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TOWARD A COMMON GOAL: CANADA'S FOOD SUPPLY CHAIN — PART 1

Report of the Standing Committee on Agriculture and Agri-Food

Merv Tweed
Chair

JUNE 2013

41st PARLIAMENT, FIRST SESSION

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has the honour to present its

TENTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied Agricultural and Agri-Food Products Supply Chain and has agreed to report the following:

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INTRODUCTION

In March 2012, the Standing Committee on Agriculture and Agri-Food (hereinafter, "the Committee") undertook a study on the food supply chain. The Committee held 26 public hearings from March 2012 to May 2013. As a part of this study, the Committee travelled on March 28, 2012 to the Guelph area, where it visited three agriculture-related businesses and a university centre for research on the identification of species through bar codes.

In the first several meetings, the Committee obtained an overview of the food supply chain. Thereafter, the Committee focused its research on issues relating to the supply chain of three specific sectors: red meat, grains and oilseeds and beverages. The structure of this report reflects this approach. The first part presents an overview of the food supply chain, its complexity, and describes the Value Chain Roundtables. The second part presents the trends, challenges, and opportunities and role of the government in the red meat industry. The third and fourth parts focus on the remaining two sectors. It is envisaged that the Committee will examine other sectors of the food industry as part of the current study.

OVERVIEW OF THE FOOD SUPPLY CHAIN

A. Description of the food supply chain

1. How the food supply chain is organized

The food supply chain consists of a series of activities that connect participants throughout the various stages of manufacturing a product — from the production stage through to the final sale to the consumer. However, the food supply chain is far more complex than this simplified representation, as it is a dynamic system that involves numerous stakeholders, including government authorities and businesses of various sizes and types. Moreover, one witness stated that a definition of the food supply chain should be understood in a very broad sense.

> These organizations represent businesses at every link in the supply chain, from input suppliers through primary production, transportation, processing, manufacturing, distribution, and importing to final marketers at export, retail, and food service.[1]

2. Complexity of the food supply chain

The food supply chain encompasses many actors who play specific roles throughout the chain. Many people believe that this chain is linear, but according to the evidence of Mr. David Sparling, Professor at the University of Western Ontario, it is actually a complex network in which information travels in more than one direction.

> First, when we talk about Canada's food supply chain, we often envision it as a flow of product from input suppliers to producers to processors to the consumer. Information flows both ways up and down the chain. Those processes in Canada actually don't work as well as they should. In reality, a food supply chain isn't really a chain; it's a network.[2]

Witnesses noted that the complexity of this network sometimes hurts a particular sector. For example, due to the enlargement of the beef industry, there is an extended timeline in the supply chain, which reduces its effectiveness. This industry is divided into three key sectors: the cow-calf sector, the backgrounding or stocker sector, and the feedlot or finishing sectors. These three sectors are rarely managed by the same producer, which can cause problems in the flow of information about the desired characteristics of the product. In the organic sector, the network functions as a closed circuit with very tight links among its various members.

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1 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 33, 1st session, 41st Parliament, 2 April 2012, 1540 (Mr. Albert Chambers, Member, Executive Director, Canadian Supply Chain Food Safety Coalition).

2 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 29, 1st Session, 41st Parliament, 7 March 2012, 1540 (Mr. David Sparling, Professor, Richard Ivey School of Business, University of Western Ontario, As an Individual).

> Historically, organic has had to maintain a closed-link system in order to ensure its rigorous standards and integrity, and to maintain transparency and traceability for consumers. Therefore many organic companies have chosen models that maintain very close relationships with their supply chains, their local growers, and their local processors and handlers, and all have grown together as a result. In many cases doing so has also been of tremendous value to the sector at large, and has contributed to the strong market position it enjoys today.[3]

> In many ways the history of the organic sector's growth has been one of a well-connected value chain. We have always had the need to maintain an identity-preserved supply within a limited pool of downstream users. The downstream manufacturers or retailers of organic products have always oriented their businesses to the concerns and expectations of the final consumers, filtering information back to the growers and producers through our organic principles and standards.[4]

There are many different players in the agri-food sector, and the dynamics in the industry are constantly changing.[5] There are also differences in the food supply chain according to the types of products and the locations in which they are produced. Needs also differ according to where one is in the food supply chain.

> Now, when we talk about the agrifood sector, one of the things we always like to point out is that it's not a monolithic thing. There are very different market conditions in different segments of the industry, such as, for example, capital intensity. Farming is a very capital-intensive business. It becomes much less capital intensive as you move down the value chain. Retailing and restaurants are much less capital intensive. So the market conditions are different in that respect. Their need for capital is different.[6]

Given the differences in the food supply chain, witnesses recognized that some industries are more successful than others. Witnesses indicated that the success of any given industry depends largely on co-operation among all of the players in the supply chain, as is the case in the canola industry.

> Canola, of course, is one of Canada's major success stories, a major export success story. But it was born out of two Agriculture Canada scientists, if I'm not mistaken, who developed it and then worked with the University of Manitoba and the National Research Council and then with business and nutritionists to take it to where it is today.[7]

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3 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, 2 April 2012, 1530 (Mr. Matthew Holmes, Executive Director, Canada Organic Trade Association).

4 Ibid.

5 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 29, 1st Session, 41st Parliament, 7 March 2012, 1540 (Mr. David Sparling, Professor, Richard Ivey School of Business, University of Western Ontario, As an Individual).

6 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 32, 1st session, 41st Legislature, 28 March 2012, 1550 (Mr. Michael Burt, Executive Director, George Morris Centre).

7 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 32, 1st Session, 41st Parliament, 28 March 2012, 1700 (Mr. David McInnes, President and Chief Executive Officer, Canadian Agri-Food Policy Institute).

B. Value Chain Roundtables (VCRTs)

To enhance the competitiveness and profitability of the Canadian agriculture and agri-food sector, Value Chain Roundtables (VCRTs) were launched in 2003. These roundtables bring together key players from the entire value chain (input suppliers, producers, processors, food service industries, retailers, traders and associations), along with the federal and provincial governments. The VCRTs provide a means of discussing the issues affecting the sector and developing common strategies. There are currently 11 national Value Chain Roundtables: Beef, Food Processing, Grains, Horticulture, Organic, Pork, Pulse Industry, Seafood, Seeds, Sheep, and Special Crops. Many witnesses applauded the creation of the VCRTs and saw them as being excellent forums for bringing together various players in both the industry and government. Here are a few examples of initiatives by the various VCRTs:

> The horticulture VCRT is developing a system where producers can post availability of fresh produce online to permit retailers to access more Canadian-produced fresh produce in their stores. The pork VCRT is leading on the implementation of traceability, good animal-care practices, on-farm food safety, and biosecurity measures to position Canadian pork as meeting both foreign and domestic consumer requirements. The seafood VCRT is looking at why exports from other countries of the same species are often able to obtain higher value for their product, and to develop an action plan to enhance the value of Canadian product through modification of harvest, preserving, processing, and marketing.[8]

Several witnesses indicated that collaboration among the various stakeholders is indispensable for VCRTs to succeed. Witnesses noted that these roundtables are highly effective forums, as they produce tangible results. People in the industry show a marked interest in these roundtables, the number of which has increased from 6 to 11 over the past four years.[9]

Recommendation

The Committee recommends that the government maintain its support for the Value Chain Roundtables (VCRTs) so that they continue to contribute to the success of the agri-food sector.

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8 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 31, 1st Session, 41st Parliament, 14 March 2012, 1535 (Mr. Steve Tierney, Assistant Deputy Minister, Market and Industry Services Branch, Department of Agriculture and Agri-Food).

9 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 45, 1st Session, 41st Parliament, 6 June 2012, 1535 (Mr. Blair Coomber, Government Co-Chair, Agriculture and Agri-Food Canada, and Director General, Multilateral Relations, Policy and Engagement Directorate, Beef Value Chain Roundtable).

A. Trends, challenges and opportunities

1. Trends: Competition

According to Agriculture and Agri-Food Canada (AAFC), red meat products include beef, pork, lamb, goat, rabbit, venison and bison. The red meat industry is the largest sector of the Canadian food manufacturing industry, with annual shipments worth $24.2 billion in 2010.[10] Main stakeholders in the red meat supply chain include producers (cow-calf producers, finishers), slaughterhouses, secondary processors, retailers and food service industries, and renderers.

Mr. Rory McAlpine of Maple Leaf Foods indicated that Bovine Spongiform Encephalopathy (BSE), the financial crisis, exchange rates, and other factors have all had lasting effects on the red meat industry. This industry is also affected by international trade, including competition with the United States, and, in the case of sheep and lamb, with New Zealand. The consumer market is highly fragmented and is pulling the industry in new directions. At the same time, the exchange rate, technology, food safety, and other factors are exerting pressure on costs. In addition, the ethanol and the red meat industries are competing for the supply of corn and other grains. This competition has an effect on the pricing of corn.

According to Mr. David Sparling's testimony, meat processing is carried out by either very large or very small companies. These businesses differ not only in their size, but also in their approach (economies of scale for large firms, and diversification and niche markets for smaller firms), and face different challenges. Mr. Robert Seguin of the George Morris Centre noted that certain actors in the red meat supply chain, such as slaughterhouses, have consolidated, achieved economies of scale, and rationalized their operations. Major slaughterhouse firms have concentrated their operations in certain plants, among other reasons, because they are competing directly with United States slaughterhouses to purchase Canadian livestock. Mr. Michael Burt of the Conference Board of Canada reported that there is also a trend within the sector toward vertical integration — from production of animals through to secondary processing — to limit certain risks associated with supply and with the commodities markets (such as exchange rates); to facilitate innovation; and, to improve communication about market needs throughout the supply chain. Vertical integration also entails some risks, such as greater control over prices by a small number of players, and the elimination of independent producers.

This concentration is seen in the retail sector as well. According to Mr. Derek Nighbor, Senior Vice-President, Public and Regulatory Affairs, Food and Consumer

10 Agriculture and Agri-Food Canada, *All about Canada's red meat industry...*, 2011.

Products of Canada, there is a marked trend toward concentration in the grocery retail sector in Canada, where five giant retailers account for 75% of all sales.[11] In addition, this sector will have to deal with competition from new major players such as Walmart and Target. To supply these large retailers, suppliers must often deliver very large volumes of merchandise, a requirement that smaller players may have trouble meeting, which limits their access to shelf space.

Mr. Nighbor also pointed out that some retailers' store brands are occupying more and more of their shelf space. Store brands account for about 20% of the grocery retail market in Canada.[12] According to Mr. Matthew Holmes, Executive Director, Canada Organic Trade Association, in the organic sector, house brands account for a similar percentage, approximately 21% to 22%.[13]

2. Challenges: Consumer demands

In recent years, consumers have begun to show a keen interest in the environment, health, and animal welfare. The red meat industry acknowledges consumers concerns for animal welfare and food safety. The industry also recognizes that there is a trend to buy local and organic products. In addition, the red meat sector has a keen interest in traceability.

Traceability

Ten years ago, the Canadian cattle industry established a mandatory system for identification of every animal. In this system, the traceability is based on live animals, where each animal is tagged so that it can be traced to its herd of origin. However, this traceability system is incomplete, because the animal is no longer identified at the processing or export stage. Although the animal is no longer identified individually at the stage of slaughter, each processing plant has its own procedures to identify the meat. Usually, the plant knows which group the animal belongs to with the date and time of processing. It is clear that the beef and cattle industry wants a traceability system that allows full tracking of all meat movement.

> Right now, we recognize that we want to move forward as an industry, eventually, to full animal movement tracking, but we want to move forward carefully, because the last thing we want to do is move forward hastily and bring on extra regulatory burden on an industry that competes globally. At the same time, technology is improving monthly and I think as those tag traceability trials have shown, the technology is still in catch-up mode, in terms of what we demand of it. So we're committed to seeing that premise ID is

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11 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 29, 1st Session, 41st Parliament, 7 March 2012, 1530 (Mr. Derek Nighbor, Senior Vice-President, Public and Regulatory Affairs, Food and Consumer Products of Canada).

12 Ibid.

13 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, 2 April 2012, 1600 (Mr. Mr. Matthew Holmes, Executive Director, Canada Organic Trade Association).

> finalized across the country, and then moving to a phased implementation of movement-tracking. At the same time, we hope technology will be improving so that we can move forward incrementally but progressively to eventual full traceability.[14]

Several witnesses recognized that traceability in the beef production industry is a value-added benefit, and have undertaken initiatives in this direction. In addition, the Canadian Cattlemen's Association has developed the Beef InfoXchange System (BIXS), a program for sharing information on cattle tracking and traceability.

> We've developed the Beef InfoXchange System, which has created the most modern and successful beef cattle information-sharing system in the world. The program was launched this winter at the cow-calf level, and now includes detailed carcass information that's available back to the original producer who makes the investment in the national ID ear tag. We're adding additional production and animal health information at the feedlot level, and will use this system to encourage age records and tracking information for our traceability system.[15]

In the pork industry, the tracking system identifies pens of pigs and loads of pigs rather than individual animals. The sheep and beef industry identify every live animal.[16] In the sheep industry, there is a system for identifying carcasses by radiofrequency. The information gathered enables the industry to make decisions about genetics, and about how it feeds its animals. However, this practice still remains limited.[17]

Farmers's markets

At a time when food travels long distances before reaching consumers' plates, consumers want to know from where their food is derived. According to the testimony of AmiEs de la Terre de l'Estrie, lack of information on where food comes from is leading consumers to turn more and more to public markets where they can buy local produce.[18] According to Mr. Robert Chorney, the President of Farmers' Markets Canada, farmers' markets satisfy the expectations of consumers who have ecological, health, or other concerns. That is why farmers' markets have been enjoying such a rebirth over the past

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14 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 45, 1st Session, 41st Parliament, 6 June 2012, 1705 (Mr. Travis Toews, Past-President, Canadian Cattlemen's Association, Beef Value Chain Roundtable).

15 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 43, 1st Session, 41st Parliament, 30 May 2012, 1600 (Mr. Denis Laycraft, Executive Vice-President, Canadian Cattlemen's Association).

16 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 45, 1st Session, 41st Parliament, 6 June 2012, 1710 (Mr. Florian Possberg, Member, Board of Directors, Canadian Pork Council, Pork Value Chain Roundtable).

17 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 45, 1st Session, 41st Parliament, 6 June 2012, 1710 (Mr. Andrew Gordanier, Industry Co-Chair, Chair, Canadian Sheep Federation, Sheep Value Chain Roundtable).

18 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 34, 1st Session, 41st Parliament, 4 April 2012, 1535 (Mr. André Nault, President, Les amiEs de la Terre de l'Estrie).

15 to 20 years, especially in Ontario and British Columbia. According to Mr. Chorney, there are three main reasons that farmers' markets are so popular in Canada.

