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## **Standing Committee on Public Accounts**

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**EVIDENCE**

**Thursday, November 29, 2012**

**Chair**

**Mr. David Christopherson**



## Standing Committee on Public Accounts

Thursday, November 29, 2012

•(1100)

[*English*]

**The Chair (Mr. David Christopherson (Hamilton Centre, NDP)):** I call this 68th meeting of the Standing Committee on Public Accounts to order.

Welcome to our guests this morning. The Auditor General is here, and the chairperson of the Canadian Dairy Commission, Mr. Williamson, is also with us.

Thank you for joining us, sir. I understand that you did provide an action plan as we requested, but apparently there are not copies of your opening remarks. Is that correct?

**Mr. Randy Williamson (Chairperson, Canadian Dairy Commission):** I'm not sure if there are or not. If I can consult with our corporate secretary—

**The Chair:** I was advised that there weren't.

**Mr. Randy Williamson:** I'm not aware that there are, so I would probably agree with you.

**The Chair:** Okay. There was a request. Is there any particular reason why not?

**Mr. Randy Williamson:** No particular reason whatsoever. I was not aware of the request.

**The Chair:** I checked with the clerk. Maybe we need to emphasize that in the instructions because it was verbal. Maybe we need to follow up with e-mails or something. I'll just leave it at that, and we'll make sure it works for us all in the next process.

Colleagues, if you recall, these are the special examinations of crown corporations, as is our tradition. We normally pick two because that allows us to do an hour each and then the equivalent of a two-hour regular meeting. In this case, we were only able to organize one for today, but we'll do that for the next hour and then we'll go in camera and continue report writing.

I would suggest, as we've done before, that we would just begin the rotation and run the rotation until the time expires. This is what we've done, but I'm open to any other suggestions.

Mr. Kramp.

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** Chair, I have a unit that is not working. My speaker works but nothing else. There's no translation. There's no audio at all.

**The Chair:** I see one of our fine technicians is on his way over. If he can fix it, he will.

Are you good, sir?

**Mr. Daryl Kramp:** I'm good. Fine, thank you very much.

**The Chair:** Very well.

Is everyone in agreement? We'll just do our rotation until the time allotted expires. All right.

We are ready to go, and we will open with Mr. Ferguson's remarks. You have the floor, sir.

[*Translation*]

**Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General of Canada):** Thank you.

Mr. Chair, thank you for this opportunity to discuss chapter 6 of our spring 2012 report, which covers special examinations of crown corporations that were issued in 2011. In particular, we will be discussing the special examination of the Canadian Dairy Commission. Our full report is available on the crown corporation's website.

Joining me at the table is Dale Shier, the Principal who was responsible for the audit.

[*English*]

Under part X of the Financial Administration Act, we conduct periodic special examinations of crown corporations. Special examinations of crown corporations are a form of performance audit where the scope is set by law to include the entire corporation. A special examination provides an independent opinion to determine if the corporation has reasonable assurance that its systems and practices allow it to safeguard and control its assets, manage its financial, human, and physical resources economically and efficiently, and carry out its operations effectively.

We note as a significant deficiency any weakness in the systems and practices of the corporation that could prevent it from reaching its objectives. Thus our special examination reports are a source of important information that parliamentarians can use to hold crown corporations to account.

[*Translation*]

We did not note any significant deficiencies in the Canadian Dairy Commission's systems and practices. However, we did find areas for improvement.

Our report includes three recommendations. One recommendation addresses the need for the commission to improve the performance indicators that it uses to assess and report on its operations.

•(1105)

[English]

The other two recommendations relate to governance by the commission's board of directors. Both recommendations are driven by the small size of the board of directors. Under the commission's enabling legislation, the size of its board is set at three people, one of whom is also the chief executive officer. One of our recommendations related to governance deals with the difficulty of having the breadth of skills needed for effective governance in a board with only three members.

[Translation]

Our second governance recommendation deals with conflicts of interest. With a board of only three members, conflicts can cause difficulties in achieving quorum for votes. We recommended that the commission develop procedures for board members to declare conflicts of interest and for the commission to manage conflicts.

[English]

Management accepted all three of our recommendations. As the period of our examination ended in August 2010, the committee may wish to ask management what actions the commission has taken over the last two years to address our recommendations.

[Translation]

Mr. Chair, this concludes my opening remarks. We would be pleased to answer any questions the committee may have. Thank you.

[English]

**The Chair:** Thank you, sir.

Mr. Williamson, we will have your opening remarks, sir.

**Mr. Randy Williamson:** Good morning. My name is Randy Williamson, and I am the chairman of the Canadian Dairy Commission. We refer to it as the CDC.

I've been invited today to discuss the information contained in the 2012 Auditor General's report that concerns a special examination of the CDC. I would like to give you a quick overview of the Canadian Dairy Commission.

The CDC is a crown corporation that employs approximately 60 people. Our offices are in Ottawa. Our annual operating budget is approximately \$8 million. Half of this amount consists of government appropriations. Our other sources of funding are dairy producers, our commercial operations, and the marketplace. The mandate of the CDC as it is written in its act is to "provide efficient producers of milk and cream with the opportunity to obtain a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality".

The CDC reports to Parliament through the Minister of Agriculture and Agri-Food Canada. The CDC is an important stakeholder in the Canadian dairy industry. It sets support prices for dairy products. These prices are used as references by the provincial milk marketing boards to establish the price of industrial milk in each province. The CDC also calculates the production quota required to supply markets, acts as a facilitator to coordinate dairy

policies in Canada, and administers several programs on behalf of the Canadian dairy industry.

