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# **Standing Committee on Agriculture and Agri- Food**

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**EVIDENCE**

**Monday, May 14, 2012**

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**Chair**

**Mr. Larry Miller**



## Standing Committee on Agriculture and Agri-Food

Monday, May 14, 2012

• (1540)

[English]

**The Chair (Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC)):** We're in session.

Mr. McAlpine, Mr. Read, we talked briefly before. We just had some business we had to deal with, so thanks for being patient.

With no further ado, we'll turn it over to you, Mr. McAlpine, for 10 minutes or fewer, please.

**Mr. Rory McAlpine (Vice-President, Government and Industry Relations, Maple Leaf Foods Inc.):** Thank you, Mr. Chairman, for this opportunity to contribute to your study of the food supply chain in Canada. I'm pleased to offer a perspective from Maple Leaf Foods, particularly as it relates to the pork sector.

In November 2006 I appeared before your committee to talk about challenges facing the Canadian pork industry and identified six big concerns: animal disease pressure, particularly PRRS; declining relative productivity in efficiency, particularly managing the higher feed and energy costs; insufficient scale of Canadian processing plants; the competitive threat of pork industries in emerging countries; international market access barriers and trade risks such as country-of-origin labelling in the United States; and finally, and most of all, adjusting to a strong Canadian dollar.

Looking back five and a half years later, it's hard to avoid the conclusion that these six issues have shaken the Canadian industry to its core, but in fact there were at least three more challenges that no one anticipated in 2006: the financial crisis and global recession of 2007-09; the 2008 listeriosis tragedy, which was linked to our company's products; and finally, the so-called swine flu outbreak of 2009. In the last couple of years I could also mention growing health, animal welfare, and environmental concerns that have been linked to our industry's products and continuing evidence of declining per capita consumption of pork in Canada.

These events, of course, caused multi-year losses for producers, the exit of hundreds of experienced producers from the industry, record debt levels, processors facing overcapacity and margin pressure, loss of domestic and international market share, and millions of dollars spent on government support programs.

For Maple Leaf Foods, a radical transformation of our business model to meet these challenges had begun when I spoke to you in 2006. The imperative to complete it has only grown. Between 2010 and 2014 we'll be spending \$560 million in strategic capital across our protein and bakery operations to reduce costs, boost productivity, and drive market value. We're doing this largely on Canadian soil,

securing Canadian jobs, and helping to ensure the Canadian pork industry and our value-chain partners can again profit and grow as market conditions improve.

Our industry must now think and act differently since the favourable cost structure we enjoyed in the 1990s and the early 2000s is unlikely to return. The product quality, pricing, and reputational advantages we long enjoyed in both domestic and international markets can no longer be taken as given. We have to embrace product and process innovation, investments in scale, operational efficiencies, food safety leadership, and market development with purposeful strategies and coordinated efforts.

This brings me to the important question of how governments can help, bearing in mind that despite herd consolidation, the Canadian pork industry still slaughtered over 21 million animals last year, generated \$5.1 billion in sales, and set a new export record of \$3.2 billion.

Let me again go back to 2006 when I presented the following five recommendations, and if you'll allow me, I'll just comment briefly on the progress, the shortcomings, and new priorities to be considered in each area.

The first recommendation I gave then was to move forward on smart regulations and improve federal-provincial coordination. I can say progress here has been very positive. In the aftermath of the listeriosis crisis and the report of Sheila Weatherill, a great deal of positive changes occurred in food safety policy, programs, resources, regulatory approvals, enforcement, and governance.

We particularly commend the government on the recently tabled and long-overdue amendments to the Food and Drugs Act to speed up regulatory approvals, and also the anticipated consolidation and strengthening of food safety and inspection legislation under CFIA. Those were the CFIA initiatives on regulatory and inspection modernization, enhancements to import licensing and inspection, some very good changes recently proposed to the meat inspection regulations, and an ambitious agenda under the border action plan between Canada and the U.S.

We could still do much better on federal-provincial coordination in food safety, animal health, environmental standards, and other areas, but we do now have a national farmed animal health and welfare strategy, and I see hope for a similar food safety strategy based on efforts begun earlier this year.

The second recommendation I delivered then was to enhance trade through bilateral agreements and better infrastructure. While we wait to see deals concluded, the scope and ambition of the government's current bilateral trade agenda and the services of the Market Access Secretariat also deserve praise.

•(1545)

In addition to the above-mentioned commitment to Canada-U.S. regulatory cooperation, free trade deals with high-value markets like the EU and Japan would bring enormous opportunity to the Canadian agrifood sector. Getting into the trans-Pacific partnership is also extremely important, especially if Japan is admitted.

I must, however, mention specifically the need to conclude an agreement with South Korea. As just one company, we had \$75 million in pork exports to Korea last year, and these are in immediate jeopardy because we now face a tariff disadvantage relative to our U.S., European, and Chilean competitors. Total Canadian agrifood exports to Korea were over \$1 billion last year, and it's all at risk.

The third recommendation, five and a half years ago, was to improve labour market flexibility and foreign worker recruitment. In the past few years, we—our workforce, our union partners, and the communities in which we operate—have enjoyed considerable benefit from the temporary foreign worker program and the provincial nominee programs. Since we commenced recruitment of foreign nationals in 2002, we've employed 2,194 skilled or semi-skilled workers and 154 skilled workers, with a retention rate of about 60%.

Many aspects of program administration by the federal departments and coordination with the provincial departments of labour and immigration have improved. Efforts to accelerate labour market opinions and restore two-year approvals are appreciated. However, two years is still too short, especially given the new and higher English language threshold that has been established to gain permanent residency. This new threshold has already compromised our recruitment of lower-skilled workers and threatens the success of the program in communities such as Brandon, Manitoba.

Also on the labour front, I do again have to point to fragmentation across the provinces when it comes to employment standards, pension regulations, and so on, and the frequently threatened labour disruptions to rail and port services. Speaking about rail, though, we

do welcome the government's response to the rail service review and look forward to the promised legislation.

The fourth recommendation was that we support more science and innovation in animal disease prevention in Canada. Here, our assessment is somewhat mixed.

We appreciate federal funding for science and innovation under Growing Forward, including the swine science cluster, the Swine Health Board, and other bodies, but we see an erosion of publicly funded agrifood research in Canada, an underfunding of meat and livestock compared to the crop sector, and unfortunate changes that were made to the SR and ED program in Budget 2012. We certainly hope support for science will be strengthened under Growing Forward 2 and that we maintain the continuity of the clusters.

I would also remind the committee that the \$23 billion Canadian livestock, poultry, and meat industry faces the constant threat of a major foreign animal disease outbreak. We've made progress in Canada in terms of improved traceability, on-farm biosecurity, east-west disease zoning, and coordination of surveillance and laboratory testing, but we still lack a comprehensive national foreign animal disease response and recovery strategy.

In terms of animal welfare, we're finally updating the national codes of practice for animal care, but we still have a fragmented, outdated approach to animal welfare and standards across the country.

Finally, the fifth recommendation was for stable and effective farm support programming. Well, the Growing Forward framework, which began in 2008, introduced the suite of cost-shared programs that we know of today. In fact, if you check, there are 187 Growing Forward programs on the agriculture website—a lot of programs.

We've had ad hoc programs to help the hog sector downsize and adjust to harsh market conditions, various AgriFlexibility programs dedicated to animal slaughter, traceability, and food processing innovation, and new provincial programs, such as the risk management program in Ontario.

As a major pork processor, Maple Leaf values national, whole-farm programs that provide income stability and investor confidence in hog production. We do not welcome commodity-specific provincial programs that expose the industry to trade risk and create distortions in interprovincial trade and investment.

In Growing Forward 2, we hope that strong commodity prices will allow a rebalancing in favour of more support for science innovation, food safety, animal health, international trade, and environmental protection. We particularly believe that a program should be developed to help offset the capital cost of converting sow barns from gestation stalls to open housing—and I hope you ask me why I think this is important and how it could be done.

• (1550)

In summary, recent years have brought adversity to Maple Leaf Foods, especially in its pork business, but we've weathered the storm and accomplished much on our path to becoming a globally admired meat, meals, and bakery company. With the help of government policy supporting a strong business climate, our future in Canada and globally is promising.

I look forward to your questions.

Thank you.

**The Chair:** Thanks very much, Rory.

Mr. Read, you have 10 minutes.

**Mr. Brian A. Read (Vice-President, Government and Industry Relations, XL Foods Inc.):** Thank you.

Larry, I'd like to thank you as the chair, and the agriculture committee, for allowing me to speak to you. I always find this a humbling experience. I appreciate your concern. I sincerely believe that's why we're here.

There's another thing I have to mention. Last week we had an unfortunate event where we had to bury a long-time soldier of the meat and livestock industry in Canada. He was a great 4-H member and supporter. Larry Campbell left us, and we'd like to mention that. We wish his family all the best in the future.

