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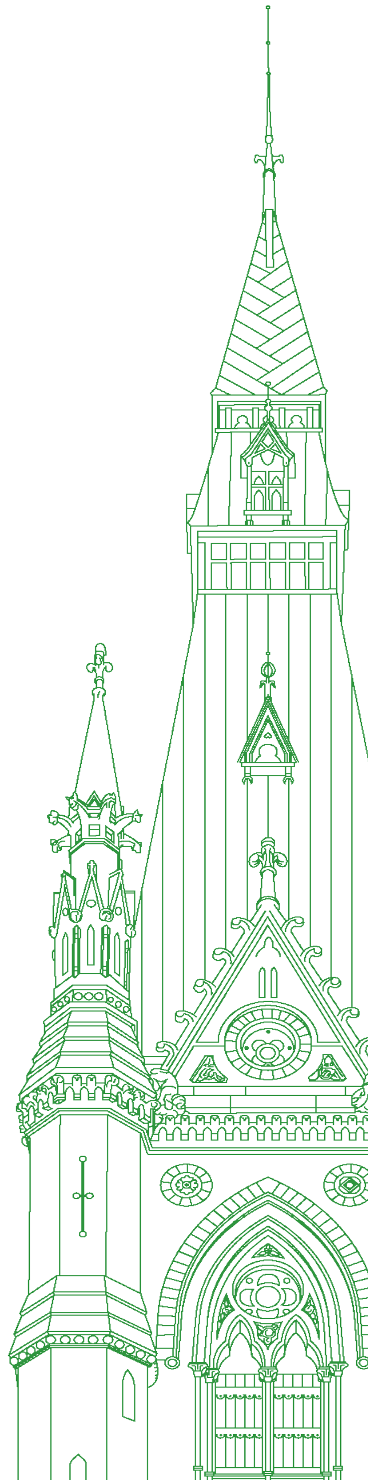

Chair: Mr. Kody Blois

Standing Committee on Agriculture and Agri-Food

Monday, December 5, 2022

● (1530)

[*Translation*]

The Chair (Mr. Kody Blois (Kings—Hants, Lib.)): I call this meeting to order.

Welcome to meeting No. 42 of the House of Commons Standing Committee on Agriculture and Agri-food.

I will start with a few reminders. Today's meeting is taking place in a hybrid format. The proceedings will be made available via the House of Commons website. Just so you are aware, the webcast will always show the person speaking, rather than the entirety of the committee.

[*English*]

Taking screenshots or photos of your screen is not permitted.

To our witnesses, as we have a couple joining us online.... Please direct your answers and the questions through the chair. Of course, for those who need translation, there's an ability to toggle between English and French.

Mr. Charlebois, I know you're bilingual, but you can also use this if you need it.

Colleagues, pursuant to Standing Order 108(2) and the motion adopted by the committee on Monday, November 21, 2022, the committee is resuming its study of food price inflation.

I would now like to welcome our witnesses for this first one-hour panel. With us today we have Sylvain Charlebois, director of the Agri-Food Analytics Lab and professor at Dalhousie University. From Loblaw Companies Limited, we have Jodat Hussain, senior vice president, retail finance. Joining us virtually, we have, from the Retail Council of Canada, Karl Littler, senior vice-president, public affairs.

Colleagues, you know the drill. We'll have five minutes for opening remarks, and then we will turn to questions. I'm going to start with Mr. Charlebois, who is in the room.

You have up to five minutes, sir. The floor is yours.

Dr. Sylvain Charlebois (Director, Agri-Food Analytics and Professor, Dalhousie University, Agri-Food Analytics Lab): Thank you, Mr. Chair and committee members. I would like to thank you for inviting me again for this important discussion on food affordability.

As food prices rise, many are quick to blame grocers for profiteering and taking advantage of consumers. The notion of profiteering has emerged as one of the most talked-about issues in the last few months.

In one of our recent reports, we used publicly available data to look at the gross profit for each of the three big Canadian grocers: Empire/Sobeys, Metro, and Loblaws. We calculated their respective “best” and “average” performances for the last six years. We failed to see any evidence of profiteering on all accounts.

This doesn’t mean that changes are unnecessary. Grocers are incredibly diversified and sell cosmetics, drugs and clothing. Margins are different for these verticals, and of course, the ethics and social responsibilities of selling bananas or eggs are quite different from when selling lipstick. Grocers have started to report their food sales separately from their non-food operations. Unlike selling T-shirts or perfume, selling food, a necessity of life, is inherently ethical, and the stakes are very different. That needs to continue.

Still, some higher prices remain difficult to explain as we remain concerned about certain verticals. Meat and bakery items are good examples.

The Competition Bureau has constantly failed the Canadian public by not providing forceful support to lawmakers in Canada when it simply endorses acquisitions and oversees investigations with little or no vigour.

The bread price scandal is a good example. After seven years, the investigation is still ongoing. We’ve also seen investigations into meat and salmon, neither of which has provided definitive results. Our nation has seen consumer trust being compromised, which is spilling over into our relationship with grocers due to the Competition Bureau’s baggage—that is, the awkward unfinished business it has with many files. Canadian consumers feel grossly unprotected.

In the U.S., things are very different. Kroger is currently trying to acquire Albertsons for almost $25 billion, which would make Kroger the second-largest grocer in America. Kroger could be asked to let go of almost 400 stores, creating a rival to the new grocer. This would never happen in Canada. When Provigo was acquired by Loblaws in 1998, or when Metro acquired A&P in 2005, or even when Sobeys bought Safeway out west in 2013, barely anyone raised an eyebrow during the proceedings. Over the years, we have seen many independent grocers disappear as a result. Consumers everywhere deserve more retail options.

● (1535)

[*Translation*]

The code of conduct is necessary. Many Canadians are unaware of the fact that in the grocery industry, suppliers have to pay grocers to do business. The charges are justified by the costs of merchandising and shelf space, which everyone expects.

However, things have changed in recent years. Companies like Loblaw, Walmart and Metro are going too far, and some fees have been imposed quickly and also randomly and unilaterally. In Canada, it is now more difficult for processors and independent grocers to be competitive.

This code is meant to change the culture of an industry in which vertical coordination and collaboration barely exists. It is also about dealing with a broken economic model. A code could neutralize the balance of power in the chain, stabilize retail prices, put the emphasis on value and innovation for consumers, improve the security of the country's food supply, and encourage investment in the agri-food sector.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Charlebois.

Mr. Hussain, you have the floor for five minutes.

[*English*]

Mr. Jodat Hussain (Senior Vice President, Retail Finance, Loblaw Companies Limited): *Bonjour*. Good afternoon. I am Jodat Hussain, senior vice president of retail finance at Loblaw. I want to thank the honourable members for your invitation.

Inflation has affected all countries and sectors, particularly food. While Canada has some of the lowest food inflation in the G7, we know that is little comfort to customers paying 10% more for essentials.

I'm pleased to shed light on Loblaw's actions to reduce the impact of food inflation and to ensure that our prices do not rise faster than our supplier costs.

Like all grocers, Loblaw is essentially a food distributor. We buy goods from suppliers and then sell them to customers. We are dependent on what suppliers charge us when we set our retail prices. Fundamentally, grocery prices are up because the costs of products that grocers buy from suppliers have gone up.

In a normal year, many suppliers ask us to pay more for their products, but as the pandemic and inflation set in, supplier cost requests skyrocketed. In 2020, they were at a record high. In 2021, they were higher, and 2022 hit unprecedented levels.

Our experts review these cost requests to evaluate if they are justified in light of market conditions. We negotiate the best supplier costs, because that allows our stores to have the best prices. Through these negotiations, we pushed back about half a billon dollars of added costs this year.

As worldwide costs of key inputs of like sugar, flour, oil, labour and fuel have risen substantially, our suppliers have faced real pressures. Therefore, many cost increases have been substantiated, approved and reflected in our shelf prices.

Some negotiations, however, are tougher. For example, when we couldn't agree to a fair cost increase on potato chips, our supplier stopped shipping products to us and our millions of customers. For weeks, most of our chip aisle was empty, interrupting our business and impacting our customers, but that shows we take our job seriously and do what's necessary to keep prices fair.

It is important to point out that grocers operate at very low profit margins. It's less than four cents for every dollar we sell. This is dramatically less than other Canadian sectors, including the suppliers of the products we sell. When the costs we pay go up, generally our prices to customers have to go up too, but we have worked hard to protect food prices.

The best way to judge us is to look at our food gross margin. That's the gap between what suppliers charge us and what we charge customers. Since inflation took off last year, that margin has not increased. This gives us the confidence to say that Loblaw's prices are not growing faster than costs and that we are not taking advantage of inflation to drive profit.

We operate in a very competitive industry. It includes strong national and regional grocers, global giants like Walmart, Costco and Amazon—which represent one-third of the market—and smaller independents that are now growing three times faster than corporate chains. If the experience, variety and prices we offer aren't top-notch, customers have hundreds of options to shop elsewhere.

We’re proud of the value we offer Canadians. We continue to push back on undue costs. We have frozen prices on more than 1,500 No Name products. We’re giving out a record number of loyalty points—more than a billion dollars' worth—to help cut grocery bills. We won't stop in these efforts.

Around the world, political leaders are asking the same questions you are. Inflation and food prices are up everywhere, but grocery is a complicated industry with many players, so finding good answers will require you to look at retailers, suppliers and the full global value chain.

Here at home, we are doing our best to give our customers the best value possible, in spite of inflation.

Thank you.

● (1540)

The Chair: Thank you, Mr. Hussain.

We'll now turn it over to Mr. Littler.

Mr. Karl Littler (Senior Vice-President, Public Affairs, Retail Council of Canada): Thank you, Mr. Chair.

I want to first thank the committee for this opportunity today and to express our hope that this study will properly examine the root causes of inflation, its global context and its many contributing factors.

One problem with Canada's lack of modern experience with inflation is that some commentators are rushing to judgment when we would be best served by looking at the problem in all its complexities. When it comes to food price inflation, the issue needs to be understood from the ground up, both figuratively and literally.

The reason that prices have risen sharply on grocery shelves is straightforward: The manufacturers, processors and wholesalers of food have been raising rates repeatedly and almost across the board. Vendors’ own costs are soaring, primarily because prices from farmers, growers and importers have been increasing at unprecedented rates. Farmers in turn have faced massive cost increases for fertilizer, diesel fuel and feed, among others things.

We are experiencing a unique confluence of events—war, extreme weather, and soaring fuel prices—piling on top of supply chain disruptions and in some cases labour shortages. Some of these factors affect all Canadian industries, but others are quite specific to or more concentrated in food production and distribution than elsewhere.

The single biggest identifiable villain is Putin’s invasion, striking at the grain and fertilizer exports of two of the world’s largest producers—Ukraine and Russia—and driving up global prices for these commodities. Grain is critical for staples like bread, pasta, cereals and oils and for the majority of products in the core aisles of grocery stores. Of course, grain also serves as feed for most animals raised for meat or for producing eggs and dairy.