> The first reason is that shoppers and consumers want fresh, local produce. That's the number one reason we have this renaissance. The second reason is that farmers want to market directly and they want to cut out the middlemen. It's as simple as that. The third reason is that communities are looking for good things to do for their communities. [19]

A recent study by Farmers' Markets Canada reports that farmers' markets make an important contribution to the entire Canadian economy, with sales exceeding over $1 billion. Experts who prepared this study indicate that because of the multiplier effect, the economic impact of farmers' markets across Canada is over $3 billion. Farmers' markets thus play a major role in the food supply chain and represent tremendous potential.[20]

Local and organic products

A great many witnesses noted a heavy demand for local products, as well as for organic and "natural" products. The market for organic and "natural" meat has been growing in recent years, and some producers have formed partnerships to meet this demand.[21]

According to Mr. Mike Beretta of Beretta Organic Farms, organic meat complies with specific production standards that are certified by a third party. The certification process is an obstacle to producers because of the costs and the lack of a premium during the conversion period. There is also a lack of communication among the various links in the chain (such as cow-calf operations and feedlot operations) concerning such issues as the type of animals to raise to meet the demand. Canadian geography and demographics create a challenge, as markets are more developed in the eastern part of the country, yet production occurs in the west. Sometimes it is difficult to find slaughterhouses with the right certifications. Also, there is an additional cost for slaughterhouses, as they have to empty the slaughtering and processing line completely before they start slaughtering animals that are not certified organic (in general, "organic" animals are slaughtered first). A witness expressed concern about the purchase prices of Canadian retailers that are based on models developed by the United States Department of Agriculture (USDA), which are not consistent with Canadian producers' actual costs.[22]

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19 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 34, 1st Session, 41st Parliament, 4 April 2012, 1530 (Mr. Robert Chorney, President, Farmers' Markets Canada).

20 Ibid., 1535.

21 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 41, 1st Session, 41st Parliament, 14 May 2012, 1715 (Mr. Brian Read, Vice-President, Government and Industry Relations, XL Foods Inc.).

22 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 42, 1st Session, 41st Parliament, 16 May 2012, 1650 (Mr. Mike Beretta, Chief Executive Officer, Beretta Organic Farms).

“Natural” meat is meat derived from animals that are raised without any antibiotics or growth hormones. It is an intermediate product between the basic product and the organic product. This type of product can be an option for producers who are making the transition to organic status to earn a premium, but it also meets a demand from consumers who do not want the basic product, but are not ready to purchase the organic product. However, there is no common definition of “natural” in Canada or with trading partners such as the United States. There is also no third-party certification, and, as Mr. Matthew Holmes testifies, there is a risk of debasing the term by creating confusion among consumers:

> One area that we've seen that is of great concern to many of my members right now is the widespread use of the term “natural” on products in the marketplace. It's a product claim that doesn't have any basis in a standard, or indeed in any common definition, and these products are often misleading consumers. At this point, we would like to work more to see those sorts of claims better scrutinized, and perhaps have more enforcement.[23]

> What's important when you're talking about the claim of being local is that, again, we don't have a common definition.[24]

Recommendation

The Committee recommends that the government, in collaboration with the industry, propose a clear definition of the term “natural meat” to prevent any confusion among consumers.

3. Challenges: Skilled workers

Slaughterhouse operations

The agricultural labour market faces a shortage of workers in the slaughterhouse and livestock transportation industries. In response to the labour shortage, some industries — in particular, the meat-processing industry — have recruited foreign workers.

> A good example is the meat packing industry.... That's an industry that's been very effective at using international immigration as a source of new workers for the industry.[25]

Changes in hiring practices by the federal government have made the labour market more flexible, and have facilitated the recruitment of foreign workers, but the industry wants to modernize it further, as some issues remain. In general, companies would like to be able to hire these workers for longer than two years, because it takes

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23 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, 2 April 2012, 1630 (Mr. Matthew Holmes, Executive Director, Canada Organic Trade Association).

24 Ibid., 1705.

25 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 32, 1st Session, 41st Parliament, 28 March 2012, 1650 (Mr. Michael Burt, Director, Industrial Economic Trends, Conference Board of Canada).

three months of training to make an employee efficient. Also, the companies would like to be able to keep these employees as high turnover is not sustainable in any industry.

Livestock transportation

The livestock-transportation industry is experiencing a shortage of skilled labour. Transporting animals is a highly specialized activity that is far more complicated than transporting any other product. It is not enough simply to transport live cargo — workers must transport this cargo in a safe manner that satisfies government and consumer expectations, in addition to the expectations of the livestock-transportation industry itself.

> There are preparation of animal compartments, loading and sorting, proper cleaning, safety of the animals in transit, associated paperwork, and also, different driving skills are involved in moving animals. It's a very specialized business, and one in which we are running into challenges.[26]

Previously, livestock drivers came mostly from farming backgrounds, but these workers are becoming more and more scarce, so training is becoming especially important. The Canadian Trucking Alliance (CTA) has begun an initiative to develop a national training program for livestock drivers.[27] The CTA wants this program to be recognized as the national standard for transporting livestock in Canada throughout the supply chain. This program will include the following elements:

> The content will include animal behaviours, needs and skills required to transport, and relevant regulations. This program will be delivered in a method consistent with driver learning habits, including online content with interactive components, in-class parts, and audits.[28]

This program will be available throughout Canada and will take regional differences into account. Thanks to this initiative, various stakeholders in the supply chain will have access to a secure database where they can consult a list of drivers who have acquired the mandatory training to haul animals. The livestock-transportation industry also takes a special interest in the data-traceability initiative undertaken by the Industry/Government Advisory Committee, as any additional information will no doubt prove very helpful to drivers in performing their duties.

Currently, for an animal to be transported, it must bear an approved identification tag. When an animal is discovered without this approved identification, the transporter is subject to a fine. The Committee recognises that while traceability may be an inconvenience to the transportation sector, it is vital to the livestock sector.

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26 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 43, 1st Session, 41st Parliament, 30 May 2012, 1615 (Mr. Stephen Laskowski, Senior Vice-President, Canadian Trucking Alliance).

27 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 43, 1st Session, 41st Parliament, 30 May 2012, 1620 (Ms. Deanna Pagnan, Director, Livestock Transporters' Division, Canadian Trucking Alliance).

28 Ibid.

> For numerous reasons, it is impractical to hold transporters responsible for this. For one, the RFID tag is small, and it is difficult to ascertain its existence visibly. It may actually be unsafe for the driver to get close enough to a large cattle beast, for instance, to inspect its ear, and pickups most often occur in the dark, so it's very difficult to check visibly for the presence.
>
> The tags are also applied either by the owner or the tagging facility, not the transporter.[29]

Recommendation

The Committee recommends that the government encourage initiatives that enable drivers to take proper training so that they can transport animals safely.

4. Opportunities: Trade

Several witnesses expressed the view that emerging countries such as China, India and Brazil represent tremendous market opportunities for Canada, because of their growing populations and their growing demand for meat products. The European market also constitutes an important outlet for the Canadian beef and pork industries. In order to take advantage of these opportunities, the signing of a trade agreement with these countries is a priority for the industry, whether it be within the framework of the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union or with the Trans-Pacific Partnership. The following excerpt from the evidence describes the size of the markets in Europe and in the countries of the Pacific Rim.

> The swine industry's interest must be reflected in Canada's trade negotiations with Europe, with its 500 million people; with the Trans-Pacific Partnership, which represents 30% of the world's GDP; and as well with Korea and Japan, which already have some success stories with us.[30]

Many efforts are being made to promote exports of Canadian products. Witnesses are satisfied with the scope of Canada’s bilateral trade program and the services of the Market Access Secretariat. We need to make sure that the Canadian industry is on an equal footing with its main competitors for access to the Japanese market. This market is important for the cuts of meat that are hard to sell in Canada. Thanks to these efforts, Canada is a major exporter of pork meat. But Canada also imports large quantities of pork meat as well. The following excerpt from the testimony of the Canadian Pork Council illustrates this situation very clearly.

> We actually have an interesting thing going on in Canada. Although we're the third largest exporter of pork globally, 30% of the pork consumed in Canada actually comes from outside of Canada, mostly the United States. Part of that is because the big retail

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29 Ibid.

30 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 43, 1st Session, 41st Parliament, 30 May 2012, 1615 (Mr. Rick Bergmann, First Vice-President, Canadian Pork Council).

> chains want to deal with volume and big distribution centres. When they do specials, they want to know they have quantity of products.
>
> But what's not said is that we don't identify our product as Canadian product. It's one of the things we're working toward in the pork industry. We seem to be better at marketing our pork in Tokyo than we are in Toronto or Montreal.[31]

Some witnesses believe that it is important to focus not only on exporting products but also on developing local products. Although there is a heavy demand for local products, including organic and meat products, the supply of lamb and organic products remains limited, as suggested by Ms. Kathleen Gibson of the BC Food Systems Network.[32] In the lamb sector, supply is the main challenge. The small production volume is also better suited to the demands of independent butchers than to those of the large distribution chains, which require high volumes.

> We have very little federal slaughter on the lamb side of the business in Canada. It's almost non-existent, really.
>
> In order to be in those large grocery store chains, you'll rely on a federal slaughter for their central warehousing. You probably won't find us in Loblaws for a while until we have been more successful with our expansion of the industry and expansion of production, because that is really the biggest reason you're not seeing us in those big box stores.
>
> Where we are being very successful is in your corner butcher store, where we can use a program like Homegrown Ontario, for example. Alberta Lamb has a program similar to that as well, as do smaller, independent grocery stores, which is probably the best place to look for a Canadian domestic product.[33]

Witnesses agreed that there should be more promotion of Canadian meat. Rules have now been set for labelling beef as “Product of Canada”: the animal must have been in Canada for at least 60 days before being slaughtered in Canada. However, there are still many cases of non-compliant labelling of imported pork and beef at the retail level. Representatives of Maple Leaf Foods proposed that more random checks need to be conducted to rectify this situation.[34]

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31 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 45, 1st Session, 41st Parliament, 6 June 2012, 1630 (Mr. Florian Possberg, Member, Board of Directors, Canadian Pork Council, Pork Value Chain Roundtable).

32 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 42, 1st Session, 41st Parliament, 16 May 2012, 1535 (Ms. Kathleen Gibson, Policy Analyst, BC Food Systems Network).

33 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 45, 1st Session, 41st Parliament, 6 June 2012, 1645 (Mr. Andrew Gordanier, Industry Co-Chair, Chair, Canadian Sheep Federation, Sheep Value Chain Roundtable).

34 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 41, 1st Session, 41st Parliament, 14 May 2012, 1615 (Mr. Rory McAlpine, Vice-President, Government and Industry Relations, Maple Leaf Foods Inc.).

5. Possible new outlets for agriculture

Because of the limitations imposed by non-renewable resources, many people are looking for renewable alternatives, and see the bioeconomy as an indispensable choice. The production of energy and non-food products from agricultural products and by-products offer much promise for recovering value from agricultural waste and generating additional income. Thus, by-product recovery offers the possibility of interesting new outlets for the agriculture sector, as witnesses from Agriculture and Agri-Food Canada and the Canadian Agri-Food Policy Institute described:

> Biofuels and bioproducts also offer new market opportunities for the agriculture sector, and will require the development of new supply chains with sometimes unfamiliar end-users, in the energy and manufacturing sectors, for example.[35]

> The bio-economy is surely going to be the innovation engine of the future. Creating business opportunities is a priority, and this is the platform for generating new revenues, reducing inputs, and lowering the costs for farmers. Take a Manitoba potato processor. It now diverts its potato waste to a biotechnology company, and that's used to create biodegradable plastic resins used in packaging and mouldings. That's a win-win.
>
> In the livestock sector, bio-digesters can generate gas and electricity from manure, reducing energy costs and generating new revenues by selling the electricity to the local grid.[36]

Rendering operations represent an important link in the supply chain of the animal production industry. Each years, renderers recycle 3 billion kilograms of animal waste and produce protein meals, oils, and fats for livestock feed and the chemical industry. In his testimony, Mr. Graham Clarke of the Canadian Renderers Association indicated that the supply of recyclable material has fallen over the past few years due to the economic slowdown, BSE regulations that discourage the collection of deadstock, and thefts of raw materials such as restaurant grease, estimated at several millions of dollars per year. This last phenomenon can potentially cause a public-health problem if the grease contaminates the livestock feed production chain. Competition from other methods of disposing of this waste (composting, biogas production, etc.) is also stronger.[37]

There is a heavy demand for meat and bone meal in Asia, mainly for use in aquaculture, and supply of these products is not meeting the demand. However, because of BSE, some export markets are still closed to Canadian products such as tallow and meat and bone meals from ruminants.

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35 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 31, 1st Session, 41st Parliament, 14 March 2012, 1540 (Mr. Steve Tierney, Assistant Deputy Minister, Market and Industry Services Branch, Department of Agriculture and Agri-Food).

36 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 32, 1st Session, 41st Parliament, 28 March 2012, 1540 (Mr. David McInnes, President and Chief Executive Officer, Canadian Agri-Food Policy Institute).

37 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 42, 1st Session, 41st Parliament, 16 May 2012, 1550 (Mr. Graham Clarke, Government Affairs, Canadian Renderers Association).

B. Role of government

All of the various stakeholders that make up the food supply chain have important functions to carry out to ensure its success. Witnesses believe that the government has a role to play in the food supply chain as a regulatory authority, a partner in key initiatives, and a promoter of trade. Many witnesses believe that close collaboration among various links in the chain will provide better results, and that the government must encourage such collaboration.

1. Inspection and Regulation

A great many witnesses stressed that food safety is of critical importance for the industry. The responsibility for food safety does not belong to any one participant in the food supply chain in particular. Every participant is responsible for safety measures, as described in the following excerpt from the evidence:

> Principle number one is that food safety is the shared responsibility of all participants in the supply chain, all governments, and consumers.[38]

As the regulatory authority, the government is responsible for developing policies and regulations. According to small businesses, these regulations sometimes have a significant financial impact. Small businesses have the impression that they are operating in a regulatory environment designed for larger businesses. To register with the federal government, a small plant may have to spend $150,000 to implement a Hazard Analysis and Critical Control Points (HACCP) system, and will need several employees for its operation. For a larger plant, the HACCP system costs over $1 million to operate.[39]

In addition, witnesses explained that there is some inconsistency in approaches used in inspection activities. Mrs. Deanna Pagnan of Canadian Trucking Alliance, stressed that in Western Canada, inspectors tend to use an educational approach in their inspection activities, whereas in the east, they are more inclined to apply administrative monetary penalties. Representatives of the Canadian Food Inspection Agency acknowledge this inconsistency and recognize that there is room for improvement.[40]

> That being said, I want to be very clear that the modernization initiative, including how we propose to do changes to our regulations, etc.... There is a big consultation effort around

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38 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 33, 1st Session, 41st Parliament, 2 April 2012, 1545 (Mr. Albert Chambers, Executive Director, Canadian Supply Chain Food Safety Coalition).

39 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 42, 1st Session, 41st Parliament, 16 May 2012, 1535 (Ms. Kathleen Gibson, Policy Analyst, BC Food Systems Network).

40 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 31, 1st Session, 41st Parliament, 14 March 2012, 1705 (Ms. Barbara Jordan, Associate Vice-President, Operations, Canadian Food Inspection Agency).

> that and also at the round tables. Many specific issues around consistency of inspection—for example, enforcement processes, etc.—are dealt with at those tables.[41]

According to processing companies, there is still some work to do regarding federal/provincial co-ordination on food safety. Currently, there are federal and provincial inspection systems in Canada. Representatives of the Canadian Food Inspection Agency reassured the industry that the federal and provincial governments are making the necessary efforts to guarantee food safety.

> Nonetheless, we work very closely with our provincial counterparts, so there's a significant amount of alignment. That's why I think I can say with confidence that Canadians, whether they're choosing products that are subject to a provincial oversight or a federal oversight, can have confidence that this product is subject to food safety requirements and is subject to an oversight regime that can provide them assurances around its safety.[42]

Recommendation

The Committee recommends that the government continue to work closely with all stakeholders in the food supply chain, including other levels of government, consumers, and major trading partners (especially the United States), to ensure that Canada's food safety system is effective, harmonized, efficient, modern, and able to adapt quickly to the changing needs of all stakeholders.