**The Chair:** Thank you for mentioning that, Brian, I wasn't aware of that.

**Mr. Brian A. Read:** We just felt it was the right place to do it. Thank you, Mr. Chair, for that privilege.

The other thing we would like to start out with is congratulations to the Minister of Agriculture for all the money he's spent travelling the world, being away from his family, to assist us with market access. We'd like that on the record. We would also like to thank Fred Gorrel and his secretariat team on trade. He now has horses under him, with a bunch of talent that the Canadian system does have. Market access is important.

With respect to imports and exports, the beef industry tracks that. XL Foods tracks that very well. We have major concerns. We are now no longer a net exporter to the United States. We are a net importer from the United States. It happened last year, for the first time in my short meat career. It seems as if American beef coming into Canada is going to do even better this year.

We would also like to thank the efforts of CFIA. We see a very transparent working relationship with them that has developed over the last 10 years in the beef industry, since BSE. We have confidence in each other. We believe that we are a world leader, and we support them in their initiatives.

We are concerned about some fuzzy words currently being used. One is "validation", which of course is "outcome-based". They kind of make the industry a little bit nervous. We'll work towards getting the framework around those phrases, so that we have a better understanding and these plants can continue to operate efficiently and protect our consumers.

On labelling, we have some concerns in the beef sector about labelling, such as the "natural" claim in Canada versus the United States. You can walk into a Walmart and buy "natural" ground beef. We are assured that the product does not enter Canada, but we know the livestock does leave Canada to fill the needs of those labels.

On the U.S. dropping the ethanol subsidization, we kind of see that working both ways. We feel it will help the feed grain situation in North America over the next three to five years. If corn did hit \$10 a bushel, maybe chicken breasts would be equivalent to strip loin, so it might not be too bad for the protein sector.

That's tongue in cheek. That could be misled by Rory. Sorry Rory.

On traceability, we have traceability in livestock, and we're working on making that more efficient, as Rory alluded to. We understand that this cannot be government supported forever. We're not sure why not. But we have to make this efficient, and the current system is not. We are looking at using a bill of lading. Zoning is critical. There are probably better ways of doing it through a more efficient bill of lading and what they call premises ID.

In the beef sector, we're implementing the beef information exchange system, the BIXS. We're interested to see what the uptake from the producers is going to be. It will be there for them to use. I think we are putting the electronics in place as we speak. That will give them the yield and carcass information they've been looking for. We look forward to that uptake as well.

The SRM road map is critical. This is coming to the support of the beef round table, which does wonderful work. It has since 2003, and we thank the government for implementing these round tables. We find that this has allowed the further processors and the processors of beef and veal in this country to understand each other's businesses a little better so that they know that we're not always ripping them off. We try to buy the livestock as cheaply as possible, and we try to sell the meat for the most money we can get for it. That's business. We try to stay in business to make money.

The SRM, though, is a little disappointing. The round table supported it 100%. It was supported by the beef round table, which is a national, federal organization. And it was deemed not necessary. That is in the packing industry's face every morning when we go to buy over-30-month livestock in this country. We look forward to working with CFIA to get a road map to get us out of this box we're in as soon as possible.

I look forward to questions from there.

We have a beef infrastructure in this country that is struggling. It has rationalized itself. There may be room for more. I don't want to mention anything, but there may be room for more infrastructure and rationalization in the beef packing industry. Maybe it's okay. Maybe we will just slaughter them in the United States. That might be all right. Time will tell. But we are going to do everything in our power, because at XL, we have a lot of investment in this country, to maintain our plants in this country.

•(1555)

So we ask you to keep us as efficient and as effective as possible. That would be on the regulatory side. That's where the SRM policy fits in.

Food safety is of the utmost concern to all people in the meat industry. We should understand that. At no point will we take a risk with food safety. The customer is of the utmost importance to us, because that's who does keep us in business.

On "product of Canada", we've fixed the livestock side of things, but if you did want to marshal a load for China, for example, we would have to segregate possibly 10 steers out of an operation that's doing 4,200 a day. You'd sooner cut them down. The cost is horrendous. So we just need to find our way through that. That's system recognition when we talk to foreign countries, because we can sign a deal, but if it doesn't accompany what we're doing and we have to go through different measures, it adds costs—and I believe that's for all protein in this country.

Because Rory did mention the FTA with Korea, I don't want to spend any time on it. I think we all understand that.

We look forward to a possible strong FTA with Japan.

I'll leave it there, Mr. Chair. I'm sure there aren't many questions. I think I answered them all the way through.

Thank you.

**The Chair:** Thanks very much, Brian.

Ms. Raynault.

[Translation]

**Ms. Francine Raynault (Joliette, NDP):** Thank you, Mr. Chair.

Thank you for accepting our invitation.

I have seen some documents where I read that 40% of cattle, calves, cows and so on, is in Alberta. Does such a concentration of animals in a single province not present risks? Could a disease break out and devastate the herds, for example?

•(1600)

[English]

**The Chair:** Mr. Read, are you okay to answer?

**Mr. Brian A. Read:** I understand the question.

I'm sorry, but I didn't know if you had finished asking.... Is that the question?

[Translation]

**Ms. Francine Raynault:** Yes.

[English]

**Mr. Brian A. Read:** In the fat cattle, it's probably closer to 70% of the livestock that lives in Alberta. It just happens to be where the land is.

I don't know how you put livestock on property in eastern Canada, where an acre is selling for \$10,000. I'm not sure how you would feed cattle on that property.

[Translation]

**Ms. Francine Raynault:** I was asking the question just from the standpoint of food safety.

We also know that 974,000 hogs have been sent to packing plants in the United States. Do the Americans keep that pork or do they send it back to us when it is packed? When you buy a piece of pork, you really have no idea whether the meat is Canadian or American, or even Canadian meat that has become American.

[English]

**Mr. Rory McAlpine:** Well, certainly, Canada imports a large volume of pork, an increasing volume of pork, from the United States. At the same time, we have traditionally exported a large volume of feeder pigs and weanlings for feeding that in turn could be processed and become pork that then is shipped into Canada—that's for sure.

What has occurred in the recent past is that mandatory country-of-origin labelling in the United States has reduced the export of live hogs to the United States. So there are fewer live animals, but of course we are importing an increasing volume of pork. For imports, the one issue that concerns us on this is actually frequent cases of non-compliance on labelling for both imported beef and imported pork at retail in Canada. That's just one point I wanted to mention.

[Translation]

**Ms. Francine Raynault:** The Organic Trade Association has indicated that it is difficult to link in with supply chains. What is preventing the creation of those links with supply chains for organic red meat? Could the government do anything to help in this area?

[English]

**Mr. Brian A. Read:** In the beef sector, we have programs that are being developed by the cow-calf operations. It's called hormone-free beef and it is beef raised without any antibiotics. The marketplace is finding itself. So there is a movement towards that type of process, but it is happening as we speak. There are partnerships happening among the cow-calf and feedlot operations and the plants. It's kind of ironic. It is partnerships. It's kind of neat. They're exciting times.

But it's the marketplace pulling it. It's not being pushed in any way. It's just what's happening in the marketplace. There seems to be a demand for that product, so it is happening.

**The Chair:** You have about a minute and a half, Madame Raynault.

[*Translation*]

**Ms. Francine Raynault:** Could you tell me why we eat so little lamb and mutton in Canada? Is it because the meat comes from somewhere else and is not as good as Quebec lamb? A kilogram per person is not a lot.

[*English*]

**Mr. Brian A. Read:** I'll go back to my Schneiders days, although I'm dating myself now. Spring lamb used to be a huge business in Canada. There was the Catholic Church, and the Catholics ate lamb over Passover and on Good Friday. Lamb was a huge business. It disappeared. New Zealand came in with a fresh program and at a cheaper value. The land in eastern Canada, where the majority of lambs were raised, became too expensive. They could get better money from the land by farming it, by putting in crops or produce or whatever.

The lamb business just kind of left on its own. The lack of demand for domestic lamb caused it to leave. And you know, that brings us back to our concern in the beef business. If we're not careful, the same thing will happen: it will just come in.

•(1605)

[*Translation*]

**Ms. Francine Raynault:** It is a pity, because Canadian lamb...

[*English*]

**Mr. Brian A. Read:** It is.

**The Chair:** Mr. Hoback.

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

Thank you, gentlemen, for being here this afternoon. It's great to see you both here.

I really appreciate your comments, Brian, acknowledging the hard work by the minister abroad. I don't think a lot of people recognize the amount of personal time and family time this minister has sacrificed to open up markets. I think you'd be a good example of what you've seen in the change in the marketplace by getting market access, and what that has meant, not just to your business but to the entire food chain, when it comes to the beef sector.

So your comments are definitely appreciated. It's sure nice to see you defending the minister when the media incorrectly go after him on something as silly as going out and opening markets. I think we all understand that's very important.