Drought and heat have hammered the fruit- and vegetable-producing regions on which Canada most relies, especially in California but also in the Canadian west. That impacts not only the fresh produce section but also canned, frozen and preserved vegetables and fruits, sauces, juices and anything in which these are ingredients.

You already know the story of dairy and eggs and how the supply management boards have identified rising fuel, feed and fertilizer costs as the basis for unprecedented price increases. I could also speak to the spiking cost of packaging and shipping, and the decline in the value of the Canadian dollar, which is of increasing importance.

This committee is to be commended for looking at some of these root causes, including the recent study on the impact of the Ukrainian invasion and further work on issues related to climate change, but there are those, in both politics and media, who have deliberately sought to link inflation in the public mind to grocers’ earnings, so let’s briefly touch on that.

Grocery is a high-volume, low-margin industry, the profits from which need to be looked at in percentage terms, not nominal dollars. Inevitably, in an inflationary environment and with a growing population, the dollars are going to increase over time, but it's the percentages that matter. Viewed in that light, grocery earnings of 2%, 3% and 4% are stable and within historic norms. They're also significantly lower than in most Canadian industries when compared with big food-processing companies, which typically earn profit percentages in the mid to high teens, and they're lower lower than the Canadian net farm income average of 5.4%.

On the grocer side, such profit growth as there has been mainly derives from pharma, health and beauty, not from food, and certainly not from food staples, in which profitability is flat. There are some folks for whom any level of profit is suspect ideologically, and I don’t suppose I'm going to dissuade them. I would suggest that anyone interested in investment and employment, or who will receive the Canada pension plan, or who has an RRSP, workplace pension or education savings plan, should be keenly interested that there be at least some profit from business activity and reject as absurd the notion that profits in the 2% to 5% range are in any way out of the ordinary.

Let's avoid the rush to judgment, look at the whole picture and factor that into any policies and commentary.

Thank you.

● (1545)

The Chair: Thank you very much, Mr. Littler.

We'll go to questions, and we'll begin with the Conservatives.

Ms. Rood and Mr. Barlow, I believe you will be splitting the time.

It's over to you, Ms. Rood.

Ms. Lianne Rood (Lambton—Kent—Middlesex, CPC): Thank you, Chair.

Thank you to our witnesses for being here today.

I know that we have seen prices on the grocery store shelves continue to climb higher and higher. From what I've been able to gather, produce farmers aren't get paid more for their produce. The competition in the market, because of grocery store chain dominance, is forcing farmers to sell their produce for either ridiculously low margins or even to take a loss just to have the privilege of continuing to sell their goods to grocery giants like Loblaws. Farmers take all the risks, and yet these grocery giants are the ones to take all of the rewards. I've been a strong advocate on a grocery code of conduct, and I do hope to see this come to fruition to tackle some of these issues that we see here today.

Mr. Hussain, I have a question for you. Your company has reported record-breaking profits, yet financial data is not available to the public to see if your profits are a product of diversity or part of an increased cost of food. I'm just wondering if Loblaws tracks its sales in separate categories.

Mr. Jodat Hussain: Yes. In our disclosures, we do provide the difference between what our food business is doing in sales and what our drug business is doing in sales.

We also provide qualitative disclosure around our segment margins. That was what I was referring to. Our food segment margins, which is the food gross margin, have been unchanged and have been flat since inflation took off.

Ms. Lianne Rood: Thank you very much.

I'm just wondering if you can share with the committee the figures of the revenues generated by food alone. You can table that with the committee later. I don't need an answer to that right now.

Thank you very much.

I'll turn it over to my colleague, Mr. Barlow.

Mr. John Barlow (Foothills, CPC): Thank you very much.

Mr. Charlebois, you wrote in April that the government was deleting its food inflation database, which had maybe as many as 25 years of food data.

Can you tell me if the government followed through and did wipe out that data from their database?

Dr. Sylvain Charlebois: Yes, it did, actually.

As a lab, it's been extremely difficult and, frankly, frustrating to utilize StatsCan's data. Over the last several months, it's been very difficult to know exactly whether or not the food inflation data is actually accurate.

We have partners at the lab allowing us to better appreciate what is actually going on. We've had meetings with StatsCan, but the meetings have been challenging, to say the least.

● (1550)

Mr. John Barlow: Could they not have maintained that database somehow? What reason was given? Was this is a political decision?

Obviously, we have record inflation. With today's technology, it just seems an odd decision to wipe out 25 years' worth of food inflation prices, which for you as a researcher would certainly be critical information to have available.

Dr. Sylvain Charlebois: It would.

There are lots of reporting practices at StatsCan that really are, I think, questionable. For example, if you just look right now at the data that came out for October, you will see that we still don't have the basket of goods for the month of October. We don't know if broccoli went up in October. We're still waiting for that data. We saw inflation data come out maybe two or three weeks ago.

There are these delays, and we wonder why these delays actually exist.

Mr. John Barlow: You just released the 2023 food price report, "Canada's Food Price Report 2023". That's perfect timing. Thank you for that.

You mentioned that food prices are going to continue to increase over the next year by maybe 7%, which will cost a family of four an additional $1,065 more in groceries.

Do you believe that government policies like front-of-pack labelling and increasing carbon taxes are having an impact on the price of food and the cost of groceries on the grocery store shelves?

Dr. Sylvain Charlebois: Well, for the front-of-package labelling policy, it's too early to tell. We still don't have anything right now at the grocery store influencing behaviour.

As far as the carbon tax goes, it's actually mentioned in today's report that we're releasing along with the University of Guelph, the University of Saskatchewan and UBC. We are encouraging the government to look into how the carbon tax is impacting food affordability in Canada.

We're not taking a position for or against the tax, but I think it's important for the government to understand the impact of the tax itself on food affordability over the long term as it gets closer to the $170 per metric tonne mark.

Mr. John Barlow: Thanks.

In a column you wrote a few years ago, you mentioned that the carbon tax will drive up the cost of groceries and you referenced in that column that at $50 per tonne, the tax could drive up food prices by as much as 3%.

We see food prices up more than 10% now. Have you done some research on what the impact on food prices would be at $170 per tonne?

Dr. Sylvain Charlebois: I wish I knew the answer. I think that's the coefficient we need to get to, at least for the government to better understand exactly what the impact is going to be.

We've seen some polices in recent years that are, honestly, unfairly penalizing farmers. Farmers are price-takers and they have to absorb the carbon tax.

I have actually testified before the finance committee, I believe, on Bill C-206. My position was very clear. I think it's important to recognize each and every node within the supply chain and how the carbon tax is impacting each and every one of them.

Mr. John Barlow: I just have a couple of seconds left.

I think with this, it could be an exponential increase, obviously, at $50 or 3%. Farmers are that one group that pays that carbon tax over and over again for fuel, fertilizer, transportation and trucking.

Is that fair to say?

Dr. Sylvain Charlebois: That would be fair to say. It is an important hypothesis to recognize.

Mr. John Barlow: Thank you.

The Chair: We'll leave it at that. Thank you, Mr. Barlow.

Thank you, Mr. Charlebois.

Now we have Mr. Turnbull for up to six minutes.

Mr. Ryan Turnbull (Whitby, Lib.): Thanks, Chair.

Thanks to all the panellists for being here today. I'm definitely listening intently to your comments and taking all things into consideration.

To Mr. Littler's opening remarks, I think we all get that costs have increased across the agri-food supply chain and that there are good reasons for those globally. I guess the thing that struck me is to see Loblaw, Metro and the other large grocery chains claiming that these net earnings, which are quite sizable....

Mr. Hussain, I think you were giving us a rationale or an alternative explanation other than what one might assume, which is that there's some profiteering going on. I think it's interesting to dig a little deeper there and understand that better. Also, I should say that net earnings, as we all know, just to set it clear, are an entity's income minus all the costs of goods, expenses, depreciation, amortization, interest and taxes. We're really talking about net profit for Loblaw as a whole when we're talking about $266 million prior to the pandemic to I guess $387 million today. That's pretty sizable in terms of earnings, given that we've gone through a global pandemic and Canadians out there are struggling to pay for necessities as you said.

Mr. Hussain, maybe you can enlighten us. You mentioned health and beauty products as one of your verticals. Has that one been so successful in the last couple of years that it accounts for your whole net earnings increase?

● (1555)

Mr. Jodat Hussain: That's really an important point. I'm glad you highlighted that.

When you look at Loblaw, you see that Loblaw is not just a food business. Our statements are a composite of several different businesses that include a food segment, yes, but also include a bank, a large regulated pharmacy that has a big front shop, and the largest beauty retailer in Canada. As we spoke about in our Q3 disclosures, and as we spoke about in the earnings call, we've had a tailwind in terms of both beauty and our cough-and-cold over-the-counter business in that particular quarter.

Mr. Ryan Turnbull: Thanks.

I know that you have produced quite a sizable corporate social responsibility report, which I've read. It's from 2020. It's quite impressive. I know that you pride yourself on being a good corporate citizen.

My question is, if in this context that we're in, if you're able to drive profits in some of your verticals in your business, couldn't you afford, then, to distribute some of those to hand down cost savings to the average Canadian citizens who are your patrons at your stores every day?

Mr. Jodat Hussain: That's our job: to offer the best possible value to our customers.

We're in the customer business, and we're in a very competitive sector. Our principal motive is to have the best possible prices in our stores at all times.

Our values spectrum is quite broad. We're offering a record number of loyalty points this year, which is going to top over a billion dollars. We continue to offer ad match at our discount stores; if you can find a better promoted price, we'll match it in the store. We have a strong control brand assortment. We doubled down on it by freezing the No Name prices. As far as I know, that scale of program is unprecedented. We're freezing over 1,500 prices. Also, we continue to have a very strong weekly flyer to make sure we have the best promotions week by week. That is part and parcel of every day to win the customer.

Mr. Ryan Turnbull: Yes, thank you for that.

I also note, based on publicly available information, that you've also raised shareholder quarterly dividend payments by 11%. This leads me to sort of say, okay, as a large corporation in Canada, you're generating significant profits and you're increasing dividend payments for your shareholders, which is fine, but again, I'm interested in how we can make life easier for the average Canadian family that is struggling to purchase their basket of goods at the grocery store. Is there anything else—I know you're priding yourself on being a good corporate citizen—that you can do?

I'm not here to paint corporations as monsters or anything. I'm really taking at face value the things you're saying. I'm just interested in how Loblaw, in a time of crisis that the country has gone through, can be really helping Canadians pay for their groceries. Is there anything else Loblaw is prepared to do, other than freezing the prices of the No Name brand? It's a good step, but I think the prices might have been frozen at a fairly high level, as far as I can tell, just given the time.

Mr. Jodat Hussain: I would welcome this committee's investigation into this matter. Inflation is a complicated question, and there's no one player in the global value chain that can influence it. I have been looking at all aspects of it as being important.

