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Chair

The Honourable Rob Merrifield

Standing Committee on International Trade

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● (0845)

[*English*]

The Chair (Hon. Rob Merrifield (Yellowhead, CPC)): We would like to call our meeting to order.

I want to thank our witnesses for being here with us. I'm a little confused, because we have Andrew Casey from BIOTECanada, who used to be with the Forest Products Association of Canada, but then we have Catherine Cobden from the Forest Products Association. Thank you both for being here.

We are now into our third meeting on the Canada-EU free trade agreement. We are excited about travelling next week and hearing more witnesses, but today we have you two for the first hour. We look forward to your presentations.

We'll start with you, Mr. Casey. The floor is yours.

[*Translation*]

Mr. Andrew Casey (President and Chief Executive Officer, BIOTECanada): Thank you, Mr. Chair.

It is a great pleasure to be here with you today to talk about this issue, which is very important for the biotechnology industry.

[*English*]

Thank you very much for the opportunity this morning to provide testimony on your study of CETA, the Canada-Europe free trade agreement.

At the outset, let me just introduce BIOTECanada. BIOTECanada is the national trade association that represents Canada's biotech industry. We have about 250 members across the country, and they are in the three primary biotech areas. These include health and life sciences together as one, and then the industrial and agricultural fields as well. I'll dive into my membership a little later in my opening remarks.

At the outset, let me just say that the industry is strongly supportive of the CETA. As you correctly pointed out, Mr. Chair, I did come from the forest products industry before. We recognize in BIOTECanada as well that this is an important step for Canada, which is an export nation. We depend on markets abroad. I don't want to take any of the wind out of my colleague Catherine Cobden's sails here, but we know that both growing markets and securing markets outside of this country are extremely important for this economy, and I'm sure she'll elaborate on that. It is also very important for our industry internally.

I'm going to talk a bit about the intellectual property aspects of this agreement, which are extremely important to our industry. Particularly important is the patent term restoration of two years for patents that are caught up in the system, and also the right of appeal.

I'm going to now give you a better sense of our membership to explain why this is so important. When you look at BIOTECanada's members, and particularly I'm talking about the health and medical area now, we have about 130 members that are small or medium-sized enterprises across the country. These are individuals who have essentially a good idea that they're trying to commercialize. The companies can range from one person working on a computer in a university lab right up to some that have 30, 40, 50, or up to 100 people working on large or complex molecules in the biologics sphere, and to commercializing and improving people's health.

I also have in my membership some of the large multi-national brand-name pharmaceutical companies that everybody is familiar with. The right question to be asking yourselves right now is why they would they be part of the association. To explain that, I have to explain what the new ecosystem looks like for Canada's pharmaceutical industry, and indeed, for the global pharmaceutical industry.

In Canada, what we have now is large brand-name companies that still have a significant presence here in Canada, but what they're looking to do is develop their pipeline. They're developing their pipeline, which is essentially where their next sets of drug products are coming from, by scanning across the country to try to find these small innovators who are in Canada and working on these novel molecules and trying to partner with them and invest in them to grow and commercialize those molecules. That's one of the reasons they're part of the BIOTECanada table.

Central to all of this, for all of them and particularly for the small members, is access to capital investment. To develop a drug is very expensive. There are estimates that it takes about a billion dollars to develop one, and it takes a lot of time—10 to 15 years. Even with that, it's still very risky. Investment dollars are paramount for the industry. Many of my small member companies spend the bulk of their time crossing this country and going to conferences around the world looking for investors.

Investment is a fickle kind of tourist. It's going to go to the countries in which it feels most welcome. If you don't put out a welcome mat and take care of such things as giving it free Wi-Fi, breakfast in the morning, a nice pillow, and all the rest of the things that other tourists look for, it's going to go to other jurisdictions.

One of the most important parts of welcoming capital into the country is intellectual property protection. That's why this deal is particularly important for my small members. In their quest to get investment capital, they need to be able to provide the assurance to investors that the intellectual property is protected and that it is secure here.

The provisions in this agreement signal to the investment community that Canada takes intellectual property protection very seriously, and also the rights of those property owners here. At the end of the day, when we look at many of the members in BIOTECanada what we're really talking about is good ideas. Unlike the case for my colleague here, Ms. Cobden, whose industry has trees, which cannot be moved from where they are and which you have to process where they are, in my industry you have good ideas that are on laptops. You can move them anywhere in the world.

So if the capital isn't coming to Canada, if we're not putting out the welcome mat and are not giving it the security that it needs, those ideas are going to go where capital is. Then we lose the innovation, and more importantly, particularly in this area, we lose the health care treatment that may be available to Canadian patients.

● (0850)

When we look at some of the innovations that are coming, particular in the orphan drug area for which the government is developing a national orphan drug strategy, we may lose out on some of that innovation. But we also may lose out on some of that health care. To grow the innovation here, to commercialize it here and also deliver health care advantages to Canadians is the reason that this deal is important to our industry. We strongly support it.

I look forward to entertaining any questions that members may have about my testimony.

Thank you very much.

The Chair: Thank you very much.

Now we'll hear from Ms. Cobden.

Ms. Catherine Cobden (Executive Vice-President, Forest Products Association of Canada): Thank you.

Good morning, everybody.

Mr. Chair and honourable members, I really appreciate the opportunity to be here. It's wonderful to share the panel with my former colleague. Let's make sure we give him the tough questions.

A voice: Hear, hear!

Ms. Catherine Cobden: The forest industry, as you likely know, is an important part of Canada's economy. We are global players, but we also are the economic backbone of 200 rural communities across Canada that are almost entirely dependent on the forest industry for their livelihoods. We employ 236,000 Canadians directly. I'd like to point out that the vast majority of those jobs are manufacturing jobs. They are permanent, not seasonal, and they're well-paying.

The forest industry has faced significant challenges over the years. To respond to them, we have recognized that we cannot sustain business as usual; we cannot stand still. We must launch on a path of transformation, and we have done so.

To this end, last year the Forest Products Association of Canada unveiled what we refer to as “Vision 2020”. By the year 2020 we hope to generate $20 billion of additional economic activity through the adoption of new innovation, but also through the expansion of our existing markets and entry into new markets. We seek a further 35% improvement to what is an already global standard of our environmental footprint. We intend to employ 60,000 new hires, including women, aboriginals, and new Canadians, in that time period.

To accomplish these goals—we have already begun—we have increased our productivity significantly and our operating efficiencies; we have established world-class green credentials second to none; and we are making technological breakthroughs and producing new, innovative products, everything from clothing to lipstick to pharmaceutical applications, all made from renewable wood.

Our initial efforts to diversify our markets have also been a resounding success. For example, forest products are now Canada's largest export to China, amounting to more than $4 billion of product per year.

Throughout every area of transformation, the government has supported the industry as a strategic partner, including via support with initiatives on the trade front, opening up new markets, and helping us market Canadian wood products globally.

Our industry exports nearly $30 billion of products to approximately 187 countries around the world. This makes us one of the leading exporters in this country and also makes us one of the most successful exporters of forest products globally.

As mentioned, the continued expansion of existing markets and diversification into new markets are critical for our future. For this reason, we're very supportive of the government's trade agenda, including negotiation of new trade agreements and focused support to help us with our entry into new markets.

It's with this background that we welcomed CETA last month. Europe is the third-largest market for our sector. Last year the Canadian forest products industry exported more than a billion dollars' worth of wood, pulp, and paper products to the EU member states. Upon CETA's coming into force, FPAC members will benefit immediately from the elimination of existing tariffs on some of our wood products. Tariffs of between 3% and 10% exist today, for example, in the areas of plywood, panel, and board, so this is a significant improvement.

We also see value beyond tariff elimination. We're very pleased with the potential that we now see for regulatory cooperation between nations. And finally, just to make the point, we view the EU as a really critical future market for the new renewable products that we are beginning to generate from a transforming forest industry.

We appreciate the government's continued efforts in the area of freer trade. Expanding international trade relationships helps the industry to grow, diversify, and prosper. Our collective efforts, however, do not stop with the ratification of this agreement or others. In fact, it is our belief that to ensure the success of this agreement and the others, we must ensure that we have in place all the necessary enablers to ensure that we take advantage of the opportunity that this and other agreements provide.

As a commodity-based industry that is on the aggressive transformational path, we have five enablers that we see as being critical.

Number one is that we must maintain the excellent support of the broad network of trade offices that we benefit from globally. I will speak to a very specific hot topic in this area in a few moments.

● (0855)

Two, we must ensure that we have a reliable and affordable rail system serving all areas of the country so that we can deliver our product to ports and get them to market.

Three, we must develop sufficient infrastructure that supports new markets, particularly as trade flows grow beyond just north-south to east-west.

Four, we really think that promoting the Canada brand is an ongoing effort that's very worthwhile.

And five—this one's quite specific to the forest industry—we need continued support for the innovation system that is the foundation of our transformational strategy.

Based on this comprehensive view, we really welcomed the reference to our sector in the Speech from the Throne last month, where the government identified that they would “continue to support innovation and pursue new export opportunities” for the Canadian forest industry. We hope that the government, though, will consider these enablers that I'm identifying in bringing that open trade to reality.

I mentioned the impact and the real criticality of these trade offices globally. The current issue we are facing, which demonstrates and embodies the need for boots on the ground, if you will, is the recent anti-dumping case that came out two weeks ago: the preliminary determination on dissolving pulp from China.

This is a significant challenge for the Canadian industry as well as for our counterparts in the U.S. and Brazil. It is relevant to five operations currently, but has also put a chill on three other future prospective mills that were basically going to reopen in areas that had absolutely no future prospects other than this. It's also a significant example: dissolving pulp is a transformed industry that goes into the textile industry. We now use our trees to create clothing, which offsets the cotton market.

So we're in the preliminary decision stage, but it has already implicated and put a chill on future investment. I look forward to an ongoing discussion with members of this committee on possibly how we move forward in such a challenging environment.