You talked a little bit about the SRM. We're going to go down to Guelph and tour a plant there. Can you give us a little background on the difference in costs in...? I'm trying to look for the right word here. I'm wondering if you can tell me about your costs compared with, say, costs in the U.S. when it comes to slaughtering cattle because of the SRM program.

**Mr. Brian A. Read:** Yes, I sure can. I know that very well.

We have it down now to about \$17 a head this year because of improvements on yields. We were originally at \$27.90, I believe. I think that's what the original was.

We did commit to working hard over time to reduce the damages, but currently every cow we kill here versus in the United States.... When I say "cow", I mean an over-30-month animal. And maybe "kill" is not the right word either: every animal we "process", or, as seems to be the new buzzword, "disassemble".

For every over-30-month animal we disassemble, it's a \$17.54 a head disadvantage to the plants in the United States. That's not on the human food; on the human food, we're identical. Our rendered program for the animal feed—that's where we differ.

**Mr. Randy Hoback:** Okay.

What we're looking at here is the supply chain, Brian, and I'd like to talk to you a little about that. How are you finding the ability to get further up the chain itself, further up from your side, in both Canada and the U.S., in terms of getting your products on the shelf? What is that process like? Is it fairly natural? Is it easy? Is it always a constant battle? Are there issues that you face in Canada that you don't face in the U.S.?

**Mr. Brian A. Read:** Well, in Canada, we feel that in the beef sector, if we don't disappear 70% of our production domestically this year and next year, and for the next possibly two years, we've failed domestically, only because of where the herd is. Our cow herd is down. We have heifer retention.

The cow plant in Calgary closed because of supply. We chewed through the over 30 months pretty quick, pretty heavy. We made these plants pretty efficient.

So if we don't disappear 70% in Canada—in Canada we can compete, there's no doubt about it—then we feel we've failed from a marketing standpoint. As far as access to the domestic marketplace, there are no restrictions, but it is all price. That's the business we're in currently.

One of the big problems we have, if we're talking about the supply chain, is the disappearance of middles—strips and ribs. We see ourselves in a new economic world, one where people cannot afford to buy strip loins and buy ribs. Once it gets over a certain price threshold, it sits.

People say, "Well, is that ever funny. You can buy ground beef at \$4.99 a pound, and yet you can buy strip loin at \$4.99 a pound." Well, a 16-ounce will feed two adults if you cut it into eight-ounce steaks. That's \$10. With a pound of ground beef, you can mix it with Kraft Dinner—which I enjoy—and feed a family of four.

That's the problem we run into in the North American marketplace. It's not just Canada; it's North America. The disposable income by our consumers is disappearing. It's hard for us to comprehend that in this room, because if we want a steak, we can go out and buy one. A lot of people can't, and they're our major customers.

I don't know if that answered your question, but that is a concern of ours when we talk about supply chain. We do need the return on those middles.

**Mr. Randy Hoback:** Rory, you made a comment, and I'm going to give you a chance to answer your own question. You said you hoped somebody would talk to you about why we should be converting to sow barns.

Could you enlighten us on that?

**Mr. Rory McAlpine:** I appreciate that. If you've followed the media in recent months, there has been a wave of announcements from retailers and food service operators in Canada and the United States stating their commitment to stop sourcing pork from any operator that does not adopt open housing systems in their production.

This issue has captured a lot of attention. There has been a lot of activist pressure on it. It's been recognized for some time in Canada, but it's hugely expensive. There's still debate about the pros and cons of different housing systems for sows, but the market has spoken at this point. As Maple Leaf Foods, we have made a commitment to convert all of our sow barns by 2017. That's in terms of what we produce in Manitoba. We procure 80% from non-Maple Leaf systems, so we're still dependent on the production from the industry as a whole.

It has been estimated that if all sow barn places in Canada were converted in the next couple of years, it would cost half a billion dollars. It's an enormous capital expense to redo foundations and rebuild these systems.

We're facing an enormous potential risk at this point in terms of market access, customer acceptance. We talked about getting into the market environment in Canada. It's one thing to be cost competitive, but now we're facing even more challenges in meeting these new standards. Obviously food safety is critical, but now it's animal welfare standards.

We think there's every reason to think about this strategically as an industry, with government. How can we help to offset this and get Canada into a lead position, which ultimately is going to be critical for global market access? For example, the European Union has some of the highest animal welfare expectations, both regulated and commercial, in the world. We're about to conclude a trade agreement with Europe. How are we going to get our pork in there if we can't comply with expectations on animal welfare?

The sow crate issue is the key one, and we can share some thoughts with the committee on what such a program could look like.

• (1610)

**The Chair:** Thank you very much.

Mr. Valeriotte, five minutes.

**Mr. Frank Valeriotte (Guelph, Lib.):** Thank you, Rory and Brian, for coming today to speak to us.

Brian, talk to us more about Canada being a net importer of beef from the U.S. You mentioned that in the last year we've become a net importer.

What's the negative impact of that, and why is that happening? Tell us all the reasons you think that's happening.

**Mr. Brian A. Read:** With regard to Canada and the United States, agriculturally, trade is of great value to both countries. It's a road. If we have equivalent food safety systems, we shouldn't have border interference in any way.

We're working towards that with the RCC, and we see big positives there. If it's not two-way, then of course we can't just make it another metric system. That can't happen. I think most of us in this room remember that one. It made us all bilingual, though.

What's happening is that it's a truck ride for these products to come up here. You come out of an area where Bennie deJonge used to operate his company in Guelph, and he operated it very successfully. As we all learned from Bennie, his product got a premium domestically and he used the export market if he had surplus. That's how he maintained his business. I believe that was his business model. I don't need to tell you that, Frank.

It's critical that we have equivalent systems between the two countries that allow us to be equally competitive. That's all I'm saying, Frank. The SRM, and I hate to bring it up, is one of those regulatory issues that is a burden for the beef packing industry today.

**Mr. Frank Valeriotte:** Brian, I heard another story the other day about a double inspection of our meat going down there and a single inspection of the meat coming up. We sometimes get stopped at I stations, I think they call them.

Can you describe the incongruity in that as an example of where we need better harmonization?

**Mr. Brian A. Read:** Sure, and I think that's a good one for all of us in the room. I think we all understand it.

The Americans have what they call I houses at key points at all border crossings. So when our trucks show up at the border, they have to go to customs and they have to get approval. They have to be allowed to enter the United States, as do United States trucks coming into Canada; they have to go to Canadian customs to be allowed to enter into our country.

When the trucks coming up out of the United States come into Canada, the majority of re-inspections occur at the customer base. The federal inspection is there, and they do the re-inspection at the point of delivery. When we are going into the United States, we would be re-inspected at the I house. Now, it's a random re-inspection, but we would be detained. We have to reroute ourselves to the I house. Clearing U.S. customs doesn't allow our meat to go all the way to the customer in the United States or to the end user for re-inspection. It has to occur at the I house. If we go all the way to the customer by error, the product is used by error, that product is declared adulterant, and all the production that the product was used in is condemned, for want of a better word.

That's the difference with the two inspections.

The other thing is we now have two new six STECs, which are additional E. coli—they're 105, 121, 123. The list is well known. They're going to start random samples of lots at the border. So those two combos that they take off and take the samples from will be detained, and we'll probably bring them back.

• (1615)

**Mr. Frank Valeriote:** Thank you.

Rory, in regard to the labelling on meat coming in and not knowing where it's from, can you better describe that? It almost sounds as if there's a black market, with some meat coming in here for which we don't know point of origin, and we're not sure how it is being labelled up here. I suspect that it's not labelled properly, not labelled from its proper point of origin.

**Mr. Rory McAlpine:** That's right. I wouldn't say that we necessarily have any food safety concerns, but the meat inspection regulations and the consumer packaging and labelling regulations lay out certain mandatory elements that have to be on foods sold at retail in Canada. In the case of meat, there are several elements of what has to be on that label, including an identification of the country of origin.

So the question of whether those labels are accurate or not is a matter of CFIA enforcement. The labelling can be a combination of what's put on the pack when it leaves the plant in the United States and what's added on the in-store label when the price per pound is added to the product in the store.

It doesn't matter where the information is. The point is that we often see product at retail in Canada that does not identify the product as product of the United States. Sometimes you may not even see a meat inspection legend. Now, we know it's coming from a federally inspected plant in the United States, but these elements, to our view, are important for consumer education; they're important for awareness. As we try, as a Canadian industry, to build consumer confidence and awareness of the Canadian product, we're fighting this constant challenge of unidentified product at retail.

**Mr. Frank Valeriote:** So is it a matter of better enforcement at the retailer level then? Is that where we're looking?

**Mr. Rory McAlpine:** Yes. There's no way any inspection agency can inspect the thousands and thousands of retail stores in Canada. But we would argue there does need to be better enforcement, nonetheless, with more random checking, and ultimately it's also an obligation of the retailers. They don't want to be misleading

consumers; that's not in their interest to do that. But it's hard in their business environment sometimes to get it right, and we're continuing to flag that, and we hope the CFIA will help us in that.