In addition to the importance of federal/provincial co-ordination, processing companies also indicated that co-operation with the United States is essential. It is important for the Canadian regulatory system to be equivalent to that of the United States, as there is a risk of losing Canadian slaughtering capacity. Canadian companies have the impression that the United States' border is thickening. For example, American and Canadian rules on the location where in which inspections of imported meat take place are different and operate to the disadvantage of Canadian exporters. In Canada, meat is inspected at its destination, whereas in the United States, meat is inspected at a dedicated facility. In addition, different regulatory requirements may lead to higher cost for Canadian companies.

In order to ensure the competitiveness of the Canadian agri-food sector, it is essential to resolve the issues regarding the equivalence of the regulatory systems not only with our principal trading partner, the United States, but also with other countries.

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41 Ibid., 1715

42 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 31, 1st Session, 41st Parliament, 14 March 2012, 1640 (Mr. Paul Mayers, Associate Vice-President, Programs, Canadian Food Inspection Agency).

Recommendation

The Committee recommends that the government continue its efforts to improve the regulatory environment between Canada and the United States, and ensure equivalence of standards between the two countries.

In Canada, Mr. Gordanier of Canadian Sheep Federation, explained, the sheep and lamb industry has more trouble in accessing veterinary medications than does its foreign competitors. In Canada, veterinary drugs are not always available in a timely fashion due to the delay in approval process. The Committee recognises that there needs to be greater harmonization, and a better recognition of scientific evidence produced in other countries. But the Committee also acknowledges that companies make their own business decisions about the markets they want their products to be approved in.

> On the access to medications, we have a disadvantage against some of our competitors because of access to medications or vaccines that they may have in other countries.[43]

Often, the red meat industry perceives the prescriptive requirements as too rigid and likely to obstruct innovation. The Canadian Food Inspection Agency is currently modernizing its regulatory framework to make it more consistent, easy to understand, and risk- and outcome-based.[44] This initiative was welcomed by many witnesses.

> Regulatory modernization is welcome and will remove some archaic policies that actually obstruct adoption of improved procedures and technology. Our vision is to have Canadian high-quality beef products recognized as the most outstanding in the world. A regulatory system that allows timely innovation is needed to facilitate continuous improvement. In many cases, this means less prescriptive regulations and more outcome-based objectives.[45]

Although outcome-based initiatives are a move in the right direction, some witnesses believe that they still need to be clarified.[46] One aspect of modernizing the regulatory framework consists of improving the recruitment and training of inspectors so as to make inspection and verification methods more uniform.

> In the last budget, in the context of the funding received for modernization, there is a tranche of that funding that will be dedicated to putting together a very systematic,

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43 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 45, 1st Session, 41st Parliament, 6 June 2012, 1605 (Mr. Andrew Gordanier, Industry Co-Chair, Chair, Canadian Sheep Federation, Sheep Value Chain Roundtable).

44 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 31, 1st Session, 41st Parliament, 14 March 2012, 1625 (Mr. Paul Mayers, Associate Vice-President, Programs, Canadian Food Inspection Agency).

45 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 45, 1st Session, 41st Parliament, 6 June 2012, 1600 (Mr. Denis Laycraft, Executive Vice-President, Canadian Cattlemen's Association).

46 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 41, 1st Session, 41st Parliament, 14 May 2012, 1555 (Mr. Brian Read, Vice-President, Government and Industry Relations, XL Foods Inc.).

> entry-level training for all inspectors. It will be of long duration and will cover all the basics of inspection. It will also have specialization for inspectors who have specialized responsibilities.[47]

2. Research and Innovation

In terms of technology, witnesses believe that innovation and research are essential to both keeping the agriculture sector competitive, and maintaining producers' ability to adapt. Businesses must innovate, as the agri-food system is changing constantly, as are science and consumer demand. According to the beef and pork industry, research and innovation enable this industry to keep its competitive edge, for example, by lowering production costs as illustrated in the following excerpt from the evidence:

> The important research offers ways to reduce the cost of production and enables the industry to stand out. The fundamental commitment is to ensure that research results are transferred to producers, in the form of cost effective on-farm solutions.[48]

Witnesses stated that the establishment of agri-science clusters is making a great contribution to the meat industry. Witnesses firmly believe that innovation and research are success factors for the industry, and expressed the wish to see research clusters continue and support for science strengthened. In addition, the red meat industry has undertaken various initiatives in this direction.

> The sector is in the process of drafting a national beef research strategy that will define a five-year national beef research strategy that establishes desired industry research outcomes and improves coordination of funders.[49]

> We're the first, and to date, the only national group to establish a national check-off to fund research and market promotion activities.[50]

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47 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 31, 1st Session, 41st Parliament, 14 March 2012, 1715 (Mrs. Barbara Jordan, Associate Vice-President, Operations, Canadian Food Inspection Agency).

48 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 43, 1st Session, 41st Parliament, 30 May 2012, 1610 (Mr. Jean-Guy Vincent, Chair of the Board of Directors, Canadian Pork Council).

49 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 43, 1st Session, 41st Parliament, 30 May 2012, 1555 (Mr. Travis Toews, Past-President, Canadian Cattlemen's Association, Beef Value Chain Roundtable).

50 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 45, 1st Session, 41st Parliament, 6 June 2012, 1600 (Mr. Denis Laycraft, Executive Vice-President, Canadian Cattlemen's Association).

FOOD SUPPLY CHAIN — GRAINS AND OILSEEDS

A. Overview

Canada's grain production is diverse and makes up the largest sector of Canadian agriculture. It consists mainly of oats, wheat, corn and pulse (chickpeas, dry peas, beans and lentils). Canadian production of oilseeds includes canola, soybean and flaxseed.[51] Wheat, canola, barley and flax are primarily grown in Alberta, Saskatchewan and Manitoba, while corn and soybeans are mainly grown in Ontario and Quebec. Grain and oilseed production in Canada is dominated by wheat (including durum wheat), followed by canola and corn. Once primarily focused on the production of wheat and coarse grains, grain production in Canada has seen a continuing trend of diversification into crops such as canola and peas. For example, the production of canola more than doubled in the last 10 years and now represents almost one quarter of all farm receipts. In the Maritimes, the recent decline in the red meat industry, which traditionally absorbed most of this area's production of coarse grains, has led producers to increase soybean and canola acreage to the point they are now in a position of exporting oilseeds.

Table 1: Field crops supply and disposition for crop year 2011/2012 (thousand tonnes)

	Area Seeded (Thousand ha)	Production	Import	Export	Domestic Use	Carry out Stocks
All Wheat	8,736	25,288	78	17,506	9,395	5,916
Coarse Grains	5,543	22,889	920	5,039	18,959	3,433
Oilseeds	9,543	19,305	338	11,831	9,403	1,098
Pulse and Special Crops	2,411	4,551	123	3,779	1,302	1,080

Source: Agriculture and Agri-Food Canada, Canada: Outlook for Principal Field Crop, 19 December 2012

At a very broad level, the grains and oilseeds supply chain can be deconstructed into three main elements: the crop is grown, moved, and used. Plant breeders, input producers and suppliers, seed growers, and farmers are all involved in growing crops. Primary elevators collect the grain and transfer it into the rail system, and transfer elevators or terminal elevators move the grain by ships, train or trucks to the end

51 Agriculture and Agri-Food Canada, *Crop Production*, 2012.

customers. Flour milling and crushing companies convert the grain into food ingredients; secondary processors such as bakeries or pasta manufacturers produce the finished products and deliver them to consumers around the world. The majority of grain production in Canada is exported either in bulk or processed. Canada is the second-largest world exporter of malt, and over 85% of the canola grown in Canada is exported as a whole seed or first processed into oil and meal.

Canada's grain supply chain is primarily a bulk handling system. Grains must be transported in a cost-effective and efficient manner, and therefore, the supply chain system has been designed to primarily move a homogenous product while maintaining the purity and quality of the grain in order for customers to quickly receive a quality final product.

There has been a great deal of consolidation in the supply chain, resulting in fewer stakeholders and larger companies, in order to gain efficiencies. According to the 2011 census, there are 61,692 farms primarily engaged in growing oilseeds and grains in Canada, down from 69,671 in 2001.[52] In the Prairies, some 5,000 grain elevators have been gradually replaced with approximately 200 facilities that collect grain from a wide region and transfer it to the rail system. For some witnesses, this rationalization has occurred at the farmers' expense, but for many others, those gained efficiencies allowed for Canada to stay a large player on the international market. With respect to processing, Canada's canola crushing capacity has almost doubled since 2006. However, some witnesses point out that there is still a lack of processing facilities for certain products or in specific regions.

The federal government is involved in the supply chain in a number of ways. It provides a robust grain grading and quality assurance system through the Canadian Grain Commission (CGC). Through various programs, Canada provides technical marketing support, which helps ensure customers are informed of the valuable properties of Canadian grain, and this ultimately encourages them to purchase the product. The government also provides funding for research to develop, for example, new products from the grains, which creates new opportunities for crops in food and industrial applications. Finally, the federal government regulates a number of aspects that directly affect the supply chain, including railways and food safety. Witnesses have stressed that public policies and regulatory structures need to keep pace with the rapid changes in the marketplace. The government has taken significant steps on this front, first with the removal of the Canadian Wheat Board's (CWB) single desk, and the amendments to the *Canada Grain Act* that were passed in C-45, A second Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures.

Since 1 August 2012, the western wheat and barley marketing system has changed, as the CWB is no longer the single desk seller of western wheat and barley. While it still remains a period of transition, most witnesses are looking at the new situation

52 This number does not include farms primarily engaged in activities such as livestock production or horticulture that also grow grains and oilseeds.

in a positive way. One witness mentioned a recent survey conducted by a private company, which measured the position of producers with respect to the new wheat and barley open market. Approximately 84% of producers saw the new situation as a benefit to the profitability on their farm. Among the positive changes, witnesses noted the ability to make marketing decisions with transparent price signals and arrange delivery targets that meet their cash flow requirements. Some producers, however, have had some difficulties in adjusting or have not seen better prices after the removal of the CWB monopoly. Some witnesses still believe that the loss of the CWB marketing power will be detrimental to farmers collectively in the longer term. Farmer-owned inland terminals also experienced many adjustments, but their representative indicated that the transition has happened with far fewer difficulties than expected. Most signals in the new post-single desk era have been positive. Prices are generally high and large volumes of grains have been traded:

> The three major western ports have experienced higher overall volumes so far this year — about 5% in Vancouver, 16% in Prince Rupert, and about 20% in Thunder Bay. Also, two grain companies have reported to us that the current crop year has allowed them the ability to increase unit train loading to slightly over 80%, which is a 10% increase over last year.[53]

Some witnesses, however, cautioned that it may be premature to say that the system is trending toward continued improvement, or that improvements currently seen are a direct result of the removal of the single desk. Other factors may be contributing to this ease of movement, such as exceptionally good harvest conditions, small grade spreads and a mild fall period. The exceptional market conditions, high grain prices, and droughts in the U.S. and Russia are also factors for why this year might constitute a distorted benchmark for future comparison.

The overall message heard by the Committee is to look at continual improvements in the supply chain. However, the challenge is to identify what can be done to be even more effective. Witnesses indicated that an organization around the value chain such as the Canola Council of Canada has been a significant factor in the success of the canola industry. Through the Canola Council, seed companies, growers, crushers, and exporters all sit together at the same table to set goals for the industry, and devise strategies in which they can be achieved. The model allows for the industry to work closely with government officials in order to develop policies together. For both government and the industry, this model increases the understanding of industry issues and challenges, and of the limits of government. The Committee heard that efforts are currently being undertaken to create national organizations to represent the interests of Canada's wheat and barley value chains. These organizations will develop objectives for their respective industry, including the stimulation of research and market development.

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53 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 58, 1st Session, 41st Parliament, 22 November 2012, 0855 (Mr. Mark Hemmes, President, Quorum Corporation).

B. Production

Growing the crops is the first step in the supply chain, and includes stakeholders such as input producers, suppliers and farmers. According to witnesses, most efficiency gains at this stage of the supply chain are related to improving yields and managing risks.

1. Improving Yields

It has become increasingly important for farmers to control the variability of yields and to optimize efficiencies on inputs, including machinery. Because diseases and pests continually adapt, the focus on crop genetic improvement and inputs needs to continuously be addressed. Production practices must also continually improve. Research on varietal development and crop management, and access to new technology are therefore the main areas for concerted action in the supply chain.

Witnesses provided a broad overview of the crop research environment in Canada: the private sector has invested a great deal of money in a few crops such as canola and soybean. For example, the private sector is spending about $100 million on canola research in Canada, and private investments in soybeans are in the range of $500 million to $600 million in North America. On the other hand, there is insufficient investment in plant breeding by private companies for some crops. Research in areas such as crop rotations, which can be undertaken over 10 to 15 years before producing results, is also something in which the private sector is unlikely to invest. Many witnesses therefore stressed the importance of maintaining public sector research in plant breeding and crop management, and at the same time increasing collaboration with the industry to set the right priorities.

Increasing partnerships between publicly and privately funded research institutions is a concern shared by many witnesses. It has been mentioned that farmers and private companies are willing to invest in varietal development for crops that are currently under-researched. For some witnesses, those investments can be realized if the government facilitates access to research facilities, funding and germplasms. One witness indicated that no seed developer is currently taking advantage of the off-patent technologies, and that there needs to be clearer rules on the use of germplasm with genes that are no longer protected by intellectual property rights.

A few witnesses also suggested that Canada sign the 1991 International Convention for the Protection of New Varieties of Plants (the "UPOV Convention"). Current plant breeders' rights legislation in Canada is based on the 1978 UPOV Convention. The 1991 Convention would increase protection for new varieties, and according to witnesses, would allow companies to recover investment in varietal research programs. A few witnesses expressed the concern that the 1991 UPOV Convention would have an impact on farmers' ability to save and reuse varieties of seed on their farms. Also, it would give the owner of those plant breeders' rights exclusive control on both the conditioning of the seed and its stocking.

Recommendation

The Committee recommends that Agriculture and Agri-Food Canada examine all federal policies affecting the plant breeding sector including available grants and contributions, in-house research programs, intellectual property rights, and regulatory processes; and develop a policy strategy that will encourage the development of new varieties of grains and oilseeds and improve competition in the plant breeding sector.

2. Managing Risks

Since 2007, world agricultural markets have become increasingly volatile and uncertain. With imperfect information and limited control over the markets, farmers are managing increased production and cost risks associated with producing their crop. How farmers manage these risks is critical to the success of their operations.

The Government of Canada, through various programs, provides risk management tools for producers. Some witnesses addressed the need to maintain strong business risk management programs such as AgriStability under Growing Forward 2. Others spoke about the Producer Payment Protection Program, administered by the Canadian Grain Commission (CGC), which has been recently modified. Under this program, licensed companies must provide security to cover amounts owed to producers for grain deliveries. Grain companies will be required to carry insurance to insure payment to farmers instead of a bonding system. Some witnesses pointed out that there are still gaps in the guarantee of payment even under an insurance-based model, particularly for producers exporting directly to customers in another country. The Western Barley Growers Association suggested a clearing-house concept, where both sellers and buyers would set a fee upfront when signing a contract, which would guarantee payment as well as delivery of the product.

In addition to government programs, witnesses mentioned the growing importance for producers of good price discovery mechanisms to establish the value of their crops, for example, the ICE Futures contracts for wheat in Chicago or Minneapolis. Those mechanisms are not necessarily available for all crops. One witness indicated that there has not been much uptake of ICE Futures contracts for barley, which makes price discovery a challenge for this crop.

C. Handling and Transportation

Moving large volumes of grains over long distances to reach customers is the key element of a functioning grain supply chain. It is also a part of the supply chain where the federal government plays an important regulatory role. Therefore, it is no surprise that the movement of grain was the topic most addressed by witnesses.