In closing, expanding international trade relationships and defending our access to key markets is critical to helping the industry grow and prosper. Ultimately, ratification and implementation of CETA will help sustain Canada's forest industry, our communities, and the hundreds of thousands of jobs that the sector supports across the country.

Thank you. I look forward to any questions you may have.

The Chair: Thank you very much.

We will now move to questions and answers.

Mr. Masse, the floor is yours for seven minutes.

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair.

Thank you to the witnesses for coming here this morning and testifying. It's much appreciated.

I'll start with the biotech industry. With regard to intellectual property protection, we've heard the story before that if we increase that, we'll actually increase investment into Canada. But that hasn't statistically played out.

What's different in this case? Are you suggesting that you'll have significantly more investment in research and development from your representative companies because of this deal? What's going to trigger that? And how do we measure that?

Mr. Andrew Casey: I think if you're talking statistically, it has not measured out.

You're talking about the PMPRB measurement stick that's been put in place.

Mr. Brian Masse: Yes.

Mr. Andrew Casey: Okay.

What you're looking at there is a measurement mechanism that was put in place when the Patent Act was expanded back in 1987. That was done at a time when the industry was very different from the industry that exists in Canada right now.

So the first argument I would make, then, is that the measuring stick is sort of outdated and needs to be updated. Your point is still well taken, though. What is investment and what is R and D? What is happening in the industry right now?

The change in the industry is the one I alluded to earlier, which is that the large brand name companies are looking for new products and new innovations in this country. What's not captured in the PMPRB mechanism is all of my small member companies that are essentially doing their research on their own, in labs, in universities. None of that is captured as R and D in the traditional sense.

So that's not in that statistic, and that's the part that is continuing to grow. I have 130 or 140 members across the country who are all doing nothing but R and D, because that's what they're all about, and they're looking for the investment dollars.

That is what's happening, and I can say that's happening in real form. We're seeing some very significant success stories. I'll give you one particular example that is quite significant. Enobia, a company out of Montreal, developed an enzyme replacement therapy for bone disease in children. They took their drug to a point and they sold it to Alexion, which is a large multinational company, for $1.1 billion. That money is in Canada, and it will get reinvested in other start-ups.

That's the kind of ecosystem that's taking place. I think that's something we would like to keep in this country.

● (0900)

Mr. Brian Masse: Okay. So we have that happening, and that's good to hear. I appreciate the clarification about the change.

We have kind of a deal in place without the technical data. We're going to get the technical data, and then we'll go forward from there with legislative change.

Who are the new investors we would get out of this? Where are we missing out that just signing a trade agreement will.... Have there been any studies? Has there been any work done on how to capitalize on those individuals? If there are people pent-up waiting to invest just because we've signed onto CETA, have we identified who they are and how much capital they will have, because in your testimony you're saying that we need the investors and that CETA will open the door for investors, so I'm assuming these are new investors or additional money.

Has there been any work to identify who they are, and how much capital we can expect to get, and how to do it?

Mr. Andrew Casey: No. I haven't seen any particular studies that would do that, but I can say we're talking about investors that are global. They are around the planet. They are all looking for their opportunities.

Ms. Cobden's industry is looking for the same investors. They have the capital, and they want to invest it. They are looking for a return on that investment. They are going to take that investment, and put it in places where they feel it's the most secure and where they are going to get the greatest return. If they don't feel there's security around that investment, they are not going to invest in that particular industry or particular country.

The point I'm making is that if you don't have in place regulations and recognition of the importance of intellectual property and secure that intellectual property...that's one of the cores to my smaller members. All they have is their intellectual property. If they can't put that out there and sell it securely, then the investment is going to go elsewhere where they think it's more secure.

Other countries are stepping up. We have to keep pace. I can't say what will or will not come, but I can tell you that if we don't keep pace with the other jurisdictions, capital will flow to those other jurisdictions where it feels more secure.

Mr. Brian Masse: Thank you.

Ms. Cobden, you made a really good point with the concept of enablers. This government right now is currently in a process where it's cutting CBSA down. In fact, CBSA is going to lose $143 million by 2015 with front-line workers being reduced. You talked about trade offices.

Can you tell us about how important the trade offices are for your organization. We have seen trade offices actually reduced over the last number of years.

Ms. Catherine Cobden: As mentioned in my remarks, the trade offices are actually really important. There is no way we could have received the information we received just yesterday from the MOFCOM in China without boots on the ground in China.

Whether there are efficiencies to be gained in the system, I think like anything it's worth taking a look at—but in strategic markets trade offices are very important.

Mr. Brian Masse: As well, what regions of the forestry sector would benefit most from this deal? You mentioned the rail system—and also the ports, where we need some massive and significant investment. I come from the Great Lakes area where we have witnessed low water levels at different times and changing patterns.

What needs to be done there, and is there a particular region of the forestry sector that would benefit from this trade agreement?

● (0905)

Ms. Catherine Cobden: As you likely know, we do export product to Europe from across the country, but with a heavier emphasis from the east. That would make some sense given the proximity to market. But I think our infrastructure challenges around ports are not limited to the eastern ports. I think there is a definite need for.... You heard about our China experience, and there are certainly constraints around the port of Vancouver as well.

In the infrastructure program, which we're grateful to see advancing, I think it's important that we look at the trade flow issue going to Europe and to China, and ensure that we have the port structure in place. And absolutely, the rail issue is critical from coast to coast. There is no one region that would benefit more than others. It's a national problem.

The Chair: Thank you very much.

Mr. Holder.

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

I'd also like to thank our guests for attending this morning and sharing their comments.

I'm a little nervous, Ms. Cobden. All of a sudden, wearing my clothes out of wood makes me feel a bit splintery all of a sudden.

Over the course of time when we've been studying all the issues with CETA before signing it, we've had so many positive responses about this free trade agreement. It's been interesting that those who have expressed concern represent some employees and may have some concerns that need to be expressed, but the job creators have been so very positive about this deal. Of course, there's you today from the forest products sector and Mr. Casey in his new world of biotech—congratulations to you—but also from fisheries to pork to beef to lumber to canola, grain growers, pulse growers, and major organizations like the Canadian Chamber of Commerce, the Canadian Council of Chief Executives, the Canadian Manufacturers & Exporters, all the job creators have come out and said this is good for Canada because, by our history and by all that we have done, we are exporters. I was going to say that we are no longer hewers of wood, but I guess being hewers of wood is a good thing, Ms. Cobden.

Ms. Catherine Cobden: We're well beyond that.

● (0910)

Mr. Ed Holder: We're well beyond, and I think that's the point.

I have a couple of questions, if you would allow me. I have given them some thought.

Ms. Cobden, one of the things you mentioned is that through Vision 2020 you're looking to hire 60,000 people. I have two sets of questions. First, it was interesting that you said you'd hire aboriginals, women, immigrants. How can you be so case-specific?

Secondly, we have a colleague here from Saskatchewan and, frankly, it's critical that they get more employees out there because there are industries going wanting for employees out west, Saskatchewan being a particular challenge.

The two questions are: why these select groups, and where are these 60,000 employees coming from, knowing that Canada has already created some million-plus net jobs since the recession? Our unemployment rate is the lowest it has been in some years. But look, for everybody who is genuinely looking for work, Canada should create that opportunity. But it won't be the government getting them a job, it will be the job creators. All we can do as a government is create the opportunity for those job creators to do what they do.

Enough of me. Could I ask for your response to that, please?

Ms. Catherine Cobden: Absolutely. I have a number of points I'd like to make. Thank you very much for those thoughtful questions.

The 60,000 number and the specific identification of where we'd like to get them comes from a fundamental philosophy that we would like to attract our neighbours to the industry first. But we actually don't believe that's sufficient. We are going to need support, we think, in growing the labour pool overall.

Whatever the federal government does to grow the labour pool is going to be welcomed by our industry. Again, we are in remote communities where first nations are right beside us. I believe we have the highest percentage of aboriginals in our workforce, but it's not a great number yet. It's 16%. We think we can do a lot better and we are working really hard with aboriginal partners to grow that number.

The last time I looked—I grew up in a northern community, a pulp mill town—half of that community were women. We have an abysmal track record with women, so we'd like to get some of those women in our communities working. Again, we imagine that may not be sufficient.

On the Saskatchewan thing, I do want to point out that there is a particular opportunity that's being lost by the Chinese move on anti-dumping. I am sure you can talk to that company directly, and I don't want to speak for them, but I'm pretty sure that getting over 50% duty from China will immediately cease and desist on that. You can talk to them to confirm that.

Where will the jobs will come from? We had a long discussion with Minister Kenney, only last night in fact, on the need for ongoing development of good LMI data, the supply and demand data. Really nailing this down, I think there's some really good stuff going on around the Canada job portal and that kind of thing. But need to go further in supporting our database to ensure that we are connecting the last...I can't remember the exact number of Canadians who are still without employment, with those jobs.

I think we simply need to keep the pedal to the metal on facilitating that.

Mr. Ed Holder: My colleague opposite made reference to the trade offices, and I beg to differ. But one of the things that's been consistent in the testimony of the various support groups I just mentioned is the importance of trade offices, as you've mentioned as well. It's critical for the sake of Canadian exports to assist—because those are boots on the ground in those countries around the world.

That ties in to the fifth point you made about the various opportunities that the EU may bring. One of the things you thought was critical was to support innovation and new export opportunities. In your industry, Ms. Cobden, what are those new export opportunities that you see as a result of this agreement?

Ms. Catherine Cobden: Well, we're living one at the moment. With respect to immediate transformation of the forest industry, real-time, is the dissolving pulp and getting into textiles. But there's a tremendous array of new products that we've unleashed from the Canadian forest, and we're beginning, through a number of enabling programs federally, to demonstrate their applicability at a commercial level.

I'll give you just one example, but I could give you 15 examples or more. The one example that I'm quite jazzed about is something called nanocrystalline cellulose. It's taking the tree to the nano level. We are the first generators of nanocrystalline cellulose from trees. This is such an extraordinarily tiny substance that we are the envy of the world. When we go to Sweden, a powerhouse in the forest industry, and Finland, and the U.S., they're all looking at us, asking how we got that done in Canada.