For grocers—and for Loblaw, in particular—there are two things we do that are absolutely critical to keeping inflation down. The number one thing, which I spoke to in my remarks, is us acting as the countermeasure and making sure we don't accept unjustified cost increases from the supplier base. That is the number one thing we can do. Ninety-six cents of what is in the grocery basket is grocer cost, so that is the number one thing we need to focus on and keep doing.

Secondly, we need to be offering the best value in our stores at all times, because the industry is so competitive. I spoke to the measures we're doing, and we'll continue to do that.

The Chair: We will leave it at that.

Thank you, gentlemen.

[*Translation*]

We will now go to Mr. Perron.

You have the floor for six minutes.

● (1600)

Mr. Yves Perron (Berthier—Maskinongé, BQ): Thank you, Mr. Chair.

Thank you to the witnesses for being with us today.

Obviously, we are looking for information. We are not holding a trial, but nonetheless, certain questions have been raised in response to the release of the financial statements.

Mr. Hussain, I appreciate your being here at our committee. You said that the gross margin on grocery products had not increased. If I understood correctly, you said there were no more profits than before, in terms of the gross margin on grocery products.

[*English*]

Mr. Jodat Hussain: That is correct. Our gross margin has been flat since inflation took off.

[*Translation*]

Mr. Yves Perron: So how do you explain the significant increase in your profits?

[*English*]

Mr. Jodat Hussain: Our net income in Q3.... The rate of net income was 3.8%, as I mentioned previously. That is not unusual for our business. That net income is not just a function of food; it's a function of several other businesses that fall under the Loblaw umbrella.

[*Translation*]

Mr. Yves Perron: Right.

So you can provide us with those figures showing the breakdown and details. You know, when we look at the documents, it is not an easy task for us to find that information. That is what Ms. Rood asked you for earlier.

[*English*]

Mr. Jodat Hussain: We provide full financial statements of our total business. We provide qualitative disclosure in terms of what our individual segments are doing. I believe it's on page 11 or 12 in our financial statement, depending on the version you're looking at.

That's where we give qualitative disclosure. We don't give quantitative disclosure, but rather qualitative disclosure around what is happening to our food margins and our drug margins. We stated our food margins publicly in that document, and our earnings there have all been flat.

I have taken a note of what—

[*Translation*]

Mr. Yves Perron: As you said to Ms. Rood earlier, we would be grateful if you would provide the committee with that information so we can see it properly.

Mr. Hussain, you said that several factors influenced inflation. We also know suppliers are charged fees for what seems to be to finance long-term investments. Mr. Charlebois from Agri-Food Analytics Lab also talked about that in his opening statement.

According to the testimony we have heard in the committee, the charges to processors represent about 18% of costs in the United States, as compared to 28% in Canada.

How do you explain such a large difference between Canada and the United States?

[*English*]

Mr. Jodat Hussain: I don't know the specifics of that differential or what the base is of that report citing the difference in costs.

In terms of costs, what we charge is contractual. That's an agreement we arrive at with our suppliers, in advance of their products being listed with us. It's customary in terms of how we're operating. We have a fairly equitable process to evaluate whether our relationship with the supplier is balanced. I gave an example of that in terms of how we gauge cost increases, because that's a fundamental interaction we have with the suppliers. We have processes in place to make sure that relationship remains balanced, because they are key partners in our business.

[*Translation*]

Mr. Yves Perron: If the increase in product prices we are seeing at the grocery store is directly related to the increase in suppliers' costs, how do you explain the fact that food prices have risen much faster in grocery stores than in restaurants? Restaurants essentially also buy from the suppliers.

How do you explain the fact that between October 2019 and October 2021, prices rose by 13.9% in restaurants and by 18.1% in grocery stores?

[*English*]

Mr. Jodat Hussain: The restaurant sector and the grocery food sector are fundamentally a bit different in the value chain that each offers, particularly in terms of how much of a grocery bill is actually food versus a value-added service that goes on top of it. When there's labour service and so forth, the margin structure is different. I don't think it's appropriate to draw a one-for-one comparison between restaurant performance and grocery performance.

I would note, though, that if you think about Canada versus every other G7 country, we're doing quite well compared to our nearest neighbour. There hasn't been a quarter since the Q2 of 2020 when the Canadian food price inflation has been higher than in the U.S.

● (1605)

[*Translation*]

Mr. Yves Perron: Because I have only 15 seconds of speaking time left, I am going to ask you a brief question.

The freeze on the prices of no name™ products is a good thing, but it came right when the House of Commons had just passed a motion for the committee to do a study of this issue.

Did the decision of the House of Commons influence your decision to freeze prices?

[*English*]

Mr. Jodat Hussain: We're always looking to offer value to our customers. Even in advance of the No Name price freeze, we gave out a record number of loyalty points that will top $1 billion.

No, we're giving value all the time.

[*Translation*]

The Chair: Thank you, Mr. Hussein and Mr. Perron.

Mr. MacGregor, you now have the floor for six minutes.

[*English*]

Mr. Alistair MacGregor (Cowichan—Malahat—Langford, NDP): Thank you very much, Mr. Chair.

Thank you to all of our witnesses for being here today.

Mr. Hussain, I would like to start with you. When I put together my witness list for this study, I specifically requested for Mr. Galen Weston to appear. Is there any reason Mr. Weston is not here after receiving an invitation from a committee of the House of Commons, and you're here in his stead?

Mr. Jodat Hussain: I run retail finance at Loblaw. Prior to that, I ran the planning group at Loblaw and I had a stint running the commodities group, which evaluates inflationary cost requests from our suppliers. In our company, I am best suited to speak to the matters at hand as they relate to inflation and how that impacts both our financial statements and our operations.

Mr. Alistair MacGregor: Could Mr. Weston have appeared, but he decided to send you in his stead?

Mr. Jodat Hussain: The company sent me because I'm the closest to these matters and able to respond to the committee with a high degree of specificity.

Mr. Alistair MacGregor: We'll just leave it at that.

We have a report that came out recently from the Centre for Future Work. It notes that profits in the food retail sector as a whole grew by 120% from 2019 through to this latest period, swelling by $2.8 billion.

I took note of your opening statement of the pressures that you are going through. We've had many witnesses before this committee reflect on the same costs. Despite all of those pressures, we have taken note of the fact that those profits have gone up.

I don't want to repeat some of the questions that my fellow colleagues around the table have asked, so I'll turn to the pay that workers in your industry receive.

The price of groceries went up by over 10% in one year. That's twice as fast as workers' wages, at 5.4%. I also note that your industry, during the middle of the pandemic, cancelled the “hero pay”, which was very necessary for a lot of workers to get through that very tough time.

When you look at the profits and the fact that your industry cancelled the “hero pay”, what kind of a message is that sending to people about the value that your employees provide in your industry, if their wages are not rising as quickly as the very groceries they need to pay for?

Mr. Jodat Hussain: Our colleagues and our employees are the lifeblood of Loblaw. Grocery, in general, is a very labour-intensive industry, and your experience as a customer is only as good as your experience in the store.

Colleagues are fundamental. We are predominantly—in our grocery stores, in particular—a unionized shop, and we proudly participate in the collective bargaining process. Our unions advocate quite well for the employee population. Any deals, and most deals—in fact the ones that we've consummated over the last year—have been done with union approval.

Mr. Alistair MacGregor: When you announced the price freeze on some of the products, coincidentally on the same day that the House was going to come to a vote on a motion—unanimously, I might add, so it was supported by all parties—your competitor, Metro, was quick to point out that it's already an industry standard to freeze prices at that time of year.

I guess my question to you is this: How did the industry collectively decide on this standard? What kinds of discussions do you have with your competitors on this, if Metro is already identifying that it's a standard? It seemed to me that your company announced it as something out of the generosity of its heart to address the tough times. What do you have in response to Metro's statement?

● (1610)

Mr. Jodat Hussain: My understanding is that Metro subsequently clarified those comments. I know they're appearing before the committee, so you should ask them.

It is not a practice. Grocery prices do not freeze between October and January. I'll give you a very simple data point: I don't think inflation has ever paused from October to December. In fact, you can see the CPI prints going many years back, and prices do not pause during this time.

In fact, Dr. Charlebois is here. He's a learned scholar. He can give a perspective on it, but it is not an industry practice to freeze prices at this time.

Mr. Alistair MacGregor: Okay.

The other question I had is about the very serious allegations of the price-fixing on bread. I know that the Competition Bureau has also expressed concern over the practice of margin shielding.

We have very big concerns on the other side of the spectrum from people who are very concerned with a grocery code of conduct and the business practices you have with manufacturers.

Do you believe, Mr. Hussain, with all of these allegations, that your industry in particular has a lot more work to do to earn the trust of Canadians, who are quite rightly concerned about what's going on right now?

Mr. Jodat Hussain: We earn the trust of Canadians through what we do at the checkout counter, and that will be 100% what we will continue to do.

The Chair: We have 10 seconds.

I know you'll be generous, Mr. MacGregor, and give that back to us.

Mr. Chambers, you are appearing on behalf of Mr. Steinley. Welcome to the committee. You have up to five minutes.

Mr. Adam Chambers (Simcoe North, CPC): Thank you very much, Mr. Chair, and thank you to all our witnesses. It's a pleasure to see you back here in front of committee.

Mr. Hussain, you mentioned a couple of times that since the food inflation started, your net margin, which I think is what you were referring to, has stayed similar. What about over, say, the last 10 years? Is that margin of four cents on every dollar you sell around where the industry has been over, say, the last five to 10 years?

Mr. Jodat Hussain: I can certainly say that going back 10 years might not be a comparable example for us because we didn't have the Shoppers business then, but yes, in aggregate, I think our net margins have been in the sub-four cents range. I would welcome, actually, Mr. Karl Littler to give a comment on the overall sector, but I think that holds true for the sector too.

Mr. Adam Chambers: Go ahead, Mr. Littler.

Mr. Karl Littler: As I understand it, looking back five years, Loblaw's numbers were at 3.4%. As I look at the others, I see they're all in a range of between 2% and 4%. That's a picture across the industry on a five-year basis.

Mr. Adam Chambers: Thank you. It's been relatively consistent during that time.

Mr. Karl Littler: Yes.

Mr. Adam Chambers: Mr. Hussain, the CEO of Pepsi went on an American business news channel and said, to paraphrase slightly, “We are very happy, because we can charge whatever we want and the customer will pay.”

Can you talk a little bit more about the negotiations you have with some of these larger food suppliers and how those costs impact the supply chain?

Mr. Jodat Hussain: That's actually an excellent consideration.

First, I think I would just say that this highlights that this is a supply chain cost issue and not a grocery profit issue or a grocery margin issue.

Secondly, in specific terms I don't know why the Pepsi CEO would say what he did about the elasticity of price in their particular market, but I encourage the committee to look at all aspects of the value chain, particularly the upstream value chain.

Mr. Adam Chambers: Thank you very much, Mr. Chair. I'm going to yield the rest of my time to Mr. Lehoux.