**The Chair:** Thank you very much.

Brian, just for clarification, Frank was asking you about meat going south, trucks that have to go to the I house. I think what you're suggesting is that it would be better if the U.S. didn't have that extra step in there—that random checking versus being checked right at the I house. You're not suggesting that we implement this I house or duplication inspection up here, are you?

I just want to be clear on that.

**Mr. Brian A. Read:** At this point I would say absolutely not. Two wrongs never make a right.

**The Chair:** That's right.

**Mr. Brian A. Read:** But the issue is that if you don't have something to give away, you're negotiating with only one hand, and it's kind of hard. So we look forward to the success of the border cooperation. We really do.

**The Chair:** In an ideal world, it wouldn't happen at all.

**Mr. Brian A. Read:** No, it shouldn't happen at all. We have equivalent inspection systems. We strongly believe the two countries have equivalent systems and they should both recognize that, and these trucks should move freely. That would help us tremendously as well.

**The Chair:** Great. I thought that's what you meant. I just wanted to clarify it.

**Mr. Brian A. Read:** I'm sorry, Frank, if I confused you.

**The Chair:** Mr. Lobb.

**Mr. Ben Lobb (Huron—Bruce, CPC):** My first question is for Mr. McAlpine.

Could you tell the committee where the U.S. is currently with its regulations for sow crates?

**Mr. Rory McAlpine:** There are no national regulations in the United States, but several states, under pressure from activists, have adopted bans on the use of sow crates in hog production. These typically have been smaller states that have pretty small populations of hogs, but the Humane Society of the United States has an aggressive campaign to secure petitions that are going to increase the number of these bans state by state. There are several cases of states that will commit to eliminating sow crates by 2017 or beyond and—

• (1620)

**Mr. Ben Lobb:** Could I stop you right there? This is being led by activists, I guess, at this point.

Can you tell me what the issue is with the current state of crates for sows? This practice has been going on for decades. What is the risk to the consumer or a food retailer by having a sow in a crate?

**Mr. Rory McAlpine:** It's fundamentally a question of perception and science around the well-being of the animal. That's where it starts. Of course, as an industry we believe that is paramount. That's the number one issue to focus on.

The debate—

**Mr. Ben Lobb:** Sorry, you're saying science has proven this, or you're hoping science leads in this direction?

**Mr. Rory McAlpine:** I'm not saying either. I'm saying whatever route we take needs to be based on science, and there are many different views about the scientific merits of different housing systems. You have to understand the cycle of a sow. There are several stages of production in sows.

**Mr. Ben Lobb:** Why would Maple Leaf Foods, which is a large Canadian corporation, make a commitment to go without sow pens in 2017, to eliminate this practice without science clearly indicating one way or the other? Is this strictly to bow to the activists?

**Mr. Rory McAlpine:** No, there is science, and we're looking at it. We have some current science that would argue there is a benefit. In other cases, in other studies, it has been somewhat unclear. Again, there are multiple systems, and we are working with the University of Manitoba to make sure that as we convert we're moving to the systems that will be in the best interests.

**Mr. Ben Lobb:** I'm from Ontario, Huron County, and Huron is a very large producer of pork, as well as Perth, which is the county east of where I live. Would you say this initiative is going to put a terrible strain on the finances of pork producers in Ontario, and quite frankly, from coast to coast? Many producers look at this with great skepticism, that you're making a commitment not based on science. When the pork industry is just getting off its back to go to this, it looks to me as if it's a corporation trying to consolidate and get rid of the small- to medium-sized producers.

Am I way off base here? It seems that is exactly what's taking place here.

**Mr. Rory McAlpine:** The move that Maple Leaf Foods made in announcing this in 2007, our commitment over 10 years to get to that position, was very much driven by all our U.S. competitors. Smithfield Foods came out of the gate first, but this is all driven by what's happening at the consumer and the retailer level.

If you look now at Wendy's, McDonald's, Chipotle, Compass Group, they're all announcing they won't procure from any other system.

**Mr. Ben Lobb:** That's fair enough. I know the debt-to-equity levels of the pork producers in Huron, Perth, Bruce—you can go up and down—are in precarious situations even today, even two years after the downturn. Who's going to pay for that? Obviously, the government isn't going to pay for something that isn't scientifically proven, that's driven by retailers.

**Mr. Rory McAlpine:** There are two things. The first point to note on the issue of science...I don't want to say there is not every good reason to be moving in this direction from a scientific animal welfare point of view. The other key issue is that the current code of practice

for care of pigs in Canada is about to be released in its updated version, and it will undoubtedly set a new goal for conversion to open housing systems in Canada. The industry is right at the table developing those new requirements and standards and outcomes over time.

The second point is exactly why I said I believe there needs to be a program. This is a huge cost, particularly for smaller producers, and there is a very logical public policy reason why some government assistance to get us there would be very helpful and move it to a point where we can make it almost a competitive advantage for the Canadian industry.

**The Chair:** Thank you very much.

Mr. Allen, you have five minutes.

**Mr. Malcolm Allen (Welland, NDP):** Thank you, Mr. Chair.

Thank you both for being here.

Rory and Ben, you've just gone through this whole issue about animal welfare.

Brian, I think you said earlier that the push is coming from consumers about what they buy and what they don't buy. Based on that, it seems that this integrated chain we have—value chain or whatever—is a hodgepodge of who wants what.

Rory just listed a whole crew of big buyers—McDonald's, Chipotle—that are not only asking for certain types of meat, but saying they want it raised a certain way. We've heard this from others. This isn't new. If that indeed is the case, should we be looking at an integrated system that says, "Here's a standard"?

My friends across the way and farmers in general may not like that the bar is pretty high when it comes to animal welfare, in the sense that it's different and expensive. I'm not debating the issue of the science, the non-science, and all the rest of it. At the end of the day, if you can't sell them because of the way you raised them, they're of no value to you, let alone the value you'd want to get out of them.

Where should we be in this policy piece? Are you fine with a system that's supposedly integrated but now becomes this mishmash of who wants what from where and why? Where would you prefer to see this go?

• (1625)

**Mr. Rory McAlpine:** Well, it's a complicated issue. The consumer market becomes increasingly fragmented. A typical grocery store in Canada today has 50,000 food items. We talked about organic. We talked about all these channels. I believe market forces will continually drive us in new directions on this.

At the same time, our challenge as a country is that we're facing cost pressures. With a dollar at par, our challenge in some of these commodity areas is to compete with insufficient scale, insufficient technology, higher labour costs, and so on.

On the point Brian is making about growing imports and growing risks to the infrastructure of our industry in Canada, this is absolutely real. Maple Leaf competes in some major commodity areas. The only path to success in this has been to scale up and invest over half a billion dollars over four years. I don't think that needs to crowd out other opportunities, and there's going to be lots of space for small and medium-sized players, but rationalization is bound to occur. More imports are bound to occur. It's a tough business out there.

There's no simple answer. I don't believe we should be mandating an outcome here. I believe a national food strategy makes some sense, so we can have a proper dialogue and understand where resources need to be spent. But to think we're going to somehow design a master plan for food production and supply chains in Canada seems a bit extreme to me.

**Mr. Malcolm Allen:** I wasn't so much talking about the supply chain, but when it comes to policy around this sense of animal welfare, do we set a bar that everyone kind of accepts? Otherwise, at the moment the bars are like this. For certain groups you want to supply, the bar is here. For other groups that are looking for supply from you, the bar might be there. So you end up having double standards.

Let me go to Brian. There's a chart in some of the documents we have that shows in the red meat sector, specifically beef, a downward trend over the last number of years. You said you may need to have more rationalization in the herd across the country. We may actually see a day when we're slaughtering more in the States—live animals from up here being slaughtered down there.

Where do you see that slaughtered animal ending up? Would it be in an export market or back to us? Do we become the raw resource? We have the animal, perhaps because the land is cheaper—and I agree with you, by the way, that in eastern Canada, at \$10,000 an acre, forget it. There's no sense roaming a cow around land that's \$10,000 an acre.

If you had a crystal ball and were looking forward 10 years, where would you see this heading?

**Mr. Brian A. Read:** People say you should do a business plan in one, two, five, 10. In the meat business, in the beef business, and I think for red meat in general, five years is a lifetime. It's big money. There are big investments. We're proud of what we do. If we're unable to make the regulatory system equivalent with that in the United States, and maintain that equivalency, then we'll disadvantage the packing industry in Canada and it will go south. The livestock will be processed in the United States and the meat will come back up here.

We Canadians like our beef. Consumption of beef in Canada has actually gone up over the last 10 years, but that's for ground beef. We appreciate everybody who eats beef—don't get me wrong—but we will always eat steak in this country. We'd like to be able to think we're going to produce it here. This room has a responsibility to make sure that we are equivalent, whether it be in food safety or

animal welfare. We also feel that if government interferes in our marketing strategies or the consumer strategy, whatever it is, it's for the short term. We believe that a market should find itself. The minute government gets behind it and forces something somewhere, it doesn't last. We believe in markets finding themselves. For example, I talked about hormone-free beef and beef raised without antibiotics. Whoever thought that this would even be considered? But it is happening, and the market is finding itself. It's not you; it's not me. We're making it available, and the consumers are the drivers of it. That's when we know we have sustainability. There's a spirit to move things forward.

