, are you aware what budgets our competitors have for similar exports? Other countries have supported their industries much more strongly than Canada.

My third question, because I only have seven minutes, is regarding domestic packing capacity. You've spoken about value chain development in trade in meat. Do we have the domestic packing industry capacity to achieve it? And what needs to happen to increase that capacity?

Finally, are American processors allies in this fight around COOL, and when we go down to Washington, should we be entering into contact with them in order to increase our leverage?

Mr. Ted Haney: Speaking from the beef perspective for a moment, there's about $10 million a year available for international promotion of our products worldwide, including the United States. We know that our number one competitor out of North America is funded with approximately $40 million in direct funding.

The difference, though, is that this is it for us: $10 million. In the U.S., they have concessions on rental rates of international offices, shared resources that are available out of the agriculture trade offices co-located at U.S. embassies around the world. None of those collateral supports exist for Canadian industry really at all. So our level of support is much less.

We looked at Australia, for example, at Meat & Livestock Australia, with a budget in excess of $100 million and a significant allocation to export promotion and development as well.

Absolutely, we've come a long way with respect to putting resources in place, particularly during a difficult time, but we still are relatively small. We need the allied support, we need to have a better integration of resources that come out of embassies, and we need to have it meaningfully available for industry. We still have this hard separation, in many ways, between “This is the embassy and what it does” and “Industry, you're on your own”. There's no agriculture trade office philosophy out of Canada, halfway between public and private. That would be tremendously helpful.

It's how we view agriculture. Export development is no longer an issue just of government. It has never been an issue just of industry. It's shared. Finding ways of combining resources more productively is very definitely part of our long-term benefit.

Capacity is an economic outcome. We can further utilize the capacity we have today with access, with the ability to promote product, and when that's profitable, new capacity has always flowed into our industry, based on economic signals.

We have found that American-owned capacity in Canada has been a friend of Canadian exports. We always have to understand that a company that operates in Canada and in one or many other countries has a corporate agenda. It may be in complete alignment with a national agenda; sometimes it's a little different. Our goal is to ensure that, where possible, the corporate agendas are aligned with our country agenda and that we're promoting Canadian products internationally.

By and large, we've worked hard to develop those relationships, and in export sales, international companies have been our friends.

● (1015)

Mr. John Masswohl: I would definitely say that when you are in the U.S., there are allies there who realize that this law is bad for them. The companies that buy these cattle, if they are packing companies—

Mr. Peter Julian: I'm sorry to interrupt; could you pass along those names to the committee?

Mr. John Masswohl: Yes, certainly.

The packing companies that buy the finished cattle are paying less for them because there is additional cost for them. There is nothing to pass on. It's just all lost value in the system. They certainly don't want to have those costs. They don't want to discount the prices, but that's what they're forced to do.

As for the feedlots that buy our feeder cattle, again, those are excellent cattle. There's a reason they buy them. They do very well. They perform well. But they have to handle them separately. Again, it's lost cost that they don't want to have.

Yes, we'll provide the names of the allies to the clerk.

Thank you.

Mr. Martin Rice: One of the hopes we have for the Market Access Secretariat would be that Canada would have a bit more of a coordinated agenda in dealing with trade access issues. It could be something as simple as an export certificate, the form that is recognized between the two countries as satisfying the importing country's requirement that food safety requirements have been met by the exporting country and recognized by the exporting country's food safety authority. These things have a life termination and date. If there isn't coordinated activity between the Canadian Food Inspection Agency, the trade department, the Department of Agriculture and Agri-Food, and the industry so that they know these things are coming up, they can, if they get caught up in other political issues, which happened to us going into Russia about a year ago, become a tool to be used in trade disputes. This really should be left entirely with the food safety authorities to work out.

It's important that we have an agenda of upcoming tasks, that we address them in a timely matter, and that they don't become political issues. We were out of the Russian market for about four months when there was very strong import activity. Millions and millions of dollars in losses occurred.

Mr. Peter Julian: Do you have the promotions list?

Mr. Martin Rice: In terms of promotions, yes, we certainly would be far behind our major competitors in terms of overall government resources made available through the technical aspects, through embassy promotions, and through that kind of cooperation. Ted was mentioning that we would be well behind our major competitors in that respect.