This, by the way, opens up an incredible array of new opportunities for the forest industry. It can be put into composites; it can even be put into, to my even understanding, things like bone structures and tires. The applications of this new product just go on and on and on.

So it's an exciting new world in the forest industry. We're no longer just hewers of wood and drawers of water.

The Chair: Thank you very much.

Mr. Pacetti, the floor is yours.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chair.

Thank you to the witnesses for coming today.

My question is going to be the same for both witnesses, but my first question is for Mr. Casey.

On more than one occasion you alluded to investment dollars as being the main criterion. In your case, you're going to need investment dollars to carry out your second phase, or whatever phase your biotech companies will be in when it's time to go to market. But you also said that your industry is transportable, so I'm a bit worried that if you do find investment, it would probably be easier to find investment in Europe; because of bigger markets, there would be more money available there.

Won't the industries that you represent be easier to transport and take the jobs away from Canada? Even though the scientific and the research end is successful here in Canada, why would you want to maintain the manufacturing side if your investment is going to be coming from overseas?

Mr. Andrew Casey: There are other factors that go into the decision as to where you're going to locate your company. So you may get capital, but there are other advantages to being in Canada that this industry enjoys. We have a fantastic, very highly educated workforce. We have great universities. We have a number of organizations emerging in this country that are allowing for the transfer of technology and are assisting with commercialization. There are incubators that are bringing together the innovators as well as the large investors and the large companies. So there are a number of other advantages in Canada that will factor into your determination as to where you are ultimately going to do your business.

But the other part of the question is, if you have intellectual property, if you're a Canadian innovator, why wouldn't you want to stay here? This is where you're located, this is where you discovered your product. You're going to want to stay here and try to develop it here.

We also have a fantastic—

● (0915)

Mr. Massimo Pacetti: One of the reasons would be that you would be closer to your market there. It's only because your industry is transportable, as said yourself. That's the idea—

Mr. Andrew Casey: The idea is transportable. Ultimately the manufacturing is going to take place where it's most economical at the end of the day, no matter what.

I'm not going to put a huge number of jobs on the table. I'm not talking about that here, but I am talking about the innovation and the practicalities such innovation does bring for the Canadian population. It's also for the flow-back into the universities here—you can't underestimate that—but also for health care and the advances there —

Mr. Massimo Pacetti: Sorry, my time is limited.

Are any of your members universities?

Mr. Andrew Casey: Yes.

Mr. Massimo Pacetti: They're actually universities, or companies working with universities?

Mr. Andrew Casey: They are the universities, and also the organizations that are partnering with universities. So UBC, for instance, and the CDRD, the Centre for Drug Research and Development, would be an example.

Mr. Massimo Pacetti: Are any of your member organizations doing business now in Europe? Is it a market that has already been penetrated and exploited?

Mr. Andrew Casey: It depends on how you define doing business. A lot of my small members are going to European conferences to seek out investors, so there is that partnership taking place. The larger members are of course multinational corporations, and they are definitely doing business in Europe and selling [*Inaudible—Editor*].

Mr. Massimo Pacetti: For the ones that are not doing business, is there a reason? Are tariffs the main reason? Or are there other reasons like regulation getting in the way?

Mr. Andrew Casey: The ones that are not doing business are pre-commercial. They are not selling things right now in the marketplace. That's the reason. The other ones are accessing those markets without problems.

Mr. Massimo Pacetti: So if you have a proper product to commercialize, the European market is accessible and it's being accessed right now?

Mr. Andrew Casey: Absolutely. You're looking at global population growth. We need these pharmaceuticals. We need the drugs. We're discovering new diseases every day.

Mr. Massimo Pacetti: So what would the agreement bring in? If you already have a good product and it's already going to Europe, would the difference be capital as you were saying?

Mr. Andrew Casey: It's the domestic security. This is different from the forest products industry and other industries that Mr. Holder referred to, which are growing the markets and securing markets. What I'm talking about here is securing the Canadian policy framework for innovators in this country. That's the more important part of it for us.

Mr. Massimo Pacetti: Thank you.

Ms. Cobden, I'll ask the same question to you in the sense that your industry is going to require investment dollars. Are those going to be available?

Ms. Catherine Cobden: The first question is whether we are going to be able to incent the investments to be made here in Canada. There are investment dollars out there for sure.

The question is, again, how do we assure ourselves—and this is something that I must confess to being personally obsessed with—that we will make the investments in our rural communities here in Canada versus, for example, in the southern United States where we have seen large Canadian companies? They now run about 20% of the southern United States forest industry, and they are growing.

Mr. Massimo Pacetti: Canadian companies do?

Ms. Catherine Cobden: Yes. We have a very global reach, but my point is that we want to compete with the investment climate of these other nations.

Now to the point my former colleague made, the trees are indeed here in Canada, but there's a lot more we need to look at in order to be cost-effective.

Mr. Massimo Pacetti: You also—

The Chair: Your time is gone, Mr. Pacetti.

Mr. Cannan.

Hon. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

Thanks to our witnesses.

I appreciate the preamble to the discussion to date. I just wanted to remind the committee that the United States is going to continue to be our number one trading partner and we will continue to work closely together reducing red tape and harmonizing regulations, working and streamlining the border with regulatory reform with the CBSA and the Department of Homeland Security.

I was just in Washington last week with the chair of the trade committee and we were working with other sectors as well and discussing the importance of the forest industry. Coming from British Columbia as do Mr. Sandhu and my colleague Mr. Hiebert, we know it's about 3% of our provincial GDP, about 170,000 jobs. It's a big economic employer and stimulus for our province and other parts of Canada.

Ms. Cobden, in your opening comments you mentioned that by 2020 you want to have a $20 billion increase. Right now there is about $1 billion in wood, pulp, and paper products going to the EU.

With CETA, have you been able to do any preliminary estimates indicating how much of an increase you might anticipate from this to help accomplish your goal of $20 billion by 2020 and what percentage of increase of growth that would be?

● (0920)

Ms. Catherine Cobden: I have not yet actually. As I said I think there will be more opportunities from CETA. I don't have the figures for the extra differential. I was hoping to be able to crunch them. I think part of it is that we don't actually have all the final fine print so we haven't been able to read the fine print of the final text.

Mr. Massimo Pacetti: We don't have it either.

Ms. Catherine Cobden: Okay. If you did I'd like you to share it. Thanks.

The Chair: He probably won't read it anyway.

Hon. Ron Cannan: From a specific industry perspective then, have you looked at it provincially sector by sector? Have you had a bit of analysis from working with COFI for example and others?

Ms. Catherine Cobden: I did try to reference—and I hope I did a decent job of this—the fact that some tariffs will immediately fall by up to 10% for some of our subcategories, so this is huge.

We do export an awful lot. I didn't get into the specifics, but pulp and paper would be the bulk of our exports to Europe. The wood products would be second. We're talking fairly large numbers here. Overall it's a billion dollars. It's a 60-40 split between those two big groups.

So yes getting tariffs in the order of 10% off a $400 million export is good.

Hon. Ron Cannan: Obviously there is the chance to travel to some parts of Europe—Finland, for example—and share the technology and use our bilateral exchange as well for research and innovation, which segues to my question.

Mr. Casey, coming from BIOTEC, you have about a 250-member organization. Our government's had a drive to encourage private sector R and D in Canada and to go for increased innovation and commercializing innovation. In Canada we haven't done a great job of commercializing the R and D. I'm wondering for your approximately 250 members how CETA will help increase R and D in Canada and whether you see that potential for commercialization being increased and expanding through this agreement.

Mr. Andrew Casey: It goes back to being able to draw investment into the country. R and D is going to drive investment. You're entirely correct, the government has been very supportive of the industry through a number of programs to develop its R and D.

At the end of the day, as I said, it's a very expensive process to develop a drug. It's about a billion dollars. It takes a long time, some 10 to 15 years. That's a long horizon for a lot of investors and there's quite a bit of risk associated with that. Anything we can do to provide greater security for that investment is going to be important for the industry in attaining commercialization.

IP protection is certainly one of those. That's the big part of this deal. The patent term restoration essentially gives them a bit of time that they can tack on to recoup some of the costs associated with the development of the drug, if the drug does get tied up in the regulatory process, which it can. It's particularly important for a lot of the companies in my membership because they're in the biologic space, which are complex molecules. That is different from the traditional discussion of generics, where you essentially copy a small molecule. You could copy this newspaper and that's what that would be like, but in the biologics it's like trying to copy what's on this iPad. It's a very complex, very different world.

Sometimes the regulatory process is a little slower with the biologic space. That's particularly important when we're dealing with the orphan drug world. Anything that can restore some of that lost time to the patent holder, to the intellectual property holder, will help them to attract investment.

Hon. Ron Cannan: I appreciate the complexity of the patent and research.

One of the complexities for some small and medium-sized business owners, as my colleague Mr. Holder alluded to, is regulatory. We're trying to have rules-based trading, but it's difficult for some individuals. How do we expand in the market? We have Canadian trade commission services, about 150 offices around the world and across Canada. On the ground we have individuals helping business owners who want to take advantage of the CETA agreement.

One of the concerns is regulatory harmonization. I've had discussions with constituents about genetically modified organisms, GMO, with this CETA agreement, and the labelling issue. What would be a reasonable threshold for low-level presence of GMOs in Canadian exports to the EU?

Mr. Andrew Casey: That one came out of the blue.

I don't have any specific comments on the GMO provisions. We're still awaiting some of the details as to what's going to take place on that front. I think we need to acknowledge the reality that we have global population growth that's going to take this world to about nine billion people. We're going to have to find a way to feed those people. Right now when you look at the resources available to us, the land mass that's available to grow protein and other sorts of produce, we're restricted. Genetically modified and genetically engineered organisms is obviously a solution for the industry. Biotechnology is certainly playing a part in that growth. It's an enormous opportunity for Canadian producers. A number of companies in the biotech space are helping producers, whether it's in the agricultural or the aquaculture worlds. This is an important part of the agreement. We're looking forward to seeing some more details about that.