● (1615)

[*Translation*]

Mr. Richard Lehoux (Beauce, CPC): Thank you, Mr. Chambers

Thank you to the witnesses for being here today.

I am going to start by asking Mr. Charlebois a question.

We hear about transparency a lot, and we may be a bit behind the times.

Should the government not have asked for a study on all the repercussions of the carbon tax earlier? Could it have done that before now?

We could request one. Is it urgent that this be done now?

Dr. Sylvain Charlebois: I think it is.

We have to understand what is happening at present better.

For several years, British Columbia and Quebec had a carbon tax, but all the provinces in Confederation now have to follow suit.

It is time to do it.

Mr. Richard Lehoux: So you think it is not too late. It is high time to do it.

Dr. Sylvain Charlebois: Yes.

Mr. Richard Lehoux: Right.

You did several studies in the past, and again recently.

Do you do these studies in response to requests, whether from producers, processors or wholesalers, or is it just your laboratory that decides to settle on a particular study?

Dr. Sylvain Charlebois: We decide the subjects we want to cover. We have four major partners, and together, we examine certain issues that we have the resources to study, but our studies are not funded by partners like the Retail Council of Canada or Loblaw, for example.

Mr. Richard Lehoux: I may not have understood, but did you name your four partners?

Dr. Sylvain Charlebois: No.

They are BetterCart Analytics, NielsenIQ, Angus Reid Institute and Caddle Inc.

Mr. Richard Lehoux: Right, thank you.

Based on the numerous studies you have done, do you have a general idea of the portion of the price of a food item in the grocery store that is attributable to its processing or production costs?

Dr. Sylvain Charlebois: It is very difficult to establish. Each product that has a reference number has its own history and proportions. It is therefore very difficult to say what is going on in general or to give an average.

I can tell you that in general, the profit margins for retail sales are extremely thin. As Mr. Littler and Mr. Hussain said, the profit margins are very thin, but they get higher the farther you get from the consumer.

As I explained earlier, the balance of power is not the same in Canada. Given the oligopoly we see in this area, it is very difficult for suppliers to negotiate with the major distributors, including Loblaw, Empire Company Limited and Metro.

The Chair: Thank you, Mr. Lehoux and Mr. Charlebois.

I will now give the floor to Ms. Valdez, who will be splitting her speaking time with Ms. Taylor Roy.

[*English*]

Mrs. Rechie Valdez (Mississauga—Streetsville, Lib.): Thank you, Mr. Chair.

Thank you to the witnesses for joining our committee.

I'll direct my first question to Mr. Littler. It's regarding price freezes.

What can Canada take away from other countries and what they're doing to lower costs in supermarkets?

Mr. Karl Littler: What merchants are doing to address consumer prices is a composite picture.

It's important to understand that even before the price freezes, there was a very significant discount grocery piece in the Canadian market. Obviously, we've seen a consumer shift toward that business. There's been a strong effort to try to ensure that staples, in particular, are sourced in a way that makes them as low-priced as possible for consumers.

With respect to the freezes, people have taken different approaches. Obviously, the decision Loblaw made has probably received the most comment, but other grocers have gone down that path. I think it's important to understand that they're working with some pretty thin margins in terms of what they can actually do. In this situation, not all of this is within the capacity of grocers.

It's also important to look at what manufacturers can do. We were talking a few minutes ago about average margins over five years being 2%, 3% or 4% in grocery. If you look at Kraft's margin, it's 14.8% over the same period. Pepsi is 11.6%. Procter & Gamble is 18.2%.

While grocers are doing what they can, I think it's very important to also look at what can be done with respect to the processing side of the chain.

Mrs. Rechie Valdez: Thank you.

Mr. Hussain, you were talking about profit margins earlier. Can you clarify how Loblaw accounts for net earnings? In other words, how has Loblaw made more money on health, beauty and pharmaceuticals?

● (1620)

Mr. Jodat Hussain: I think one of your honourable colleagues gave a definition that was very close to the net income definition that I cited that's used in our financial statements. Our net income margin is 3.8%, so that would be in line with generally accepted accounting principles. That's generally the foundational basis of our financial statements.

That number is inclusive of all of our businesses, including beauty, the bank and our food businesses, among other businesses that we have. We have a wholesale business, a small liquor store business and so forth.

Mrs. Rechie Valdez: Thank you.

Mr. Littler, going back to the prices of groceries and large profits, are you able to comment on the role that pharmacies play in the price increase as a whole?

Mr. Karl Littler: Pharmacies, of course, are a mixed business, because while you have pharmaceuticals—the products sold by prescription and over the counter—you also have a lot of front-of-store business, and that's an increasingly important part of a number of grocers' businesses.

The other thing is that in the wake of the pandemic, you had a lot more travel. You have people going out to work again. You have people getting coughs and colds and so on, so the consumption of related products has gone up.

The other point is that those tend to be higher-margin items. There is a fierce competition around food products, particularly around food staples. There's a little more room for margin with respect to that health and beauty side. That's why it's been a really major driver while the food margins have remained flat.

Mrs. Rechie Valdez: Thank you.

I'll go over to you, Ms. Taylor Roy.

Ms. Leah Taylor Roy (Aurora—Oak Ridges—Richmond Hill, Lib.): Thank you very much to all the witnesses for being here.

My question follows up on Mr. MacGregor's. This question is for you, Mr. Hussain.

I had a colleague who was visiting over the weekend who works for Your Independent Grocer, which is unionized, as you mention, but most employees make between $16 and $18 an hour. She makes slightly more because she manages a large part of the store.

She was telling me that her store manager was not going to receive a bonus this year because he hadn't cut back on wages as much as corporate management had wanted him to, and they had certain targets about reducing wages in the operations.

Since you're in the financial area, I thought I would ask you why this is a target right now, given that your profits have been going up and that workers are obviously suffering from high inflation in many areas, not just food.

The Chair: You have about 25 seconds, Mr. Hussain.

Mr. Jodat Hussain: I don't think that's an accurate characterization. I don't think our bonus plan for store managers works like that, with constriction of labour dollars for a particular store impacting someone's bonus. I don't know all of our compensation plans, but I don't think that's an accurate characterization of how that works.

Ms. Leah Taylor Roy: I think we're almost out of time, so perhaps you could send that to us.

The Chair: Unfortunately we are out of time, Ms. Taylor Roy.

Ms. Leah Taylor Roy: Yes, so perhaps you could send us that information.

[*Translation*]

The Chair: We will now give Mr. Perron the floor.

Mr. Perron, you have two and a half minutes.

Mr. Yves Perron: Thank you, Mr. Chair.

Mr. Charlebois, there was a lot of discussion earlier about the carbon tax.

We recently voted an exemption for certain sectors that need the exemption. Overall, the carbon tax aims to make food cost less in the long term, and to slow climate change.

I would like to talk to you about another cost: the 35% tariff on Russian fertilizer. Canada is the only G7 country that has imposed it.

What do you think about that? Do you believe it plays a significant role in inflation at present?

Dr. Sylvain Charlebois: That is a very good question. I have already stated my opinion on that subject.

Personally, I don't think it is a good initiative to take. I understand the geopolitical reasoning for the decision, but penalizing producers this way may compromise our food security, not just in Canada but also elsewhere in the world. We do produce a lot of grain for the rest of the world.

However, I am also not sure that it would be a good idea to reverse that decision, because we need predictability in the markets right now. Some producers are doing their planning based on the tariff imposed.

Mr. Yves Perron: If that money went directly to the producers, do you think that could solve the problem?

Dr. Sylvain Charlebois: I don't think the tariff is influencing inflation. I think the tariff's influence is primarily on the viability of our farms. We can assume that we might lose farms because of it.

Mr. Yves Perron: So it is a question of food security.

Fair enough. Thank you very much.

Mr. Hussain, I am going to ask you a question and there should be about 30 seconds left once I finish.

How do you explain the fact that suppliers, agricultural producers, and even processors say their margins are shrinking, while you are able to increase your margins, or at least maintain them?

Where does the difference lie?

● (1625)

[*English*]

Mr. Jodat Hussain: Without knowing the specifics of which supplier is saying what, I won't be able to speak intelligently to that point. I think it's a complex landscape and—

[*Translation*]

Mr. Yves Perron: Vegetable producers...

The Chair: Mr. Perron, I'm sorry, but your time is up. You had 30 seconds, but you used almost all the time to ask the question.

Mr. MacGregor, you have the floor for two minutes and 30 seconds.

[*English*]

Mr. Alistair MacGregor: Thank you very much, Mr. Chair.

Mr. Hussain, I'd like to continue on that last question that was themed on the issue of trust, not only because of the issues I mentioned and the ongoing investigations that have happened from the Competition Bureau, but because Canadians' perceptions of your sector, I think you would agree, are not very good right now. They have seen the profit margins. They have seen executive bonuses. They have reflected upon what the dividend payouts are vis-à-vis workers' wages.

You're now addressing a committee of parliamentarians who will very seriously consider what Professor Charlebois mentioned: the fact that the Competition Bureau does not have enough resources. I think the pressure is on your industry either to be proactive or to find that parliamentarians will take that rein and be proactive for you.

Again, Mr. Hussain, I want to hear from you what your company in particular is going to do proactively from this point forward to try to restore the trust that has been broken by all of the events I've just mentioned.

Mr. Jodat Hussain: We're in the business of acquiring customers. We're in the business of making sure that the experience in our store is the best. We are obviously always proactively looking at how we can give consumers the best possible value in all our stores.

That will be the job that we'll continue to perform, and we'll continue to push back on unjustified cost increases to make sure that the basket they buy in our stores is the most competitive it can be, because our sector is very competitive. They have plenty of options to get that basket elsewhere, so it's our job to make sure that we serve them as best we can, week in and week out.

Mr. Alistair MacGregor: I'm not sure I heard specifics there.

For the last 30 seconds, Professor Charlebois, we do know there were some legislative changes implemented on the Competition Act recently. You talked about resources.

Very quickly, in a report that this committee issues with its recommendations, what kinds of specifics would you like to see specifically on the Competition Bureau? I think this is one area that we really do need to focus on.

Dr. Sylvain Charlebois: I think it boils down to authority and access to information and data, and how it collects data and how it manages it. Right now we're flying in the dark, and there's a lot of unfinished business, which is impacting the reputation of the industry.

I actually agree with you. I think there's a bit of a consumer trust crisis going on right now against grocers, and I'm not even sure that grocers have the answer, but the Competition Bureau could bring some light and protection for consumers.

Mr. Alistair MacGregor: Thank you.

The Chair: Thank you, Dr. Charlebois.

Thank you, Mr. MacGregor.

Now there will be a couple quick ones from me.

Mr. Hussain, just so I understand, is 3.1% the food sector portion of your business, the margin right now for Loblaw?

Mr. Jodat Hussain: No, it's not the food sector. It's the aggregate margin for our entire business, because Loblaw reports as a composite, and that composite, as I mentioned, includes several other businesses as well.