Mr. Jurgen Preugschas: Canada Pork International's budget for their new business plan over five years is $5.5 million. We export in tonnage three times even what beef does, and our budget is one-third the size. We don't have the ability to get more. Half of that is from our producers and also from the processors—the marketers—that sell it. There is very little from the government. It is matched, so half of that is government and half of it is industry.

You asked a question about our domestic packing industry. We do have some capacity in Canada to expand, and if the markets were there, they would expand to fill them. But of course, labour has been such a big issue, especially out west, that it's been difficult for those plants to run at full capacity, simply because they don't have the labour to fill those plants.

The Chair: Thank you.

I think that's changing. I hope so.

We'll go to Mr. Keddy.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you, Mr. Chair.

Welcome to our guests. It is a very interesting discussion here this morning.

I'm going to share my time with Mr. Holder.

I have a couple of questions on country of origin labelling. I don't know if we can avoid, to a degree, the parts of country of origin labelling that are actually positive: the ability to trace your animal back to the herd it came from or back to the feedlot it came from. I think those are positive marketing things.

If you look at what happened in softwood lumber during the original shakes and shingles fiasco back in the 1980s, at that time we had country of origin labelling on timber and logs. It kept Atlantic Canada from facing countervail and anti-dumping duties in the United States, because we could trace all our wood back to privately owned woodlots in a different regime than what the rest of the country had. Although we fought hard against it at the time, there was a benefit to it at the end of the day.

I just want some comments on the ability to trace that product and on the fact that we can compete with anyone in the world. You say that you would modernize Canada's trade negotiation strategies and philosophies. I'd like some examples of that. And you discussed greater flexibility in trade negotiations. What would you recommend?

First of all, especially with the food safety concerns out there today, how important is it to be able to trace that animal to the herd or the farm it came from when you're promoting a product that's safe and to be competitive with anyone else in the world?

● (1020)

Mr. Dennis Laycraft: I can argue that there are two separate issues here.

When you take a look at the actual legislation in the U.S. for country of origin labelling, they prohibit in there the U.S. Department of Agriculture from putting in place a mandatory identification system for that purpose.

● (1025)

Mr. Gerald Keddy: I understand that.

Mr. Dennis Laycraft: They had that push-back down there. When it gets to labelling, they wanted to create a Canada-U.S. for fed cattle versus a U.S.-Canada or U.S.-Canada-Mexico for feeder cattle. It just became an inventory management problem for all distributors and retailers rather than some perceived benefit down there. Where there are alliances and the ability to do that, we think with our Canada beef advantage and some of the private branding initiatives that we'll be able to realize it without it being....

They estimate it's going to cost $3.9 billion to put in place the full country of origin labelling. Could you think of a worse time in history to be adding that cost into a meat complex?

As we move ahead, we believe there are the opportunities you talked about, but we think the systems we're working on will facilitate that.

Our concern as well is this de facto style of rule that the secretary has put out with the threat that if you don't adhere to these other costly procedures to do this.... In my opinion, we've already seen more evidence of problems in the pork industry than the beef industry. But de facto rules are a violation of the WTO, just the same as actual rules. We have to obviously be vigilant against that.

We prepared 25 recommendations in a report we tabled. The Beef Export Federation worked with the Pork Council, Canada Pork International, and others. There's a whole series of different things to increase our capabilities. This is our ability to negotiate market access in technical negotiations. It's how we take the combined strengths of Foreign Affairs and International Trade, the work of Agriculture and Agri-Food Canada in the negotiation of a veterinary agreement, in our case with CFIA, and working with industry.

It's very seldom just the science that's examined in these negotiations. If it were, every market would be open to us for virtually all our products. It's how you combine all these things, get the right people lined up, and do it on a timely basis. As we found with the border closing event, the questions were asked about what we spend in perspective. We're the third-largest live cattle and beef exporter. Our friends in the pork industry are often the largest pork exporter in the world. When you take a look at red meat, we're clearly one of the largest exporters and producers in the world. We need that capability to move forward.

I think we could spend an entire session looking at how we could make Canada the world leader. That's the essence of our report. We believe Canada should be positioned as having the greatest capability in this area, recognizing that we are one of the largest exporters of agriculture products in the world.

Mr. Gerald Keddy: You made several recommendations on how we should be negotiating with the Americans or at the WTO. What are the specific recommendations, and what do you mean by flexibility?

Mr. Dennis Laycraft: When I was talking about flexibility, that was in the WTO context.