We work closely with other stakeholders in the industry. These include dairy farmers, dairy processors, provincial governments, retailers, restaurant owners, and consumers, as well as other federal organizations such as Agriculture and Agri-Food Canada. In Canada, the dairy industry represents \$5.8 billion in farm receipts, and \$13.7 billion of products shipped from approximately 453 processing plants. As of August 1, 2012, there were 12,746 dairy farms in Canada, housing slightly more than 900,000 cows, and producing over 79 million hectolitres of milk per year.

The dairy industry is characterized by a system called supply management, where farmers produce only the quantity of milk that is required to fill projected markets. Many aspects of this system are administered by provincial milk marketing boards.

The governing body of the CDC consists of a chairperson, a commissioner, and a chief executive officer. The board is responsible for providing leadership and supervision of the CDC's activities, ensuring that the objectives of the Canadian Dairy Commission Act and the CDC's strategic plan are met, and that best governance practices are in place. Board members also form the audit committee as per subsection 148(2) of the Financial Administration Act. This committee reviews quarterly financial statements as well as program evaluation and internal audit summary reports. The Office of the Auditor General is the official auditor of the CDC, and in addition to the special examinations, it performs the audit of our year-end financial statements presented in the CDC's annual report.

I would like to get back to the special examination that the OAG conducted at the CDC in 2011.

The OAG noted good practices in a number of areas and found no significant deficiencies in our systems and practices. The report formulated three recommendations. The first had to do with improving the collective skills of the board members. The second dealt with procedures for board members to declare and manage conflicts of interest. The third recommendation touched on the performance indicators that the CDC establishes to measure its performance.

The board agreed and has since made the necessary changes to improve its governance practices as they relate to the three recommendations.

Thank you.

•(1110)

**The Chair:** Very good. Thank you also.

With that, we'll begin our rotation.

Mr. Saxton, you can kick it off. You have the floor.

**Mr. Andrew Saxton (North Vancouver, CPC):** Thank you, Chair, and thank you, witnesses, for being here today.

My questions are for the CDC.

Mr. Williamson, can you explain how the CDC works with industry to grow the market here in Canada?

**Mr. Randy Williamson:** It's a very important component of our responsibility. It is a responsibility shared with many other agencies within Canada. Specifically, within the CDC in the areas that we have direct influence over, we have over the years introduced a number of programs to facilitate the growth of dairy products and the opportunity for growth within Canada.

We have a program that we refer to as the domestic dairy product innovation program. It is a program whereby a processor or further processor can identify a product that is innovative, new, and needed in the marketplace. We then will follow a process to provide milk to that organization, such that there is no shortage of supply to meet the market's needs.

We have a program that we refer to as the dairy marketing program, whereby we solicit opportunities within Canada for further processors as well as for processors, which provides them with an opportunity to explore opportunities in marketing that they do not necessarily have the resources to explore. We have funding that provides a cooperation with them that allows them to expand their business.

We have a matching investment fund that is focused on research, on opportunities for research into new and innovative products, whereby we have a matching fund, up to a certain limit. It has been very successful for us over the last few years.

We have a special milk class permit program, which was introduced in the mid-1990s in response to a need to provide further processors in Canada with the opportunity to access milk at a competitive price, such that product that was coming into Canada would be met at competitive prices. This is also a very successful program and a large component of what we do.

**Mr. Andrew Saxton:** Thank you.

Can you explain how you work with government to keep supply management strong?

**Mr. Randy Williamson:** We have excellent communications and relationships with government. The development of our objectives and strategic plans is done in consultation and in concert with government. We constantly refer back to our CDC mandate, which is to ensure that we provide efficient producers with an opportunity to obtain a fair return, and to provide a continuous supply of quality dairy products. Everything that we do relative to our strategic plan in consultation with the ministry is in pursuit of achieving those objectives.

**Mr. Andrew Saxton:** Thank you.

You have prepared an action plan in response to the Auditor General's report. Perhaps you could take us through that and explain your action plan.

**Mr. Randy Williamson:** There were three primary areas, as indicated. If I were to simplify them, the first area is the area of skill sets on the board. There was an indication by the OAG that, in particular and more specifically, there was a shortfall in the financial skill set on the board. We concur.

In fact, we have a number of requirements relative to the skill set. We feel that it is relative to the complexity of the nature of the business and the nature of supply management. Having an individual on the board who is familiar with producer issues and an individual on the board who is familiar with processor issues is also very important. With a three-member board, it becomes very difficult to ensure that we have the breadth of skill.

To the extent that we recognized the shortfall, the recommendation was received and our response to it is that where the board feels there is a shortfall, we seek outside expertise. An example of that is our recent conversion from the previous accounting standards to an IFR, international financial reporting standards system. We solicited the services of an outside firm to assist us in that transition.

The second area of recommendation was in the area of conflict. Once again, the conflict was in the fact that we have a three-member board. A producer recommendation provides one of the commissioners and processors another, and there is an apparent conflict as it relates to the producer ruling on support prices and being part of the process that establishes support prices. We recognize that as an issue. We have changed our bylaws to ensure that at the commencement of every meeting any agenda item is reviewed to determine whether or not any individual member has a conflict of interest, and there is an expectation to recuse oneself, should any exist.

In addition, we take a position of neutrality. This is certainly the expectation we have of all members, that we have a neutral position on the issues we deal with such that we avoid any conflict of interest.

• (1115)

**The Chair:** Time has expired. Thank you both.

We go over to the official opposition.

Madame Blanchette-Lamothe, you have the floor.

[*Translation*]

**Ms. Lysane Blanchette-Lamothe (Pierrefonds—Dollard, NDP):** Thank you, Mr. Chair.

I would like to go back to what Mr. Williamson was saying concerning his action plan. Afterwards, I will give him the opportunity to continue his explanations concerning what has been done to comply with the recommendations.