The other thing we have currently, and we congratulate everybody for the reference, in the cow-calf operation in this country, for the first time—and, Mr. Chair, you and anybody else who's in this business can attest to this—is some spirit. We have some excitement back there, and I think it's a good thing. We're not challenging those gains at all, but it's making it hard to maintain an infrastructure in the country. That's what it is.

We have record prices for lean meat. That's not new to anybody. Those prices will continue to go up, but at what point will we get resistance? That's the multi-million-dollar question.

I don't know if I answered your question, but that's a tough question. There's no black and white there. From my standpoint, I'm going to work hard to maintain a beef industry in this country, and that's why I take great privilege in being here.

• (1630)

**The Chair:** Thank you very much.

Mr. Payne, you have five minutes.

**Mr. LaVar Payne (Medicine Hat, CPC):** Thank you, Chair.

I thank the witnesses for coming, in particular Brian. XL Foods has a meat production facility in our riding. I had the privilege of actually going to that facility, and I was truly amazed at how the process was working and at the number of employees there. So hats off to XL. I know they did talk a bit about the issues around the costs and so on. I have a bit of an understanding, not enough I'm sure, because I'm not a cow guy.

**Mr. Brian A. Read:** You're close.

**Mr. LaVar Payne:** There are a couple of areas I wanted to talk about. I think, Brian and Rory, you both talked about market access and the TPP. I'm just wondering, based on your knowledge generally and with regard to marketability, how much access to that market would be worth to Canada.

**Mr. Brian A. Read:** Do you want to start with the pork?

**Mr. Rory McAlpine:** I'm not sure I can guess that, but obviously Asia is the growth market of the future. In the pork business, Japan is our top market, or at least in terms of value and profitability it's extremely important.

As much as anything, what would concern us would be if Japan got in and Canada didn't, because then they might secure a free trade agreement that would give U.S. pork better access into Japan and we would be facing exactly what we now face in Korea. We already have free trade with the United States. We already have free trade with Mexico. Some of those smaller emerging countries or Southeast Asian countries absolutely have good potential. Vietnam, for example, has started to import more and more, in pork anyway. So we would love to have easier access into those markets. But the critical one is maintaining a level playing field for access to Japan. That's the key.

**Mr. Brian A. Read:** I can't quantify it in dollars, but I would say that if we got an FTA with Japan, we'd see the disappearance of our middles, which is our critical one. That would be a big market for us, probably about 20% of their marketplace. We moved that bar from 21 months to 30 months and under, which they're working through their science, and it's being reviewed as we speak. So we expect that outcome before year-end.

Our compliments to all of you and the minister. And if you could pass on our thanks on those efforts, we'd appreciate it. They must continue.

We feel we would see a disappearance of about 20% of our strips and ribs, which would end up in Japan. As far as the FTA with Korea goes, I think we all know that story. If we don't have one within the next eight months—and that's actually retroactive for two or three years, right, Rory? It has to be a retroactive FTA or that deal's moot, and I think we all know that.

**Mr. LaVar Payne:** Okay.

Having been at the facility, I know a bit about the population in Brooks and the workers you have there, and I know they come from all over the world. Are there any issues around hiring? Particularly, is there anything in the temporary foreign worker area?

• (1635)

**Mr. Brian A. Read:** Rory touched on the two-year issue. The Brooks plant employs about 2,900, and we're proud to say that only 35% of them are foreign workers; the rest are all domestic people.

Part of the issue ends up being that two-year program. It takes you three months to make an employee efficient, and then you'd like to be able to maintain them. In Alberta they have the privilege of applying over the two years. You hope you keep them in the country so that your training costs are at least captured.

We brought some people up from Mexico recently, so it's working. It's a challenge.

We also have to compete, as you know, with the oil and so on, and the high costs in Alberta, but we seem to be able to do that.

Again, Canada has a different corporate tax structure, and that works through all right, and we really appreciate that. That makes it work.

**Mr. LaVar Payne:** Do you have any comments, Rory?

**Mr. Rory McAlpine:** The one thing I would add specific to Alberta is that these programs work based on a harmonized approach between the federal program and the provincial nominee programs. We actually find quite a difference between Alberta versus Manitoba.

Under the provincial program in Alberta, there is less willingness to see permanent residency granted to lower-skilled workers, who are the majority of the folks we would employ in our Edmonton poultry plant or our Lethbridge pork plant, whereas in Manitoba they have been much more open to lower-skilled workers. We invest a tremendous amount in their settlement, in their language education, and, as Brian said, we want them to get settled. It works as a great partnership in Manitoba.

We would frankly like to see a little more of a similar approach in Alberta, particularly, as Brian said, as the labour competition in the market in Alberta is fierce and our ability to retain workers is very difficult.

**Mr. LaVar Payne:** I know the minister just recently announced a 10-day advanced process for temporary foreign workers, particularly if there is a good track record. I'm assuming that might be beneficial to both your organizations.

**Mr. Rory McAlpine:** Yes.

**Mr. Brian A. Read:** We'll take full advantage of it. We appreciate it.

**The Chair:** Thank you. You're out of time.

We'll now move to Ms. Brosseau.

**Ms. Ruth Ellen Brosseau (Berthier—Maskinongé, NDP):** Thank you very much.

I just want to touch on animal welfare again. That's something I've always been really interested in. I want to know where my food comes from. I want to know how it's treated and what went into it. I think it's really important, and I think nowadays it's more common for people to question where it comes from, what goes into it. I want to know the food's background.

Can you just explain what a sow crate is exactly? It's a small box for a pig. You were talking about having some scientific information about....

**Mr. Rory McAlpine:** Yes, I can certainly share it with you. I'm no expert in the reproductive cycle of hogs, but that's right, there are phases in the production cycle where typically the hog would be in a gestation crate.

It's as much as anything to ensure the well-being of the animal. Hogs will tend to fight. They will be in conflict sometimes. Dominant hogs can end up getting all the food, so having a stall system is a way to manage their health and welfare and ensure they all get adequate nutrition.

Then at the point when a sow has its piglets, protecting the piglets from the mother is actually necessary, because the piglets can be crushed.

So it's a system that achieves those outcomes. That's why I say it's not as simple as saying provide open housing, because then you can get into competition. You have to look at systems of electronic feeding, and access to stalls during feeding so that there is no competition for food, for example. These are some of the factors that would distinguish those.

**Ms. Ruth Ellen Brosseau:** Would you recommend that as something that we, as a committee, should look into, animal welfare, maybe changing the way these animals are housed when we're thinking about the future?

**Mr. Rory McAlpine:** The work that's under way now to update the animal care codes of practice, which are going species by species under the National Farm Animal Care Council, is the right approach. It involves industry, the Canadian Federation of Humane Societies, and scientific experts. They all come together to arrive at the best recommendations. I think that is the best process.

The question then becomes, though, how do those get enacted? Certainly we believe it should remain a voluntary standard. You don't want to get into a system of mandating this. You need to continually evolve as we learn and as the marketplace moves us in new directions.

The one problem I alluded to, though, was that right now in some of these areas—on animal transport, housing, and so on—we have a very fragmented approach in Canada, which makes it easier for the likes of the major retailers and food service companies to adopt their own standards and to say, “If there is no national standard, then I want my suppliers to do X or Y.” That becomes a very challenging environment for our company and for smaller producers because there is no consistency. That's one thing we would encourage the federal government to take more leadership on.

• (1640)

**Ms. Ruth Ellen Brosseau:** It's really customer driven, because—

**Mr. Rory McAlpine:** Yes.

**Ms. Ruth Ellen Brosseau:** —when you think that big fast food companies are using cageless or open houses for the chickens now...

Could you comment a little on organic and beef and how that's going?

**Mr. Brian A. Read:** Yes, and I think I have to touch on your crate issue.

**Ms. Ruth Ellen Brosseau:** Yes.

**Mr. Brian A. Read:** You need all the facts and figures in front of you before you can make a conscious decision. Where we get hooked as a manufacturer is when people use this for marketing tools, and that really annoys us, because currently we don't mishandle our livestock. We have cameras at our unloading areas to make sure our people handle them with the greatest of care. We have cameras at our chutes that bring them up into the plant. It's all videotaped. That's for the betterment of the livestock. We use Temple Grandin on site and bring her up to help us design our operations—if not her, one of her associates.

Industry really cares about its livestock. They have big value, that livestock, so just on the economics itself, you're not going to abuse livestock. There is no value in a bruised or beat-up animal.