We all know there was a resolution passed in the House of Commons that there shall not be any concessions essentially given in terms of the supply managed commodities. We're not here to attack supply management, but when our negotiator sits at the table and everybody has to negotiate all elements of a deal, we feel it's actually disadvantaging our sector and the other sectors when you're not able to be fully engaged. From time to time, we believe it's actually caused our interests to be excluded from the table at key moments in negotiation.

We're hopeful that we'll get the WTO rolling again once there's a commitment back to it, but it's more the willingness to sit down and engage on all these issues and look at where the WTO is moving to. That is my sense of what we mean by more flexibility.

Mr. Martin Rice: I'll put a couple of pork perspectives in there.

On country of origin labelling, I think it's important to remind ourselves that there was no consumer demand for country of origin labelling.

Mr. Gerald Keddy: I'm not suggesting it's not American protectionism, don't get me wrong. I absolutely understand what it is. I'm just trying to see if there's a silver lining in there.

We end up with some things forced upon us that as a government we have an obligation to try to correct on behalf of industry, without question. I guess my question was about the ability to tell your marketplace that our beef or pork is the best and the safest in the world, and that anytime we do find a problem, we can eliminate that problem from the food chain in a nanosecond. That's what I meant.

Mr. Martin Rice: Right, but through this integrated market, we don't lose that ability to be able to follow those movements. We definitely have taken advantage of the opportunities that NAFTA and other trade agreements have provided for specialization in areas that we have advantages in. COOL really drives a wedge into that whole thing, and it upsets a huge amount of investment.

Mr. Gerald Keddy: Yes, I've seen that.

Mr. Martin Rice: On the flexibility on trade negotiations, Canada did sign on to the 2004 framework agreement, and the rigidities in its current negotiating position really remove it, pull it back, from that commitment that it made in 2004. I think, as Dennis suggests, it hampers our negotiating ability in arguing for the trade liberalization we've been looking for in other sectors. I think Canada has to be able to firmly plant itself on the negotiating commitments that it has made to this point. The negotiations have to move forward, not backward.

Mr. Gerald Keddy: With the country of origin labelling, and the shifting rules, it's one thing in 2008, in December it's another thing, and in January, we don't know, really; it hasn't stopped moving yet.

When we go to Washington in April, what message would you like to see this committee deliver to our American counterparts on country of origin labelling?

I understand that the preference in an integrated marketplace is to accept that it's integrated, follow the WTO rules, follow the NAFTA rules, and simply not have it. Beyond litigation or costly negotiations, the quick answer would be, I expect, to have allies in the United States, the processors in the United States that are dependent upon Canadian cattle and weaner pigs, to be there lobbying some of the Congresspeople and Senators in the U.S.

● (1030)

Mr. Jurgen Preugschas: I'll comment on that.

I do believe we passed around to you some talking points for you to use when you go to the U.S. We think they're pretty key. I want to highlight a couple of things for you in that.

There are many small, independent farms in the U.S. that rely on Canadian feeder hogs. I think that's a good example to use for the U. S. representatives. Research has shown that about 1,375 independent farm operations are at risk and vulnerable due to these rules because of the integration with Canada.

Then, of course, in the economic crisis that the world is under right now, for the Americans to put so many of their jobs at risk just doesn't make any sense right now. If we drop 10 million hogs that are being slaughtered in the U.S., they're putting the survival of several hog plants at risk, and all the workers who go with them.

I think those are the types of things that Congressmen and Senators are going to understand. When you show that to them, they will, maybe, eventually see the light.

Mr. John Masswohl: I was going to add that there are messages for the administration versus messages for Congress. The administration has to implement the law that Congress has given them, and so many of our fundamental problems are with the law itself.

For the administration, I think you can try to move them to understanding what this law is, that it is a marketing initiative and not a food safety issue. Some of the comments we've heard from some of the brand new administration officials, suggesting that this is about food safety, are moving this issue in the wrong direction. We think they need to be brought around on that account.

For the Congress, I think it's fair ball to remind them of what an important customer Canada is for their exports. I certainly agree with Jurgen that this law is damaging them in terms of their production by adding costs that make them less competitive, but we also buy an awful lot of their meat, fruits, vegetables, and other products.

In fact when you go to be briefed by them, the embassy will probably give you some graphs that show that every Canadian eats approximately $470 worth of U.S. agriculture exports every year. I can't recall the number, but I think it's about $55 of Canadian agriculture exports that every American eats every year. So the trade balance is about 9:1, on a per capita basis, in their favour.