First of all, concerning the first recommendation, you say that you now evaluate collective competencies on a regular basis. What do you mean by "on a regular basis"? What is the frequency of these competency assessments, what tools do you use, and how do you use them? How rigorous are the analyses of the levels of competence?

[*English*]

**Mr. Randy Williamson:** The manner in which we assess the need for support, if you like, in terms of shortfalls in skill sets, is our judgment. It's a judgment on a particular agenda item, a particular issue, in terms of whether or not we believe that the skill sets of the individuals are adequate to meet the needs of our mandate.

[Translation]

**Ms. Lysane Blanchette-Lamothe:** When you say “our judgment”, you are talking about the judgment of the members of the board?

[English]

**Mr. Randy Williamson:** Yes, it's the judgment of the three board members.

[Translation]

**Ms. Lysane Blanchette-Lamothe:** You have no criteria to evaluate whether the collective competence is sufficient or not? What is your judgment based on, exactly?

[English]

**Mr. Randy Williamson:** I think our criterion is our experience. I would use the example of the conversion to IFR standards.

Speaking personally, my background experience includes the managing of a very large dairy organization in Canada as chief operating officer and president. I'm very familiar with the management of reviews of budgets and financial statements and so forth, but I have absolutely no expertise related to the conversion of systems within an organization. Hence we determined that all three board members felt themselves to be exactly in the same position and that we needed support, and we sought that support.

[Translation]

**Ms. Lysane Blanchette-Lamothe:** Thank you.

You say that you get external support when it is needed. How often do you feel the need for external expertise?

[English]

**Mr. Randy Williamson:** It's very infrequently. I believe that we have a skill set relative to the ongoing review of the financial administration of the organization that is adequate. Notwithstanding this, we are in agreement with the OAG that an opportunity to add an individual with a financial designation would be a benefit. We are in agreement.

• (1120)

[Translation]

**Ms. Lysane Blanchette-Lamothe:** My next question is for either Mr. Shier or Mr. Ferguson.

In light of what was done with respect to the first recommendation you made, do you think that the actions taken are in line with your recommendation? In your opinion, should anything more be done to comply with the first recommendation?

[English]

**Mr. Michael Ferguson:** Mr. Chair, I think that fundamentally, the first thing to recognize is that there is a challenge when you're dealing with a three-member board. That's something that needs to be well considered.

In terms of the specific question, it's good that the board is assessing each situation to determine whether they have the skills. We haven't audited what they have done, but I think, sir, that what we would like to see is probably something that indicates that there's a bit of a process in advance, saying that these are the types of skill sets that the board should have in total, and then assessing which

ones they have and which ones they don't have, and then, for those gaps, those are the ones they would have to get help for from the outside.

[Translation]

**Ms. Lysane Blanchette-Lamothe:** I understand that you are expecting something a little more structured, something that is somewhat less dependent on the good judgment of the three members? Is that what you meant?

[English]

**Mr. Michael Ferguson:** That would certainly be best practice. If there were a bit of an inventory of what skill sets were required, and then an assessment of what the existing members have against that sort of inventory, the gaps would be the areas in which you would get outside assistance.

[Translation]

**Ms. Lysane Blanchette-Lamothe:** So you feel that the actions that were explained to us today were a step in the right direction, but still seem to fall short of a rigorous follow-up to the recommendation?

[English]

**Mr. Michael Ferguson:** Again, without having actually gone in and audited what they're doing, I think you've probably characterized it fairly well. It sounds as though they are being proactive, that they've made a step in the right direction. Maybe something a little more formal would be the best practice.

[Translation]

**Ms. Lysane Blanchette-Lamothe:** Thank you, Mr. Ferguson.

Mr. Williamson, the Auditor General has just reiterated that he feels that three members are not sufficient. You said a little earlier that you might indeed consider adding a fourth person.

Could you clarify your position in that respect, because I see a certain contradiction with regard to this concern expressed by the Auditor General, which is perhaps not being taken seriously enough.

[English]

**Mr. Randy Williamson:** First of all, we take the Auditor General's recommendations very seriously. The constraint comes from the CDC Act. The CDC Act stipulates three commissioners.

We are in complete agreement with the Auditor General if he is suggesting that it would be better served with a larger contingent on the commission. We are in complete agreement with that. We are currently constrained by the CDC Act.

**The Chair:** Thank you very much. Time has expired.

We now go over to Mr. Kramp.

You have the floor, sir.

**Mr. Daryl Kramp:** Thank you, Chair.

Welcome, gentlemen.

My first question is for Mr. Shier.

Obviously, there has been extensive involvement with the CDC on this. I am wondering, Mr. Shier, was any time spent on farms or in industry in order to either validate or corroborate the information you have from CDC?

**Mr. Dale Shier (Principal, Office of the Auditor General of Canada):** Thank you, Mr. Chair.

On farms, no, but as part of our process, we have what are called advisory committees. We had representatives to guide us in our work, both at the planning stage and the reporting stage. As part of that process, we had representatives from consumers, industry, and producers on the advisory committee internally. We consulted stakeholders during the examination as well.

**Mr. Daryl Kramp:** Okay, so you did have some broad-based information together. That's the point I wanted to inquire about. Thank you very much.

Gentlemen, I am very fortunate in one way. I am very, very proud. I come from a very strong dairy area in eastern Ontario. Growing up, I can recall on every concession road there were milk stands and a huge number of award-winning cheese factories. Of course, as Bob Dylan said, "the times they are a-changin'".