● (0925)

The Chair: Thank you very much.

We'll now move on to Mr. Sandhu.

Mr. Jasbir Sandhu (Surrey North, NDP): Thank you, Mr. Chair, and thank you for coming this morning.

I come from British Columbia, where my family worked in the forestry industry, so this is very close to my heart.

On November 15, 2011, we heard from a representative from the Forest Products Association of Canada. At that time he said, “ Right now the government procurement process for forest products in the EU is a fairly behind-closed-doors process”—it may have been Mr. Casey at that time—and “We're advocating something that is a little bit more open and that taps into leveraging our environmental pedigree.”

Would the CETA agreement address the forest sector's concern regarding this particular issue?

Ms. Catherine Cobden: I'm just confirming that I would like to be the one to respond.

Mr. Andrew Casey: I have to resist the urge.

Ms. Catherine Cobden: Yes, exactly.

It is with some pleasure that we see that the forest annex, which specifically gets to green procurement dialogue bilaterally, is in the CETA agreement. The only thing I have to say is we have not seen the specific text so we haven't had a chance to deliberate on the details, but we're encouraged to see that it's.... We did provide text and we're hopeful that it's aligned. We think that will be an opportunity for us.

Mr. Jasbir Sandhu: CETA will create the bilateral dialogue, but you haven't seen that yet, right?

Ms. Catherine Cobden: We haven't seen the forest annex yet, but we understand it's there.

Mr. Jasbir Sandhu: It is important to open up markets for forestry, whether it's in Asia or Europe.

You pointed out that you also need enablers, and I totally agree with you. We can grow all the products, manufacture the product, but if we can't get it to our markets it is very difficult to export.

You mentioned trade offices. We've heard from a number of individuals. Being from British Columbia, I think Japan is a very strategic market for the forestry industry, and we've had an office close in Osaka. As you pointed out, you use the offices to further your interests in trade.

You also mentioned the railway industry. What specific issues are you having with the railway industry?

Ms. Catherine Cobden: I don't know if we have time to get me revved up on that issue, but I will say that our challenges with the railways exist. They are, generally speaking, related to both rates and service. We are captive rail shippers.

Mr. Jasbir Sandhu: What can the government do?

Ms. Catherine Cobden: The government has taken some steps by increasing the tools in our toolbox, but, as I have indicated several times in appearances to the transportation committee, we need to do more. We have a terrific imbalance of power between the two railways that operate as monopolies in the forest products industry, and for all shippers, quite frankly.

Mr. Jasbir Sandhu: Mr. Casey, the government has made some recent changes to the SR and ED program, which is a tax shelter. How is that going to impact your industry?

Mr. Andrew Casey: We're aware of what the government is doing with the changes. The SR and ED is an extremely important part of the investment structure for a lot of members in the industry. I've heard from a number of my member companies from across the country that without the SR and ED they would not be around right now. It has allowed them to get through the valley of death, so to speak. It has proven to be an extraordinarily important measure for the industry. It's recognized around the world as a very important investment tool.

There could be some other changes we'd like to see over time, which would recognize some of the changing ecosystem I've talked about with the industry. There are the large companies that are investing in Canada through the smaller companies and finding ways that they can take advantage of the SR and ED, but that's probably for another table to discuss. Certainly the SR and ED is a very important tool for the industry and for my members.

● (0930)

Mr. Jasbir Sandhu: Would you say that this is one of the enablers for your industry, just like the forestry industry, and that this will have a negative impact for your members?

Mr. Andrew Casey: “This” being the changes?

Mr. Jasbir Sandhu: That's right.

Mr. Andrew Casey: No, the industry recognized that the government is doing what it can to fine-tune it and make sure it's working properly. There are pressures on the fiscal situation, and we have to find ways to make sure that the SR and ED is working properly.

There are other ways we can cooperate with government to ensure that it works better for the industry, and we're certainly at the table having those discussions.

The Chair: Thank you.

I'm going to use the chair's prerogative to ask one more question. On the rail service agreements, have you signed a service agreement with the railways?

Ms. Catherine Cobden: Our view on the rail service legislation was that we were supportive and grateful to get another tool in our toolbox, but we have always said we would use that first and foremost as leverage when negotiating with the railways because the process is quite time-consuming and costly. Nonetheless, we like it. I'll just tell you I was with a number of our transportation gang yesterday who, unfortunately, while in Ottawa had to deal with half their cars not showing up, and that was consistent across the group.

The Chair: I realize that and that's why the Fair Rail Freight Service Act is there. I'm was wondering if you have gone through a process yet. But you haven't yet is what you're saying. You haven't actually gone to arbitration.

Ms. Catherine Cobden: Yes, I know. I can assure you that our companies are using it as leverage in negotiations—commercial relations.

The Chair: Okay, very good.

Mr. Hiebert.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you, Mr. Chair, and my thanks to you industry representatives for coming.

Starting with the Forest Products Association, as a B.C. member, CETA is of close concern to my constituency. On Tuesday we had some witnesses talk to us about how the CETA will increase trade with the European Union as well as with other parts of the world as Canadian companies integrate into multinationals and their supply chains. We will have Canadian companies innovating, sending some sub-component to a European company that then exports that product to Africa, Asia, and the rest of the world. I thought this was a very innovative way of thinking about trade, not to just as one geographic area but as a stopping point to other destinations.

I'm just wondering, from both of your perspectives, how your industries look at this potential opportunity, not just as a market to Europe but as a stopping point to the rest of the world.

Ms. Catherine Cobden: That's a very good question.

I will say that in general a lot of our transformational activities actually integrate into the supply chains of other industries. For example, I was referencing with some passion my interest in NCC, nanocrystalline cellulose. It integrates into the supply chain of L'Oréal, the cosmetic company. Well, that's for an example. Let's hope that it in fact does. I shouldn't say that as a fact; we hope it will.

The idea is that in general we are creating new base inputs into new products in companies all over the world, so anything that helps to facilitate the transfer of our product to where their manufacturing operations are, like Europe, is helpful, for sure.

Mr. Andrew Casey: I would only add that like Ms. Cobden's industry, we're in the supply chain as well. Biotechnology is allowing a lot of industries to transform. Any sort of trade agreement that expands markets for other industries in which we're sort of central is good news for biotechnology ultimately.

When you look at mining, for instance, or at oil and gas, oil and gas is using a company out of Quebec City that has an enzyme that basically gobbles up their CO_2 emissions. That company is going to do well as long as the oil and gas industry is going to do well. That's probably not the best example, because we know that oil and gas is going to continue to do well for a while, but there certainly are other industries where biotechnology is central to the transformation of those industries. As those industries compete more in the bioeconomy, biotechnology will be central to that and will benefit accordingly.

Mr. Russ Hiebert: Mr. Casey, you've talked a little bit about the new patent protections in the agreement, in CETA. Could you help us appreciate or understand how these new timeframes compare to those of other jurisdictions that we would be competing with?

● (0935)

Mr. Andrew Casey: They're essentially catching up. Let's put it that way. We're talking about a two-year restoration period for patent term restoration. In Europe, it's five years. In the U.S., it's five years. It's trying to keep pace with them. It's not exactly five years, but it's better than what we had before, which was nothing.

It's essentially recognizing that we have to keep pace with other jurisdictions around the world. Otherwise, we will lose that investment dollar. We will lose the innovation.

Mr. Russ Hiebert: How about other jurisdictions like Australia or Japan, or South Korea?

Mr. Andrew Casey: Canada would be unique. We were the only country.... I'm sorry, Brazil, India, and China, I think, are the other countries that don't have it, but in the OECD we were quite unique in that we didn't have anything in place already.

Mr. Russ Hiebert: This gives us a bit of a step ahead of Brazil, China, and India.

Mr. Andrew Casey: Yes, we're definitely ahead of those countries. There are other factors at play in those countries, but more importantly, I think, it keeps pace with the EU, the U.S., Japan, and other jurisdictions where biologic innovation certainly is taking place.

Mr. Russ Hiebert: Ms. Cobden, you made reference to an anti-dumping case from China as it relates to dissolving pulp. I was wondering if you could elaborate on that and help us understand what that's all about.

Ms. Catherine Cobden: Yes. I'm going to have to be careful here because we're in the middle of a legal WTO process, but the Chinese have come out with a preliminary determination suggesting that Canada, the U.S., and Brazil are dumping. They've put in duties, essentially tariffs, to collect as a result of that dumping at various levels. They've also I guess predetermined that the new supply that has been announced in these remote communities across the country will also be dumping, and they've put in a tariff on them as well: a 50% tariff as opposed to 13% on the rest of the operators.

I think this is a complex issue, but it is a significant issue in terms of.... We're talking about eight facilities across the country with approximately 400 jobs per facility. I know that maybe doesn't sound like a huge number, but in these remote communities where there are not a lot of other options, this is pretty important. From our vantage point, it's very important.

We are following legal due process. It's complicated. We're challenged to comprehend why the duty has gone the way it has. I'll just add that there are much more significant dissolving pulp producers in the world that are not subject to a duty at all. It's very difficult to understand the full nature of that. We're developing a much more detailed view. We have to wait for a final determination. We're in the process of.... I would love to have a further discussion with anyone on the trade committee as this develops.

This just came out a couple of weeks ago, so everyone is looking at the legalities, at the political system. We've deployed boots on the ground in Beijing. The trade offices are engaged with MOFCOM and we're trying to sort this out.

The Chair: Thank you very much for your testimony. We appreciate your testimony and also appreciate your support of this agreement. We find that very encouraging.

We will suspend now as we set up for the next panel. We want to leave a little extra time in the next panel for some committee business as we go in camera for five minutes at the end of that.

So with that, we'll suspend.

● (0935)

(Pause)

● (0940)

The Chair: We'd like to call the meeting back to order. We want to start our second panel.

We have with us, from the Dairy Farmers of Canada, Yves Leduc and Ron Versteeg. Yves is the director of international trade and Ron is vice-president. Thank you for being here.