Ultimately, I think the only way we will probably get the law changed is through a WTO action and a ruling against them. But it's about greasing the wheels along the way, to help them understand that they will ultimately have to change the law, and to condition them as to why.

The Chair: We're going to go now to Mr. Cannis.

Mr. John Cannis (Scarborough Centre, Lib.): Mr. Chairman, thank you very much.

Let me also welcome our panel. I found this very interesting. All somebody like me, growing up in downtown Toronto, cares about is whether I can go to my store and buy something that is quality and that looks fresh. We grow up in total ignorance, I guess, of what exactly goes on behind the scenes.

Some years ago, the Cattlemen's Association, when we were going through the BSE issues—I think it was our good friend Peter Goldring who brought them by—stopped in my riding. We had a barbecue, and hundreds of people showed up. They wanted to learn, they wanted to know, they wanted to understand what this issue was all about. The more I hear, the more I am able to speak to my constituents and understand this issue.

First of all, let me say, Ted, you do a terrific job on their behalf. If I'm sitting on the other side, listening to your presentation...you know, you're full of enthusiasm. Keep up the good work.

I've heard a combination of things today, and I don't know where to start, Mr. Chairman. I think I'm going to go with the last one.

You talked about WTO action. That's a time situation. It's an expensive process. We just went through the softwood lumber issue: years and time and moneys. I would like to know if you could suggest whether there's any way of speeding this up, any way we can, not circumvent, but.... Financing, of course, has to be one issue as well, I guess. As I remember, the softwood lumber people came before this same committee years ago and said, “We're there; we just need some more funds to see it through.” Maybe you can suggest ways we can address the issue of the WTO.

Concerning the list, I'm looking forward to seeing it, if we can, John. Why? Because it's a matter of votes for those Congressmen and Senators down there as well. Maybe the Americans don't know the entire story. Maybe we can be a little more proactive. Sometimes, yes, we can go and see the Congressmen and the Senators, but maybe we should readjust our strategy to go down to the home front and talk with the Governors, for example, or state representatives, etc., and make them aware of it. This is a suggestion; I don't know.

I'd like to get a little bit more into the question of support. When I chaired this committee some years ago, we talked about PEMD. It was a program years ago. In my report, I recommended that we look at possibly bringing that program back, because I'm hearing, Jurgen, what kind of dollars you talk about, and when you look at the industry as a whole, it's sheer nonsense.

Ted, you talked about the support that exists, the infrastructure we don't have that other countries have. I ask, why? We have embassies, we have infrastructure.

I'd like you to comment on other markets. Are we on the right track with the European free trade agreement? You talked about diversifying. Can you add something to that?

I'd like you to comment on whether we are going in the right direction by signing free trade agreements like the one with Colombia, for example. It's not that I'm saying we should get away from a strong market like the U.S. one; on the contrary. But are we on the right track? Should we pursue bilateral agreements?

If I may quote, somebody said we “need a stronger commitment”. Can you be more specific when you say “stronger commitment”? Does that mean infrastructure, as Ted suggested? Does it mean more money from...? You referred to the Canada export corporation.

By the way, I'd like you to comment on that organization. Are they cooperative? Do you have access to it? Or is it difficult to get support from the Canadian export corporation or Export Development Bank? In what other ways is the federal government supporting your initiatives? And if there aren't any ways, what other suggestions would you have specifically for what the government can do, whether it's in money, infrastructure, or whatever else?

I think I've asked enough questions.

● (1035)

The Chair: Yes, you've probably asked enough to get us through till noon.

I think everybody would like to comment on this one.

Do you want to start, Mr. Laycraft?

Mr. Dennis Laycraft: Sure. I'll touch briefly on COOL.

We all agree that the problem with WTO or NAFTA is that it is a protracted process, and then you can get into everything from appeals to different rule-making.

At the end of the day, we'll end up with changes to the COOL requirements. I don't believe they're going away. They're going to remain on fresh beef products.

While you initiate a case, you always have the question whether that impedes or improves your ability to negotiate at the same time. I think what we found in this first one was U.S. interests were pushing at the same time as we were. Working with those allies is extremely important, particularly with a new administration and Congress.

I want to say that our embassy in Washington is exceptional. All the names and the contacts do a great job, and we work closely with them. Whether we provide or they provide, we have full confidence in the work they do. They do some great work.