**Ms. Ruth Ellen Brosseau:** No, not at all.

**Mr. Brian A. Read:** So we should understand that some of our customer base will use it as a marketing ploy.

At the Canadian Meat Council, which Rory and I are both members of—active members—we look at food safety and animal welfare as non-competitive issues. It's allowed the organizations of all sizes, whether they're.... I've been fortunate; I've worked for smaller ones, bigger ones, and some larger ones. We're non-competitive and we share all our findings, both on a food safety standpoint and on animal welfare, and I think Canada should take pride in that. So that would be, what, 90% of the red meat produced in this country that works under that regime.

You were asking me about organics?

**Ms. Ruth Ellen Brosseau:** Yes.

**Mr. Brian A. Read:** What has happened in the beef industry, which I never thought of.... I got into a labelling dispute on vitamin D made from lanolin, from sheep's wool. They call it a byproduct in Canada, which is an issue.

But I did get into that issue simply because that's what the consumer is asking the beef-packing industry for. We're into now... maybe you don't call it organic. It's more of a naturally raised animal. You can't use the word “natural” in Canada because it basically has to be wild game, so we have to keep that in perspective. If we want to use the word “natural”, then we have to change the application of natural, because natural would mean that we go to the back of Larry's place and look for a cow that got away; we'd call that “natural”.

I'm not sure how many consumers we would feed with wild turkeys.

But we need to define “natural”, and we need to spend some time on that. Rory did talk briefly about labelling and how we apply it in Canada. We do produce something called “organic”; it's now raised without antibiotics and it's hormone-free. So it does have its own pull. There is organic beef out there. It's in very small niche markets.

**Ms. Ruth Ellen Brosseau:** You're saying there needs to be a definition for “natural”, let's say, so that everybody adheres to the words—

**Mr. Brian A. Read:** But keep in mind that when we think that, it also has to be applicable.

**Ms. Ruth Ellen Brosseau:** Yes.

**Mr. Brian A. Read:** It's like having science but you can't apply it. What good is it?

**Ms. Ruth Ellen Brosseau:** It's no good. Yes.

**Mr. Brian A. Read:** I'll leave it there. There was a little ranting there.

Sorry about that, Mr. Chair.

**The Chair:** That's okay.

Brian, just as a point, as a farmer—and we have a few in the room—I was glad to hear you mention the fact that farmers do look after their animals. You know, it's their financial interest that's at stake. I think that this...well, I call them the crazies; they want to push this a little far. I mean, ultimately some of them won't be happy unless there's an easy boy on every truck, so that each one has a chair. I mean, it's crazy.

**Mr. Ben Lobb:** I thought it was a La-Z-Boy.

**Voices:** Oh, oh!

**The Chair:** Well, there's that, too. I mean, we all know as producers, whether a hen is in a cage or out on a floor... It's not doing a bit of good. So we have to be careful how far the market drives it.

Rory, you mentioned it. The consumer has to have that good information, and sometimes it's overkill, there's no doubt.

That's my rant of the day, by the way, Brian.

Mr. Lemieux.

•(1645)

**Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC):** Thanks, Chair.

I can tell you right now that five minutes will not be enough, but I'll do the best I can.

Maple Leaf Foods, you're involved in a lot of different aspects of the food sector. I'm wondering if, just for the benefit of the committee, you could explain what types of products you buy, from who and in what form. The second part of my question will be, what kinds of products do you sell, in what form, and to what customer base? The consumer would see Maple Leaf and think cold cuts, but you do far more than that, and you're buying what from who in order to sell what to who?

We're looking at the supply chain here, so I'd like to understand how far back you're reaching in the supply chain and who you're buying it from, and how far forward you're reaching in the supply chain and who you're selling to, and what kinds of commodities are in between.

**Mr. Rory McAlpine:** The company, as it's structured today—and it was consolidated organizationally a few years ago—focuses on three areas: protein, bakery and agribusiness. Protein is mostly pork and poultry, certainly only those species in terms of primary slaughter of birds and hogs. From that we produce various processed or prepared meat products and meals and so on based on those proteins. We also buy some beef and even some lamb, I think, to put into some products, which then get turned into protein-based consumer foods.

In the bakery segment, it's Canada Bread, which is a major commercial fresh and frozen bakery manufacturer in Canada, the United States, and the U.K. We're producing a wide variety of national brands. Dempster's is the most common national brand for bread, but there are a lot of regional brands found in different provinces.

The agribusiness piece of the company is, first and foremost, the hog production that we have in Manitoba, as well as the Rothsay

rendering business, which includes biodiesel production and some feed production, although we sold the major feed business several years ago.

**Mr. Pierre Lemieux:** So if we're looking at the red meat sector, first of all, you own your own source of pork supply.

**Mr. Rory McAlpine:** Right.

**Mr. Pierre Lemieux:** Do you slaughter that as well?

**Mr. Rory McAlpine:** Yes.

**Mr. Pierre Lemieux:** And then you simply feed that product into your processing plants.

**Mr. Rory McAlpine:** That's right.

**Mr. Pierre Lemieux:** When you're selling, are you just selling packaged foods, or do you sell the slaughtered hog, not processed—

**Mr. Rory McAlpine:** Yes.

**Mr. Pierre Lemieux:** He's just sold in bulk to someone else.

**Mr. Rory McAlpine:** That's right. Both of those scenarios are in our production.

On the hog side, in our major plant in Brandon, Manitoba, we source less than 20% of the total hog supply from our own farms for that plant. The other 80% comes from hog producers across western Canada.

**Mr. Pierre Lemieux:** That's interesting. Why 20%? Is that considered to be a better cost value to Maple Leaf, or is it considered to be break even but you want to keep a hand in raising hogs, or is it more expensive but you have better control over that product? I'm interested in that division and why you wouldn't be zero or 100%.

**Mr. Rory McAlpine:** It is a risk management strategy. It's about having a procurement model that certainly guarantees you and gives you insight partly to the pricing and the cost structure that is relevant to producing hogs. It's also having the flexibility to source and take advantage of market circumstances to get access to cheaper hogs at any given time.

**Mr. Pierre Lemieux:** All right.

**Mr. Rory McAlpine:** It is fundamentally a procurement risk management strategy.

**Mr. Pierre Lemieux:** Okay. That I get.

In terms of who you're selling your product to—and I don't just mean processed packaged product, but let's say, and we'll go back to the pork market, you're moving product through your plants—are you selling, dollar-wise, primarily to a customer, meaning the customer we'd find in Sobeys, Loeb's, etc., or are you selling primarily to the restaurant industry, or is it to processors who will process it further? What kind of ratio...?

**Mr. Rory McAlpine:** It's all of those things. Most of what we ship to the United States is for further processing. It's whole muscle, it's carcass, it's product that then will get turned into value-added meats by a U.S. company.

**Mr. Pierre Lemieux:** By someone else.

**Mr. Rory McAlpine:** That's right. But otherwise, in the domestic market, and some export, it's food service, retail, institutional, and, under multiple banners and brands, consumer-ready, both fresh and frozen ready-to-eat, meat products.

•(1650)

**Mr. Pierre Lemieux:** Are you able to divide the consumer from everything else? Is there a percentage that's sold directly to consumers?

**Mr. Rory McAlpine:** I'll get that for you.

**Mr. Pierre Lemieux:** It's just out of interest.

**Mr. Rory McAlpine:** My guess would be maybe 80% would be consumer. In terms of hams, bacon, deli, and then other value-added meats, probably, from our total system, it would be something like 80%.

**Mr. Pierre Lemieux:** Okay. So it's very focused on the consumer and not so much—

**Mr. Rory McAlpine:** Yes. The business model is one to try to reduce our exposure to commodity risk. When the dollar went to par and we were so reliant on exports, we found that we had a business model that frankly wasn't sustainable. We're trying to build it into a more vertically integrated, value-adding operation, such that we can protect the stability of the business and the profitability of the business, first domestically and then from there internationally.

**Mr. Pierre Lemieux:** Can you give me a concrete example of that? Give me a concrete example of where you've gone more vertical and how is this protecting the business, in a sense?

**Mr. Rory McAlpine:** In the supply chain, what we've done now... we used to have hog farms that we owned or that had different contractual relationships for hog production in Alberta, Manitoba, and Ontario. It's now just Manitoba. Of those hogs I mentioned, the 20%, we own them 100%. So it's a clear, simple business model.

We have now consolidated all our slaughter into one plant in Brandon, Manitoba, a state-of-the art, double-shifted scale facility. We do still have a smaller plant in Lethbridge, which is shipping product to Japan, and it just fills a unique opportunity in that way, but we've consolidated all of the slaughter.

Then this half a billion I mentioned is all about shifting to centres of excellence in production of bacon, hams, boxed meats, deli, sausage—all of those items now will be in dedicated facilities. We used to produce multiple SKUs across multiple plants, and the business model was just not sustainable in the new commercial reality.

**The Chair:** Thank you very much.

Mr. Côté, you have five minutes.