The Chair: Do you have a sense for this committee of what the actual food margin portion of the business is, or is that not something that can be made public at this time?

Mr. Jodat Hussain: No, it's something that we don't disclose. It's not publicly disclosed information. We do give qualitative disclosure of it, which I was mentioning. It's usually on pages 11 through 13, depending on our statements, and that's where we state that our margins on food—gross margins—have been flat.

The Chair: The last question I have is around the relationships. We talked about perhaps increased traffic at the pharmacies because of the pandemic. I didn't hear questions in the panel around the actual increased amount of food that was being bought through the grocery element itself, in the sense that people were not going out to restaurants as often. They were not eating out.

Do you have any numbers you can provide this committee in terms of per unit, I'll say...? Have you seen an increase— beyond, of course, the costs you've had to incur—in the amount of food that's being bought through your retail outlets? Do you have a percentage number that you could give this committee?

● (1630)

Mr. Jodat Hussain: I don't have a percentage number, but I can give you a shape of how the industry has grown.

When the COVID pandemic happened, the volume in the industry, the actual unit volume in the industry, spiked because restaurants were closed, but this year, in particular as the pandemic subsided and restaurants opened up, unit volumes are actually contracting.

The Chair: Okay. Thank you.

Mr. Charlebois, if you have similar data across the industry, I think that would be interesting to offer to the committee, but I will run afoul of our time if I go any further, unless you have something very quick that you might want to add.

Dr. Sylvain Charlebois: I submitted our “Greedflation” reports. I have submitted three of them published in the last few months. They have already been submitted to the committee.

The Chair: That's perfect. Thank you very much.

Mrs. Valdez, I see your hand.

Mrs. Rechie Valdez: Thank you, Mr. Chair.

With the passing of the CCA president, Reg Schellenberg, I wanted to see whether there was interest in writing a joint letter of condolence, signed by all of us in committee, to his family and the CCA.

The Chair: I think that's a thoughtful gesture, Mrs. Valdez.

I don't see any hesitation in the room from any of our members. Do I have unanimous consent to go ahead and do that?

I see we do. That's wonderful. As chair, I will make sure we do that on behalf of all of you. Thank you, Mrs. Valdez.

Colleagues, that ends the first panel. Don't go too far. We're going to turn this around for panel two in just a few moments. Thank you.

Thank you to our witnesses.

● (1630)

(Pause)

● (1635)

The Chair: Thank you to our technical team for turning that around very quickly.

With us today on the second panel, we have, from Empire Company Limited—better known as Sobeys in my neck of the woods in Nova Scotia—Mr. Pierre St-Laurent, chief operating officer. Mr. St-Laurent, welcome to the committee.

From Food, Health and Consumer Products of Canada, we have Michael Graydon, chief executive officer. Mr. Graydon, you're joining us online. Welcome back to the committee. You are no stranger to us.

From Fruit and Vegetable Growers of Canada, we have Rebecca Lee, executive director, who is also no stranger to this committee. Ms. Lee, you're in the room. Thank you so much for being here today.

Colleagues, we're going to start with five-minute opening remarks. We'll start with Mr. St-Laurent.

You have up to five minutes for your opening remarks.

[*Translation*]

Mr. Pierre St-Laurent (Chief Operating Officer, Empire Company Limited): Thank you, Mr. Chair.

In recent months, global inflation has reached heights we had not seen for decades. We understand that the cost of living, including the cost of food, is a matter of concern to Canadians, who want to understand why their grocery bill is so high today. That is why the Empire Company Limited is testifying before the committee today.

First, as a business committed to feeding families, Empire is no fan of inflation.

The inflation we have been experiencing for several months is a bad thing and is distressing for Canadians, who have to make choices and adjust their buying habits. More than ever, they have to think about what they are buying if they want to stay within their budget. It is also bad for our company, since it interferes with our operations and requires that we meet numerous operational challenges.

Second, food inflation is a global challenge caused by a set of macroeconomic factors that are influencing the costs of food production.

Regarding the cost of goods, geopolitical events and also extreme weather conditions, soaring energy costs, disruptions in the supply chain, the weaker Canadian dollar and labour shortages have created a perfect storm for our suppliers. They are now unfortunately obliged to increase the cost of the products they offer.

While we receive hundreds of requests for cost increases from our suppliers every month, we are committed to rigorously assessing each request and examining all cost factors that affect our suppliers so we can be sure of the factual justification for each request and of each component of the price increase, and so minimize the impact on our customers.

Unfortunately, present circumstances are such that our suppliers have no choice but to ask retailers for significant price increases if they are to remain profitable. Canadian farmers are particularly affected by the present macroeconomic environment. Numerous agricultural operations would actually be in great danger if suppliers and retailers did not agree to their increases.

Third, as a business, we are not profiting from inflation in any way.

Many people believe that retailers are deliberately profiting from inflation. I can't speak for the other retailers, but I can assure you that this is completely false in the case of Empire. In a very large majority of cases, the retail price increase reflects the increase in the costs requested by the suppliers. As we have said over recent months, and as our quarterly reports show, sales and profitability have remained stable in spite of the acceleration in inflation.

I would also like to point out that the retail food sector is a very low margin sector. In our case, our net margin in the last two quarters was 2.5 to 2.6%, which is consistent with our profitability in the last two years. We therefore have no choice but to adjust our retail prices; otherwise, Empire would very quickly stop being profitable.

Fourth, despite this uncertainty, we use all available levers to minimize the impact of this unprecedented inflation on our customers.

In addition to rigorous analysis of the requests for cost increases that we receive from our suppliers, we invest in numerous initiatives so we can always offer Canadians greater value. That may be by expanding our assortment of private label and large format products, by making relevant, personalized offers, and by supporting communities across Canada.

Last, we believe the Canadian government could also play a major role in helping Canadian businesses reduce their operating costs.

Every government measure to simplify the supply process, encourage immigration or promote technological innovation will be beneficial. For example, the national supply chain task force recently submitted its report to the Minister of Transport, in which there are 21 initiatives for meeting supply chain challenges in Canada.

Reducing congestion in Canadian ports, simplifying the passage of goods through the border, or responding to the labour shortage in the supply chain are examples of concrete measures that would have a major beneficial impact on the Canadian food industry and ultimately on Canadians' purchasing power.

To conclude, I want to reiterate that we are sensitive to this subject, which affects our customers directly, and we are using all available levers to minimize the impact of this inflation.

Thank you.

● (1640)

The Chair: Thank you, Mr. St-Laurent.

Mr. Graydon, you now have the floor for five minutes.

[*English*]

Mr. Michael Graydon (Chief Executive Officer, Food, Health & Consumer Products of Canada): Good afternoon, Mr. Chair, and members of the committee.

FHCP represents the companies that manufacture and distribute the vast majority of everyday essential products found in every household. Our members work closely with Canadian farmers to transform this country's agricultural riches into value-added finished goods that feed families here at home and around the world. As the single largest employer in rural Canada, we also serve as a critical link between rural and urban communities.

With inflation now at historic highs, we understand the concerns Canadians share regarding higher food prices. Canada's inflationary environment aligns with skyrocketing costs of food and goods globally. According to the Food and Agriculture Organization, global food prices jumped 5.5% between September 2021 and September 2022. Canada's peer countries face similar trends. Some factors driving global inflation include COVID-induced demand spikes, labour shortages, crop damage from extreme weather, transportation disruptions, and sharp increases in the price of energy and fertilizer due to the war in Ukraine.

Unlike past trends, many of these conditions and pressures have been occurring simultaneously or in a more pronounced manner, leading to broad-based increases in prices. Simply put, the costs of producing, selling and buying food have risen sharply across the board. When costs increase, prices generally do as well.

This point is reflected in an October 2022 survey of FHCP members, who reported that input costs have increased, on average, 23% this year. For example, wheat and oil prices have skyrocketed, and sugar has increased over 12% year over year. Plastic packaging costs rose 42% and paper packaging costs have increased by 36% since January 2020. The price for glass rose 12% year over year. Freight transportation costs are up 32%. Labour costs rose by almost 16%. In addition, our members are dealing with interest rate increases, the increased cost of debt servicing, and foreign exchange challenges, as many of the ingredients used in manufacturing are sourced from outside Canada. Our members expect these costs will continue increasing well into 2023.

Our industry also faces labour, ingredient and packaging shortages. Eighty per cent of our members report labour shortages in their manufacturing plants. Severe labour shortages also continue to impact the trucking industry, which manufacturers rely on to transport over 70% of their products. Packaging shortages include pallets and pressure-sensitive labels. These global shortages, with limited to no domestic supply, impact our industry's ability to produce and deliver essential everyday products to Canadians.

In response, some FHCP members are temporarily reducing variety and sizes and concentrating on making the most necessary and in-demand products. Most manufacturers are passing on significantly few of their costs to retailers.

While industry is working to mitigate the impacts on consumers, there are steps the government can take to help.

First, we must build supply-chain resilience and bolster our economic capacity. The government must take immediate action to implement the national supply chain task force's recommendations that impact our industry, including investing in critical transportation infrastructure and supporting the digitization of supply chains.

Second, the fall economic statement outlined important steps towards providing a more levelled investment playing field between Canada and the U.S. We are pleased with commitments like the Canada growth fund, tax credits for clean technologies and investments in advanced manufacturing. These are important steps to help Canada remain competitive in North America, while keeping and attracting investments here.

Third, labour shortages continue to be a challenge for our industry. We are encouraged by the government's plan to increase immigration levels to 500,000 people by 2025 and provide further financial measures to process new immigrants and reduce backlogs.

Lastly, Canada needs a mandatory and enforceable grocery code of conduct with a broad scope that captures all essential everyday products on grocery shelves. Since August 2021, discussions on the development of a code have been under way in an industry steering committee, which I am pleased to be co-chairing. The code will ensure the relationship between suppliers and Canada's grocers is transparent, stable and fair.

Thank you, Mr. Chair.

● (1645)

The Chair: Thank you, Mr. Graydon.

We'll now turn to Ms. Lee for up to five minutes.

Dr. Rebecca Lee (Executive Director, Fruit and Vegetable Growers of Canada): Good afternoon, Mr. Chair and members of the agriculture committee. Thank you for the opportunity to join you today and speak on the issue of food inflation.

My name is Rebecca Lee, and I am the executive director of the Fruit and Vegetable Growers of Canada. Our growers are involved in the production of over 120 different types of crop, on over 14,000 farms, with farm cash receipts of $5.7 billion in 2020.

FVGC recognizes the importance of this issue and thanks the committee for undertaking this critical study. According to Statistics Canada, fresh fruit prices were up 9.6% in March 2022 compared with the same month last year. The latest food price report, released last Monday, estimates vegetable prices will increase by another 6% to 8% next year. As a result, more than 26% of Canadians have reduced their consumption of fruits and vegetables in the past year due to price increases. Even before the pandemic, close to 80% of Canadians were not eating enough fruits and vegetables, as recommended by Canada's food guide, resulting in an economic burden calculated then at $4.6 billion.