The alternative is to negotiate, and I think as part of that we haven't done a very good job as a country and as industries. We're spending a lot more doing it now, but I think we've neglected telling the story about the trade relationship we have with the United States. I suspect, on the numbers John gave, very few Canadians would have any idea, either, that this was the significance of the relationship.

We're meeting every three to five weeks with U.S. Congressmen, with their staff, and with others. We're very pleased to hear that you're going down there. Any messaging we can help with, we'll be delighted to do.

I saw a picture here recently. It showed someone moving a product between France and Belgium. Then it showed a picture of moving a product from Canada to the United States through Windsor. One had a sign and an empty highway in front of it. The other had a mile of trucks.

The more we can do...and it's more than just COOL. It's this whole establishment of a restored and improved ability to move products and services back and forth that is really important. It's going to take, I think, a lot of legwork from a lot of people to convince a lot of people down there that there is a lot of value in this for both countries.

I'll stop on that.

● (1040)

Mr. Jurgen Preugschas: I won't touch the COOL side. There are so many questions in that, and Dennis has covered that.

Certainly, as to whom to talk to down there, I agree; if you're talking to the state reps, I think that's critical. We're taking an initiative whereby we've identified the people involved with us, dependent on our live trade. We're working with them to create an American advocacy group with our support. They talk to their Congressmen, their Senators, their state representatives. We feel this has to be a multi-pronged approach. You can't just go in one direction. The more we can get our tentacles out to people who are affected by it, the more important it is.

You asked if we feel that we need more dollars, or what sort of resources to develop.

We feel, and our—

Mr. John Cannis: Jurgen, don't be shy to ask. Just say you need financial support. The lumber industry did.

Mr. Jurgen Preugschas: Well, there's no question we do. We believe very strongly in diversifying our markets. As Ted has said, on some of the products, the loins go one place, the hams go somewhere, the bacon and offal go somewhere else. It's really important that we have many markets. It's costly to promote those markets. As you see, our budget is very small.

We have asked the Minister of Agriculture, and we would certainly ask you to support that, about developing a legacy fund, if you will, where the pork industry does have access to significant dollars to help diversify. Then even something like COOL won't be quite as damaging as it is today. We think that's really important.

On the bilateral agreements, the EU, you mentioned, and others—Colombia, Peru, Korea—absolutely we need to push them. I know it's been said before, but we cannot be shy there as well. We have to understand what beef and pork and grains do for the developing of our GDP in Canada. We can't let some of the industries that want to limit access to trade harm our interest.

We don't want to harm supply management, but we can't be harmed at the same time, so it works both ways. You have to fight for us—those of us who create jobs in this country—and what we do. So I think that is really important.

Then, of course, the money crunch is a bit of an issue. It has been for people trying to export out of Canada right now. If we can help, especially in developing countries, for the Canadian Export Development Bank or whatever group that is, so that they do give access to funds, we can continue to market around the world.

● (1045)

Mr. John Cannis: That's wonderful.

Thank you, Mr. Chairman.

I thank them because they've identified one other thing—namely, that investment needs to be done in the infrastructure. They talked about border services and the efficiency of movement, and I thank them for adding that.

The Chair: Good.

Mr. Holder.

Mr. Ed Holder (London West, CPC): Thank you, Mr. Chairman.

I would have shared my time with Mr. Keddy, but we don't have that much time.

I'd like to acknowledge our guests. I think this is exceptionally informative, and I appreciate your coming here today and presenting your comments to us.

In particular, I was going to ask just a fast question because it does relate, at one level, to our upcoming meetings. You're talking about free trade and being free traders and looking for more pork and beef exports. You know that we've introduced enabling legislation regarding FTAs with Colombia and Peru, but those are small markets. Our biggest market is south of the border. I'm trying to understand, from your perspective, why these free trade agreements are so critical to you. I'm not trying to get off the other topic, but I'd really like to get a sense of that as it relates to free trade here.

Mr. Jurgen Preugschas: Certainly, the EU one is not a small agreement. That would be very significant. We're talking about Colombia or the CA4, or Peru, or Korea. They are maybe not huge, but they are significant markets for us for specific products. The CA4, as an example, buys a lot of fat, and not everybody wants fat. The CA4 also buys skins. There is a limited market, so it is critical.

We have to understand that for each of those, although the tonnage may be small, they're pretty important to be able to sell the whole animal.

Mr. Ed Holder: Thank you.

Would yours be a similar response?