1. The Canadian Grain Handling and Transportation System

Grains produced in Canada must be hauled over long distances before reaching the consumer: in the prairies, grain travels an average of 1,400 kilometres to reach a port position and then overseas to its final destination.[54] Therefore, railways have been central to the movement of grain in Canada. The Canadian rail system is dominated by two companies: Canadian National (CN) and Canadian Pacific (CP). These companies have major lines with an east-west configuration, which allows shipments of grains from the Prairies to Pacific ports or the Great Lakes and St. Lawrence Seaway, with most of the infrastructure built around this system. Recent trends in the grain handling and transportation system (GHTS) include the rationalization of elevators in the Prairies and investments in high through-put facilities. In the Atlantic Provinces, the trucking industry plays a more important role. With a more recent expansion of crop production, this region still lacks infrastructures such as commercial drying and storage facilities, and loading infrastructure in harbours.

The overall impression shared by the witnesses is that the Canadian GHTS is functioning efficiently. Quorum Corporation, which has been under contract with Agriculture and Agri-food Canada and Transport Canada since 2001 to act as the grain monitor, provided data to confirm this impression:

> On the time that grain remains within the system, one of the key performance measurements that we use in the monitoring program has fallen to just over 47 days, from a high that reached over 80 about 10 years ago. […] elevator churn ratios have improved significantly, to 6.3 times annually, on average, from as low as 3.7 times. One key area of focus for both the program and the shippers of grain is railway performance, and the program tracks that in two ways: one, by measuring the total cycle time, and two, by the loaded transit time. Both measures gauge how efficiently the railways utilize their fleets. Railway car cycles, for instance, have fallen to under 14 days from over 21 days 10 years ago. An important measure for the GHTS performance is loaded transit time. It has fallen from a high of over eight days to under six days — a 25% improvement. […] Overall, we can safely state that the prairie GHTS has seen significant performance improvements over the last 12 years.[55]

According to the representative from Quorum Corporation, there are periods where one part of the supply chain experiences a regression in performance; when this occurs it can extend for long periods, adding costs to the system and damage to Canada's trading reputation. Many witnesses expressed concerns regarding the market power exerted by railways. With the closure of grain elevators and rail line abandonment in recent years, there is often only one option for a producer to move his/her grain. Others witnesses have mentioned issues with levels of services such as timely arrival and railcars orders fulfillment.

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54 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 58, 1st Session, 41st Parliament, 22 November 2012, 0950 (Mr. Humphrey Banack, Second Vice-President, Canadian Federation of Agriculture).

55 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 58, 1st Session, 41st Parliament, 22 November 2012, 0850 (Mr. Mark Hemmes, President, Quorum Corporation).

The government introduced Bill C-52 on 11 December 2012. The Bill would give shippers the right to a service agreement with railways, and would also create an arbitration process to establish an agreement when commercial negotiations fail. Witnesses indicated they were looking for balanced accountability between the railways and the shippers, and identified the mechanisms defined in the bill as paramount to the improvement of rail services.

Service-level agreements, however, are only one aspect in improving the GHST. Witnesses emphasized the need for greater collaboration across the whole supply chain, and indicated that the renewal in November 2012 of the Crop Logistics Working Group is a step in the right direction. Its mandate is to improve the performance of the grain industry's supply chain by focusing on innovation, building industry capacity, and increasing stakeholder collaboration.

More importantly, a large number of witnesses stressed the importance of measuring adequately the performance of the GHTS. For example, data that could be collected include the number of cars ordered and cancelled by customers, and the number of cars delivered by the railways — the supply of railcars (or order fulfillment) is currently not monitored. Some witnesses would like to see more ongoing and current information as opposed to after-the-fact statistics as currently provided by the Quorum Corporation monitoring system. All agreed that the government can play a very important and active role in monitoring the GHTS performance. In relation to this, the representative of the CGC role noted that the CGC's role in collecting and disseminating statistical information should be clarified. With the changes and modernization within the industry, it needs to be clearly established how the CGC can deliver adequate and reliable information.

Recommendation

The Committee recommends that Agriculture and Agri-Food Canada and Transport Canada review, in cooperation with the industry, the design of the Grain Monitoring Program to define additional criteria to monitor and measure the performance of the Canadian Grain Handling and Transportation System, and look at different options to disseminate the information as close to real time as possible.

Witnesses have also mentioned other areas where the government can improve the GHST. For example, the Canadian Federation of Agriculture (CFA) would like the government to perform a full rail transportation costing review, as the current measures used to calculate the revenue cap were developed in 1992 and no longer reflect the actual costs of the railways. For example, it does not take into account any efficiency gains made by the rail companies. Others have indicated that the government must ensure that producer cars remain an economic and convenient alternative. Finally, witnesses from the Atlantic Provinces saw a role for the government to facilitate studies on new handling infrastructures in this region.

2. The Canadian Grain Commission

The Canadian Grain Commission (CGC) plays an important role in the grain supply chain. The CGC is mandated to establish and maintain standards of quality for Canadian grain for both international and domestic markets. Grain grades and standards are based on research conducted in the CGC grain research laboratory and are regularly reviewed by standards committees composed of industry stakeholders.

> Grades are important because they establish grain quality and facilitate fair transactions for producers. They also reflect the end-use characteristics required by our customers and ensure the consistency of product from cargo to cargo and from year to year. [56]

The CGC plays a role in grain safety and grain safety assurance. It screens, monitors, and certifies grain shipments to assure that export cargoes meet international safety tolerance standards. It also assures that weights are accurate at terminal elevators. Final certificates issued at export indicate the official CGC grade and weight, and assure that a cargo meets contract specifications. In 2010–11, the CGC inspected over 30 million tonnes of Canadian grain for export. Quality and grain safety assurance activities are supported by the CGC grain research laboratory. The CGC is also involved in the Canadian Food Inspection Agency's variety registration process, by which new cultivars are evaluated for disease resistance, agronomics, and quality. It provides technical support when an international market issue arises.

> I can give you a recent example of our market access support regarding the Triffid incident with Canadian flax. We work with the European Union, Japan, and Brazil to develop protocols for flax shipments to ensure continued access to these important markets.[57]

Finally, the CGC provides direct services to Canadian grain producers through several activities, including decisions on grade and dockage — which provides producers a way to solve disagreements about the grade they receive at licensed primary elevators. It also facilitates access to producer cars and provides a payment protection program. The submitted sample service and the harvest sample program give producers important information about their grain, such as grade, dockage, moisture, and protein. The CGC also publishes quality data and statistical information.

The CGC is currently funded through a combination of appropriations and user-fee revenues. However, most of the CGC user fees have not been updated since 1991 and no longer reflect the costs of delivering services. This has caused some issues since the CGC is mandated to provide these services under the *Canada Grain Act.* The CGC has been reliant on ad hoc public funds since 1999, and therefore, there has been mounting pressure to address the Act and the CGC fee structure. Bill C-45, A second Act to

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56 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 61, 1st Session, 41st Parliament, 6 December 2012, 0950 (Mr. Elwin Hermanson, Chief Commissioner, Canadian Grain Commission).

57 Ibid., 0955.

implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures, introduced a number of changes to the *Canada Grain Act*, such as eliminating mandatory CGC inward weighing and inspection. With the exception of a few witnesses, who believe it would undermine Canada's grain quality assurance system, testimony was largely positive about the removal of the mandatory inward inspection. It would eliminate duplication and excess costs. More importantly, the CGC still has the power under the Act to arbitrate a disagreement and provide a final grade and dockage.

A few witnesses also suggested that outward inspection should become optional and be left to the contract participants. ITAC indicated that in a number of cases, the overseas customer buying grain does not want the services of the CGC and would rather rely on another service provider such as SGS or Intertek. The CGC, however, cautioned that in case of a market access problem, the government of the import country will become involved and will look at another government body in order to resolve the issue. It is therefore important for the CGC to remain involved to offer market access strength to Canada.

> Perhaps there are other checks and balances we could put in place. But we have to be very cautious that we don't tamper with what has given us our Canada brand at the current time.[58]

On 30 November 2012, the CGC ended its consultation on proposed changes to its user fees structure. The proposal was tabled in Parliament on 7 February 2013 and published in *Canada Gazette* Part I on 16 February 2013. The new fee structure is expected to be in force on 1 August 2013. The regulatory impact analysis states that "the net benefit in present value terms of the proposed Regulations is $162.14 million over 15 years, using 2013-14 price levels". A number of witnesses were concerned about which services would be considered "public good" or a private benefit to industry participants. Under its proposal, the CGC estimated that "91% of its activities constitute a private benefit to individual stakeholders while 9% of the organization's activities provided public benefits to Canadian as consumers of grain products". Some witnesses believe a number of activities that provide public benefits will be funded by user fees rather than public funds. For example, they indicated that activities related to food safety and policy development should be considered part of the public good.

> If you went through all of that, rather than 7% or 8% or 10% of the budget being considered public good, it should be 20% or 25%. It would take millions of dollars of costs out of the system that then wouldn't have to be collected from shippers and farmers in user fees.[59]

The industry has been discussing further reforms to the CGC for a number of years. The CGC indicated that during its consultation process on user fees, many comments and

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58 Ibid., 1025.

59 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 61, 1st Session, 41st Parliament, 6 December 2012, 0930 (Mr. Kevin Hursh, Executive Director, Inland Terminal Association of Canada).

proposals were made on a number of potential changes. These proposals included changes to the CGC governance model, implementing a non-binding decision review mechanism to review CGC decisions, providing the CGC authority to oversee the existing system of declarations in the grain handling system, and allowing the CGC use the *Administrative Monetary Penalties Act*.

Recommendation

The Committee recommends that the Government of Canada continue its efforts toward a comprehensive reform of the Canadian Grain Commission to make it more efficient in the service of Canadian grain producers.

D. Grain Use and Processing

Grains and oilseeds are used in a vast number of food and industrial products. Discussions on this area of the supply chain therefore focussed on ensuring that customers receive the attributes they are looking for. The success of the grain supply chain will therefore depend on producing those attributes, but witnesses also addressed the need to diversify the sources of revenue, and attempt to keep most of the value of the products in Canada.

While canola processing capacity has doubled in the last decade, the same cannot be said for other grains. There has been some debate around what has prevented the development of the processing industry. For some witnesses, there was a perception that the CWB monopoly was one of the factors that held back further processing in Western Canada, and recent announcements and plant expansions are a sign of a more positive investment atmosphere since the removal of the CWB monopoly. It is their opinion that even though some of those announcements have not yet materialized, it might be a matter of current economic conditions in the marketplace. On the other hand, other witnesses indicated that although processors would prefer to deal directly with farmers, the CWB did not seriously impede the economics of the value-added projects.

In the Atlantic region, the lack of processing is certainly due to a lack of economies of scale. As a result, all grain requiring processing must be exported out of the region and processed products must all be imported. The issue is becoming more serious as the region is increasing its presence in export markets such as Japan. Processing locally would reduce the pressure on the transportation system during harvest time and help the production grow in this region.

1. Market Development

Although processing more in Canada is generally seen as a positive outcome, some witnesses cautioned that there is already significant international competition in traditional markets such as wheat flour. One witness mentioned that Turkey has heavily invested in flour mills to the point at which there is excess capacity, making it difficult to compete. For the majority of witnesses, Canada has a greater opportunity in developing new products such as pulse flours, and demonstrating the health benefits and the

processing attributes of those products. Developing new markets is also a means to diversify the revenue stream for more traditional crops such as wheat. The development of biofuels, for example, is an opportunity where some of the lower quality wheat, which is harder to dispose of, could be allocated.

> In the pulse industry, we are really trying to move from a product that was sold on the basis of colour, size, and shape to one that is now an ingredient that has to have functional characteristics.[60]

Witnesses agreed that market promotion is an area where the government can invest and assist the industry since it provides benefits to the entire supply chain. For example, the canola industry shares a $2.4 million program over four years with Agriculture and Agri-Food Canada to promote canola's health and culinary benefits in key markets around the world.

Venturing into new products or demonstrating health benefits, however, requires a very high level of knowledge in food science and health. One witness noted that research funds and market development funds come from two very different envelopes that rarely cross. As a result, there is often a gap between the research end and the commercial application. The government can play a significant role by ensuring that there is funding available for innovations at the point of demonstration. Organizations such as the Canadian International Grains Institute (CIGI) can help bring the discovery to the processing sector.

> A past example of that would be pulses, where we worked with companies in China to produce vermicelli noodles from yellow peas. They were making vermicelli from mung beans. They wanted to grow their industry, but the mung beans available were limited. We thought that we could make it from yellow peas. We did some research and discovered that yes, we could make it. Working hand-in-hand with the government, trade commissioners, and Pulse Canada, we were able to stay in front of the customer and show them that yes, it can be done. Finally, they took it up. Now, it is an annual market turning about 350,000 to 400,000 tonnes of yellow peas into vermicelli noodles in China.[61]

2. Trade and Market Access

Intertwined with market development is the issue of market access. As an export oriented sector, the Canadian grain supply chain can only thrive in a trading environment that is predictable and transparent. Witnesses have indicated their support of the federal government's current trade agenda in key markets, and pointed to a few issues that impede the development of the grain supply chain.

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60 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 58, 1st Session, 41st Parliament, 22 November 2012, 0930 (Mr. Gordon Bacon, Chief Executive Officer, Pulse Canada).

61 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 57, 1st Session, 41st Parliament, 20 November 2012, 0925 (Dr. Rex Newkirk, Director, Research and Business Development, Canadian International Grains Institute).

One witness identified tariff escalation as an impediment to the development of the processing industry in Canada. Tariff escalation occurs when a country sets higher import duties on finished products than on semi-finished or raw products, the lowest duties being levied on raw materials. This practice protects national processing industries and discourages processing activities in the countries where the raw materials originate. In the case of oilseeds, there are often zero tariffs on seed and high tariffs on oil. In other cases, products with similar end use are treated differently. One witness indicated that in Japan, soybeans have a better import tariff than canola. It is therefore important that Canada be able to negotiate equal rates for all products whether finished, raw or of similar use.

Disruption in market access can have an impact on grain farmers very quickly. The Market Access Secretariat, which is a cooperative initiative between the Canadian Food Inspection Agency and Agriculture and Agri-Food Canada, has been instrumental in responding to difficult market access issues, such as China's concerns with blackleg in canola.

Nevertheless, witnesses agreed that the most important role of the government in maintaining market access is ensuring food and plant safety through inspection and oversight of biosafety measures including pesticides usage. Products that travel into the grain supply chain are subject principally to the *Food and Drugs Act* and regulations. Although supportive of the changes to the legislative base of the Canadian Food Inspection Agency,[62] representatives from the processing industry highlighted the importance of reviewing and amending the *Food and Drugs Act* to keep up with changes occurring in the United States food inspection system.

3. Low-Level Presence of Genetically Modified Crops

In studying the market access issue, the Committee paid particular attention to the Proposed Domestic Policy on the Management of Low-Level Presence (LLP) of Genetically Modified (GM) Crops in Imports.

The use of GM grains has sparked lively debate around the world since they were commercially introduced in the 1990s. Countries have developed regulatory processes to approve the use and sale of these new varieties that take into account assessments of their health and safety impacts. Given that each country is responsible for its own assessments, some GM varieties that are approved in one nation may not be approved in another. This situation, called asynchronous approval, can disrupt trade. For example, if a shipment of grains is found to contain even trace amounts of GM ingredients approved and used in an exporting country but not yet approved in the importing country, the regulatory authorities of the importing country will refuse entry of the shipment and may prevent other shipments from entering the country.