We have also, from the Canadian Cattlemen's Association, John Masswohl. You've been here many times and we appreciate your being here with us as well. So we will start with you, John. We look forward to your presentation and testimony. The floor is yours.

Mr. John Masswohl (Director, Government and International Relations, Canadian Cattlemen's Association): Great. Thank you very much, and thank you again for the opportunity to appear before you. It really has been quite a journey to achieve a successful Canada-Europe free trade agreement. I'm really pleased that this day has come and that we can now speak with you about the tremendous results for the Canadian beef producer.

Also, let me just take a moment to thank the committee staff for really being patient with my travel schedule this week. I'm glad it all worked out and I got here.

Of course, the Canadian Cattlemen's Association hasn't just been passively waiting for this CETA to be achieved; we have actively engaged throughout the negotiations. We've engaged closely with the Canadian negotiators to provide advice and feedback. We've also met frequently with the EU negotiators, representatives of the EU member states, and members of the European Parliament. We undertook those efforts both here and in Brussels, so we put on a lot of air miles in getting this thing done.

Lastly, but also importantly, the Canadian Cattlemen's Association engaged with cattle producer groups in Europe. We travelled to France, Spain, England, and Ireland to reach out to our counterparts in those countries to establish relations and to engage in dialogue with them. Really, we haven't had transatlantic beef cattle trade for some 30 years. So that's something new we have to re-establish. We feel this was very helpful in overcoming sensitivities that might have otherwise prevented our reaching a successful conclusion for the beef sector. So we're going to continue to work hard to build on those relationships as we move forward through the implementation of the CETA.

What did we get in this agreement? Page 9 of that technical summary of the negotiations that the Prime Minister tabled recently provides an accurate account of our understanding of the agreement. Really, on the tariff side, the market access side, there are four quotas for beef products. The first is a new 35,000-tonne, carcass weight, duty-free fresh beef quota. The second is a 15,000-tonne, carcass weight, duty-free frozen beef quota. Those two are new quotas that will be for any grade of beef, including veal, and available for Canada only.

The third is an existing quota. It's called the Hilton quota, and it's for high grading beef. Currently it has a 20% rate of duty, and Canada shares that quota with the United States, but on day one of the CETA, the duty rate for Canada will drop to 0%, while U.S. beef will continue to pay a 20% duty rate. That quota is 11,500-tonnes, product weight, or 14,950 tonnes, carcass weight.

The fourth one is the most complicated to explain. It's an existing quota that was provided as compensation for the hormone dispute, and it currently provides 48,200 tonnes, product weight, of duty-free access for high quality beef. That quota is available on what we call an MFN, or a most favoured nation basis, which means it's shared amongst several countries. In the CETA, Canada agreed to take its 3,200 tonnes out of the total 48,200 MFN, and in return we secured a higher quantity in that first new quota I mentioned, just for Canada. As a result, the 48,200-tonne MFN quota will drop to 45,000 tonnes MFN when the CETA is implemented.

Also, there are several other products such as offals, a lot of the organ meats, tallow, rendered products, processed beef hides and skins that will all gain unlimited duty-free access to the EU under CETA.

As I said earlier, we were consulted closely on every one of these decisions during the negotiations. Any time there was a trade-off or a decision to be made, we were consulted and supported those decisions. We're pleased with this outcome. We strongly support this agreement going forward.

We estimate that the fresh beef exports to the EU will be worth approximately $11 per kilogram and the frozen will be worth approximately $6 per kilogram. So on that basis, doing the math, that brings the potential value of CETA to over $600 million for Canadian producers.

● (0945)

In previous appearances to this committee, I did stress the importance of addressing both the tariffs and the technical access barriers. On the cattle production side, we know the cattle will have to be raised according to EU protocols. That means no growth enhancing products, such as hormone implants or beta-agonists. Despite those products being safe and approved for use in Canada and other countries, the EU has refused to allow them and continues to refuse to allow them.

Fortunately, we feel that the value of the EU beef market is high enough that many Canadian producers will elect to incur the additional costs of raising cattle without those products. We always said that we wanted to be pragmatic about this issue and that if the access was worth our while we would produce those cattle. We feel that access is worth it.

We do estimate that Canada would need to produce approximately 500,000 head of cattle annually under the EU protocol. Clearly we don't need every producer to make the decision to follow the EU protocol, but we feel that enough of them will.

The Cattlemen's Association represents the cattle farmers, but on the processing side I know that the Canadian Meat Council has already appeared. They've spoken in detail about the technical issues at the processing level. On that, I would say that we agree with the CMC that it is vitally important to complete the work to ensure that beef slaughter and processing facilities across Canada are approved to export to the EU.

Currently, we only have two very small facilities that are approved to export to the EU. They're both in Alberta. If you're a cattle producer, whether it's in Nova Scotia or Ontario, you need facilities in the east to be approved. If you're a large producer in Alberta or Saskatchewan, you need the larger facilities in the west to be approved, in High River or in Brooks. You need those facilities competing to buy the cattle that are eligible for the EU.

We do understand that there's been a one-year deadline that was established to resolve those technical issues, and there's still work to do. But once those plant approvals are achieved, we can start making better use of the quotas that we already had, even before the CETA is implemented, because those existing quotas are underutilized due to the technical barriers.

This summarizes the main issues of how we got to this point and outlines some of the work ahead.

With that, I will look forward to your questions later.

Thank you.

● (0950)

The Chair: Now we'll move to the Dairy Farmers of Canada.

We have Mr. Ron Versteeg. I'm not sure if I pronounced that right —probably not—and Mr. Leduc.

I don't know who is doing the presentation, but the floor is yours.

Mr. Ron Versteeg (Vice-President, Dairy Farmers of Canada): Thank you, Mr. Chairman.

My colleague, Mr. Leduc, will make the presentation.

Mr. Yves Leduc (Director, International Trade, Dairy Farmers of Canada): Thank you, Ron.

Mr. Chairman, members of the committee, Dairy Farmers of Canada is in fact pleased to appear before this committee to present our views with respect to the CETA deal.

As you may be aware, Dairy Farmers of Canada is the national lobby, policy, and promotion organization representing Canada's farmers living on more than 12,000 farms across the country. I would like to start by highlighting the fact that DFC leads generic dairy market development in Canada, with an annual marketing budget of $80 million, which is collected from dairy farms across Canada.

The domestic cheese market has been a priority market segment, with an annual strategic investment totalling $30 million dedicated to developing the cheese market across Canada. This investment both sustains and grows the cheese market. Studies have proven that without this yearly $30-million investment, market share would rapidly erode.

I'd like to add that this investment has resulted in an increase in per capita consumption over the past 20 years of two kilos per capita, now in the order of 12 to 12.2 kilos per capita.

I'd like to point out that the dairy sector contributes $16.2 billion to Canada's GDP, and sustains more that 218,000 jobs in Canada. It also contributes annually more than $3 billion in local, provincial, and federal taxes.

We'd like to be clear here: Dairy Farmers of Canada is not against the deal. We have, however, reacted strongly to the news of the new excessive access that was given to the European Union, in particular in the fine cheese segment of the Canadian cheese market. The access granted to the EU will have major impacts on the Canadian dairy industry, much more significant than what is being claimed by Canadian officials.

The Canadian dairy industry is one of the few industries that will be negatively impacted. That was also recognized by Prime Minister Harper, who recognized that there may be some impacts. Therefore, our strong reaction was justified, in our opinion.

Allow me to put the outcome of the agreement into perspective. The new access of 17,700 tonnes will be equivalent to 20% to 33% of the fine cheese market in Canada. It's equivalent to 4.2% of our total cheese consumption. That is equivalent to 2.2% of Canada's total milk production; equivalent to $150 million in farmers' pockets; and translates into a minimum of $300 million at the industry level.

The access for cheese will then increase from 5% to 9% of our total domestic consumption. There are no reasons to be pleased about supplying 91% of the Canadian market when compared with other countries. For example, the EU supplies 99% of its cheese market, and the U.S. supplies 97.5% of its cheese market.

If we look at Canadian cheese production, the growth in the cheese sector is not as significant as what has been reported. While certain segments of the market have grown faster than others, the reality is that cheese production in Canada has grown by only one-half of 1% these past four to five years.

The fine cheese market is the segment that will be most affected, as I pointed out earlier. Considering that this is the segment of the market that attracts the highest value, import strategies will be developed to compete primarily in this market. Failing to compete in the fine cheese market, we expect a cascading effect towards the specialty cheese and ultimately towards the mass cheese market, i.e., cheddar types. In other words, the fine cheese makers will be directly affected, and the impact at the producer's level, the farmer's level, will be spread across the country as farmers are working collectively to supply the Canadian market and are sharing returns collectively.

If the CETA agreement is implemented over a seven-year period, it will add up to a total of $595 million in cumulative losses at the farmer's level. Over a seven-year implementation period, the production of milk going into cheese production would decrease slightly. But most importantly, what Canadian farmers are losing is future growth, in which they have heavily invested.

● (0955)

Furthermore, if the deal were to be implemented over a five-year period, as we have heard might be the case, not only would this result in a production quota cut, but it would also result in an incremental loss of $151 million, for a total of $746 million after seven years. I think this justifies a longer implementation period.

With respect to tariff reduction, while the in-quota tariffs have been reduced to zero—and that wasn't something we were opposing—most over-quota tariffs have been maintained at their current levels, with the exception of the over-quota tariff for milk protein concentrate with a concentration of over 85%. This TRQ had been introduced following the invocation of GATT article XXVIII by the Canadian government back in 2007, and this has now been nullified.

Canada has also granted the EU geographical indicators on 50 cheeses. The protection to be afforded the EU on geographical indicators and their dairy products should be available also within this country. By that, we are talking about effective reinforcement and protection of our own standard of identity for dairy products.