We still have a number of award-winning cheese factories, but of course, significantly fewer and in higher volume. It's the same thing with our farms. We have some phenomenal dairy operations involving hundreds of cows instead of just the 15 or 20 cows that a person would make a living with. It is dramatic evolution. In order to succeed.... I have been in a number of these operations where now there's the prevalence of a methane digester, and in the various large plants, whether it's Gay Lea, Parmalat, or others, I see the technology they have embraced in order to be competitive. It is quite outstanding.

The key question I have is for Mr. Williamson. Mr. Williamson, in order to compete, we have to evolve, but of course we have to innovate. Innovation is absolutely critical. What role would your agency play in the promotion of innovation? Could you give us some examples?

• (1125)

**Mr. Randy Williamson:** I am in complete agreement. It's a very important component of the CDC. We go back to our mandate and, within the mandate, it makes reference to ensuring that there is an adequate and continuous supply of high-quality dairy products. We read into it that innovation and new opportunities are an important part of that. We have a dairy product innovation program whereby individual processors or manufacturers across Canada can approach us with an innovative product. Should that pass the test of a particular committee in terms of innovation, we provide milk for that. There is no issue. It adds to the milk supply within Canada, which gives them an opportunity to ensure they are not moving ahead simply because there is no milk available.

We provide other opportunities, as I mentioned earlier, relative to a marketing program, matching investment funds and such.

**Mr. Daryl Kramp:** How about our young people? Are you able to work with them to help innovate and train?

**Mr. Randy Williamson:** We have a scholarship program. That scholarship program has been very successful. It has been in place for about nine or ten years.

Over the course of those nine or ten years, we have supported 57 master's projects and 20 Ph.D. projects. They are dairy-focused projects. They are projects for which the intent is that on a long-term basis, by investing in education and young people in terms of their interest in the dairy industry, and by investing in master's and Ph.D. projects, we will create an opportunity, a road map, if you like, for innovation.

**Mr. Daryl Kramp:** Going forward, once again, we have to be competitive or we don't survive. In our effort to be competitive, we really need to know how we get there, and our performance has to be validated, audited, and/or examined to some extent.

Obviously, I am assuming you have some form of performance indicators. I would like you to elaborate on that. I would like you to tell us not only what you are doing, but I am hoping you are taking some steps to improve the performance indicators so that you can evolve as the industry is evolving. Could you give us a little bit of background there and take us through that step?

**Mr. Randy Williamson:** It's a very good point.

Recently, and I'm going to suggest it was in the last three or four years, part of our annual report included an indication of our objectives. We link our objectives in a given three-year period back to our mandate. Our high-reaching goals are basically the two components of our mandate. Within that, and on an annual basis, we identify what our objectives are and the strategies within those objectives.

Within those strategies, we ensure those objectives and strategies are measurable. We ensure they are very specific. We ensure they're achievable, resourced, and time sensitive. We ensure we have a timeline we can measure against and a number we can measure against, in terms of whether we have achieved the objectives.

It is in our annual report. It is a new approach. It's four or five years old, and it's having a very positive effect.

**Mr. Daryl Kramp:** Great.

Sometimes the old story is still good. I would note that we still have a number of our cheese producers using the old-fashioned consistent way, without input and certainly without derivatives of other products. It's great to see that some of those standards are still there as well.

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

I'm sorry. Were you done?

**Mr. Daryl Kramp:** I'm done, sir.

If you gave me the time—

**The Chair:** I know, I know.

**Mr. Daryl Kramp:** —I would love to carry on.

• (1130)

**The Chair:** You went right through there, as best you could, without feeling too guilty.

Thank you very much. I appreciate that.

Monsieur Giguère, you have the floor, sir.

[*Translation*]

**Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP):** Thank you very much, Mr. Chair.

**The Chair:** Very well.

**Mr. Alain Giguère:** My question is for Mr. Williamson.

Currently, the directors of your commission come from the dairy industry. Some are still active within that industry, in fact. Your commission has a purchasing power of \$189 million. It manages many contracts that it contracts out, as well as dairy industry initiatives that amount to \$3 million. In light of the amounts at stake and in light of the fact that members of your commission are still active in the industry, why has the commission not yet deemed it necessary to establish a process that would allow board members to declare and manage conflicts of interest in an ongoing way, in a way that will not cause difficulties in achieving quorum within your board?

[*English*]

**Mr. Randy Williamson:** Well, I suppose a difficulty arises from the fact that we have a three-member board. That's the starting point for the issue of conflict of interest.

As I said earlier, the requirement, if you like, is that we have producer expertise and processor expertise. We have put in place in our bylaws a requirement that we declare any conflicts of interest, and we act—and I think this is as important as anything—in a completely and absolutely impartial way. I do that personally, and I have a very high level of comfort that the other two board members act in exactly the same way.

We seek input. As an example, when we establish our support prices, we seek input from all stakeholders across Canada: producers, processors, consumer associations, retailers, food service people. We use a number of factors in determining how we establish our support prices and other decisions within the organization. With a requirement that we have producer and processor expertise, and believe me, with a system like supply management, as complex as it is, that is an important factor, but with a three-member board, it creates some difficulty.

[*Translation*]

**Mr. Alain Giguère:** You are referring to the complexity of your tasks, particularly with respect to supply management. In previous reports it was said that you have 12 key resource persons who play a major role in the work done by your commission. The Auditor General noted that in the coming years, you will be having to deal with a wave of retirements. At the same time, we know that the government is making major budget cuts. Given these budget cuts, how will you replace your key staff members?

[*English*]

**Mr. Randy Williamson:** That's an excellent question.

We do have some very capable, very skilled individuals within the organization. I suggest the number is probably accurate.