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62 Bill S-11, An Act respecting food commodities, including their inspection, their safety, their labelling and advertising, their import, export and interprovincial trade, the establishment of standards for them, the registration or licensing of persons who perform certain activities related to them, the establishment of standards governing establishments where those activities are performed and the registration of establishments where those activities are performed.

This zero tolerance for unapproved genetic material is currently the policy of most trading nations because a variety that has not been approved is not yet considered safe. To avoid having varieties approved in one country but not in another, Canada's industry has undertaken to seek approval in all the main countries where they intend to market a product. As a result, a canola variety is not marketed in Canada until it has been approved in its major export markets.

However, the issue has become more complicated: the number of GM varieties is increasing, the approval process for these products varies by country, and approval can be a very long time coming in some markets. Moreover, countries are developing GM crops for domestic use only. According to a 2009 report from the European Commission's Joint Research Centre, the number of GM crops in commercial production around the world is expected to increase from about 30 to over 100 by 2015. Many of these products are for domestic use in countries other than Canada and are not for export. Consequently, asking other nations to approve them is hardly worthwhile. However, these products may be mixed in with exports destined for Canada, and as a result, the risk of LLP in products imported into Canada will increase.

Many Canadian stakeholders believe that the zero-tolerance policy is not realistic and that Canada needs to find a way to adapt its tolerance rules to international trade. Some organizations advocate establishing LLP standards or reaching LLP agreements. From 6 November 2012 to 19 January 2013, the Government of Canada asked for public input on a Proposed Domestic Policy and Implementation Framework on the Management of LLP of GM Crops in Imports.[63]

Under the proposed policy and framework, two conditions must be met for the GM content of an imported shipment to be considered LLP:

a) the GM crop must be approved for human consumption in at least one country; and

b) Canada must recognize that the foreign safety assessment is consistent with the Codex Guideline for the Conduct of Food Safety Assessment of Foods Produced Using Recombinant-DNA Plants.

The proposed policy would define two types of levels (or concentrations) of GM crops in shipments:

a) an action level of 0.1% or 0.2% above which regulatory bodies would consider taking action; and

b) threshold levels (varying by crop) that would set the maximum concentration of GM ingredients considered to be LLP.

63 Agriculture and Agri-Food Canada, "Consultation on the Proposed Domestic Policy and Implementation Framework on the Management of Low-Level Presence of Genetically Modified Crops in Imports".

During the Committee's hearings, held between 26 February 2013 and 7 March 2013, a number of witnesses praised the Proposed Domestic Policy on the Management of LLP of GM Crops in Imports. Many of them believe that this initiative will position Canada well ahead of its competitors. In addition, such a policy could prevent international trade disruptions resulting from unintentional contaminations, thus enabling Canada to preserve and increase international market access. By adopting a transparent, predictable and science-based policy, Canada can persuade other countries to develop their own LLP management policies.

A number of countries are interested in the policy on LLP of genetically modified organisms (GMOs). In March 2012, Canada chaired the first international LLP meeting. The event was held in Vancouver and brought together representatives of 15 countries to discuss LLP policies around the world. A second international meeting took place in Rosario, Argentina.[64] Many witnesses recognize that there is a lack of coordination of risk assessments and approvals among countries, which makes it important to undertake international discussions on LLP policies.

While a number of grain industry stakeholders support the national LLP policy, some witnesses expressed reservations. Ms. Lucy Sharratt, Coordinator of the Canadian Biotechnology Action Network, noted that the LLP policy is based on the assumption that other countries will adopt a policy similar to Canada's. However, there is no guarantee that other countries will follow Canada's example. Moreover, Germany has already announced that it will oppose any EU decision to establish an LLP policy for food. Canada's organic industry fears that this policy will have a negative impact on the organic sector:

> An LLP [policy] will introduce new, unknown, and untested GMOs into Canada. It will increase the exposure of organic farms and manufacturers to contamination from GMOs, which are prohibited under our production system. Also, it will create an environment of heightened scrutiny and suspicion of Canadian exports, which will invariably result in increased costs for producer and trader and inhibit the progress we've made in market access.[65]

Given the scale of GM crop production, the organic sector feels threatened by the propagation of GM material through cross-pollination. The sector also argues that organic producers take no comfort in the growing international trade in GM products.

Importance of biotechnology for agriculture

The International Service for the Acquisition of Agri-Biotech Applications publishes an annual report on the status of agricultural biotechnology around the world. The report indicated that the amount of agricultural land devoted to GM crops reached a record high

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64 Agriculture and Agri-Food Canada, Low-Level Presence Policy Review and International Engagement, CSTA's 89th Annual Meeting, 16 July 2012.

65 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 70 1st Session, 41st Parliament, 5 March 2013, 1205 (Mr. Matthew Holmes, Executive Director, Canada Organic Trade Association).

in 2012. About 420 million acres in 28 countries were planted to GM crops, an increase of 6% over 2011.[66] Canada was one of the first countries to produce GM crops and today is the world's fourth-largest producer, with 29 million acres under cultivation.[67] Most canola, corn and soybean crops in Canada consist of varieties that have been improved using plant biotechnology. GM canola makes up virtually all (97.5%) canola production. GM corn has also passed the 80% mark, and GM soybeans account for 60% of total soybean production.[68]

Several witnesses believe that biotechnology plays a major role in both the technical and economic aspects of agriculture. Biotechnology has helped improve soil, air and water quality and has enabled Canadian farmers to compete on the global market. The revenues generated by biotechnology products are substantial:

> Increased production due to plant science technologies, including products of plant biotechnology, generates $7.9 billion worth of additional economic activity annually for Canadian farmers of field, vegetable, and fruit crops. About 65% of Canada's $10 billion of food surplus can be directly attributed to increased yields that result from the use of crop protection products and plant biotechnology.[69]

Regulatory system

According to Dr. Stuart Smyth, Research Scientist in the Department of Bioresource Policy at the University of Saskatchewan, the European and North American systems approve new varieties in different ways. The North American regulatory system is based on scientific research, while the European approach is predicated on assessing risk.[70]

Tolerance threshold

At present, the zero-tolerance policy is in effect in both Europe and Canada. Under current Canadian legislation, the least amount of unapproved GM material constitutes non-compliance. When unapproved GM material is detected, the appropriate authorities are

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66 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 68 1st Session, 41st Parliament, 26 February 2013, 1100 (Mr. Jim Everson, Vice-President, Corporate Affairs, Canola Council of Canada).

67 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 70 1st Session, 41st Parliament, 5 March 2013, 1105 (Ms. Patty Townsend, Chief Executive Officer, Canadian Seed Trade Association).

68 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 68 1st Session, 41st Parliament, 26 February 2013, 1205 (Dr. Stephen Yarrow, Vice President, Plant Biotechnology, CropLife Canada).

69 Ibid.

70 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 68 1st Session, 41st Parliament, 26 February 2013, 1110 (Dr. Stuart Smyth, Research Scientist, Department of Bioresource Policy, Business and Economics, University of Saskatchewan, As an Individual).

immediately alerted, and they take the necessary steps to restore compliance.[71] Some witnesses acknowledge that it is extremely difficult to market grains with a 0% tolerance threshold and that this is not realistic for Canadian export markets. Despite all the precautions taken throughout the supply chain, there is always a risk that unwanted products are mixed in with a shipment during grain handling. Thus, there is no way to completely eliminate the possibility of contamination. A minute quantity of unwanted materials can end up in a shipment and cause it to be rejected, resulting in significant financial losses.

In 2009, when the EU detected the presence of GM flax imported from Canada, it moved quickly to shut its borders to Canadian flax for several months. Witnesses condemned the EU's unjustified decision to deny access to its flax market, which according to them, was based more on politics than scientific data. According to a study by Dr. Smyth on the consequences of trade disruptions caused by LLP, the closure of the European market to Canadian flax resulted in lost sales totalling $12 million. Moreover, the EU forced Canada to conduct tests that entailed further costs. Dr. Smyth estimated that, by the end of 2011, the Canadian flax industry had lost $30 million. However, these LLP-related financial losses may increase:

> Another year has passed and we've been testing all of our flaxseed again for another year, and we will for another two years, so those costs will continue to increase over the next couple of years.
>
> These are costs that are borne by Canadian farmers. They have to test their seed prior to it being planted, and they have to test what they harvest before they sell it to an export opportunity. They're not being reimbursed for this by anybody. These are out-of-pocket costs that are being experienced by Canadian farmers because of the European approach to zero tolerance.[72]

While the EU continues to apply the zero-tolerance policy for food products, it has a higher tolerance for animal feed products because it is heavily reliant on animal feed imports. The EU imports large quantities of soybean meal from South America. Knowing that its imports are likely to contain LLP of GMOs, the EU softened its rules to permit the presence of GM products in animal feed. In June 2011, the European Commission published an LLP regulation that replaced the 0% tolerance threshold with a new limit of 0.1%.[73]

A number of witnesses agreed that it is increasingly difficult to comply with the current 0% threshold. Some believe that the 0.1% and 0.2% levels proposed by the policy are also very low. Mr. Gordon Harrison, member of the Canada Grains Council and

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71 Agriculture and Agri-Food Canada, "Frequently Asked Questions — Proposed Domestic Policy on the Management of Low-Level Presence of Genetically Modified Crops in Imports", 2012.

72 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 68 1st Session, 41st Parliament, 26 February 2013, 1115 (Dr. Stuart Smyth, Research Scientist, Department of Bioresource Policy, Business and Economics, University of Saskatchewan, As an Individual).

73 Europa, "Questions and answers on the low level presence (LLP) of GMOs in feed imports," *Press releases RAPID*.

President of the Canadian National Millers Association, believes that no handling system can achieve such low levels. He proposes a threshold of at least 0.2% and an additional margin of error to allow for measurement uncertainty. Dr. Stephen Yarrow, Vice-President of Plant Biotechnology at CropLife Canada, stated that the grain industry envisions a threshold of 2% or 3%, or even 5%. Some witnesses said they could not comment on the threshold because they lacked sufficient information about the way the threshold would be calculated. Other witnesses suggested that the thresholds be set based on the product type and origin. These witnesses admitted that their level of confidence in the way different countries approve GM products varies from one country to the other. A number of grain industry stakeholders believe that the proposed LLP policy will prevent trade disruptions in cases where LLP is detected. It is important to note that the proposed LLP policy does not apply to the seed sector, which applies stringent control measures and continues to have a tolerance of zero. Despite very strict controls, it is nonetheless possible to detect GM materials in seed shipments:

> Since most EU countries — not all, but most — have a zero tolerance for GE in seed for planting, our members are now facing existing contracts that are being modified, and new contracts are requiring legal declarations that the seed is 100% GE free. Some of our members have lost sales as a result of that because they cannot make that guarantee, and others have had shipments rejected. One shipment of timothy seed was actually rejected for the presence of .00009% GE, which is very, very, very small dust.[74]

Recommendation

The Committee recommends that the government establish, in collaboration with its trading partners, a tolerance threshold that is based on scientific studies and feasible for the industry in order to prevent trade disruptions when LLP is detected.

As in the seed sector, contamination from a minute concentration of GMOs in organic products can expose organic farmers to substantial financial losses. They risk losing their organic certification and, thus, their market. Should a Canadian LLP management policy be implemented, the organic sector recommends that imports undergo comprehensive and routine testing to detect GMOs and that the results be regularly shared with the sector. Furthermore, in cases of contamination, the organic sector would like to see all parties share responsibility and organic producers have access to compensation.

Coexistence

Although GM and non-GM crops are segregated around the world, coexistence is regulated in only some countries. Denmark is the first EU country to have passed a law on coexistence. The legislation provides recourse and compensation mechanisms. Moreover, it contains communication and transparency requirements for GM crop areas to

74 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 70 1st Session, 41st Parliament, 5 March 2013, 1105 (Ms. Patty Townsend, Chief Executive Officer, Canadian Seed Trade Association).

enable neighbouring growers of GM and non-GM crops to prevent the spread of unwanted GM material.

Canada has no legislation governing the coexistence of GM and non-GM products. Trials of unregulated GM varieties can be done in the open air. The resulting GM products are not subject to any isolation or confinement requirements. It is up to farmers who do not want GM products to take the necessary steps to prevent contamination by GM material. The segregation and confinement method used is up to them.

According to Dr. Rene Van Acker, Professor at the Department of Plant Agriculture at the University of Guelph, GM and non-GM crops could still coexist in areas where the proportion of GM crops is not too great. A Danish study reported that the coexistence of GM and non-GM canola would be extremely difficult, if not impossible. In his testimony, Dr. Van Acker mentioned that GM and non-GM canola in Western Canada could not coexist because it would be difficult to produce guaranteed non-GM canola on a commercial scale since GM canola accounts for 99% of Canadian production.

Given the growing risk of GM material propagation by pollen that travels long distances or by GM seeds, the environmental organization AmiEs de la Terre de l'Estrie does not see how GM and organic crops can coexist. However, a number of witnesses believe that, in some areas where production is less concentrated, coexistence of GM, conventional and organic crops remains possible. They argue that each has its place in Canada's agri-food chain.

FOOD SUPPLY CHAIN — BEVERAGE SECTOR

A. Overview

In Canada, the beverage industry is a very diverse industry that can be divided into two categories: alcoholic beverages and non-alcoholic beverages. The beverage supply chain includes producers, processors, distributors, commercial partners, consumers and the government. Grape, fruit and grains producers are involved in production. The processing step includes facilities that make juice, carbonated soft drinks and bottled water, as well as wineries, breweries, distilleries, bottlers and packers. The main distributors are provincial liquor boards, retail chains and restaurants.

1. Non-alcoholic beverages in Canada

The non-alcoholic beverage category includes fruit and vegetable juices, fruit drinks, carbonated soft drinks (CSDs), tea, coffee and bottled water. According to the Beverage Marketing Corporation, coffee had the largest market share in 2009, with 16.6%, followed closely by CSDs at 16.3%. Tea came in third with 12.9%, followed by bottled water and other beverages. In 2012, the non-alcoholic beverage sector exported $539 million worth of coffee and tea products, and $155 million worth of soft drinks and bottled water. The industry directly employed nearly 15,000 Canadians in 2012.[75]

The low profit margins for processing plants coupled with stiff competition have led many processing plants to consolidate their operations. Over the last few years, a number of plants have closed or relocated. This has directly impacted agricultural producers. In order to remain competitive, the non-alcoholic beverage industry must innovate and respond to new trends. Aware that consumers are looking for products with health benefits, the industry has developed a range of low-calorie products and products with functional properties.

2. Alcoholic beverages in Canada

A beverage containing 1.1% alcohol by volume (abv) or more is considered an alcoholic beverage and must meet the labelling and compositional requirements found in Division 2 of the *Food and Drug Regulations*. However, definitions in provincial legislation may vary.[76]

In 2012, the dollar value of alcoholic beverages consumed per capita in Canada was estimated at $317 for beer (80.3 L), $225 for wine (16.9 L), and $182.10 for spirits

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75 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 78, 1st Session, 41st Parliament, 2 May 2013, 1210 (Ms. Susie Miller, Director General, Sector Development and Analysis Directorate, Market and Industry Services Branch, Agriculture and Agri-Food Canada).