I would also like to address the myth about unfettered access. We believe it is a myth. There is no doubt that Canadian cheese makers can compete on quality. However, in the early 2000s a WTO panel ruled that any export from Canada sold below domestic price be considered subsidized. Combined with a prohibition on the use export subsidies in the EU as a result of this agreement, the reality is that Canada is not in a position to benefit from the opening of the EU market. The reality is that subsidies in the European Union can make up as much as 40% to 50% of farmers' income, and they get a lower price for their milk. That puts Canadian milk and dairy products at a price disadvantage.

I will switch to French for the latter part of my presentation.

[*Translation*]

The reality is that the world market is highly distorted. The 2013 report by the International Farm Comparison Network (IFCN) highlighted that only 12% of the world's total milk production has been produced at a cost equal to or lower than the world price. The IFCN initiative started 13 years ago and seeks to compile dairy farm financial data among over 95 countries around the world.

Furthermore, the reality is that not only are we facing higher production costs at the farm level in Canada, but this is also the case along the production chain, with processors' margins that are twice as much as in Europe

The reality is also that the European dairy industry is highly subsidized. The IFCN report provides an astonishing picture of the level of support and direct payments to European dairy farmers.

In conclusion, let us reiterate that we are not against the agreement that has been signed with the European Union. However, we are deeply concerned about the negative impact that comes with it.

Over the last few weeks, we have sat down with Canadian ministers and senior officials and we have presented options to mitigate the negative impact of the agreement, not only on the primary production of dairy farmers, but also on Canada's entire dairy sector.

Thank you for your attention.

● (1000)

[*English*]

The Chair: Thank you very much.

I am sure you have stimulated a number of very good questions.

We'll start with Mr. Davies. The floor is yours, sir.

Mr. Don Davies (Vancouver Kingsway, NDP): Thank you, Mr. Chairman.

Thank you, to all the witnesses, for being here.

Mr. Leduc, every trade deal has winners and losers. There are gains and concessions. Is it fair to say that the dairy industry in Canada would be one of the losers under CETA? Is that a fair comment?

Mr. Yves Leduc: That's exactly how we are perceiving it. We are one of the very few losers in this agreement.

Mr. Don Davies: I've heard the Conservatives and ministers of the government say that the dairy industry has nothing to worry about. Some say there will be no losses whatsoever, because they claim that whatever losses you may have from the increased European access to our market will be offset by the natural growth in the industry.

In fact, Maxime Bernier said yesterday:

> The milk guys...don't have to be concerned, everything in the deal is good. I know that the program [the mitigation program the government is talking about] will be there, but I think that nobody will use it because they won't lose any money.

What's your assessment of that position? Is the market just going to fix this for you?

Mr. Yves Leduc: That is exactly what we've tried to point out in this presentation. We are losing. We are losing future growth in which we have heavily invested over the past 15, 20, 30 years. That growth did not occur just like that; it's the result of the investment that farmers have put into growing that market. This is what we are losing. We are estimating, depending on whether the agreement is implemented over a five or seven-year period, losses of income at the farm level between $600 million and $750 million.

Mr. Don Davies: To be clear about this, the increased market share of cheese in this country will not be enough to compensate the dairy farmers for the losses of market to the EU. Is that your testimony?

Mr. Yves Leduc: This is what we are losing.

Mr. Don Davies: Okay.

You talked about the subsidization. Is there anything in CETA you've seen that has dealt with the massive EU subsidization of their dairy farmers? Have we negotiated that successfully?

Mr. Yves Leduc: No. That's an interesting point. When the negotiations started, it was done on the basis that there would be no exceptions a priori. However, one important element that was not added to the negotiating agenda was domestic support to the common agricultural policy that's in use in the European Union, and there has been no discipline whatsoever with respect to the direct payments that are being paid to dairy farmers in the European Union.

Mr. Don Davies: We know that in many trade deals we have tariffs, but then we have the non-tariff barriers and subsidization. Would my understanding be correct that here we have not successfully addressed the heavy European subsidization of their dairy industry? Would it be fair to say that dairy farmers in Canada still have to compete with cheese and dairy producers that are heavily subsidized by the European countries?

Mr. Yves Leduc: That is correct.

Mr. Don Davies: Do you have any concerns about any precedent being set? Right now we're at the TPP bargaining with Australia, New Zealand, and the U.S., which I think I can say are aggressive countries in terms of our supply-managed system. They don't like it. I've heard the Conservatives say it's only another 4%. You've gone from 4% to 8% in the cheese market, and you still control 92%. Do you have any concerns that at other tables, other countries will now seek to make further inroads into that, and that the 8% will become 12%, then 16%, then 20%, so we'll be sitting here in 10 years with the Conservatives saying you still control 70% of the market or 50% of the market? Do you have any concerns in that regard?

● (1005)

Mr. Yves Leduc: I'll defer on that one to Mr. Versteeg.

Mr. Ron Versteeg: It is a concern. In our view this may set a precedent. Certainly other countries looking at this will be saying that if you did this for Europe you can do this for us, too. It's fair game, right?

Mr. Don Davies: This is my last question to you on this. Is this consistent with our supply-managed sector, and do you think CETA is consistent with the three pillars of supply management, specifically whether giving the EU greater tariff rate quota access to cheese is consistent with the pillar of import controls?

I'm mindful of the fact that tomorrow is the 8th anniversary of the all-party resolution passed in this Parliament, including by the Conservatives, that committed to zero-zero—no reduction in over-quota tariffs and no increase in tariff quotas. I'm unclear. The Conservatives say that giving the EU more access to cheese has left supply management completely intact, whereas I see that they've allowed more over-tariff rate quotas come in, which, to me, is an attack on the third pillar of import controls. Who is right there?

Mr. Ron Versteeg: Obviously, 18,000 tonnes is not zero. So it is a further incursion of imported cheese into the Canadian market. I think that's pretty self-evident.

Mr. Don Davies: Mr. Masswohl, I have a couple of things to say. The devil is in the details. You got the numbers you wanted. I would point out that I think you got the minimum numbers that the beef producers wanted, about the 40,000 tonnes. I know we got 55,000 but that's bone-in. You talked about the technical barriers. I know there are issues about acid washing cattle in Alberta. There is the approval rate to get EU-certified beef into the European market. There is a CFIA certification process. I understand there are still details to be worked out in CETA to determine whether or not we can actually get our beef approved by the European Union. Am I correct in that?

Mr. John Masswohl: You're close. We got 65,000 tonnes of new duty-free access. Of that, 50,000 of it is fresh, 15,000 of it is frozen, and there's no distinction between bone-in or boneless.

With respect to acid wash, I believe you mean lactic acid, which is a naturally occurring substance in our own human bodies as well as in cattle. It's an organic wash that is used and approved in Canada and the United States to reduce pathogens such as E. coli and other things. That's a standard—in fact, it's a requirement that there be a carcass wash here in North America.

The European Union has reviewed that and other carcass washes by the European Food Safety Authority, EFSA. They have recommended that those things be adopted in Europe. But these things then have to go through the European Parliament, and we've found in the past that the European Parliament often takes a protectionist view, knowing that if they approve things like this, it will mean more beef imports into Europe.

There is, perhaps, some reason to be encouraged. They did approve lactic acid earlier this year in limited circumstances, not in full circumstances. But they haven't approved all of the washes that we use. That's our concern, and our objective on this follow-up step on the technical issues is to achieve full equivalency of the Canadian system as being equally safe as the European system.

The Chair: Thank you.

Mr. Shory, the floor is yours. Seven minutes.

Mr. Devinder Shory (Calgary Northeast, CPC): Thank you, Mr. Chair.

Thank you, witnesses, for being here today.

Mr. Chair, before I came to Canada, I didn't have a chance to deal with holy cow meat, but I have had some experience being a dairy farmer myself. I was a certified dairy farmer, I did some courses on dairy farming, and started with very few animals.

What I found out in my experience was that the goal was always to figure out how to grow production and how to find more consumers. I believe it is demand that runs the price of any product.

We talked about, Mr. Davies, a 4% increase in the Canadian market by EU cheese, and Canadian cheese producers would have tariff-free, unlimited access to the European market.

What I'm trying to understand is that with more than 500 million consumers and more than $130 billion worth of agriculture imports a year, how can Canada's dairy industry say that becoming a part of this incredibly lucrative market could have a negative impact? That's number one. Then, another question is how can the dairy industry even take this position, considering the limits of the Canadian market, whose population is just 7% of the European market? Please make me understand.

● (1010)

Mr. Ron Versteeg: To answer your first question, because of the massive amount of subsidies in the European Union, dairy producers there receive 40% to 50% of their revenue from the mailbox, from government program payments. So that means that they don't have to receive as much from the market. They can take a lower price. Those products, then, are much more competitive, or have a much lower price than Canadian dairy products, where we get all of our revenue from the marketplace. We get zero dollars in subsidies from the government.

That puts us at a very significant disadvantage when the competition across the pond is getting 40% to 50% of their revenue from government program payments.

Mr. Devinder Shory: Is it correct that there is a limit of up to a 4% increase of supply by the European market in Canada? Is understanding right that there will be an increase of up to 4% from the existing...?

Mr. Ron Versteeg: Currently, under the access that was negotiated during the GATT agreement, Europe obtained about 13,400 tonnes out of the 20,000 tonnes of total cheese access. Now, with CETA, that will augmented by a further 17,700 tonnes.

Mr. Devinder Shory: Another thing I read somewhere is that approximately 96% of nearly 420,000 tonnes of Canadian cheese is used domestically. Is that right?

Mr. Ron Versteeg: That's correct, yes.

Mr. Devinder Shory: Now my question is this. If Canadian cheese consumption is growing at the rate of approximately 8,000 tonnes a year, and also taking into consideration that it will take two years—we talked about it, and Mr. Davies upon touched on it too—for implementation of CETA to start, and up to an additional five years to fully implement the agreement, would this 8,000 tonne increase in domestic consumption a year over all this time period offset the additional tonnes of European imports? And if you say no, why not?

Mr. Ron Versteeg: First of all, our numbers indicate that the rate of growth is probably about half of the number that you cited.