[Translation]

**Mr. Raymond Côté (Beauport—Limoilou, NDP):** Thank you, Mr. Chair.

My thanks to the witnesses for answering our questions.

Mr. Read, you mentioned that the price of certain cuts of beef is sometimes very high and that it might be a problem for consumers.

My riding of Beauport—Limoilou is an urban one, right in Quebec City. When I go grocery shopping with my wife and people recognize me, they generally talk to me about two things: first, the weather and then the price of food. The price of food in general is one of the questions that concerns my constituents a lot. Now, the

Canfax data tells us that the retail price of beef is going up while demand is going down.

Can you explain that to me? Then I might perhaps be able to give my constituents a reasonable answer.

[English]

**Mr. Brian A. Read:** That's a good thing, but they're not going up quickly enough for a meat processor.

We've got ourselves in a global shortage of protein. We've had a major drought in a major part of the United States. It was the Mexican drought that came up through Texas and chewed up their cow herd pretty heavily. Will they go back into the cow business? Who knows. Farming's not a bad business.

We've got the same problem. We had the same problem in northern Alberta, and Quebec benefited from it. The cows came across the country, stayed in Ontario, and some went into Quebec and created cow-calf operations. We thought those cows would come back to northern Alberta, as you can attest to, and they never did. You people got into farming.

The Canadian consumer is used to disposing of product, like not finishing their plates. You can go into restaurants, you can sit at your own kitchen table, and you can even evaluate a head of lettuce in any one of our fridges; if we don't eat it all, it's okay. If you go to Japan or other Asian markets, nothing is thrown away. You'll sit at a table for two or three hours and you'll eat everything that was served to you. It will be to the bare bones, even to the degree where they'll cook the bones to make soup. Maybe we need a culture change in Canada so that we're not quite so wasteful. It might not be quite so expensive. That would be my answer.

We've had the luxury of disposing of food in this country and in the United States. The United States may be even worse. The portions are so big down there that you just can't get by the first quarter. I think they have to learn how to manage their food better. It's not going to get cheaper. We're dealing with record feed costs.

From grain to canola, right across this country, China is lining up to buy our product. You're not going to feed cattle cheaper. I doubt you're going to feed hogs cheaper. That's today's reality, and we are sensitive to that. We're nervous because agriculture is the number one employer in this country; if it's not, it's close to. That's a good thing, but it also means less income for our general population. The automotive industry paid much better than my industry ever did, so there's also less disposable....

It's not too bad if you live in a government community or a university community where people are still making good money, but if you're in a blue-collar community, where you come from, it affects them. I think we just have to be less wasteful. I think there's an opportunity for us to eat just as well but not to throw quite as much away.

•(1655)

[Translation]

**Mr. Raymond Côté:** Thank you for that explanation.

[English]

**Mr. Brian A. Read:** Sorry.

[Translation]

**Mr. Raymond Côté:** Great. But the data in front of me seems to show that beef exports to the United States are going up, whether live or processed. That is not counting the effects of integration and some realignment of slaughter capacity.

Can those factors also contribute to price increases that are adversely affecting Canadian consumers?

[English]

**Mr. Brian A. Read:** We want to put some numbers together because we believe that exporting product, meat as well as livestock, makes the food more competitive for our Canadian consumers, but that's an assumption. We have to spend some time working on it, because from a taxpayer's standpoint, and checkoff dollars from the cattle industry, millions of dollars a year are contributed to marketing. Whether it be marketing exports, marketing beef around the world, we feel that it allows our infrastructure to be more effective, and it makes us more efficient so we can compete globally, which in return should give us cheaper beef in Canada. If we were to reduce our herd and just feed the domestic marketplace, you'd see a stronger price of beef in this country.

We've now merged the Canada Beef Export Federation and the Beef Information Centre into one marketing organization. That's already been their ask. Hopefully we can get those numbers so our consumers can see the value in export. It's a question.

[Translation]

**Mr. Raymond Côté:** Thank you, Mr. Chair.

[English]

**Mr. Brian A. Read:** Did that answer your question? I'm sorry. I don't have that number.

[Translation]

**Mr. Raymond Côté:** That's fine, thank you.

[English]

**The Chair:** Okay. Thank you very much.

Mr. Zimmer, you have five minutes.

**Mr. Bob Zimmer (Prince George—Peace River, CPC):** Thank you for coming today, gentlemen.

I have a question for both of you. You're both in the same industry that has been affected, I guess. We've talked of late about food safety. Our government has introduced certain aspects that essentially make it more efficient without making it any less safe.

We've seen issues within the industry, absolutely. I want to know, from the perspective of the industry itself, whether you can reassure Canadians that your products are safe, and why.

Let's start with Rory. I know it's a big question.

**Mr. Rory McAlpine:** It's a big question. As a company that lived the consequences of a major food safety breakdown, we feel that keenly and understand deeply what it takes to be a leader in food safety.

The key is that we always have to make decisions and invest resources based on science. That's first and foremost. And we have to do it, as Brian mentioned, in a non-competitive, non-threatening

way. It involves a close partnership between government and industry. It requires a combination of tools. I mentioned earlier the regulatory and legislative changes that I think will be positive.

At the end of the day, though, that just gives you a more modern tool kit. How you employ it, how you then drive outcomes based on that, is a function of your science, your testing, and the resources, both in government and industry, to do all of those things.

**Mr. Bob Zimmer:** Sure.

I meant to preface my question with a comment.

We're a family of six. So when you talk about Kraft Dinner and ground beef, we like it, actually. It's one of our favourites. Just to let you know, we consume a lot of your products, whether it's luncheon meat or whatever. We're "meatetarians" in my house.

Brian, can you follow up on that? I have another question after, so please be brief.

• (1700)

**Mr. Brian A. Read:** It's a good question, Bob.

I guess I'm dating myself a bit. I came into this industry a few years ago, and where we were and where we are today.... We now have science in our building. Can you imagine? We're making meat, and we now apply science. We test. We have lot sizes. We test for pathogens. We have an N-60 test method, which was all done with industry working in cooperation with CFIA. If we do find positives, we either cook it to make it safe for you and your children and me, or we dispose of it. There are no grey zones anymore.

We've implemented HACCP programs. In a plant my size, it costs about \$1.2 million a year, just for the labour, to manage these programs. Years ago, you never had it. It was a foreman and a bunch of line workers, and you got it in the box as quickly as you could. Now we monitor temperatures. We monitor all processes, all aspects, from animal welfare through to the box, because we want repeat sales, and we cherish our customer base. I can't emphasize that enough.

This committee toured our plant a couple of years ago. And boy, you're welcome to tour it again and spend time. We have a lab in a meat plant. Science has been adopted. It's amazing. There was probably some resistance from people from my era. But there was intrinsic value, and that's the big part. You can't spend it, but it's an intrinsic value. And with the up and coming people we're trying to get in the meat industry, it's even more instilled in them.

Sorry, I may have gone on too long.

**Mr. Bob Zimmer:** No, that's good. I'll just follow that up with a safe sort of question. Again, it's an efficiency question, because our government sees harmonization as a key to making the system better—not more expensive, but better and more efficient. Essentially, at the end of the day—I've said the word "better" before, but I'll say it again—it just makes it better.

What is your perspective on provincial-federal harmonization of inspection in terms of interprovincial trade? What is your opinion on that, and again, does it affect food safety?

**Mr. Brian A. Read:** I'll start where I left off, just because my tongue's still going.

I think CFIA's managing it, and I have to leave it to the regulators. We support the single inspection system. CFIA is making modifications. From a food safety standpoint, they will not drop their standards. I believe they're managing it and are managing it well. It allows for the interprovincial movement of meat, but they have to be at the level of production or the level of manufacturing.

I'll leave that to the pros. From the information I have to date, I think they're managing it very well.

**Mr. Bob Zimmer:** How about you, Rory?

**Mr. Rory McAlpine:** I agree. We definitely support the idea of a single system. The challenge is for smaller establishments. Some of the changes recently proposed would make it easier for some of the smaller players to get their federal registration. That's fair. At the end of the day, I do think it's hard for a well-developed country like Canada to justify anything other than one level of meat hygiene, one level of plant standard, one level of mandatory HACCP and pathogen testing, and so on.

Right now in many provinces we talk about listeria in a plant making ready-to-eat meat. In provincial establishments listeria testing is not mandatory. Of course, we believe it should be. Admittedly, the plant volumes in those cases are relatively small. To really succeed they're going to have to come up to the federal standard.

The one concern is always that we have to maintain confidence in our system for purposes of export. We're so dependent on export, so the system in Canada has to be squeaky clean. It is sometimes hard to explain why we still have two tiers or two levels of inspection in Canada. Certainly, to export, you have to be part of the federal system. That's the basis for our business.

**The Chair:** Okay, thanks.

Both of you mentioned the HACCP program. I'm familiar with it. I'm just wondering, as we have some new members on the committee, if you wouldn't mind just maybe giving a more in-depth explanation on exactly what the HACCP program is.