Twelve people are in very key positions. In some of those key positions, their potential to retire is imminent. We have been aware of that for a number of years. We have been taking steps over the last

few years to ensure that individuals who work at, I suggest, lower levels within that organization have the education, the training, and the familiarity with the systems to ensure that when those retirements occur, we are in a position where we move seamlessly to continue to provide excellent services to the industry. I have a level of confidence of that.

[*Translation*]

**Mr. Alain Giguère:** Even with the budget cuts.

[*English*]

**Mr. Randy Williamson:** Yes, we were provided with an indication, I believe it was three years ago, that budget cuts were imminent. It was made very clear to us as to the nature and the size of those budget cuts. We have been very diligent in pursuing and identifying how we are going to achieve that. It will not compromise our expertise within the organization, and we will achieve those budget cuts.

• (1135)

**The Chair:** You just have a few moments.

[*Translation*]

**Mr. Alain Giguère:** I have a question concerning risk management.

Many reports stated that risk management is particularly crucial with regard to liquidities and the value of stocks, and that your board does not have the skills and qualifications needed to perform all of these complex tasks. In light of these major points that represent a risk for your commission, do you really intend to significantly increase the number of members on your board in order to solve these problems?

[*English*]

**Mr. Randy Williamson:** It's not to avoid the question, but I think I'd need a little more precision on what point of risk you would believe we may not be able to meet.

**The Chair:** Sorry, we're well over time, so perhaps in the future rounds that question can be picked up by the official opposition, if they wish.

We now move to Mr. Shipley.

You have the floor, sir.

**Mr. Bev Shipley:** Thank you, witnesses. We appreciate your taking the time to be here.

Mr. Williamson, I have to commend you for your directness in your answers, and more so for the way you have run a crown corporation. You have a budget of \$8 million, and half of which is in government appropriations. I know there's some difficulty with the CDC, in terms of the act and the three members. If there's a template to follow in terms of how crown corporations might structure themselves, I would suggest this is one of them. The Auditor General basically concurred with that, which is a significant compliment for your organization.

To follow up, I know there are questions for every organization about the budget cuts, and I thank you for answering that. One thing about people in agriculture, with the nature of our business, we're able to adapt to changes in how we operate. I think you would agree.

I'm glad to hear that because you were notified, you're preparing a plan and you will take that responsible action. Quite honestly, others will do that throughout our government, to make this an effective government, but also to look after our economic responsibilities.

I may be commenting more than asking a question, Mr. Chair, and I hope that's okay, but I will get to one.

It is important to understand that CDC is part of supply management. I was a dairy farmer, so I have the greatest respect for supply management and also for free markets. When you look at the interests of the stakeholders across the board who are involved, you include producers, processors, exporters, consumers, and the government. There isn't much that has that breadth when you're establishing prices, legislation, regulations, or your structure, or that involvement across the general public of Canada. It's important that we recognize that, and my question follows from it.

You mentioned that it's important that you direct fair returns. We continually hear from organizations and some groups—unfortunately some agricultural groups—that say supply management can't provide fair returns, they provide exponential returns to our producers, and these are paid for at exponentially high prices by our consumers. I don't know if you're in a position to make a comment on it. I read an article this morning that indicates in fact it isn't fair because consumers are paying two to three times because a product comes out of supply management. I know that's truly false, and I think you do also.

Could you expand a bit about that comment they had in terms of fair return for the producers and how that rolls out across the general public?

• (1140)

**Mr. Randy Williamson:** That's an interesting question.

On the whole issue of fair returns, I think people with a financial designation will tell you that's not a simple issue to answer in any case.

The Canadian Dairy Commission, on a year-over-year basis, as a starting point identifies the cost of raw milk, in terms of a support price, from the previous year. We collect data across a wide range of dairy farms across Canada—in excess of 220 dairy farms across all of Canada—and a wide range of sizes and scope and scale of dairy farms. We collect data on every component of managing and running a dairy operation. That provides us with a cost of production. In terms of a statistical analysis, we then remove two standard deviations, remove the outliers, and what remains is a weighted average. A weighted average moves from year to year. It moves as the Canadian dairy farms improve their efficiencies.

The number on cost of production that we receive and use as a starting point, and it is just a starting point, is one that reflects efficiencies. I think that's an important starting point. We then consult, as I indicated earlier, with as many components of the dairy industry as we can, whether it's producers or consumers or retailers,

to determine what they believe is in the best interests of their organizations. From that, we determine a support price.

To answer your question, the starting point for us, focusing on efficient producers and a fair return, comes from our cost-of-production formula, which focuses on improving efficiencies in Canada.

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

Mr. Byrne, you have the floor, sir.

**Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.):** Thank you very much. Thank you, gentlemen, for appearing before us. It's always good to see the Auditor General here and you as well, Mr. Williamson.

Could you confirm, Mr. Williamson, that the core mandate of the Canadian Dairy Commission is vested in supply-managed dairy production? Is your core mandate vested in that?

**Mr. Randy Williamson:** I don't believe that's in the purview of the Canadian Dairy Commission. The determination of whether our core mandate is achieved by supply management is determined by government.

**Hon. Gerry Byrne:** Could you repeat that?

**Mr. Randy Williamson:** If this is the direction of your question, the determination of whether or not supply management is the system that meets the needs of our core mandate is not the decision of the CDC. The CDC simply follows the mandate. Supply management has been decided in areas other than the CDC.

**Hon. Gerry Byrne:** That's good. I appreciate the clarification on that.

In your analysis, your expertise is obviously within the supply-managed system and you provide forecasts within the supply-managed system. Would that be correct? Do you provide forecasts based on the existing system as well?

**Mr. Randy Williamson:** What we forecast are the milk requirements to meet the needs of the Canadian consumer market in Canada, the core raw milk requirements off the farm to meet the needs of the Canadian consumers from sea to sea.