Secondly, speaking as a dairy producer, that growth is very important to us as producers. Our production per cow increases on an annual basis and we need to grow our farms so that we can capitalize on economies of scale and efficiencies. When that growth potential is handed over to another country, then we don't have that opportunity. That stifles our drive for efficiency; it stifles the growth of our farms and our industry. That's a very significant impact on the dairy production sector.

Mr. Devinder Shory: What has been the percentage of growth in the last 10 years in the dairy industry here in Canada?

Mr. Ron Versteeg: In cheese or in dairy production?

Mr. Devinder Shory: In whatever we are talking about today.

Mr. Ron Versteeg: Just off the top of my head, in Ontario, since 2000, so over the last—

Mr. Devinder Shory: We're talking about Canada.

Mr. Ron Versteeg: I'm not sure I have the numbers for Canada.

Mr. Yves Leduc: I don't have the exact numbers.

Mr. Ron Versteeg: Ontario's pretty representative of the country. Since 2000 we've had about 10% more quota issued. That's been growth in the market over 13 years, so that's a growth rate of about 0.7% to 0.8% per year. That's not just cheese, that's all milk product.

Mr. Devinder Shory: Another interesting fact I read somewhere is that 223,571 cows were slaughtered in Canada in 2012. Nearly 100% of the cows raised for veal in Canada are dairy calves. With more than 24,000 tonnes of veal, we'll be ready for an eager European market that is willing to pay more than $10,000 per tonne. Dairy farmers stand to benefit financially from access to this profitable and hungry European market. How can dairy farmers be opposed to access to this market? And how will this impact negatively? I'm trying to understand.

● (1015)

Mr. Ron Versteeg: I don't think we've ever said we were opposed to greater access for Canadian meats to the European market.

The other thing to remember, too, is that the subsidies they have in the EU for farmers are not limited to dairy farmers. These are programs that are decoupled from production, so they apply to all farm production.

The Chair: That's it.

Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

[*Translation*]

My thanks to the witnesses for joining us.

I have two quick questions for you, Mr. Leduc.

First, you represent dairy producers, but your presentation dealt more with cheese producers. Are they the same or are they two separate types of producers?

Mr. Yves Leduc: The point we are trying to make is that the impact will be felt by both primary producers and cheese producers. Imported cheeses will directly compete with the cheeses produced by Canadian cheese makers. We expect fine cheeses to be competing directly with Canada's fine products, particularly in the eastern part of the country, but—

Mr. Massimo Pacetti: Do you represent cheese producers?

Mr. Yves Leduc: We are responsible for generic promotion in Canada, meaning not only the promotion of milk, but also the promotion of dairy products, such as cheese, yogourt and butter. So the investments made by producers also benefit Canadian cheese makers.

Mr. Massimo Pacetti: In your brief, you were saying that you have invested $30 million in the promotion of cheese across Canada.

Mr. Yves Leduc: Yes.

Mr. Massimo Pacetti: If we were to invest another $30 million or $50 million, any amount you like, to promote those products in Europe, would that help sell Canadian cheese in Europe?

Mr. Yves Leduc: We are dealing with technical obstacles in exporting the products, as I tried to demonstrate. Right now, under the constraints of the existing system, Canadian cheeses produced with milk at a lower price than the price on the domestic market will be considered subsidized under the World Trade Organization agreements. As a result, right off the bat, there is a major obstacle to entering that market.

In terms of fine cheeses, some of them could actually be exported to the European market, since they are produced at the same price as that of the Canadian market. That is already the case for the export of fine cheeses to the American market.

Mr. Massimo Pacetti: But that is minimal, correct?

Mr. Yves Leduc: Yes, it is minimal. We are talking about less than 1,000 tonnes a year right now.

Mr. Massimo Pacetti: So it all comes down to cost. It has nothing to do with the type of promotion and advertising being done. It is based on price.

I have another question. You said that the processing costs are high in Canada. Does processing include the price of the primary product or is it just the processing cost?

Mr. Yves Leduc: One of the tables in our presentation clearly showed that the price paid at the farm is significantly higher in Canada than it is in the European Union. In addition, the price is free from all subsidies.

Mr. Massimo Pacetti: That is because of the primary product, because of milk, correct?

Mr. Yves Leduc: Among other things, it is because of the price paid at the farm, but also because of the processing margins that are twice as high as they are in Europe, based on the information I have. It is not only at the primary production stage, but also at the processing stage.

Mr. Massimo Pacetti: Thank you.

[*English*]

Mr. Masswohl, just quickly, you started your presentation by saying no transatlantic trade has been undertaken in your industry for years. So the tariffs are going to come down, some of the regulations and rules are going to change. What else is going to change so that all of a sudden we're going to have the ability to export to the European market?

● (1020)

Mr. John Masswohl: Those are the main things.

Mr. Massimo Pacetti: Those are the main things?

Mr. John Masswohl: Yes. The tariff on beef that Europe has varies depending on the form it goes in, but it's all in the ballpark of about 12.5% of the value, plus approximately—

Mr. Massimo Pacetti: That was the barrier against your penetrating the European market.

Mr. John Masswohl: Right. Plus 3,000 euros per tonne, which is prohibitively high.

Mr. Massimo Pacetti: Are we going to be able to supply the European market to achieve those quotas we have access to?

Mr. John Masswohl: Absolutely. We estimate we need about 500,000 head per year produced according to the European standards, and there are already many Canadian producers that are raising cattle without the hormone implants or without the beta-agonists, but they are not going through the documentation steps to prove that they meet European standards.

Also, a lot of those producers say that if you go in places like Nova Scotia, Quebec, or Ontario where there are already significant domestic markets for that beef, those cattle would be there, but we don't have any packing plants approved in the east. So if you're in Nova Scotia, you're not going to ship your cattle to Alberta so the beef can get to Europe.

Mr. Massimo Pacetti: Are we going to able to have access to—

The Chair: I'm sorry, Mr. Pacetti, your time has gone.

We'll now move to Mr. Holder.

Mr. Ed Holder: Thank you, Chair.

Chair, I'm pleased to advise you I'll be sharing my time with the great member of Parliament for Bruce—Grey—Owen Sound.

Some hon. members: Hear, hear!

Mr. Ed Holder: As I do I'd like to thank our witnesses for being here today.

I'll start with Mr. Masswohl if I might.

Thank you for your support for the EU agreement. But I was a little curious because perhaps something is.... I'm from London, Ontario. It's the 10th largest city in Canada, and it's an urban oasis in a whole sphere of agribusinesses, everything from cash crops to dairy to beef producers to hog producers. And I chair the southwestern Ontario caucus. We have some strong views as a caucus in support of the EU trade deal.

I have a question for you, and help me understand. You talked about the no growth hormone products still being good for Canadian beef producers. This is the part I don't understand. At what level does it make it worthwhile for a beef producer to get into that market if it's not a market that has been a natural one for us to this point?

Mr. John Masswohl: You know, we estimate that to raise cattle without using those technologies is probably going to add approximately 20% to the cost of production. So we look at the European market and we figure that, out of each animal, there's probably about 100 kilograms that it makes sense to send to Europe, because our basic principle of how you make money in the cattle industry is being able to sell each piece of the animal to the market that pays the most for it. So if we take those 100 kilograms and they go to Europe, we figure that is worth about $11 per kilogram on a fresh basis.

Our next most valuable market right now is probably Japan, which is getting those high-value cuts at about $6 a kilogram. So if you just do some simple math, probably over-simplified, an extra $5 times 100 kilograms equals an extra $500 a head. That, in and of itself, is in excess of the extra 20% cost of production on those cattle.

The other thing that's interesting is that we already know that, yes, there's a growing domestic market for that sort of beef, for consumers who are willing to pay for it. We know that there are other countries like Russia and China that are putting trade restrictions—unjustified, we feel—on these growth hormones, but we're not philosophical about it. If they're willing to pay for the meat, we'll produce it. So if we have these animals and are sending 100 kilograms of them to Europe, this same beef would be eligible for these other markets, and in that way it would be quite complementary.

Mr. Ed Holder: Thank you.

I had mentioned to Mr. Leduc and Mr. Versteeg, if they don't know, that when you work in Ottawa, one of the things you find is that wine and cheese become the basic staples of the circuit in this place—not that I'm evidence of that, but I would share with you that Monsieur Morin and I are in fact going to be celebrating Quebec cheeses very soon, and if you would like to have your producers participate in that, we would be very pleased.

I'll give some time to Mr. Miller.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): Thank you very much, gentlemen. It's great to have you here. I have to make a declaration before I start. I come from a farming background, but I've been in supply management as a dairy producer and as a beef producer.

I enjoyed your presentation, but Mr. Leduc, you started out and finished by saying you weren't against the free trade deal with Europe. Yet you basically spent your whole presentation criticizing it or pointing out negatives, instead of the opportunities there. So I'm getting mixed messages there.

My first question is just a yes or no question. Wouldn't you agree that the government has sent a pretty clear message since 2006 on protecting supply management? Would you agree with that?

● (1025)

Mr. Yves Leduc: They have reiterated their support towards the plan on many occasions.

Mr. Larry Miller: Thank you.

You know, when you're negotiating agreements, it's the same as being in business. Whether it's weather or other factors, you don't always get 100% of what you want. Sometimes you have to deal with what's there.

The cheese issues seems to be the big one with your organization and, again, 4% of the total Canadian consumption of cheese is what we're talking about here; it's what is affected. I've talked to artisanal cheese producers in my riding and others in Ontario, and every one of them, to a T, has said this deal will in no way jeopardize their industry. They will still be competitive.

I guess my question goes back to what I'd like to hear more on.... One guy commented that he is not afraid to compete. The dairy producers of Canada now have access, 100% access, to the market in Europe. So my question to you is this. Are you afraid to compete? I think I know what the answer should be, but I'd like to hear your comments on that.

Mr. Yves Leduc: Compete with what? With the EU treasury?

Mr. Larry Miller: Compete on a world market and building.... You have an opportunity, sir, in Europe. There are 500 million people. You have an opportunity to build a market. Government isn't going to build the market for you, but you have an opportunity. Are you afraid to compete in that market?