76 Canadian Food Inspection Agency, Alcoholic Beverages, 2013.

(7.5 L). Beer had 44% of the market share, while wine had 31% and spirits 25%.[77] For the fiscal year ending on 31 March 2012, nearly $21 billion worth of alcoholic beverages were sold, up 3% from the previous year. Over the same period, the distillery industry exported products valued at $472 million, followed by beer exports at $219 million and wine at $41 million.[78]

One of the unique characteristics of the alcoholic beverage industry is that alcoholic products cannot be shipped across provincial borders. Interprovincial alcohol shipments require approval from the provincial liquor boards. Therefore, the provincial liquor board is responsible for distributing alcoholic beverages, and has a monopoly on selling them. It can be difficult for Canadian products to secure a presence on the shelves of liquor board establishments. That is why a number of companies are turning to other methods to distribute their products, such as wine tourism, which is closely linked to the sale of Canadian products. For example, in order to encourage the consumption of Canadian products, VIA Rail offers Canadian wines exclusively.[79]

B. Marketing and competitiveness

1. Interprovincial barrier

On 28 June 2012, the *Importation of Intoxicating Liquors Act* was amended, making it possible to import wine across provincial borders for personal use in Canada. While this eliminates the barriers to importing wine at the federal level, witnesses pointed out that provincial governments are not permitting the free movement of wine across provincial borders.

> It removed the federal impediment but still left all provincial authorities to regulate and to do whatever they wished in the management of liquor, alcohol, and wine within the province.[80]

Provinces reacted differently to the amendment to the *Importation of Intoxicating Liquors Act*. Some authorized wine importation for individuals without restrictions, while others set limits to the quantities that could be imported. Manitoba and British Columbia were among the first provinces to authorize individuals to import wine, while Alberta and Ontario expressed reservations about opening provincial borders to wines. Ontario is benefiting by shipping its wine to other provinces, but it has not opened up its own

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77 Statistics Canada, Sales of alcoholic beverages by volume, value and per capita 15 years and over, fiscal years ended March 31, CANSIM Table 183-0006.

78 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 78, 1st Session, 41st Parliament, 2 May 2013, 1145 (Ms. Susie Miller, Director General, Sector Development and Analysis Directorate, Market and Industry Services Branch, Agriculture and Agri-Food Canada).

79 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 74, 1st Session, 41st Parliament, 18 April 2013, 1110 (Mr. Dan Paszkowski, President and Chief Executive Officer, Canadian Vintners Association).

80 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 78, 1st Session, 41st Parliament, 2 May 2013, 1205 (Mr. Brian McCauley, Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency).

borders.[81] However, despite the amendment to the Act, individuals importing wine across provincial boundaries still face obstacles. Some witnesses said that it was easier to export their wines to another country than to another province. Many breweries and distilleries would like to be able to distribute their products in other provinces as well, just as wineries are now able to do.[82]

Recommendation

The Committee recommends that the Government of Canada amend the *Importation of Intoxicating Liquors Act* in order to include the interprovincial importation of beer and spirits for personal consumption.

2. Distribution and shelf space

Despite the amendment to the *Importation of Intoxicating Liquors Act*, wine producers cannot freely ship their products to other provinces. Furthermore, the liquor board monopoly at the provincial level restricts the sale of alcoholic beverages in their respective provinces. Points of sale are often limited to the liquor board of the province (e.g., the LCBO in Ontario), the producer's location and restaurants. In addition to its liquor board, Quebec points of sale also include corner stores and supermarkets. In 1993, Alberta privatized liquor stores. These stores now benefits from lower taxes because the province is not involved in the distribution, and the costs associated with distribution are assumed by the brewers or their distributors.[83]

Distributing alcoholic beverages is a challenge for certain producers. For example, fruit wineries do not have as many points of sale as wine or beer.

> In addition, distribution is a key problem for fruit wineries. Fruit wines are not distributed through the LCBO, which controls the sale of wine and spirits in Ontario and is one of the largest single purchasers of beverage alcohol in the world. Farmers are also not allowed to sell their fruit wines or other alcoholic fruit beverages, like cider, at farmers' markets, so their only outlet is from their licensed facility or premise.[84]

The producers of alcoholic beverages not only have distribution problems, but also have difficulty accessing shelf space, in part due to the cost associated with this space.

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81 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 76, 1st Session, 41st Parliament, 25 April 2013, 1120 (Ms. Shirley-Anne George, Alliance of Canadian Wine Consumers).

82 Ibid., 1155.

83 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 73, 1st Session, 41st Parliament, 16 April 2013, 1150 (Mr. Luke Harford, President, Brewers Association of Canada).

84 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 75, 1st Session, 41st Parliament, 23 April 2013, 1120 (Mr. Arthur Smith, Chief Executive Officer, Ontario Fruit and Vegetable Growers' Association).

Canadian wines occupy less shelf space in provincial liquor stores than foreign wines. British Columbia is the possible exception, as British Columbian wines are given considerable shelf space in B.C. Liquor Distribution Branch stores. Furthermore, a number of private liquor stores offer a wide variety of local products. Certain private establishments sell only VQA (Vintners Quality Alliance) wines. This designation means that the wine is made entirely from grapes grown in the province.[85] A number of witnesses suggested that Canadian wines be featured more prominently on liquor store shelves to promote the Canadian wine industry.

Producers who do not have access to liquor store shelf space are often limited to direct sales from their own locations. This makes it difficult for them to expand their sales opportunities. According to Mr. Terry David Mulligan, a radio show host for Tasting Room Radio, if wine producers could sell wine online, they could expand their distribution networks and reach a larger number of consumers across the country. It would also give them the opportunity to increase their market share. However, provincial liquor boards have not yet authorized online sales, which is frustrating to various stakeholders in the wine industry.[86]

In the non-alcoholic beverage industry, expanding into new markets means creating partnerships and expanding the distribution network beyond Canadian borders. Mr. Dave McAnerney, President and CEO of Sun-Rype, said that "growth through acquisitions, innovation, and geographic expansion are all critical to surviving in today's tough economy." In 2010 and 2011, Sun-Rype acquired two processing facilities in Washington.

> I feel very good about what Sun-Rype has done. I feel very positive about the steps we're taking to grow into the U.S., but at the end of the day there's going to be a relentless pursuit of innovation to meet ongoing and changing consumer needs. So anything the government can do to support innovation, whether that's increasing the amount available through SR and ED credits or by creating employment for students who are focused on innovation, would be number one on the list.[87]

3. Innovation, research and development

A number of witnesses mentioned that investing in innovation and research and development is important to reduce production costs and maintain competitiveness.

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85 Ibid., 1140 (Mr. Hans Buchler, Chair, British Columbia Wine Grape Council).

86 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 76, 1st Session, 41st Parliament, 25 April 2013, 1245 (Mr. Terry David Mulligan, as an individual).

87 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 74, 1st Session, 41st Parliament, 18 April 2013, 1145 (Mr. Dave McAnerney, President and Chief Executive Officer, Sun-Rype Products Ltd.).

However, small companies find it difficult to invest in research and development due to limited financial resources.[88]

Recommendation

The Committee recommends that the Government of Canada continue to invest in innovation and research and development to support the Canadian beverages industry.

Witnesses also pointed out the necessity of investing in new tools and production techniques, new methods of pest and disease control, and developing new varieties. However, the beverage industry is concerned that a shortage of people with the required scientific expertise will make the Canadian beverage industry less competitive.

> Our industry requires a high level of scientific and technological expertise to develop products and to operate facilities across the country. We're increasingly facing shortages in this area and are concerned that they are only going to get worse. We're really lacking in educational training programs that focus on the scientific and technical expertise required to meet skilled labour demands for our industry, and we encourage measures to help meet this demand, including government partnerships with universities and colleges.[89]

4. Growing Forward 2

In order to maintain the competitiveness of the Canadian agricultural sector, the Government of Canada funds various programs under Growing Forward 2 (GF2). GF2 programs emphasize innovation, competitiveness and market development. Groups of agricultural producers greatly appreciated the innovation programs, but they criticized the short duration of the programs. Furthermore, they objected to the fact that five-year programs for innovation are based on a first-come, first-served approach.

Witnesses also emphasized the importance of promoting Canadian products and ensuring Canadians recognize products made in Canada. There are costs associated with promoting products in the domestic market. GF2 programs help producers with their advertising initiatives and provide opportunities for them to build relationships with consumers, restaurants and retailers.

> Growing Forward 2 now offers opportunities to promote our wines in our own domestic market, where in the past the funding was only available to grow export markets. The most successful wine-producing jurisdictions around the world have first built their

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88 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 76, 1st Session, 41st Parliament, 25 April 2013, 1235 (Mr. Brian Alger, Chief Executive Officer, The Pop Shoppe.).

89 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 77, 1st Session, 41st Parliament, 30 April 2013, 1120 (Mr. Derek Nighbor, Senior Vice-President, Public and Regulatory Affairs, Food & Consumer Products of Canada).

own domestic market. Once they conquered their domestic market, they moved into the export market.[90]

C. Regulations

1. Approval process

While these programs allow Canadian businesses to innovate and introduce new products to the market, there are a number of regulatory obstacles. Often, these businesses have difficulty obtaining approval for new products in a timely manner. Several witnesses pointed out that the approval process in Canada takes much longer than in other countries, which puts Canada at a competitive disadvantage. Registering a product or obtaining approval from Health Canada for a product can take, on average, five years longer in Canada than the approval process takes in the United States.[91]

Health-conscious consumers want the non-alcoholic beverage industry to use healthier ingredients and to promote certain characteristics that are beneficial for health. Stevia, a plant-based low-calorie sweetener, seems to meet these requirements. Health Canada only recently approved its use, even though it has been approved for years in all Western countries, Europe, the United States. Regulatory measures such as market authorization and Incorporation by Reference were used to ensure that stevia was approved for use in Canada. In order to accelerate the approval process for new products without compromising the health and safety of Canadians, Canada should rely on the expertise of other countries with similar regulatory measures.[92]

2. Pest Management Regulatory Agency

A number of witnesses pointed out that harmonizing regulations between countries and making regulatory measures more efficient would allow Canadian businesses to develop and grow. Regulatory measures should keep pace with technological change.

Because Canada does not have a commercial hops industry, the pest management tools approved for use on hops have not kept pace with innovations and technological advancements made in hops-producing countries. As a result, maximum residue limits (MRLs), measured in parts per million, have not been established in Canada. Canadian brewers therefore face higher sourcing and compliance costs compared with the costs of

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90 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 74, 1st Session, 41st Parliament, 18 April 2013, 1125 (Mr. Dan Paszkowski, President and Chief Executive Officer, Canadian Vintners Association).

91 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 77, 1st Session, 41st Parliament, 30 April 2013, 1115 (Mr. Derek Nighbor, Senior Vice-President, Public and Regulatory Affairs, Food & Consumer Products of Canada).

92 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 72, 1st Session, 41st Parliament, 26 March 2013, 1130 (Mr. Jim Goetz, President, Canadian Beverage Association).

their counterparts in other beer-producing countries. Furthermore, the process and cost of domestic registration is excessive and uneconomical in many cases.[93]

The Brewers Association of Canada recommends harmonizing regulations with the United States, including establishing an import MRL for hops similar to the one set in the United States. Having a MRL similar to that of the United States will ensure that Canadian brewers have a steady and competitively priced supply of hops. The Ontario Fruit and Vegetable Growers' Association also recommends harmonizing regulations with the United States.

> We recommend harmonization of crop protection materials. Canadian farmers currently pay 56% more for the same products farmers in the United States are using, even when we're allowed to use them here. That is the difference on the U.S.-Canadian side. Harmonization of crop protection products would mean having the same products at the same cost, available on both sides of the border. This would lower production costs and put Canadian farmers on a more equal playing field with those in the U.S.[94]

3. Compositional standards

Many witnesses mentioned that the Canadian beverage industry is subject to a wide variety of very strict regulations, particularly the alcoholic beverage industry.

> I could give you a list of the acts. There are about eight of them. In fact, we would say that alcohol manufacturers are the most heavily regulated industry in Canada at both the federal and provincial levels.[95]

While the alcoholic beverage industry is highly regulated for food safety reasons, a number of witnesses pointed out that these regulations do not always keep pace with changing markets. According to the testimony from the Brewers Association of Canada, the compositional standard for beer outlined in the *Food and Drug Regulations*, Part B, Division 2, has not been reviewed since the 1980s. Today there are many new styles of beer on the market. The Brewers Association of Canada would like the beer standard to be reviewed, as the current regulations are outdated and do not take these new styles into account. In fact, the Brewers Association of Canada has taken the initiative of drafting a new beer standard and is currently undertaking consultations with the appropriate

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93 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 73, 1st Session, 41st Parliament, 16 April 2013, 1110 (Mr. Luke Harford, President, Brewers Association of Canada).

94 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 75, 1st Session, 41st Parliament, 23 April 2013, 1125 (Mr. Arthur Smith, Chief Executive Officer, Ontario Fruit and Vegetable Growers' Association).

95 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 76, 1st Session, 41st Parliament, 25 April 2013, 1110 (Mr. Jan Westcott, President, Spirits Canada).

authorities with a view to amending the regulations on the compositional standard for beer.[96]

Spirits Canada also called for an updated definition of spirits, as an unclear definition has resulted in various interpretations. The production of spirits must meet various criteria. Spirits are made from grains, and the fermented alcohol is then distilled. However, new secondary manufacturing processes similar to distillation are used in the production of beer, wine and cider, which has blurred the line between these products and spirits. To clearly distinguish between the various categories for excise duty purposes, the Department of Finance now classifies all malt-based beverages with an alcohol content above 11.9% abv as a spirit.[97] A number of witnesses believe that the compositional standard for the various alcoholic beverages must be updated in order to allow the industry to innovate and remain competitive.

Recommendation

The Committee recommends that the Government of Canada update the compositional standards for the various types of alcoholic beverages such as beer to keep pace with the changing market.

4. Labelling

Various witnesses pointed out that the rigid and outdated compositional standards for alcoholic beverages do not encourage product development and may lead to labelling issues.

> In the last couple of years we've seen a lot of innovation with Belgian-style beers coming on to the market—they use spices, for example. Spices aren't specifically listed within the beer standard, so if you put on your label somewhere that it's made with malt, barley, hops, and spices, all of a sudden that is no longer a beer, and that has issues for distribution, taxation, and all kinds of things.[98]

Furthermore, the current labels can be misleading, and they do not allow consumers to make informed choices. For example, to meet the requirements of the *Food and Drug Regulations*, vodka must be odourless, colourless and tasteless. And yet some beer labels use the term vodka.[99] Spirits Canada appealed to the Canadian Food

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96 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 73, 1st Session, 41st Parliament, 16 April 2013, 1110 (Mr. Luke Harford, President, Brewers Association of Canada).

97 Spirits Canada, Submission to the Standing Committee on Agriculture and Agri-Food, Meeting No. 76, 1st Session, 41st Parliament, 25 April 2013.

98 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 73, 1st Session, 41st Parliament, 16 April 2013, 1120 (Mr. Luke Harford, President, Brewers Association of Canada).

99 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 76, 1st Session, 41st Parliament, 25 April 2013, 1135 (Mr. Jan Westcott, President, Spirits Canada).

Inspection Agency (CFIA) to prevent brewers from using this designation, as it is misleading to consumers. However, the CFIA considers it acceptable for beers to be advertised as "vodka flavoured," as long as it is clearly communicated to consumers, is not false or misleading, and does not create an erroneous impression regarding the composition of the product.[100]

Many witnesses agreed that unclear labelling does not clearly inform consumers about the products they are purchasing. For example, the designation "Cellared in Canada" does not tell consumers whether the product is truly Canadian or not. In Ontario, a number of wines made from 70% to 99% foreign grapes fall into the "Cellared in Canada" category. According to Mr. Arthur Smith, Chief Executive Officer of the Ontario Fruit and Vegetable Growers' Association, Canada is the only wine-producing country that allows a product with less than 75% domestic content to be considered a product of that country. When consumers unfamiliar with the wine industry see a product labelled "Cellared in Canada," they can be easily misled into thinking it is a Canadian product when that is not the case. The Ontario grape and wine industry believes that the designation "Cellared in Canada" is misleading and suggests that this category be eliminated.[101]

In order to prevent misleading labelling, the Government of Canada published guidelines in 2008 on "Product of Canada" and "Made in Canada" claims. "Product of Canada" can be used if at least 98% of the ingredients are produced in Canada. If the criteria for "Product of Canada" cannot be met, a product may be designated "Made in Canada," provided that most of the transformation of the product occurred in Canada. There are also a number of other designations that food manufacturers can use to label their products.