**Hon. Gerry Byrne:** Are your recommendations or advice on prices included?

**Mr. Randy Williamson:** Just so everyone understands the system, each year we issue a support price, in other words, a price that the Canadian Dairy Commission will buy dairy products within Canada, dairy products being butterfat and solids, non-fat, commonly referred to as skim milk, powder. In doing so, we do not set milk class prices within Canada. Those prices are set within provincial boards. Those provincial boards take our support price as an indication or a trigger. That is my understanding in terms of how they set their prices.

**Hon. Gerry Byrne:** Thank you very much.

You obviously are very aware of the trans-Pacific partnership and the role it plays in the free trade environment in Canada. You obviously are aware that Australia, New Zealand, and the United States in particular invited Canada to the table of the trans-Pacific partnership and that those three nations in particular are very anxious to dissolve supply management here in Canada. I think that's a fair statement to make given all the public discussion about this.

Let me be very specific. Have you given any advice to the Government of Canada, either to the Department of International Trade or to the Department of Agriculture, or any other department, about the potential consequences of the trans-Pacific partnership, including an elimination or an altering of the supply management system in Canada?

• (1145)

**Mr. Randy Williamson:** None whatsoever.

**Hon. Gerry Byrne:** Have you been asked to do so?

**Mr. Randy Williamson:** Not at all.

**Hon. Gerry Byrne:** You have not been asked to give any advice whatsoever?

**Mr. Randy Williamson:** None whatsoever.

**Hon. Gerry Byrne:** You have had no communications whatsoever with the Government of Canada on any aspects of the trans-Pacific partnership.

**Mr. Randy Williamson:** That's correct.

**Hon. Gerry Byrne:** Okay. Do I still have time?

**The Chair:** You have a minute.

**Hon. Gerry Byrne:** What's the role of the commission within provincial management of farm systems? In terms of the number of producers, do you have no role to play whatsoever? If I could suggest, you provide an oversight on a national basis, but in terms of the number of quota holders, the amount of quota production, that's simply advice that you offer. Would that be correct?

**Mr. Randy Williamson:** I go back to what I said a moment ago.

We established what we call the MSQ, the milk supply quota requirements, to meet the needs of the Canadian market on a national basis. The provinces have quota allotments that they then take to their producers. We have no involvement in terms of the number of farms or where the quota is allocated within the provinces, none whatsoever.

**Hon. Gerry Byrne:** Thanks, Mr. Chair.

**The Chair:** You're very welcome.

Now, it's over to Mr. Hayes. You have the floor, sir.

**Mr. Bryan Hayes (Sault Ste. Marie, CPC):** Thank you, Mr. Chair.

I was reading a quote from the Auditor General's report where he states that all the key elements of an effective governance framework are in place.

Mr. Williamson, you mentioned the audit committee in your discussion. I haven't heard that come up. I believe you stated that all three members of your board are on the audit committee. Could you

elaborate on the other makeup of the audit committee and the role of the audit committee within your governance framework?

**Mr. Randy Williamson:** One of the key components of the service the CDC provides is an audit of the operations of the Canadian Dairy Commission. Because we have only a three-member board, all three of us sit on that board. We are assisted with support, if you like, from key managers in the organization in terms of their presentations and the information they provide.

We have a minimum of four audit meetings a year, generally six, and we review on a quarterly basis, at a minimum, the financial statements, the balance sheet, the activities of our commercial operations, and the issues around hedging in terms of the import and export of dairy products that we've become involved in. It's a very similar operation that would exist in an operating company of any sort.

**Mr. Bryan Hayes:** This is an internal audit committee as opposed to an external audit committee.

**Mr. Randy Williamson:** Yes, external audit is provided to us by the OAG.

**Mr. Bryan Hayes:** Is it on an annual basis?

**Mr. Randy Williamson:** It's on an annual basis.

**Mr. Bryan Hayes:** Your mandate is pretty large in terms of supporting the interests of all dairy stakeholders: producers, processors, exporters, consumers, and governments.

Are there any concerns from those stakeholders that we should be aware of? What is the process for somebody to bring forward a concern? How is that handled? How are those concerns addressed? Is there a list of outstanding concerns that we should be aware of?

**Mr. Randy Williamson:** As with any large and relatively complex operation or industry, if you like, there are going to be issues that come up from time to time. I'm sure we're all well aware of the Canadian Restaurant and Foodservices Association and some issues they have. We are working with them to try to solve some of those issues and problems.

There are issues around supply of milk on demand. I've indicated that we have a domestic dairy innovation program. In addition to that, on August 1 this year we put in place, under the auspices of the Canadian Milk Supply Management Committee, CMSMC, a 1% growth allowance. That 1% growth allowance is a 1% increase in our milk supply quota, which is a very significant number. The purpose and the direction of that milk is for new products growth only. That's quite a recent development. We have agreement now from both of the milk pools, the western milk pool and the P5 in the east, in terms of support for that. That is in place as we speak. It will provide a solution for some of the issues, some minor, some major, in terms of access to milk that we've had over the last few years. It will provide a solution to that.

• (1150)

**Mr. Bryan Hayes:** What has the CDC done to solve the issue of a lack of process to declare and manage conflict of interest?

**Mr. Randy Williamson:** As I said, we identify at the start of every meeting, in terms of a review of every agenda item, if we believe we have a conflict. If we have a conflict, we recuse ourselves. We have put that into our bylaws, so it's not just something that we've done on a casual basis. It's an important component of what we are required to do currently. As I said, we use our good judgment to ensure that we act in as neutral a capacity as we possibly can.