Would that be Ruth Ellen or Francine?

**Ms. Ruth Ellen Brosseau:** I'd appreciate it.

**The Chair:** Yes, I thought you might.

**Mr. Rory McAlpine:** I'll take a shot at it. I'm no food safety expert.

The origin of the system, I'm told, was when they were preparing for the Apollo space program and they had to feed astronauts in space. They started to think differently about how you would prepare food and ensure that no one was going to get sick in space. The basic concept is that it's a production control system where every so-called critical control point in manufacturing, right from receiving animals through to manufacturing, is monitored, and everything—we talked about temperature, cook times, sanitation processes—is delivered

according to standard procedures and the outcomes are always tracked. You build in safety. You can't ultimately inspect every pound of beef or pork that comes out of the plant. You have to have a system that begins at the beginning and controls risk at all those critical control points from beginning to end, and you have an oversight system that ensures you're doing that.

HACCP is hazard analysis and critical control points. It's based on that philosophy. Canada was a leader in making it mandatory in the meat industry, and it's a universal standard now.

● (1705)

**The Chair:** Okay, thanks very much.

Mr. Storseth, you have the last questions.

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

Thank you for your great interventions today.

Mr. McAlpine, it's good to see you, as always. We've gotten to know each other since the listeriosis committee that we both attended quite often. I have to thank you for the work you've done and for being as readily available as you have been over the last several years.

Brian, it's always good to see you. I would like to thank XL Foods Inc. for making sure that the Brooks plant stayed open. It was very important for our province and for the western Canadian beef industry as well.

I always like to talk about...when we talk about free-range chickens, or as my colleague, Ben Lobb, was talking about, "free-run turkeys"... My wife is a city girl, and she watched some news report that was talking about caged chicken. She decided last year that we were going to go and get some of our own chickens out at dad's farm. She was going to raise them and do all of it. We didn't get past opening the door before she decided she would rather go down and buy some Maple Leaf chicken.

So education is always a positive thing for everybody. I hope this is in camera, so she doesn't hear it.

**Voices:** Oh, oh!

**Mr. Malcolm Allen:** I'll send her a copy of Hansard in the morning.

**Mr. Brian A. Read:** Boiling water and slaughtering the chicken in the backyard for supper is a problem, too.

**Mr. Brian Storseth:** Brian, you talk about markets and how they need to find themselves. Your issue was a perfect example of a barrier-free market, or as close as we could be, with the United States 15 years ago. My impression is that the cattle industry has tightened up. The U.S. has changed its regulatory approach. We've had to change ours.

Where do you find that we're at with the United States at this point in time?

**Mr. Brian A. Read:** That's an interesting question.

In the marketplace today we sense the border thickening—for different reasons. The trucks show up. Now we're going to start pulling STEC samples. They want to develop a baseline on all beef in their country. It probably should have been done before the regulation.

This is in camera, right? I might retract that one. I might play a Galen Weston and pull that one back. The cart sometimes gets ahead of the horse on occasion.

We appreciate they are now looking at developing a baseline for these new six STECs.

We wouldn't approach the border with ground beef, for example, because of the risk of delays, because it is time sensitive. We couldn't afford to lose 48 hours at the border or somewhere inside the country and deliver to the customer on time. Ground beef would not leave Canada because of those errant risks. Because of the current process where they come into Canada and go to source, they have the luxury of bringing it in and inspecting it at source.

As a matter of fact, I have to leave tonight for Washington because of the RCC program. I know Canada is really engaged in it, and I'm hoping the United States becomes more engaged in it and there's more willingness to eliminate those possible risks and delays at the border, which do affect food safety.

We've asked the AMI—the American Meat Institute, which is equivalent to the Canadian Meat Council—to put more emphasis behind it from their side for their regulators to understand the value to them of eliminating the I houses and going to the source. That would make a more unfettered, uninterrupted marketplace both ways. That's really what we need.

• (1710)

**Mr. Brian Storseth:** With this thickening of the border—I know you've talked about it, but I think it's important to emphasize it—how important does that make our trade agenda and getting more trade agreements aggressively with other countries?

Secondly, I know we do have a lot of allies in the United States within their own cattle industry who see the harm that the thickening of the border does to them as well. I know the chair and myself have met with them at the embassy in Washington.

What kind of progress do you see? Do you see it continuing to get worse or better, and how important are the other markets to us?

**Mr. Brian A. Read:** Market access globally gives us alternatives. In running a business, alternatives are a nice thing. It's critical we continue to go down that road. We can't let our major trading partner get ahead of us. It's better that we try to be the lead.

As far as the United States goes, we really realize the importance of the elected officials having relationships with their counterparts, and the same at the regulatory level, which we have. We have a balanced trade with the United States. Agriculturally we're its largest customer. And it works in that country. It's imperative that we have good, strong relationships with them. That takes time, it takes effort, and it takes resources, both from industry as well as regulators, and from elected officials in this room. We need everybody to be pulling, not pushing, the rope—but we need to start pulling the rope.

I thank everybody for their efforts. I think everybody in this room understands that.

**Mr. Brian Storseth:** You made a comment on corporate tax structure.

**Mr. Brian A. Read:** Yes.

**Mr. Brian Storseth:** Would you carry on with that a little bit and talk about how it actually helps your business in Canada?

**Mr. Brian A. Read:** You have implemented new equipment taxes that we can get back. We don't have to wait 52 weeks. We can get it back within 90 days after installation—90 days or 30 days? Don't quote me on that. It's returned almost instantly. We appreciate all that.

The other issue is when you look at Canadian income—Rory deals with it on the pig side and we do on the beef side—we pay a couple of dollars an hour more for our labour in Canada, with pride. We have great benefit programs that our Canadian people are used to, and we shouldn't do with anything less. We try to maintain those within our infrastructures. Because of our system in Canada, it allows us to do that. We're very appreciative. It's really important, because we're dealing with a par dollar.

An interesting thing is that we all thought if we hit a par dollar, the world would come to an end. I was probably one of them. We survived that, but it's still an issue. If the United States dollar bumps a couple of pennies above us, it's kind of a couple of pennies gained for that day, but you'd better not build a business plan on it. We build our business plans on par. We see that for the next couple of years because of our natural resources.

**The Chair:** Thank you very much.

**Mr. Brian A. Read:** I hope I answered your questions, Brian.

**Mr. Brian Storseth:** Yes.

**The Chair:** You mentioned infrastructure again, Brian. I made a note when you started talking. Back when BSE hit, if I have the figures right, we were about 86% of slaughter capacity in Canada to supply beef to our domestics, so the government put in a bunch of money at the time and got it up to about 102%. We were bringing in feed cattle from outside.

That worked temporarily, but as soon as somebody offered more money, the farmer shipped his product away, and we ended up losing that slaughter capacity.

In the whole scheme of things, is there a way to keep that from happening again? Having that infrastructure in place is complicated.

**Mr. Brian A. Read:** Mr. Chair, we have to decide whether we want to maintain an infrastructure in Canada; that's critical. There are no guarantees. We're working hard to keep the feedlots full in western Canada, as well as in the east, but the economics will go where they believe the money is the best. That's going to be the challenge of tomorrow, keeping the cattle home for processing, because we'll need to keep everything home that we possibly can to maintain what we currently have.

The east could have more challenges, not maybe because of supply but for other reasons. I'm talking further east. That's why keeping us equivalent and giving us every opportunity to operate in equivalency with the United States, because that's what we—as a grower of livestock, they use the baseline, the basis for selling their cattle; they use the American base price. Whether that's right or wrong, that's what we believe is the right price. That's going to be bullish. In the United States they are short of livestock for their plants. We just talked about the Mexican drought. But to maintain livestock in Canada and keep these plants running is going to be the challenge for the next...it could be as many as five years. I'd put in a range from three to five years, Mr. Chair. I think we're just seeing heifer retention start, so there is some excitement now as pregnant cows are worth record money, and that's a good thing. Don't take any of that negatively, as long as we can cut them out and keep the thing home.

The other thing we may see too is that...between cow-calf feedlots...we talk about hormone-free and raised without antibiotics. That's creating partnerships all the way through the chain. Will we see more of that? That would be interesting and fun to watch on full

feedlots in partnership with the packing industry. Wouldn't that be something to note? It could happen.

● (1715)

**The Chair:** Thank you.

Rory, is there anything from poultry or pork to add to that?

Thank you, gentlemen, for being here today.

**Mr. Brian A. Read:** Thank you. It's always a pleasure.

**The Chair:** It is a pleasure to have both of you, and I'm sure we'll see you back here at some point, so thanks again.

**Mr. Rory McAlpine:** Thank you.

**The Chair:** Before the committee takes off, our meeting that had to end abruptly last week...my plan would be to bring those same witnesses back here on May 30, which is the Wednesday after the trip to Guelph. If everyone is okay with that, I would do that. Does anyone have any comments?

Okay then. Thank you very much.

This meeting is adjourned.

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