As you endeavour to understand the cause of rising costs, I am here to talk about the situation of many of our growers across the country.

Concerned about the rising costs our growers have been dealing with, FVGC recently surveyed our members to get a picture of the situation. This reaffirmed that across Canada, growers are struggling. Overall, our growers report a 40% increase in input costs. Fertilizer leads the way, with a 72% increase since 2020. Fuel has gone up 65%, while labour has increased by 20% and shipping by 42%. Our growers are generally unable to recoup their costs through the sale of their products: 77% of respondents have not been able to raise their selling price in line with their increased costs, and 44% are selling at a loss. Meanwhile, many growers are still working to recover costs associated with the pandemic, numerous climate disasters, and devastating pests and diseases.

They also continue to be burdened by costs associated with increasing retailer fees, multiple labour and food safety audits, and new requirements to demonstrate sustainability. We fully support a strong integrity regime to ensure our food is safe and sustainably grown and that our workers are being treated fairly; however, it is the layering and often duplication of these audits that are burdensome to growers. Government is adding to the pressure by introducing carbon disincentives and other environmental goals to meet international agreements, without balancing them with adequate and agile funds to support change.

As a result—going back to our survey—73% of our growers have had to delay buying equipment or investing in their operations, including exploring new environmental practices, because they simply can't afford to invest.

Furthermore, produce growers are very susceptible to production risks, which can be extremely high due to the volatility of prices, high dependence on labour and the perishability of produce. Quality loss can have a significant impact on the price the producer receives. I'm sure many of you saw the CBC article last month about one of our growers, Richard Melvin of Nova Scotia, who reported that 40% of his 36 hectares of cauliflower gets ploughed back into the ground each year. Like many growers, they can't afford to harvest, box and transport produce that isn't being purchased, especially for vegetables like cauliflower, which can spoil in two weeks.

Unfortunately, AgriStability and AgriInsurance, the two main tenants of the business risk management program, do not account for significant product quality variability. Therefore, most of our growers do not fit into either program, leaving a large number of them without an adequate safety net.

On the one hand, high prices at the grocery level are limiting consumers' access to healthy food. On the other, growers unable to cover production costs with the prices they obtain from their buyers are faced with the decision of whether or not to continue in the struggle to provide domestically produced fruits and vegetables. We cannot continue to take for granted the importance of having a strong domestic supply of healthy and nutritious fruits and vegetables.

Canada's fruit and vegetable growers believe in the need for sustainable agriculture—socially, environmentally and economically. Food production is an essential sector. Fundamentally, it should be considered a public good. Ensuring that risks, costs and fair earnings are spread throughout the supply chain is critical. A strong grocery sector code of conduct is a step in that direction. Government must look holistically at all policies through a food and agriculture lens to avoid unintended impacts. We also need stronger risk management supports for the horticulture sector.

Our sector has proven its resilience time and again. We firmly believe that given due recognition and adequate supports, our growers will be able to balance the bottom line with their ability to provide safe and nutritious fruits and vegetables to “fill half the plate”.

Once again, we are grateful the agriculture committee is studying food inflation.

● (1650)

We need to act swiftly and with determination to address these challenges to protect not only the economic viability of our fresh produce sector, but also Canada's food security and the long-term health of Canadians.

I look forward to your questions.

The Chair: Thank you, Ms. Lee.

You were right on time. Wonderful. That was great.

We're going to turn to questions. Colleagues, we only have time for two rounds, just so you're aware.

Ms. Rood, you are going to lead it off for the Conservatives.

Ms. Lianne Rood: Thank you very much, Chair, and thank you to the witnesses for being here today.

Ms. Lee, you kind of alluded to this problem, but we're recognizing that our growers are struggling. They're not just struggling; I worry that young growers and young farmers are not going to get in the business of fresh fruit and vegetables. That's something that really contributes to our food sovereignty, our food security and being able to sustain ourselves here in Canada by growing what we need in order for us to feed ourselves.

One thing I see, and from experience, is producers being held hostage by big grocery chains. There are concerns. I know labour costs are up. We have a hard time finding labour, let alone dealing with rising costs. Our input costs are up for fertilizer, transportation and especially shipping. I hear that from growers. Of course, the carbon tax contributes to the increased cost in shipping and transportation, especially in getting product from field to warehouse and from warehouse to a food distribution centre.

Mr. St-Laurent, I have to say thank you for acknowledging and recognizing that without increased prices and paying farmers more, we are not going to actually have profitable farmers and we're not going to see farmers in the business.

By the same token, I've heard you and Loblaw say that you negotiate with farmers and suppliers and that when they ask, you don't always give them what they're asking for. I see that it has been a problem also for farmers because they can't keep bearing these costs without getting some increases from the grocery retailers to be able to cover their costs.

I'm just wondering, Ms. Lee, if you could expand on how a grocery code of conduct would help our growers. I've been a big advocate for that from the beginning, and it's great to see something coming down the pipe on that.

How would a grocery code of conduct help our farmers get paid fairly for their goods?

Dr. Rebecca Lee: Thank you for the question.

The intent of the grocery code of conduct, once we have it finalized, is to provide the conditions under which business is conducted. That's just to reflect or paraphrase perhaps the title of the document or the method that we're preparing.

Once all of the different parts of the package are worked out—how dispute resolution can be managed, how a supply agreement can be negotiated and all of those—hopefully by the end of that process, we will be able to have a product that will level more of the playing field and enable people to deal in a confident manner.

● (1655)

Ms. Lianne Rood: What would be the impact on fruit and vegetable growers of tripling the carbon tax? If you don't have that offhand, that's fine.

Dr. Rebecca Lee: I'm pretty sure they won't be very happy about it, but I'd have to get back to you with an answer for that.

Ms. Lianne Rood: It would be great if you could submit that later.

In what other ways can growers be supported in the short and long term to help them be successful and to keep them in the business of growing fresh fruit and vegetables?

Dr. Rebecca Lee: For the short and long term, I would certainly reiterate the need for the recommendations of the supply chain task force to be implemented, especially those addressing the labour challenges and how we can make sure that we have timely access to labour. The recognized employer program would be one good step in that direction.

Certainly there's the grocery retail code of conduct, but there's also levelling the playing field of supports between the U.S. and Canada. There's a big difference in the amount of supports that are provided in terms of, for example, the environmental programs they have. We analyzed them, and green funds are available to Canadian farmers per acre at $2.95 versus over $6 per acre for farmers in the United States. Right there it's demonstrated that we have fewer supports.

Strengthening our BRM programs, our business risk management programs, would also help.

Ms. Lianne Rood: Thank you.

What I'm hearing is that growers are taking all the risks while we see the grocery chains reaping all of the rewards.

You mentioned that 44% are selling at a loss. I'm wondering about the impact on the farm. Are we in jeopardy of losing farms? How many would be in jeopardy? What does this do to our food security?

Dr. Rebecca Lee: I would love to know the number, just to know what's happening in detail. I do know of farms that have already decided not to continue. Again going back to the next generation, they don't have a next-gen person to take over. They're not interested under these circumstances. It's just one thing after another that's being burdened on the farmers.

What they could also be doing is switching to products that are not fruit and vegetable that are less labour-intensive and less input-intensive. We would end up probably importing a lot more of our fruit and vegetables as a result.

Ms. Lianne Rood: Do you think the increase in the carbon tax will also hasten this demise for farmers?

Dr. Rebecca Lee: It could very well do, but I would have to get back to you on that.

Ms. Lianne Rood: We have about 30 seconds left.

Are there any actions from the supply chain task force that need to be taken?

Dr. Rebecca Lee: Yes. I've mentioned addressing the labour shortage issues and employee retention. Establishing a federal supply chain office to reunify relevant federal government activities would be another as would protecting corridors, border crossings and gateways from disruption.

We want to make sure that we have a free flow of goods, so one action would be developing a national transportation supply chain strategy and engaging the United States, the provinces and territories to achieve mutual recognition of regulation policies and processes.

The Chair: We'll leave it at that. Thank you both.

We have Mr. Drouin for six minutes.

[*Translation*]

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): Thank you, Mr. Chair.

I also want to thank all the witnesses who are here today.

My first question will be for Mr. St-Laurent from Sobeys.

Mr. St-Laurent, I'd like to know what your company generally does when there are forces in operation that cause price increases, when those forces are not necessarily attributable to Sobeys.

The most recent example I could give is California lettuce. In the summer, we can grow our own supply of fruit and vegetables, but in winter we ordinarily have a little more difficulty doing that.

What are you doing to ensure that Canadians do not suffer these repercussions, or suffer them to the least extent possible?

Mr. Pierre St-Laurent: Thank you for asking that question.

A lot of initiatives are underway, and some had already started before. I am going to give you an example.

A few years ago, when Toundra Greenhouses in Saint-Félicien started producing cucumbers year-round in a greenhouse, Sobeys committed to buying the entire production.

That is a great help to people to start out in business and get financing, and to strengthen the resilience of the supply chain.

At present, we have a partnership with the company called Winter Farm, for example, for winter strawberries. We provide do a lot to encourage controlled environment vertical farming, to reduce our dependence on California and Mexico, in particular. We have a long way to go, but we are giving it a lot of support.

During the pandemic, we had serious concerns about the border, and that must not happen again. We are therefore accelerating our investments and our partnerships with various businesses in order to develop vertical or controlled environment agriculture.

● (1700)

Mr. Francis Drouin: We see that there are starting to be a few more of our companies in the Canadian market.

We were used to seeing them, but it was on a smaller scale. Now we are seeing companies like TruLeaf undergoing major expansion. I don't think they want to replace Canadian producers, but they are probably trying to replace imports from California, which are not sustainable, as we can see.

Mr. Pierre St-Laurent: The best way for us to support them is to buy the product, to guarantee that we will buy the quantities produced.

That is what we get a lot of requests for. When the companies are starting up, or investing, or looking for investments from various parties, you can't imagine how much it speeds things up when we guarantee that we will buy their entire production.

That is kind of the role we are playing at present in the start-up of a number of start-up companies.

Mr. Francis Drouin: Right.

[*English*]

Ms. Lee, I've been talking about sort of vertical agriculture, and I'm wondering whether your members are getting involved in that and how they're looking at it. Are they seeing it as a potential threat?

It's mostly for wintertime, obviously. I know many of your members do 12 months, but not every member is. Is that something that they're looking for? What would spur that investment for them to get into that so that we're self-sustainable 12 months a year?

Dr. Rebecca Lee: It's a completely different business. I don't know personally of any farmer who is in the field right now who is thinking of going into vertical farming because, as I understand it, it's completely different.

I can see greenhouse businesses making sure that they can perhaps go year-round. There are usually a couple of months in there when providing lighting and electricity doesn't necessarily make sense from a price point of view. That might be an easier way for my growers to explore.

Mr. Francis Drouin: Is that something that they're worried about, though, knowing that lettuce leaves are making their way into vertical agriculture?

I know through research that they are working on fruits and veggies. Is that something that your membership's worried about?