Mr. Yves Leduc: There may be an opportunity. I'm not disputing this. There is an opportunity, as we speak, in the U.S. market. There have been pilot projects that have been put in place in combination with the Canadian government and Dairy Farmers of Canada to promote fine cheese exports into the U.S. market. It's a very, very tiny amount of cheese that is being exported into the U.S. market, in part because the U.S. also has a heavily subsidized dairy industry.

In a similar manner, therefore, we think it will be extremely difficult for the Canadian dairy and cheese sector, primarily, to position itself on the EU market. We're not saying there are no opportunities, but the opportunities may not be as great as some would like us to believe.

Mr. Larry Miller: But going back to my question—

Mr. Yves Leduc: I'd like to also add that I've spent more time on the negative aspect of this deal for the Dairy Farmers of Canada because we see more negatives than positives in it as far as we are concerned.

Mr. Larry Miller: Okay. Yet you're not against the deal.

Mr. Masswohl, I was wondering if you could talk a bit—

The Chair: Very quickly.

Mr. Larry Miller: —on the veal component, or the potential there from the beef side.

The Chair: Go ahead.

Mr. John Masswohl: I guess at some point all products, from all cattle, come into our sector, regardless of the breed of the animal. We are very cognizant that veal is an important market in Europe, and we're very cognizant that we have producers who want to access that veal.

We made sure that veal is eligible in those new quotas. On the existing quotas, they do have a high-quality grain-fed standard, so veal is not eligible on the existing quotas. But on the new ones, it is.

Also, the hides and skins are an important market, regardless of the breed of cattle they come from, particularly for luxury auto manufacturers. That's an important market to have access to.

The Chair: Thank you.

We're through the first round and we're going into the second round. Before we do that, I'd like to use the chair's prerogative to ask a couple of questions.

I think what I've heard from the dairy industry is the idea of producers being subsidized in Europe and the United States and that the subsidization is hard to compete on. You try to square that with what the international community and many in Canada are saying, that the dairy industry is subsidized right now with the supply management system. One would argue that we're subsidized, and you would argue that Europe and the United States has a direct subsidy. I suppose it depends on whom you ask and how you see subsidization.

I don't know if you have any comments on how you see that. I think the previous questioner was really asking how we can compete —even though we see ourselves as somewhat subsidized, because we're limited in a supply management system—with the direct subsidy in Europe under this agreement.

● (1030)

Mr. Ron Versteeg: Well, as a dairy farmer myself—

The Chair: I was, too, for 40 years.

Mr. Ron Versteeg: My diesel fuel or farm equipment and labour cost is higher in Canada than it would be in the U.S.

The Chair: Also your price of your milk is regulated based on that.

Mr. Ron Versteeg: Based on that, yes.

But my point is that because we pay more for diesel fuel or farm equipment or labour, does that mean we as dairy farmers are subsidizing the farm equipment manufacturers, or are they—

The Chair: But your price of milk has gone up because of it.

Mr. Ron Versteeg: The price of milk has gone up probably less than the rate of inflation. That's at farm gate; I'm not talking about retail. I mean, the retail world charges what the market will bear, and it really is not directly connected to what the farmer receives.

The Chair: Okay. I just wanted to make those points.

Mr. Morin, the floor is yours, sir.

Five minutes.

[*Translation*]

Mr. Marc-André Morin (Laurentides—Labelle, NDP): Thank you, gentlemen. As you can see, I am not wearing rose-coloured glasses. It is good to face reality.

The agreement will allow European dairy products to enter Canada more easily. Since we know that the industry is heavily subsidized, will industrial producers of Canadian cheeses not be tempted to buy their milk products in Europe at a much lower price?

Mr. Yves Leduc: They already do so, because concentrated milk products imported from the United States are not subject to any constraints. The quota that was established in 2007, after the Canadian government invoked article XXVIII under the GATT rules, does not apply to imports from the United States.

Mr. Marc-André Morin: Isn’t this another small tear in supply management?

Mr. Yves Leduc: With respect to the over-quota tariff, I would say that it is essentially a matter of cancelling an agreement that Canada had negotiated under the GATT agreements. Canada had moved ahead with enforcing a new quota that applied to imports from the European Union, among others. Now this customs tariff is being removed, which means that we are not honouring our commitment to Canadian dairy farmers.

Mr. Marc-André Morin: Earlier, you talked about the suggestions or options you have presented during the negotiations to help the dairy industry. Could you explain that a little?

Mr. Yves Leduc: I find myself in a fairly delicate situation. Since we are currently in talks with Government of Canada officials, I cannot really get into the details of what we have presented to them. However, we can say that we have presented constructive options to the Government of Canada that are in line with the way the supply management system works in Canada. The measures we have proposed would mitigate the negative impact not only on dairy farmers but also on the cheese processing sector in Canada.

We have tried to include the entire industry in the options we presented to the federal government, at no cost to the treasury of Canada.

Mr. Marc-André Morin: In your view, should the compensation be for dairy farmers or cheese makers? Often, they are the same people.

● (1035)

Mr. Yves Leduc: We believe that the mitigation measures should be beneficial for both dairy and cheese producers because cheese producers will also be affected by this.

In terms of marketing strategies, we feel that cheeses imported to the Canadian market will first and foremost compete directly with the Canadian fine cheese sector, estimated at 50,000 tonnes a year. If, of the 17,500 tonnes of cheese that could end up in the retail market, 16,000 tonnes of high-quality cheese end up in the fine cheese sector, one-third of the market could be lost.

[*English*]

The Chair: The time has gone.

Mr. Cannan, the floor is yours.

Hon. Ron Cannan: Thank you, Mr. Chair. I'm going to share my time with Mr. Holder.

Thank you very much for the presentation. Coming from the Okanagan, I'll tell you that we have another liquid; it's more the wine aspect than the milk aspect, but we all enjoy the cheeses too. We have some great wine and cheese festivities. It has become a tradition for fall and summer festivals, and also for the winter one that is coming up.

But I know that it's a serious issue for dairy producers across Canada, and we don't take it lightly. I know that my colleague Minister Fast has worked closely with the parliamentary secretary, Mr. O'Toole, and has met with several dairy farmers across the country in addressing their concerns. I know that there's a lot of speculation today. We're hoping that at the end of the day there might be very little impact, and that possibly the veal gains could offset some of the impacts of the additional competition.

I just wanted to go back to this. We have some cheese manufacturers in the Okanagan as well. They have gourmet goat cheese and specialty cheeses. From your industry perspective, what's the sentiment about global competition and the quality of our product, with or without CETA?

Mr. Yves Leduc: With the quality, you mean?

Hon. Ron Cannan: Yes. Do you have any concerns about your members competing globally?

Mr. Yves Leduc: With respect to quality, no.

Hon. Ron Cannan: So as—

Mr. Yves Leduc: With respect to price, it's a different story.

Hon. Ron Cannan: As far as economics go, if you look at the elasticity of demand, somebody will pay a premium for a quality product. Have you done any research in your association to look at price comparability? People go to the grocery store and buy a specialty cheese, whether it's 30¢ or 50¢ more. It's like buying a bottle of wine if it's 50¢ or $1 more, they're buying quality. In some cases, it is $10, $20, or $30 more for the finished product, if it's a large amount.

Mr. Ron Versteeg: It's interesting that you mention grocery stores, because although we think about consumer choice, consumers can only choose what is on offer in the grocery store shelves. Grocery stores will make decisions about what to stock or what not to stock depending on the margin they can make. If they can import subsidized European cheese at a lower cost to them than the equivalent quality Canadian cheese, they'll bring in the EU cheese and offer it to the consumer at the same price. They'll just charge whatever the market will bear. That then means that the high quality Canadian cheese will be pushed off the shelf because it's not competitive because of the subsidies the EU cheese benefits from. The consumer then doesn't even get to choose that Canadian cheese because all he or she can choose from is what's on the grocery store shelves.

Hon. Ron Cannan: That's true to a degree. I used to own a grocery store, so I know that consumers will dictate what we stock on the shelves. Canadians will support Canadian producers as well.

Thank you.

I'd like to share my time with Mr. Holder.

● (1040)

Mr. Ed Holder: Thanks.

Mr. Leduc, I'm the urban guy, but I get a sense that you're saying they can't compete on price. I'm not sure if it's can't or if you're in kind of a comfortable place right now. With regard to the export opportunities, you made the reference that the EU has 99% of the market, and—oh, my God—what an opportunity that is. We have the best cheese in the world. You know that is true. It just strikes me that if someone is milking 50 cows today, for example, how much more labour-intensive is it to milk 60 cows? I've only ever milked a cow once, I have to tell you, and I won't ever do it again. Imagine this: it may not be exactly the same prices you get in Canada, but when I imagine what the potential is on the upside for that, we can compete on a quality basis with anybody in the world. Frankly, I would challenge your producers to take that very same perspective, because I'm proud of the quality in Quebec and Ontario in terms of cheeses. Maybe it's not exactly the same profit level, but I think the opportunity for us to bring their 99% down to something better for our sake is very much within the cheese producers' grasp. It's my challenge to them to take advantage of that, grab it hard, and make some money at it.

The Chair: You can give a quick response if you want to.

Mr. Yves Leduc: I'll just respond to that by saying that, as I pointed out, the world marketplace is a highly distorted marketplace to begin with. In the mid to late 1990s we tried to participate in the export market. We put in place programs that would allow producers to participate in the export market, and the response from the farmers was positive. We were challenged before the WTO and all of these exports were deemed to be subsidized according to the WTO panel and so we had to stop.

Currently if we were to ship cheese or any other dairy products into the European market at the European price, which is a price below the domestic price here in Canada, those exports would be considered subsidized and would not have access to the European market.

The Chair: I'm sorry but the time is gone. I know it's kind of cheesy but that's the way it is.

I want to thank you for the testimony and we're encouraged that both your industries support the CETA deal. We look for opportunities within it to enhance both of your industries. Thank you for your testimony, and with that we will suspend as we move in camera.

[*Proceedings continue in camera*]