Mr. John Masswohl: Yes, but I guess I would make a distinction. I just want to make sure about what we mean when we talk about the Europe trade agreement. There's the EFTA free trade agreement, already working its way through Parliament, which, as far as we're concerned, was a disaster. It's a good example of how not to negotiate a trade agreement. There's nothing in there for beef. We have no access for beef or cattle to Liechtenstein, Switzerland, Iceland. Under Norway, I think, we got the ability to ship some genetics. There's nothing for beef in that agreement.

Now, with the European Union trade negotiations—they've not started yet, but are in developmental phases—we want to make sure that the government starts with a negotiating mandate that ensures we get the ability to ship unlimited quantities of duty-free beef into Europe. That has to be the objective. It's a huge market. They eat eight million tonnes per year and we ship them almost nothing. That's what we're looking for in that mandate.

Thank you.

Mr. Ed Holder: Thank you.

Go ahead.

Mr. Ted Haney: The WTO focuses on common rules, whether or not the members or participants bring to the table a great deal of economic power in a particular negotiation or whether they are relatively less powerful in negotiation. That's the primary difference between the process of FTAs and the WTO. For Canada, the common rules and our subsequent willingness to go and clarify our rights and our partners' obligations through dispute settlement processes, which are there to be used, very much speak to the benefits of Canada.

FTAs have been for Canada somewhat defensive. The United States, Australia, and others have typically cut their FTA deals with countries such as Colombia, Peru, the Central American four, or others prior to Canada's engaging. Our goal in the FTA world is to ensure that our relative smaller level of power and ability to exert power in these bilateral negotiations doesn't result in institutionalized discrimination against Canadian products. And that has happened in the past. That doesn't necessarily speak to our advantage as a country like Canada, which must first depend on common rules of trade.

There are potential advantages in FTAs. When they're negotiated, when there's a great deal of consultation and communication between the negotiators and the affected sectors, we can achieve some interesting and positive breakthroughs, but there's risk. The WTO will always usurp the potential benefits of individual FTAs.

The one potential exception to that rule is a trade accord with the EU. This is a very wealthy market of a half-billion people, a market with limited competitive forces that put us at risk, while at the same time it's consumers who have the money, willingness, and attention to pay for the high quality that is Canadian products.

● (1050)

Mr. Ed Holder: You know, it's my belief—I'm going to change back to more of the style around our Washington trip—that a good negotiation is one where you deal from a position of either strength or knowledge.

Mr. Preugschas, I appreciated your talking points, the seven deadly steps to being effective with these folks, but what would be helpful in this kind of dialogue is if we could be specific in terms of sources.

You indicated in here that “agriculture research analysts estimate”. You gave some good statistics in this, but if we could cite the source, we could say, “This is where this comes from”, so that it's very credible. I would say that from the standpoint of beef as well. Help us be as credible as we can be with very specific sources for your information. That would help us.

One thing I would say is that whenever I've been involved in a negotiation, the question they'll ask on the other side is what's in it for them. Of course, in dealing with the Americans, we know it's clearly going to be that. So part of it is education. But also, there's our lost market potential, and their loss in the United States because we can't provide them with the live cattle or the live hogs. That is useful for us to have when we go forward. Anytime you do that, citing your sources would be useful.

That's more of a comment, Mr. Chairman.

Mr. Benoit, I don't know if you have any last comment. I don't know if I have any minutes to share with you.

Mr. Leon Benoit (Vegreville—Wainwright, CPC): How much time is left, Mr.Chair?

The Chair: We have until 11 o'clock.

You just take a couple of minutes, and then I think we're going to wrap it up. This will be the last question.

It's nice to see you here, Mr. Benoit.

A round of applause for Mr. Benoit....

Mr. Leon Benoit: Yes. You know, back in the old days, when we had a really *good* chair at this committee, there was a lot more....

The Chair: That's it: time!

Mr. Leon Benoit: No, no, I'm kidding.

Voices: Oh, oh!

Mr. Leon Benoit: Oh, boy; I had about three different directions to go in. I think I'll go to the free trade deals.

You're talking about EFTA's not providing a market for beef. I think Mr. Laycraft talked about institutionalizing disadvantages in trade agreements. I'd like to hear a couple of examples of where these disadvantages have been institutionalized in the past, so we can stay away from that in the future.