Dr. Rebecca Lee: I don't know. It hasn't been a concern.

Mr. Francis Drouin: So far.

[*Translation*]

I want to come back to Mr. Graydon, who spoke generally about the proposals from association members.

I don't want to question the companies specifically, but obviously there is a trust problem between consumers and companies, be they supermarkets or other companies.

What can be done to restore consumers' trust and guarantee that there is no "greedflation" going on, knowing full well that all consumers have read the news about bread price fixing?

[*English*]

Mr. Michael Graydon: Yes. I think trust is a very important component. As an industry, this isn't something that is fixed by the manufacturers or the retailers exclusively; this is an opportunity for us to collectively put some energy behind it.

Again, the grocery code of conduct is a big step forward. It shows the unification of the industry with regard to fair practice, transparency and fair dealing. I think it starts to signal to the consumers that the industry is intent on working to try to drive forward very succinctly a change in perception.

We are challenged a bit as we speak, with systemic global and geopolitical issues putting a lot of pressure on our business. I believe these too shall pass. I think as we continue to work as an industry to find solutions, versus pointing fingers at each other, we will start to see an element of trust start to reintegrate back into our industry.

● (1705)

The Chair: We'll leave it at that.

Thank you, Mr. Drouin. Thank you, Mr. Graydon.

[*Translation*]

Mr. Perron, you have the floor for six minutes.

Mr. Yves Perron: Thank you, Mr. Chair.

Thanks to the witnesses for being with us. We appreciate your collaboration. Obviously, we are looking for information more than anything else.

My first question is for Mr. St-Laurent.

Mr. St-Laurent, thank you for your clear presentation and your clear figures.

I would like to be sure I understood you correctly. When you talk about a 2.5 to 2.6% margin, you are talking about the grocery sector only. Is that correct?

Mr. Pierre St-Laurent: Yes, that's right. In fact, at Empire, over 90% of our business is in the food sector.

That corresponds to our net profit margin.

Mr. Yves Perron: Right.

So you are able to give us your figures for that sector directly...

Mr. Pierre St-Laurent: Yes. Those are the figures that are already published in our quarterly report.

Mr. Yves Perron: Right.

A few minutes ago, we heard Ms. Lee talk about the fact that producers are finding they are getting lower sale prices. How do you explain that?

The margins are decreasing enormously and some even say they are selling at a loss, while you are managing to maintain your margins.

Can you explain why the vegetable producers are in that kind of situation? I would just like to be able to understand.

Mr. Pierre St-Laurent: I can tell you that local products have a place on our shelves.

Our business model is the same for all our franchisees from one end of the country to the other. They are people who are involved in their communities. They give space to those products because consumers want them. There is no objective other than that: consumers demand local products.

I don't have information to show that it is not profitable for vegetable producers. We negotiate with them and we offer them space on our shelves.

Our merchants do the same thing directly with them, without involving our company in most cases. Obviously, the big producers that go through our warehouses go through us, because of the costs associated with the logistics. It is all done contractually, by mutual agreement.

We never have enough local products. Even though we prefer to have products from Canada, it is unfortunately the case, even in season, that we have to get our supply from other countries. That is not what we prefer. Consumers prefer fresh local products.

To my knowledge, these are agreements negotiated contractually. We don't force anyone to sell to us at a loss. That is not at all a part of our culture.

Mr. Yves Perron: I would like to talk about the costs imposed on suppliers by retailers. I raised the question earlier with Mr. Hussain, but I didn't really get an answer. You may be able to give me some ideas.

The committee has heard the representatives of the Dairy Processors Association of Canada. Mr. Frigon told us that marketing costs represented 18% of the costs of fresh product suppliers in the United States as compared to 28% in Canada, in the retail business.

What explanation is there for that kind of difference?

Mr. Pierre St-Laurent: It's hard for me to comment on the figures from the United States, since I am not familiar with them.

However, I do know that for all dairy products in Canada, the Canadian Dairy Commission seems to have been exposed to all the arguments necessary for a price increase. Three consecutive increases have been allowed for reasons I consider to be justified. Milk is obviously a component of cheese, yogurt and a lot of products in stores.

I can talk to you about the situation in Canada, but it is difficult for me to compare it with the situation in the United States, unfortunately.

Mr. Yves Perron: Fair enough. Thank you.

Do you have an idea of the reason why food prices have risen much less in restaurants than in grocery stores?

The increase at restaurants is 13.9%, compared to 18.1% at grocery stores.

Mr. Pierre St-Laurent: It doesn't involve the same range of products.

In a grocery store, there are between 25,000 and 30,000 products. I don't think that is the case in every restaurant.

As well, each product is different. I can find you 25 different cost prices for chicken breasts. Agricultural producers in that field are well aware that there are different qualities and different processes. Sometimes people think it is the same product, when it is not the same.

Personally, in fact, I tend to hear the opposite. As a consumer, at least, I find that my restaurant bill is climbing faster than my grocery bill. That is a personal comment, however.

● (1710)

Mr. Yves Perron: Thank you for your answers.

Ms. Lee, you spoke earlier about a significant increase in costs, including in the case of fertilizer.

Is the 35% tax imposed on Russian fertilizer by Canada, the only G7 country to do that, seriously hurting your producers?

Dr. Rebecca Lee: Undeniably.

Some producers had already ordered their fertilizers before the tax was imposed. They were able to bring their products in before the new tax came into force. However, those who had not yet placed their orders had to pay that difference.

I would have to check, but from what I have heard, the other fertilizer suppliers have also raised their prices by 35%.

So yes, it has had a big effect on our producers.

The Chair: Thank you, Ms. Lee and Mr. Perron.

Mr. MacGregor, you have the floor.

[*English*]

Mr. Alistair MacGregor: Thank you very much, Mr. Chair, and thank you to all of our witnesses for appearing today.

I'd like to start with you, Mr. St-Laurent.

I was looking through Empire's publicly available records. In the last prepandemic year, 2019, your company announced net profits of $387.3 million. In 2021, that jumped up quite significantly to $701.5 million. This year, it's projected to be $745.8 million. With all of the pressures of the supply chain, the increased costs, your company has still managed to approximately double its net profits.

You did say in your opening statement that your company is working on all available ways to address cost issues. I'm just trying to fit that statement within the context of your net profits going up by this considerable margin. Are you really trying to use all available ways? If your net profits are going up in such a significant way, is there not a way to redirect those profits to try to ease some of the pain that so many consumers are feeling right now?

[*Translation*]

Mr. Pierre St-Laurent: If I go back, our margins were even lower in 2017. The company was having serious problems.

Then we announced a fairly major restructuring project called Sunrise. We made the announcement publicly. That three-year program, from 2017 to 2020, enabled us to start over with profitability, but at a level that was still lower than our peers'. If we compare ourselves with our main competitors, our 2.5% to 2.6% margin is still lower than theirs.

In addition, over the last two quarters—I think we really reached the peak of inflation in the last six months—our net profit margins have not risen. So we have to distinguish between a corporate restructuring activity that started in 2017 and the situation in the last two quarters. It shows that we are not profiting from inflation; quite the contrary. Regardless of inflation, even at 10% or 11%, our sales were flat over the last two quarters. We are not making more sales because of inflation. Our margins and our sales are stable. Those figures appear in our quarterly reports.

I made a statement about giving the customer value. I said earlier that there were between 20,000 and 25,000 products in the store. That is the best example I can give you: a private label as opposed to a national brand. The private label will cost between 10% and 20% less than a national brand. Our job is to promote them. That is an easy way for customers to mitigate the effect of inflation on their budget. That is one example, but there are others. I could spend all afternoon telling you about them.

[*English*]

Mr. Alistair MacGregor: Thank you. I'm sorry for giving you the signal. I want to get another question in.

We noticed that in 2015, the United States had the Congressional Research Service do studies into the relationships in retail prices. In particular, they looked at patterns of consumer behaviour. They noticed that consumers, when they're presented with two identical products at two different retailers, will, in theory, choose the one that's offered at a lower price. However, the evidence shows that they will continue to purchase products at higher prices from a preferred retailer due to constraints like time savings or convenience. They will also accept higher retail prices if there's inconvenience associated with travelling to different stores.

What I want to ask you is whether your company takes advantage of those well-documented consumer behaviours. Knowing that when a consumer is in one of your stores, they're more likely to stay there rather than suffer the inconvenience of travelling elsewhere, has your company ever taken advantage of those patterns of consumer behaviour to benefit from higher prices?

● (1715)

[*Translation*]

Mr. Pierre St-Laurent: The factors you are talking about relate to customers' purchasing preferences.

Price is a very important criterion for consumers. However, what that study shows is that consumers place value on other factors, such as customer service, the variety of products, and proximity to their home. Consumers make choices based on their preferences. Everyone around the table here makes different choices based on their preferences. That is what the study showed.

Historically, and for a host of reasons, we are more concentrated in what are called full service stores. There are butchers, cashiers, packers, and so on. Obviously, that means that our payroll on sales, as a percentage of sales, is probably double what it is for a discount store.

Some people want to get customer service when they go to a store, and I am one of those people. I also want variety, choice.

I don't judge other types of consumers. We also have discount stores to meet those needs. Variety is more limited there, prices are lower, customer service is different.

The chains chosen are different, and the study you are referring to clearly shows that each consumer chooses their supermarket based on their personal criteria.

The Chair: Thank you, Mr. St-Laurent and Mr. MacGregor.

Mr. Lehoux, you now have the floor, but for only four minutes, because we are very short of time.

Mr. Richard Lehoux: Thank you, Mr. Chair.

Thanks to the witnesses for being here this afternoon.

My first question will be for Mr. St-Laurent.

Do you agree with the idea of instituting a code of conduct?

Mr. Pierre St-Laurent: Not only do we agree with it, but we were the first ones to recommend it, two years ago.

We sat down with our suppliers...

Mr. Richard Lehoux: Forgive me for interrupting you, but I have a supplementary question to ask you.

Should the code of conduct be mandatory?

Mr. Pierre St-Laurent: Yes, absolutely.

If you agree to a code of conduct, it has to be applied by everyone, including the American companies that do business in Canada.

Mr. Richard Lehoux: Thank you for being the precursor of the code of conduct and for recommending it.

Mr. Pierre St-Laurent: We were inspired by a code of conduct that already exists in the United Kingdom.

Mr. Richard Lehoux: Exactly. We should perhaps look more closely at how to institute it as quickly as possible. I am pleased to hear you say that. That is what we would like to see.

You raised the question of labour, which is also a very important factor. I think it has also been mentioned by all witnesses this afternoon.

It is an issue that is raised very regularly: the problems associated with recruiting workers, particularly immigrant workers, who could come to Canada to give us a hand.

Can you provide more details about this issue?

Mr. Pierre St-Laurent: Everything we do to recruit more workers will be a benefit for the farmers, for the processors, and for us, the retailers. There are unfilled positions in our stores at present. In some provinces, we have as many as ten or 15 positions that are not filled.