**Mr. Bryan Hayes:** How's my time, Mr. Chair?

**The Chair:** It's at half a minute.

**Mr. Bryan Hayes:** I'm guessing that policies relating to marketing milk vary greatly from one province to the next. Should those policies be harmonized? If so, what is the CDC's role and what are you doing to harmonize those policies?

**Mr. Randy Williamson:** That's a good question.

I suggest that if you went back to 15 years ago, every single province was an individual. They certainly sat at the Canadian Milk Supply Management Committee as a group, but they had their own policies. They classified their milk in their own manner and acted as individuals.

Over the course of the last 15 years, what we have seen is a creation of two pools, a western pool and an eastern pool, the P5. Within those pools what they have done is harmonized a number of things, everything from what products fit into particular classes of milk to rules around their milk collection, and so on, so that they have similar policies.

Over the course of the last two years, the CDC pulled together what we called the P10. It was a group that, at our urging, came out of the CMSMC to bring all of the parties within Canada together into a single pool, a P10 pool, such that we would have an ultimate harmonization of everything across Canada. The rules would be the same and fair for all concerned.

We made some progress in that. Some of the things that have come out of that are this 1% growth allowance, but we have not yet accomplished the bringing together of a P10. We will continue to look at the benefits to pursuing that.

**Mr. Bryan Hayes:** Thank you, Mr. Chair.

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

Over to Mr. Ravignat. You have the floor, sir.

[Translation]

**Mr. Mathieu Ravignat (Pontiac, NDP):** Thank you, Mr. Chair.

I'd like to go back briefly to Mr. Hayes' comments on conflict of interest. Honestly, Mr. Williamson, I did not find your answer concerning the measures you have taken to avoid conflicts of interest very convincing. If I look at page 38 of the Auditor General's report, at paragraph 35, it clearly says that the Auditor General has noted that the commission does not have such mechanisms in place with respect to conflict of interest. In addition, you suggest that you are going to have meetings with the Privy Council on the matter of conflict of interest. First, I want to ask you how many meetings you have had with the Privy Council since 2005?

[English]

**Mr. Randy Williamson:** I don't believe I made any mention of meetings with the Privy Council.

[Translation]

**Mr. Mathieu Ravignat:** In paragraph 36 of the Auditor General's report regarding the commission's response, the last sentence reads as follows:

As we did at the time of the previous special examination, the Commission will discuss this issue with the Privy Council Office in an attempt to find a workable solution [to conflicts of interest].

I simply want to ask you if you have met with the Privy Council Office and, if so, on how many occasions.

● (1155)

[English]

**Mr. Randy Williamson:** That, I believe, is a reference to coming out of our special examination discussion with the Privy Council relative to their recommendations. They made a recommendation that we take the issue to the Office of the Ethics Commissioner. We have done that. We have received a response from them that indicates that in their opinion we serve a broader public and that the issue of conflict of interest is not a significant one.

Having said that, I think that the OAG will tell you that they believe we still need to pursue other avenues.

[Translation]

**Mr. Mathieu Ravignat:** In sum, you have simply ignored the Auditor General's recommendation. As for conflicts of interest, there is no problem. Is that what you are telling us?

[English]

**Mr. Randy Williamson:** From a personal perspective, I don't believe there's a problem. I'm saying that precisely, yes....

[Translation]

**Mr. Mathieu Ravignat:** So, let us be clear, Mr.—

[English]

**Mr. Randy Williamson:** I have not said I don't believe there is a problem.

[Translation]

**Mr. Mathieu Ravignat:** But you have not put in place a specific plan and you have not met with the Privy Council, as was indicated in your report.

[English]

**Mr. Randy Williamson:** The change that has been made coming out of that recommendation is we changed our bylaws. I made mention earlier that we have put into our bylaws a need for us to make a determination at the outset of every meeting if we believe we have a conflict of interest. That item in the bylaws did not exist prior to the recommendation by the OAG. We made that change.

[Translation]

**Mr. Mathieu Ravignat:** According to you, that plan is sufficient to prevent conflicts of interest?

[English]

**Mr. Randy Williamson:** It would be a much simpler solution, if you like, if we had a larger board. That would provide us with an opportunity to solve a couple of issues, the skill set being one and the other being a potential issue around conflict.

[Translation]

**Mr. Mathieu Ravignat:** But why have you not developed—because this is a golden opportunity to do so—a detailed plan to avoid conflicts of interest rather than simply changing a rule?

[English]

**Mr. Randy Williamson:** We do. I'll refer to my earlier comment that the CDC Act indicates we have three board members only.

[Translation]

**Mr. Mathieu Ravignat:** So, you were saying that if you do not change the structure of the board, you cannot deal with the possibility of a conflict of interest in an effective way. I don't see the connection. Can you explain it to me?

[English]

**Mr. Randy Williamson:** I think we can eliminate the need for expertise in producer background and processor background, and perhaps there would be an opportunity to bring on individuals with a financial background. That would be another avenue, but I'm not sure that it would be in the best interests of the industry.

[Translation]

**Mr. Mathieu Ravignat:** Why?

[English]

**Mr. Randy Williamson:** I think that it is very important to have a level of expertise relative to production and processing.

[Translation]

**Mr. Mathieu Ravignat:** Fine, but it would be guaranteed with the three members who sit on the board and who are from the industry.

[English]

**Mr. Randy Williamson:** Yes, and we are limited to three members.

[Translation]

**Mr. Mathieu Ravignat:** Do I have any time left?

**The Chair:** A little bit.

**Mr. Mathieu Ravignat:** A little bit. My question is going to take longer than that.

Thank you.

[English]

**The Chair:** I appreciate that very much. I don't often get that kind of consideration. Thank you.

Mr. Dreeshen, you have the floor, sir.