Many of the witnesses felt that it is important to encourage consumers to buy Canadian products. According to Ms. Hillary Dawson, President of the Wine Council of Ontario, each bottle of wine, blended and 100% Canadian wines combined, generates an economic impact of $39, while a bottle of 100% Canadian wine has an economic impact of $89.[102] Although the wine industry would like to supply the market with more Canadian products, it is not always possible to provide consumers with products of 100% Canadian origin. When there are crop failures, producers must rely on imports and blend Canadian and foreign wine or they will lose the market.[103]

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100 Canadian Food Inspection Agency, Alcohol, 2013.

101 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 75, 1st Session, 41st Parliament, 23 April 2013, 1120 (Mr. Arthur Smith, Chief Executive Officer, Ontario Fruit and Vegetable Growers' Association).

102 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 77, 1st Session, 41st Parliament, 30 April 2013, 1205 (Ms. Hillary Dawson, President, Wine Council of Ontario).

103 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 75, 1st Session, 41st Parliament, 23 April 2013, 1215 (Mr. Arthur Smith, Chief Executive Officer, Ontario Fruit and Vegetable Growers' Association).

Whether a wine is blended or 100% Canadian, the label must include clear information so that consumers know what they are buying. However, it was pointed out that labels do not always include correct information, giving consumers false impressions.

> It is challenging for us when the customer realizes that some bottles labelled Canadian that are in a lot of liquor boards under a giant sign that says "Canada", contain little to no Canadian content. That hurts our business because then they start to question what's on our labels.[104]

Before a product can be labelled "Canadian," the product must actually contain an ingredient of Canadian origin. Several witnesses suggested that there should be a minimum percentage of Canadian content for a product to qualify as "Canadian." The Grape Growers of Ontario and the Wine Council of Ontario have asked the CFIA to impose a minimum of 25% Canadian content in blended wines labelled "blended from international and Canadian wines." As well, the country of origin is a significant piece of information that consumers look for on the label, according to *Canadians' Views on Domestic Origin Labelling: Canadian Wines and Blended Wines*, a survey prepared by Nanos Research for the CFIA.[105]

Recommendation

The Committee recommends that the Government of Canada review the labelling standard for the various types of alcoholic beverages to keep pace with the changing market and to ensure that labelling is meaningful to consumers and not misleading.

5. Excise tax

In addition to placing importance on the stated country of origin, consumers demand that the label clearly identify the type of product, whether it be wine, beer or spirits. The applicable excise tax rate varies by category of alcoholic beverage. Many producers see excise taxes as a substantial burden. In the brewing industry, the federal excise tax is $31.22 per hectolitre, which works out to 10.6¢ per bottle of beer. By the time beer is sold to the consumer, a range of other taxes are charged, making up half the retail price.[106] For their part, Canadian wines made with 100% Canadian agricultural product have enjoyed an excise exemption since 2006.[107] However, Canadian and foreign wine blends have the excise tax applied. In fact, the excise tax on foreign products applies to the total content of blended wine, regardless of the Canadian to foreign

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104 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 77, 1st Session, 41st Parliament, 30 April 2013, 1150 (Ms. Hillary Dawson, President, Wine Council of Ontario).

105 Ibid., 1125 (Ms. Debbie Zimmerman, Chief Executive Officer, Grape Growers of Ontario).

106 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 73, 1st Session, 41st Parliament, 16 April 2013, 1105 (Mr. Luke Harford, President, Brewers Association of Canada).

107 Ibid., 1150.

content ratio. Once a bottle contains as little as 1% imported content, it is subject to the full foreign excise tax.[108] In the spirits industry, this tax is nearly 20¢ per standard drink, versus 10¢ on a bottle of beer.[109]

In order to promote growth and prosperity in the alcoholic drinks industry, witnesses recommend a reduction in the excise tax.

> As members will be aware, the excise duty on Canadian wine was eliminated in its entirety in 2006, this despite the fact that these drinks, whether they're spirits, beer, or wine, all contain exactly the same amount of alcohol…. The impact of these changes is that, despite representing less than 30% of the beverage alcohol market, spirits' share of excise payments has gone from 38% in 2006 to nearly 45% over the last six years.… Our excise duties are $11.69 per proof litre—so that's a litre of actual alcohol. That went up by sixty cents in 2006. What we're asking the government to do is reduce that by a dollar.… That would take that twenty cents of excise down to about eighteen and a half cents. So a pretty modest reduction.[110]

This would free up funds to invest and improve facilities and to develop new international markets. Some witnesses also recommend applying an excise tax exemption to the Canadian portion of blended wines. An "International Canadian Blends" wine containing up to 75% imported wine could have the excise tax exemption apply to the 25% Canadian content. According to Mr. Patrick Gedge, Chief Executive Officer of the Winery and Grower Alliance of Ontario, this exemption would continue to increase demand for Canadian grapes and help expand the wine industry.[111]

However, the Grape Growers of Ontario and the Wine Council of Ontario do not believe that an excise tax exemption on only 25% Canadian content of a blended wine would encourage an increase in Canadian content or help grow the wine market.

> We believe in growing the 100% Canadian domestic market. We will never get there if 25% in the bottle of a blended bottle of wine is incented with excise tax relief.…
>
> We don't see that as growing the marketplace. We see it as stalling the marketplace. If they really want to show that the bottle of wine has growth, then go to 50%. Give it 50% federal excise relief; at least incent it upwards, not backwards, because that's currently what we see.

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108 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 72, 1st Session, 41st Parliament, 26 March 2013, 1150 (Mr. Murray Marshal, Director, Winery and Grower Alliance of Ontario).

109 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 76, 1st Session, 41st Parliament, 25 April 2013, 1110 (Mr. Jan Westcott, President, Spirits Canada).

110 Ibid, 1105.

111 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 72, 1st Session, 41st Parliament, 26 March 2013, 1130 (Mr. Patrick Gedge, President and Chief Executive Officer, Winery and Grower Alliance of Ontario).

> We're not supporting 25% excise tax relief. When the federal government came out with the 100% federal excise tax relief, we felt that was such a strengthening of the industry, because it put the focus on Canadians. It put the focus on jobs.[112]

Recommendation

The Committee recommends that the Government of Canada consult with stakeholders regarding excise tax exemption on Canadian alcoholic beverages in order to promote the development of Canadian alcoholic beverages industry.

With regard to the non-alcoholic beverage industry, advocates of healthy eating would prefer to see taxes on certain foods, such as soft drinks. The soft drink industry is often blamed for high obesity rates, to which it responds that obesity is a complex issue. Taxing soft drinks would not eliminate the obesity problem. As well, countries that have gone this route have not ended up with reduced obesity rates. West Virginia has had a tax on soft drinks for many years, and yet it ranks in the top 5% of states with the highest rates of obesity.[113]

6. Container sizes

In the 2012 Budget, the Government of Canada announced the deregulation of the standard weight and size of container. Witness reaction to this is mixed. The Canadian Beverage Association has long called for the elimination of container size requirements, which it considers onerous. This deregulation will allow it to provide consumers with a greater choice of product sizes.[114] Other witnesses believe that doing away with standard sizes may drive up costs and put them at a competitive disadvantage.

> However, if [the regulations] are repealed, we are very, very concerned, being a small wine-producing country, that larger producers can come in with large box-size formats, for example, with economies of scale and be able to undercut the Canadian wine industry.[115]

Some witnesses said that doing away with standard sizes may have a particular impact on fruit and vegetable processors, resulting in closures. Other witnesses do not believe that changing the regulations on container sizes would have much of a negative impact on the beverage industry. There would certainly be some impact, but it should not

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112 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 77, 1st Session, 41st Parliament, 30 April 2013, 1210 (Ms. Debbie Zimmerman, Chief Executive Officer, Grape Growers of Ontario).

113 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 72, 1st Session, 41st Parliament, 26 March 2013, 1205 (Mr. Jim Goetz, President, Canadian Beverage Association).

114 Ibid., 1155.

115 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 74, 1st Session, 41st Parliament, 18 April 2013, 1130 (Mr. Dan Paszkowski, President and Chief Executive Officer, Canadian Vintners Association).

be all that significant. If the regulations on container sizes were repealed immediately, wine industry stakeholders said that the industry would be put at a disadvantage. It would need time to adjust and make the transition.

> There has been a lot of debate on whether we allow time for phase-in or supporting retooling for these plants. Some CEOs or plant managers would tell you that if they were given a few years and some money to support retooling they'd be fine. Others would tell you that wouldn't even help, that this change alone would destroy their businesses.[116]

116 House of Commons, Standing Committee on Agriculture and Agri-Food, *Evidence*, Meeting No. 77, 1st Session, 41st Parliament, 30 April 2013, 1130 (Mr. Derek Nighbor, Senior Vice-President, Public and Regulatory Affairs, Food & Consumer Products of Canada).

CONCLUSION

The Committee's study has illustrated the complexity of the food supply chain, which is made up of several different players. The three sectors studied (red meat, grains and oilseeds, and beverages) have their own unique characteristics and face different challenges. However, they do have some issues in common: in addition to facing several challenges involving consumer demands and market changes, the food supply chain must comply with the regulatory framework. During this study, the Committee heard from a number of witnesses who said that, in order for the food supply chain to be successful, various stakeholders in the chain need to work closely together. Modernizing the regulatory framework would lead to greater provincial/federal coordination, and regulatory co-operation with the United States would certainly benefit the entire food supply chain. As well, the Committee recognizes that research and innovation contributes to the success of the agricultural sector. The Committee expects to focus on other sectors as part of this study.

LIST OF RECOMMENDATIONS

Recommendation

APPENDIX A
LIST OF WITNESSES

Red Meat

Organizations and Individuals	Date	Meeting
As an individual	2012/03/07	29
David Sparling, Professor, Richard Ivey School of Business, University of Western Ontario		
Food & Consumer Products of Canada		
Derek Nighbor, Senior Vice-President, Public and Regulatory Affairs		
Food Processors of Canada		
Christopher Kyte, President		
GS1 Canada		
Forrest Parlee, Director, Public Affairs		
Mike Sadwinyk, Senior Vice-President		
Canadian Food Inspection Agency	2012/03/14	31
Barbara Jordan, Associate Vice-President, Operations		
Paul Mayers, Associate Vice-President, Policy and Programs		
Department of Agriculture and Agri-Food		
Susie Miller, Director General, Food Value Chain Bureau, Market and Industry Services Branch		
Steve Tierney, Assistant Deputy Minister, Market and Industry Services Branch		
Canadian Bankers Association	2012/03/28	32
David McInnes, Director, Government Relations		
Conference Board of Canada		
Michael Burt, Director, Industrial Economic Trends		
George Morris Centre		
Robert Seguin, Excutive Director		
Canada Organic Trade Association	2012/04/02	33
Matthew Holmes, Executive Director		
Canadian Supply Chain Food Safety Coalition		
Albert Chambers, Executive Director		
Farmers' Markets Canada	2012/04/04	34
Robert Chorney, President		

Organizations and Individuals	Date	Meeting
Les amiEs de la Terre de l'Estrie	2012/04/04	
Laurier Busque, Member, Board of Directors		
André Nault, President		
Beef Value Chain Roundtable	2012/05/09	40
Blair Coomber, Government Co-Chair, Agriculture and Agri-Food Canada, Director General, Multilateral Relations, Policy and Engagement Directorate		
Dennis Laycraft, Industry Co-chair, Executive Vice-President, Canadian Cattlemen's Association		
Pork Value Chain Roundtable		
Susie Miller, Government Co-Chair, Agriculture and Agri-Food Canada, Director General, Sector Development and Analysis Directorate		
Jurgen Preugchas, Industry Member, Past President, Canadian Pork Council		
Sheep Value Chain Roundtable		
Andrew Gordanier, Industry Co-Chair, Chair, Canadian Sheep Federation		
John Ross, Government Co-Chair, Agriculture and Agri-Food Canada, Director, Animal Industry Division		
Maple Leaf Foods Inc.	2012/05/14	41
Rory McAlpine, Vice-President, Government and Industry Relations		
XL Foods Inc.		
Brian A. Read, Vice-President, Government and Industry Relations		
BC Food Systems Network	2012/05/16	42
Kathleen Gibson, Policy Analyst		
Beretta Organic Farms		
Mike Beretta, Chief Executive Officer		
Canadian Renderers Association		
Graham Clarke Government Affairs		
Canadian Cattlemen's Association	2012/05/30	43
Dennis Laycraft, Executive Vice-President		
John Masswohl, Director, Government and International Relations		

Organizations and Individuals	Date	Meeting
Canadian Pork Council	2012/05/30	43
Rick Bergmann, First Vice-President		
Jean-Guy Vincent, Chair of the Board of Directors		
Canadian Trucking Alliance		
Stephen Laskowski, Senior Vice-President		
Deanna Pagnan, Director, Livestock Transporters' Division		
Beef Value Chain Roundtable	2012/06/06	45
Blair Coomber, Government Co-Chair, Agriculture and Agri-Food Canada, Director General, Multilateral Relations, Policy and Engagement Directorate		
Travis Toews, Past-President, Canadian Cattlemen's Association		
Pork Value Chain Roundtable		
Susie Miller, Government Co-Chair, Agriculture and Agri-Food Canada, Director General, Sector Development and Analysis Directorate		
Florian Possberg, Member, Board of Directors, Canadian Pork Council		
Sheep Value Chain Roundtable		
Andrew Gordanier, Industry Co-Chair, Chair, Canadian Sheep Federation		
John Ross, Government Co-Chair, Agriculture and Agri-Food Canada, Director, Animal Industry Division		

APPENDIX B
LIST OF WITNESSES

Grains and Oilseeds

Organizations and Individuals	Date	Meeting
Alberta Wheat Commission	2012/11/20	57
Rick Istead, General Manager		
Barley Council of Canada Working Group		
Brian Otto, Chairman		
Canadian International Grains Institute		
Rex Newkirk, Director, Research and Business Development		
Canola Council of Canada		
Jim Everson, Vice-President, Corporate Affairs		
Canadian Federation of Agriculture	2012/11/22	58
Humphrey Banack, Second Vice-President		
Canadian Fertilizer Institute		
Robert Godfrey, Senior Manager Policy		
Roger Larson, President		
Pulse Canada		
Gordon Bacon, Chief Executive Officer		
Quorum Corporation		
Mark Hemmes, President		
Atlantic Grains Council	2012/12/04	60
Neil Campbell, General Manager, Prince Edward Island Grain Elevators Corporation		
Michael Delaney, Member		
Allan Ling, Chairman		
Canadian National Millers Association		
Gordon Harrison, President		
Malting Industry Association of Canada		
Philip de Kemp, President		
Western Barley Growers Association		
Brian Otto, Director		
Canadian Grain Commission	2012/12/06	61
Elwin Hermanson, Chief Commissioner		
Gordon Miles, Chief Operating Officer		