The other factor I would like to mention is the fact that immigration can solve a large part of the problems, and so we encourage people to facilitate that. However, I also wanted to add that we are going to have to look at productivity, both for farmers and processors and for ourselves. We are going to have to reduce our dependance on labour. Given the aging of the population, that is going to become an issue in the long term, I think.

Mr. Richard Lehoux: I understand that on this point, it would call for additional help from the government, in particular for the entire question of automation, robotization and research, to go a bit further.

● (1720)

Mr. Pierre St-Laurent: It could help us in terms of labour, in its broad sense, that is absolutely certain.

Mr. Richard Lehoux: Perhaps Ms. Lee could add some comments about the labour issue.

The Standing Committee on Agriculture and Agri-food has asked several times to meet with the Minister of Immigration, Refugees and Citizenship to try to break out of the deadlock we find ourselves in at present. The backlogs are incomprehensible.

Is there a particular dynamic for your members when it comes to labour, Ms. Lee?

[*English*]

Dr. Rebecca Lee: There are many items that we can work on in the labour area. As I mentioned before, the recognized employer program would be a very quick win and a quick step forward. It would generally make it easier for employers to bring in workers, and then, once we have them here, it would lessen the burden of the audits. That would be a significant step.

There are multiple audits and different layerings of them, often on employers that are not the problem. If they were to free that up, they could put more people onto bringing in the workers we need.

[*Translation*]

Mr. Richard Lehoux: Thank you for your testimony, Ms. Lee. It is very important for our study.

That might encourage our Minister of Immigration, Refugees and Citizenship to come and meet with the Standing Committee on Agriculture and Agri-food. In fact, we have requested that repeatedly. I might dare to think that this time we will be heard.

Is it the same thing for your members when it comes to labour, Mr. Graydon?

[*English*]

Mr. Michael Graydon: It's a systemic issue in manufacturing. There are over 40,000 vacant positions within food and consumer goods manufacturing in Canada. That number is growing, unfortunately, and it's impacting our capacity for output. It is very difficult to attract people to the industry.

I think through immigration that is focused on economic immigration toward the manufacturing sector, a portion of the people coming in would be very helpful.

[*Translation*]

The Chair: Thank you, Mr. Graydon.

Thank you, Mr. Lehoux.

The time remaining is tight.

[*English*]

Mr. Louis, you have four minutes.

Mr. Tim Louis (Kitchener—Conestoga, Lib.): Thank you, Mr. Chair.

I want to thank the witnesses. We appreciate your time and your testimony in this important conversation, because what we're talking about is food, and that is a fundamental need. Households have less flexibility to reduce their spending in this area compared to others.

I will begin my questioning with Empire Company.

Mr. St-Laurent, we appreciate your being here. Just for our listeners, Empire owns supermarkets, convenience stores and drug stores, including Sobeys, IGA, Safeway, Farm Boy, Foodland and FreshCo.

To go back to history, in 2014 the Competition Bureau began an investigation that Loblaw had abused a dominant position within the grocery sector by adopting unfair business practices with suppliers.

Back in 2017, the Competition Bureau executed a search warrant to investigate charges that five Canadian grocery chains, including yours, had conspired with two bread producers to fix prices on bread sold in stores between 2001 and 2015.

In 2020, the House of Commons and Standing Committee on Industry and Technology had meetings to investigate allegations that the larger grocers had coordinated to end bonus payments for frontline staff who worked in the stores in those first few months of the pandemic, and now we hear the Competition Bureau is looking to further investigate.

Given this history, this track record, in conjunction with the fact that Canada's three biggest grocery chains have all posted these profit increases much higher than the rates of the wages of workers, one can see why the perception exists among Canadians that these conversations we're having are necessary, yet Mr. Michael Medline, the CEO of Empire Co. Ltd., said that public criticisms of grocer profits were “reckless and incendiary attacks”.

Do you support that opinion? What measures do you think are necessary to show this change in perception and to show Canadians more transparency from your company and the grocery industry as a whole?

[*Translation*]

Mr. Pierre St-Laurent: I'm going to try to answer all your questions.

First, Empire never engaged in bread price fixing. I want to be clear about that. We opened our books, and investigations were done. To my knowledge, there was never any price fixing. We do not talk to our competitors about retail prices because the competition is too strong.

Second, as we said earlier, our initiatives to support the adoption of a code of conduct might result in more transparency in society. The goal of the code of conduct is not just about transparency, it is also about helping all actors in the supply chain. Canada is a very big country to cover, in terms of distribution, particularly with a population per square kilometre that is lower than other countries.

It is really very important to create an environment in which there is predictability. I think Mr. Charlebois also said that earlier, and he is entirely correct: we need to put a code of conduct in place that would govern practices. That would help processors and farmers plan budgets and program investments, in order to have a much more resilient and better coordinated supply chain in the future. It would mean having fewer surprises, and also fewer nasty surprises.

● (1725)

[*English*]

Mr. Tim Louis: In the last minute, you speak of your company's gross margins and talk about the numbers being within the scope of other industries. Some sectors in your company, the non-food sectors, have higher margins.

When I tell people that and explain it, they say literally, “Oh, come on.” You have the ability to address that lack of trust. Would it be in your best interest to separate the margins in reporting profits from different sectors so Canadians can see the price fluctuation of food?

[*Translation*]

The Chair: Please answer in 30 seconds.

Mr. Pierre St-Laurent: We are in the food business, and our profit margins are on the order of 2.5%. I don't know where 2.5% is considered excessive for turnover like ours. The margin of error is very narrow. We have to pay our 130,000 employees, invest millions of dollars in capital to renovate our stores, and build distribution infrastructure to cover a country the size of Canada, while remaining profitable.

So 2.5% profit, I don't call that "excessive".

Thank you.

The Chair: Thank you, Mr. St-Laurent and Mr. Louis.

Mr. Perron, you have the floor for two minutes.

Mr. Yves Perron: Thank you, Mr. Chair.

Thanks again to the witnesses for being with us.

Mr. St-Laurent, I am very grateful to you for the clarity of your answers.

I'm going to ask you a simple question.

What is the first thing the government should do to help control food prices at the grocery store?

Mr. Pierre St-Laurent: There are several.

The cost of goods is extremely high. Labour is increasingly scarce, and this puts enormous pressure on all businesses, be they farmers, processors or retailers. As I said before, we have to encourage technological innovation.

We have to invest in everything we call "productivity" in a country as big as ours, particularly when it comes to the cost of the energy for supplying many small communities in Canada, where Empire is present, with food. We don't do business only in the major urban centres, where the cost of delivery is low. Supporting all that would probably be the priority.

Mr. Yves Perron: Thank you, Mr. St-Laurent.

Ms. Lee, could you answer the same question, please? What should we do on an urgent basis?

[*English*]

Dr. Rebecca Lee: I would go back to the recommendations from the supply chain task force. They are very valid: addressing, particularly, labour shortages and making sure that there is adequate transportation.

Also, with regard to looking carefully at what is causing the increase in the cost of the inputs, I think more in-depth study of exactly what's happening there should also be a priority of the government.

[*Translation*]

The Chair: Mr. Perron, since you have only 15 seconds left, we will move on to the next member, if you don't mind.

Mr. MacGregor, you have the floor for just two minutes.

[*English*]

Mr. Alistair MacGregor: Thank you, Mr. Chair.

Ms. Lee, I want to raise this question with you.

In Australia—I have in-laws in Australia—it's dominated by two big companies, Woolworths and Coles. The farmers there right now are in a total uproar, accusing those two companies of massively inflating the costs of fruits and vegetables while they themselves are not getting....

Can you just quickly...? Have you been shocked at times when you've seen the wholesale price that farmers sell for, compared to the price of the very same product that you see on grocery store shelves?

Dr. Rebecca Lee: “Shocked” might be the word. Certainly I'm curious to understand what happens along the chain, exactly, once the producer has supplied his or her product. I would really like to know what happens throughout. I don't know where the problem is. I can't guess. It would really help—also going back to public trust—to know what happens, piece by piece, throughout the supply chain.

● (1730)

Mr. Alistair MacGregor: Thank you.

Mr. Chair, in my final minute, I actually want to raise a point of order.

In the first panel, I asked Loblaw why Mr. Weston has not appeared as a witness. In our witness list, we specifically named Galen Weston Jr., Michael Medline and Eric La Flèche, the heads of all those individual companies. We have since received correspondence saying that the invitation that was sent out was sent out to Loblaw as a company.

I just want some clarification from you, Mr. Chair. Was the invitation sent out to Loblaw as a company, or was it respecting our request for an individual person? I need clarity on this, because if in fact it went to the company, I would like to know if this committee is going to now submit an invitation to Mr. Weston personally, as was requested in my top witness list.

The Chair: My understanding, Mr. MacGregor, is that those invitations would have been sent to the corporate entities themselves, asking for the individuals in question to be invited.

Madam Clerk, you might be able to clarify that. However, that is my understanding.

Of course, it's in the purview of this committee, if you're not satisfied, Mr. MacGregor, to indeed extend another invitation if you so wish.

Mr. Alistair MacGregor: Can I add to that—

The Chair: However, if I could, Mr. MacGregor, I would like to ask my clerk to clarify that situation so that we can be clear for the record.

The clerk is going to pull up the invitations so that we can see exactly what they were.

The Clerk of the Committee (Ms. Stéphanie De Rome): The invitations would have been sent out to the emails provided. They would have been sent out to the corporate entities, as the chair stated, to the emails provided by each MP who provided a witness list.

Mr. Alistair MacGregor: I think a copy was sent to us from Loblaw, and it does say that the House of Commons would like to invite Loblaw to appear. Mr. Chair, I requested a specific, named individual. I would like this committee to honour the request for that specific, named individual, so I would like to request that the invitation go to Mr. Weston specifically, please.

The Chair: Okay. I think that can certainly be accomplished.

Mr. Alistair MacGregor: Thank you.

The Chair: Is there anything further, Mr. MacGregor? Is it just Mr. Weston you're asking for?

Mr. Alistair MacGregor: No. We specifically named Mr. Michael Medline as well, for Empire, and Mr. Eric R. La Flèche for Metro, I believe.

The Chair: Okay. I will work with the clerk on that.

Of course, each party is delegated certain witnesses. That would reflect who has appeared here today, but I can certainly work to make sure that for the spaces the NDP and you are allotted, those invitations can be sent accordingly.

That will depend on how long the study goes. Indeed, we are scheduled to be coming back on December 12, and then ultimately it's the purview of this committee to decide how long this particular inquiry will continue.

Okay?

Mr. Alistair MacGregor: I appreciate that.

The Chair: Okay.

Colleagues, that is time.

I would like to thank our witnesses who appeared here today: Mr. Graydon, Mr. St-Laurent and Ms. Lee. We'll let you guys enjoy.

We will have Minister Bibeau before our committee tomorrow on Wednesday, December 7, for estimates.

Thank you. The meeting is adjourned.

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