**Mr. Earl Dreeshen (Red Deer, CPC):** Thank you for coming here today to give us an opportunity to talk somewhat about crown corporations. I'm not like Mr. Shipley; I wasn't a dairy farmer, but I did have to milk a lot of cows when—

**The Chair:** Mr. Dreeshen, I apologize for interrupting. I should have paid closer attention to the clock.

It would seem to me, colleagues, that there's about a minute and a half left in our hour. I would suggest that we allow Mr. Dreeshen to do his five minutes, and then we'll wrap it up at that point. Do we have agreement?

**Some hon. members:** Agreed.

**The Chair:** Mr. Dreeshen, continue please, sir.

**Mr. Earl Dreeshen:** I thank you very much.

I do have some background and knowledge, plus there is a processing plant in my riding. Part of my discussion is the concentration that we have as far as processing is concerned in certain areas in the country. New players in the Canadian dairy industry face certain challenges that don't exist in other areas where there is no supply management. As was mentioned by Mr. Byrne earlier, and I think it should be mentioned, the Conservative Party is the only party that has had a policy with regard to support for supply management. I don't imagine that the Liberal leadership contender who had indicated that they wanted to eliminate supply management had come to speak with you either.

Could you talk about some of the ways in which new investments are coming into the industry and how foreign investment helps to tie into the process that we have as far as supply management is concerned, and the industry in general?

• (1200)

**Mr. Randy Williamson:** I mentioned some of the things earlier. We now have a growth allowance of 1% that provides milk that would not have been available in the past. This is relative to innovation and new products. We have a system where we now have agreement to redirect skim milk. That redirection of skim milk will be a commercial transaction between processors. We will act as the intermediary, if you like, to ensure there is no shortfall in raw product, to ensure that the businesses can go forward.

We have certain export opportunities within the WTO and we utilize those every year. We try where at all possible to work with organizations that export value-added products. A good example is that we've been working with a firm from outside Canada that wishes to make infant formula and export that. That's looking very promising. It appears that it's going to occur this year. It's a significant potential for value-added products in Canada.

Supply management might make it a little more difficult, but I believe that the changes that we've made and the programs, etc., that we have in Canada and that we're currently adding to our portfolio provide us with a great deal of opportunity to continue to grow the industry.

**Mr. Earl Dreeshen:** That's great that we tie into innovation and look at that.

One of the things you talked about that is music to my ears is the two standard deviations. I'm a former math teacher, so I appreciate that part.

Can you talk about some of the analysis measures that you have when you are looking at the quantitative performance indicators and those types of things? We didn't really get a chance to get to the third part of your action plan to try to tie into the things that the Auditor General had suggested there.

Could you bring those things together?

**Mr. Randy Williamson:** I'm going to suggest that we're in a fairly rudimentary stage in that regard.

As I said, it's only been in the last four or five years that in our annual corporate plan we've indicated much more clearly a linkage of our objectives and strategies back to our original mandate. From that, when we get into our objectives, we are able to identify numerically, if you like, and from a time-sensitive perspective, what our expectations are within the year.

It could be something as non-specific as getting groups of people together to move forward an objective like the P10. We would indicate that our objective would be to have a P10 formed and have a single pool in Canada. Our measure of completion would be 100%, if it occurs. If we get to the point where we have not completed it, but we have accomplished a number of components within that, then we'll provide ourselves with a measurement relative to a score on that basis.

Even though it's numerical, in many cases it's as much subjective as objective, but, it's an important move forward for us in terms of being more specific about whether we've accomplished what we intended to accomplish.

**Mr. Earl Dreeshen:** Thank you.

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

Colleagues, that wraps up our time on the public hearing.

Mr. Byrne.

**Hon. Gerry Byrne:** Thank you, Mr. Chair.

One of our colleagues at the table stated that we might want to have more representation about this particular issue, having potential leadership candidates or whatever.

Could we call Conservative MP Brent Rathgeber to the table to discuss his views on supply management?

Mr. Dreeshen, I believe your colleague has done a serious injustice calling for the destruction of the supply management system in Canada.

**The Chair:** Hang on. Are you asking for a point of order?

I was giving you the floor out of courtesy. What exactly are you doing?

**Hon. Gerry Byrne:** I would ask for unanimous consent.

**The Chair:** For what?

**Hon. Gerry Byrne:** To ask the Conservative MP for St. Leonard, which I believe is in Alberta, to appear before us.

**Mr. Andrew Saxton:** Is that a point of order?

**The Chair:** I gave him the floor and he is seeking unanimous consent. I'm allowing him to put what he's seeking unanimous consent for, which he is going to do very, very quickly.

● (1205)

**Hon. Gerry Byrne:** I'm trying.

I'd like to seek unanimous consent for Conservative MP Brent Rathgeber, and I believe his riding is St. Leonard, Alberta, to appear before us. He has expressed some pretty strong views that are contrary to the existence of supply management in Canada, so I would seek unanimous consent to have him—

**The Chair:** I'm not even going to allow you to put it. It's not even in order. That's not in order, period.

Is there anything else?

**An hon. member:** No.

**The Chair:** Very well. Let me thank our guests.

Auditor General, sir, we always appreciate your being here. Mr. Shier, thank you.

Mr. Williamson, thank you very much. I understand that subsequent to your verbal presentation there have been copies of your opening remarks circulated to members of the committee. We will reinforce that directive to people with a follow-up email, so there's a paper trail. I do appreciate your responding as quickly as you did, sir.

With that, I will suspend the committee as we arrange to go in camera. We are going to be studying the draft report on chapter 4, regulating pharmaceutical drugs, Health Canada, from the fall 2011 report by Mr. Ferguson.

[*Proceedings continue in camera*]

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