Organizations and Individuals	Date	Meeting
Inland Terminal Association of Canada	2012/12/06	61
Kevin Hursh, Executive Director		
National Farmers Union		
Terry Boehm, President		
Western Canadian Wheat Growers Association		
Gerrid Gust, Chair		
As an individual	2013/02/05	64
Ian Robson, Farmer		
As an individual		
Kenneth A. Rosaasen, Professor, University of Saskatchewan		
Stewart Wells, Farmer		
Vandaele Seeds Ltd.	2013/02/14	67
Cal Vandaele, President		
Western Feed Grain Development Co-op Ltd.		
David Rourke, Director		
As an individual	2013/02/26	68
Stuart Smyth, Research Scientist, Department of Bioresource Policy, Business and Economics, University of Saskatchewan		
Canola Council of Canada		
Jim Everson, Vice-President, Corporate Affairs		
CropLife Canada		
Dennis Prouse, Vice-President, Government Affairs		
Stephen Yarrow, Vice President, Plant Biotechnology		
Food & Consumer Products of Canada		
Susan Abel, Vice President, Safety and Compliance		
As an individual	2013/03/05	70
Rene Van Acker, Professor, Department of Plant Agriculture, University of Guelph		
Canada Organic Trade Association		
Matthew Holmes, Executive Director		
Canadian Seed Trade Association		
Patty Townsend, Chief Executive Officer		

Organizations and Individuals	Date	Meeting
Les amiEs de la Terre de l'Estrie	2013/03/05	70
Laurier Busque, Administrator		
André Nault, President		
Canada Grains Council	2013/03/07	71
Gordon Harrison, Member, President, Canadian National Millers' Association		
Canadian Biotechnology Action Network		
Lucy Sharratt, Coordinator		
Grain Growers of Canada		
Franck Groeneweg, Director		

APPENDIX C
LIST OF WITNESSES

Beverage sector Organizations and Individuals	Date	Meeting
Canadian Beverage Association Jim Goetz, President **Winery and Grower Alliance of Ontario** Patrick Gedge, President and Chief Executive Officer Murray Marshall, Director	2013/03/26	72
Brewers Association of Canada Luke Harford, President	2013/04/16	73
Canadian Vintners Association Dan Paszkowski, President and Chief Executive Officer **Sun-Rype Products Ltd.** Dave McAnerney, President and Chief Executive Officer	2013/04/18	74
British Columbia Wine Grape Council Hans Buchler, Chair **Ontario Fruit and Vegetable Growers' Association** Arthur Smith, Chief Executive Officer	2013/04/23	75
As an individual Terry David Mulligan **Alliance of Canadian Wine Consumers** Shirley-Ann George, President **Spirits Canada** C.J. Helie, Vice-President Jan Westcott, President **The Pop Shoppe** Brian Alger, Chief Executive Officer	2013/04/25	76
Food & Consumer Products of Canada Derek Nighbor, Senior Vice-President, Public and Regulatory Affairs **Grape Growers of Ontario** Debbie Zimmerman, Chief Executive Officer **Wine Council of Ontario** Hillary Dawson, President	2013/04/30	77

APPENDIX D
LIST OF BRIEFS

Red Meat

Organizations and Individuals

BC Food Systems Network

Canadian Barcode of Life Network

Canadian Supply Chain Food Safety Coalition

Canadian Trucking Alliance

Food & Consumer Products of Canada

GS1 Canada

National Cattle Feeders' Association

Organic Meadow Co-operative

APPENDIX E
LIST OF BRIEFS

Grains and Oilseeds

Organizations and Individuals

Barley Council of Canada Working Group

Canadian Biotechnology Action Network

CropLife Canada

Food & Consumer Products of Canada

Les amiEs de la Terre de l'Estrie

Robson, **Ian**

Smyth, **Stuart**

Van Acker, **Rene**

Western Feed Grain Development Co-op Ltd.

APPENDIX F
LIST OF BRIEFS

Beverage sector

Organizations and Individuals

Canadian Vintners Association

Food & Consumer Products of Canada

Grape Growers of Ontario

Ontario Fruit and Vegetable Growers' Association

Spirits Canada

Winery and Grower Alliance of Ontario

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* for the study of Animal Products Supply Chain (Red meat) (Meetings Nos. 28, 29, 31, 32, 33, 34, 40, 41, 42, 43, 45, 47, 48, 49, 50. 81, 82 and 86) is tabled.

A copy of the relevant *Minutes of Proceedings* for the study of Agricultural and Agri-Food Products Supply Chain (Grains and Oilseeds) (Meetings Nos 57, 58, 60, 61, 64, 67, 68, 70, 71, 81, 82 and 86) is tabled.

A copy of the relevant *Minutes of Proceedings* for the study of Agricultural and Agri-Food Products Supply Chain (Beverage sector) (Meetings Nos. 72, 73, 74, 75, 76, 77, 78, 85 and 86) is tabled.

Respectfully submitted,

Merv Tweed

Chair

Dissenting Opinion of the New Democratic Party of Canada to the Report on the Agricultural and Agri-Food Products Supply Chain

While we agree with much of content and witness testimony identified in the Committee Report on the Agricultural and Agri-Food Products Supply Chain, the New Democratic Party has put forward an additional set of recommendations. We feel these additional recommendations accurately reflect concerns raised by numerous witnesses who testified before the committee.

1. The majority of witnesses we heard from did not agree with the federal government's decision to repeal regulations related to container standards, as outlined on page 219 of their 2012 budget. Deregulating consumer packages puts manufacturing and farming jobs at risk in Canada. There is strong potential that manufacturing could be shifted to the United States and that foods being canned and/or processed could potentially be more easily sourced there.

"The government announced in Budget 2012 that they were planning on repealing the container size regulations. Our view is that if that proceeds, the competitiveness of the Canadian wine industry has to be taken into account. A decision to repeal the container size regulations is for foods—food products, in general. Wine gets caught up in that even though we are a different product from your average food product. So the container size regulations that we have in place are extremely important to the Canadian wine industry's competitiveness.

We're not the only jurisdiction around the world that has container size regulations; the United States has them, the European Union has them. However, if they are repealed, we are very, very concerned, being a small wine-producing country, that larger producers can come in with large box-size formats, for example, with economies of scale and be able to undercut the Canadian wine industry." (Dan Paszkowski, President and Chief Executive Officer, Canadian Vintners Association evidence 1st session 41st parliament, April 18, 2013)

"My view is that if there's going to be deregulation, you need to make sure there is an equal playing field in North America, which I don't believe is the case today. I think it would negatively impact many food processors in Canada." (Dave McAnerney, President and Chief Executive Officer, Sun-Rype Products Ltd. evidence 1st session 41st parliament, April 18, 2013)

"That standard container was put in place to really protect growers from low-priced product being dumped into the Canadian market. Now that is currently being threatened as well…As far as the processors are concerned, if you're a multinational and you have a plant in Ohio and one in Leamington, that's a no-brainer. You just supply the Canadian market from the U.S. side. So they're very concerned about that, because they're not going to retool those shops in Canada at huge expense unless there is a profitability factor, but if you're a multinational, that's not going to happen. For a smaller processor, we do have higher costs of production in this country, and we have to recognize that. If it's now going to come out of the U.S. at a reduced price, the competition for the Canadian processor is that much greater, and it's that much more difficult

for them to stay in business." (Arthur Smith, Chief Executive Officer, Ontario Fruit and Vegetable Growers' Association evidence 1st session 41st parliament, April 23, 2013)

Recommendation: Agriculture and Agri-Food Canada maintain regulations for container and packaging sizes so that Canadian processors and producers do not face any competitive disadvantages with our trading partners.

2. The NDP shares reservations of those witnesses who expressed concerns with the 1991 International Convention for the Protection of New Varieties of Plants (UPOV 91). A major concern with UPOV 91 is that it would add significant commercial protections for plant breeders that give them control over the importing, exporting, and stockpiling of varieties they have the rights to. Most importantly for farmers, while the 1978 Act allowed them to use harvested product for any purpose, in the 1991 Act governments can restrict the rights of farmers on behalf of plant license holders. This includes contentious issues such as the restrictions on the exchange, sale or reuse of protected plant varieties. Farmers could very well lose a large portion of their ability to save and reuse seed which would increase costs.

"There's a push to move to UPOV 91. One of the greatest concerns we have with UPOV 91 is that it has a so-called farmers' privilege which would allow farmers to save and reuse seed, but at the behest of the government... Also, it would give the owner of that plant breeders' right exclusive rights to control both the conditioning of the seed and its stocking. Conditioning is the cleaning and treating of that seed, and stocking is the bagging and storing of that seed. If those rights holders exercise those exclusive rights, farmers could be cut out of the game altogether because they aren't going to plant unclean seed on their farms." (Terry Bohem, President, National Farmers Union evidence 1st session 41st parliament, December 6, 2013)

Recommendation: Agriculture and Agri-Food Canada prepare a report that the Committee may consider which examines all federal policies affecting the plant breeding sector including available grants and contributions, in-house research programs, intellectual property rights, and regulatory processes and include its recommendations for a policy that will both encourage the development of new varieties of grains and oilseeds and ensure that farmers have the ability to save and re-use seeds on their farms.

3. Many witnesses we heard from agreed that Canada needs a National Food Strategy. The NDP believe it is important to look at the agriculture sector from not only a supply chain perspective, but also from a value chain perspective whereby other stakeholders besides producers, processors and retailers are recognized. These other players include the consumer, researchers, and government.

When asked if he would support a National Food Strategy: *"Yes, I'd say that's a great idea, and it's important for two reasons. Not only is it good for jobs in Canada, but it's really good for the environment…I think anything the government can do to continue to support awareness of the positive benefits that supporting local has on the environment, as well as on the economy,*

would be a step in the right direction." Dave McAnerney (President and Chief Executive Officer, Sun-Rype Products Ltd. evidence 1st session 41st parliament April 18, 2013)

When asked if she would support a National Food Strategy: *"I always do agree on things like this. I think the leadership the government can show is important, in particular in helping disparate ministries work together to support an initiative. I know in the grape and wine sector we come across so many ministries that we have to work with all the time, so that leadership at the national level is very helpful to us."* (Hillary Dawson, President, Wine Council of Ontario evidence 1st session 41st parliament April 30, 2013)

Recommendation: Agriculture and Agri-Food Canada begin immediate development of a National Food Strategy that bolsters local food production, ensures long-term research funding and builds linkages between consumers, retailers, public institutions, and producers.

4. New Democrats believe in a balanced approach to genetically modified (GM) crops that considers human health, the environment, the sustainability of crops and the economic interests of farmers. It is the government's responsibility to ensure that its policies do not serve to unfairly or negatively affect any one sector of the agriculture economy.

Recommendation: The government establish a policy to require an evaluation of the economic consequences of contamination to domestic and export crops, following an open consultation with industry and farmers prior to its approval of any new GM crops.

The NDP would like to include the four recommendations presented to the committee by the Organic Trade Association on March 3, 2013 concerning Low Level Presence (LLP) into the report as reference:

If an LLP of 0.1% is to be introduced in Canada, as a minimum the organic sector requires and calls for the following:

- Routine public testing of imports for GMOs;
- Publication and communication of the incidence, the crop, the importer and the country or origin of the crop, whether it has come within the action or threshold limit;
- Regular and specific reporting of this information to the organic sector so that our producers, handlers and manufacturers may pursue best management practices and targeted testing in order to protect our products from contamination; and finally
- I would recommend that we look to the lead of the United States and Secretary Vilsack in striking the AC21 Committee to investigate the means from which to manage risk and compensate farmers whose crops and products are contaminated by unintentional GM events.

Food Supply Chain - Red Meat, Grains and Oilseeds and Beverage Sector: Liberal Report

Food Supply Chain and Red Meat

This committee undertook a study on the food supply chain nearly a year ago to glean a better understanding of the voyage of food from field to farm gate to fork.

We believe as in our report on Growing Forward 2 that the government must make good on its promise to implement a national food policy.

We have heard over and over the link between the continued sustainability of the sector and an overarching national policy that ties together all levels of government, including various departments and non-governmental stakeholders.

For this reason and in the interests of truly representing what we learned about the food supply chain we recommend the following:

Recommendation:

The committee recommends the Government of Canada engage the provinces, territories and all stakeholders to facilitate the development of a national food policy which includes specific objectives for the Canadian agriculture and Agri-Food sector

Grains and Oilseeds

Throughout testimony on the grains and oilseed sector, witnesses made very clear how fundamental the production of oats, wheat, corn, pulses, canola, soybean and flaxseed are to the food supply chain and the Canadian agricultural sector as a whole.

While we agree with the majority of the report on grains and oilseeds we believe that it would only be complete with a recommendation based on testimony heard regarding the coexistence of genetically modified (GM) and non-GM crops.

Most recently, the question of registering and commercializing GM alfalfa, also known as Roundup Ready Alfalfa has become very important and we agree with many stakeholders that the Government must complete a comprehensive study into the impact of this particular variety including, but not limited to the seed's genetics, production, preservation and transportation as well as the determination of an appropriate audit mechanism and verification systems.

Across Canada there is a clear consensus that the strengthening of our export markets is absolutely critical for the health of the Canadian agricultural sector which is why we must balance innovation with the best interests of our trade partners and more importantly, the best interests of our farmers.

For that reason, we recommend:

Recommendation:

The Committee recommends that the government place a moratorium on any approval, registration or distribution of Roundup Ready Alfalfa until the Government completes public research into Canada's ability to ensure the genetic integrity, production and preservation of a diversity of genetically modified organisms (GMOs), non-GMO and organic alfalfa production; into the ability of Canada's handling and transportation system to ensure segregation of forage seeds and detection of genetic co-mingling in alfalfa seeds and hay; and into the development of industry-led, third party audit and verification systems and that this information be reported back to the committee.

Furthermore, when it comes to GM products already on the market, we recommend:

Recommendation:

The Committee recommends that the government establish a clear policy regarding the responsibility of stakeholders involved in cases of contamination by GM products.

Beverage Sector

While we agree with many of the findings of this report, we are compelled to include two recommendations that were gathered from testimony from witnesses which the government must address in order to fully engage with and support this important sector.

Witnesses spoke of the importance of amendments brought about to the Importation of Intoxicating Liquors Act one year ago. Many, however, expressed frustration at the varied reactions of provinces as at the beginning of the report.

While we agree with the Committee's recommendation that the Government of Canada amend the Importation of Intoxicating Liquors Act to include the interprovincial importation of beer and spirits similarly to wine, we do not feel this adequately addresses the concerns of witnesses regarding interprovincial import or export.

Accordingly, we recommend additionally:

Recommendation

The Committee recommends that the Government of Canada engage with its provincial counterparts in order to determine the most effective means of reducing obstacles to both the importation of wine across provincial boundaries and interprovincial direct-to –consumer sale and report its findings back to the Standing Committee on Agriculture and Agri-Food.

Container Sizes

Many witnesses testifying before the committee raised the issue of container sizes – and in particular the detrimental impact on the beverage sector. We believe that evidence presented by the Canadian Vintners Association accurately summarizes the concerns of many in the beverage sector and is reflective of concerns heard from the Food Processors of Canada among other national associations regarding the competitive disadvantages brought about by the Government of Canada's decision to deregulate container sizes.

We were disappointed not to see a recommendation on this issue and accordingly, we recommend:

Recommendation

The Committee recommends that the Government of Canada engage with all stakeholders in public consultation regarding container size regulations in the Consumer Packaging and Labeling Act and that as part of these consultations the Government perform a comprehensive cost analysis of the impact on processors and producers and report back to this committee with its recommendations on how to adequately deal with that economic impact on Canadian producers including, without limitation, retooling and other transition costs.

The beverage sector has demonstrated its versatility in the face of market changes among other challenges; however, it is clear there are still areas where the Government of Canada can and must assist to support and grow our the various branches of the agricultural sector and food supply chain.