In terms of EFTA, it certainly is opening up markets in other areas. What harm is it doing to the agricultural sector, if any? I'd like to hear specifically what harm has been done, because it is certainly advantageous to many parts of our economy.

Mr. Ted Haney: Just to speak briefly to the institutionalization of discrimination, there have been advantages. It's a balanced issue when we talk about FTAs. For example, one positive is that in Colombia, our basic deal has basically matched the U.S. trade liberalization agreements within their FTA.

For Peru, though, far fewer products from the Canadian beef carcass are included within the trade normalization commitment. Pre-FTA, Canada and the United States had equal and fair access to Peru. Once the two FTAs are ratified, the United States will have duty-free, tariff-free access for all cuts from carcasses...grading high-quality grades in the U.S. We'll have only part of the carcass from Canada.

That's an institutionalized discrimination against a wide range of cuts from our industry, which will not be fixed until at least 15 years out into the future.

Mr. Leon Benoit: Of course the United States hasn't ratified that deal with Colombia, as you know. Canada is moving along, at least.

Mr. Ted Haney: You can assume that they're going to be or they're not going to be; it's hard to say. Well, we're going to be, but for a year, and then the U.S. will. The framework agreements have been completed.

If we assume for a moment that both will eventually be ratified, that is institutionalized discrimination. The structure of the agreements, as they exist today, puts Canada at a trade disadvantage against the United States in that particular market.

● (1055)

Mr. Leon Benoit: In terms of EFTA, tariffs have been lowered under that agreement. How are things not better than they were before the deal was ratified?

Mr. John Masswohl: I guess it's hard to come to the beef industry and say to us, “Well, things didn't get any worse for you in that agreement; will you support it?”

Mr. Leon Benoit: But the tariffs have been lowered.

Mr. John Masswohl: Not for beef.

Mr. Leon Benoit: Yes, they have.

Mr. John Masswohl: No, not for beef. Beef has been excluded from the EFTA agreement.

Mr. Leon Benoit: I'll check that out. You say it's entirely excluded. That's not the information I had on that.

In terms of the European Union negotiations, which have started, you talked about the importance of that deal. Can you give a bit of advice on how to proceed? You talked about it very generally.

Mr. John Masswohl: In Europe right now, the access we have into the European Union is a small quota of 11,500 tonnes, which we share with the United States, at a 20% duty. Beyond that 11,500 tonnes, the tariff is prohibitively high. It's so many euros per tonne, and it works out to about 140%.

Basically we would like to see unlimited, quota-free, duty-free access into Europe. That means getting rid of the quota, in-quota tariff, and the over-quota tariff.

Traditionally Canada starts free trade negotiations, or any kind of trade negotiations, by saying we will not expand quotas or eliminate over-quota tariffs. For Canada, those circumstances generally apply to supply-managed products. If Canada starts with a position that they will not even discuss or push for those sorts of things, Canada will have de facto eliminated getting access for beef into Europe.

We want to make sure that Canada does not start the negotiations with the mandate to keep over-quota tariffs in place. That's essentially where we're going. I think there are better ways to ensure that the needs of the supply-managed sectors are dealt with rather than cutting the access for beef off at the knees before we even start.

Mr. Leon Benoit: Gentlemen, thank you all for being here today.

I know that getting deals in your commodity has been extremely difficult for Canada, and agriculture commodities generally. It's the toughest area there is to negotiate. If you look at the problems we have with NAFTA, most of them are in the agriculture sector, and that's really too bad. Of course the Americans care about what's good for their people. You have to be tough. You've talked about that.

I think your talking points are perfect. You have to focus on how it's hurting Americans, how it's hurting their voters. I am sure that is the way the committee will go when they go to Washington.

The Chair: Agreed.

Is that enough?

Mr. Peter Julian: No, I have one more question.

The Chair: No, I think Mr. Benoit asked enough questions for you.

Gentlemen, it's been very good today. Thank you very much; it's been very informative.

I want to just repeat, on behalf of the committee—I think three or four of the members asked you specifically—about possible suggestions of representatives we might meet with in Washington, and not just Congress, but also in the industry down there, or other suggestions you might have.

Please submit them to the clerk, the people you think it might be helpful for us to talk to, as much on your behalf as on our own.

Mr. Rice.

Mr. Martin Rice: Mr. Chair, do you have a tentative date yet for when the committee will go to Washington?

The Chair: Yes. We're going April 26 and 27, in two weeks.

Thank you again.

With that, we are adjourned.

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