

THE STANDING SENATE COMMITTEE ON AGRICULTURE AND FORESTRY

UNREVISED EVIDENCE

OTTAWA, Thursday, June 12, 2008

The Standing Senate Committee on Agriculture and Forestry, to which was referred Bill S-228, An Act to amend the Canadian Wheat Board Act (board of directors), met this day at 8 a.m. to give consideration to the bill.

The Chair: Our next witnesses, joining us this morning from the Grain Growers of Canada, are Jeff Nielsen, Vice-President and Richard Phillips, Executive Director, who will give us their views on this bill. We have one hour, colleagues, so I encourage you to keep your questions as short and sharp as possible in order to give our witnesses an opportunity to respond fully, and for everyone to have a chance to participate in the discussion. We are glad to have you here, welcome.

Jeff Nielsen, Vice-President, Grain Growers of Canada: Good morning, honourable senators, and thank you for allowing us to speak to your committee today on a matter very close to my heart and my business.

I own and operate a 1,350-acre grain and oilseed farm near Olds, Alberta. Along with being vice-president of Grain Growers of Canada, I am also president of the Western Barley Growers Association. My past experience in agriculture includes being elected by farmers to the board of directors of United Grain Growers and also to the board of Ag Core United.

On behalf of the Grain Growers of Canada and the Western Barley Growers Association, we do not approve of the proposed bill S-228. With respect, we currently have before Parliament two very important bills – C-46 and C-57 – that will add clarity and amend the Canadian Wheat Board Act to reflect the wishes of Prairie producers. In the recently released Canadian Wheat Board producers' survey, the farmers' wish for marketing choice was clear.

Barley production in Western Canada averages 10-plus million tonnes a year. Of that production, roughly 44 per cent comes from Alberta, 43 per cent from Saskatchewan, 8 per cent from Manitoba and 3 per cent from the Peace region of British Columbia. Alberta and Saskatchewan produce close to 100 per cent of the malt barley production due to disease factors in Manitoba.

In marketing my malt, I am forced to go through the Canadian Wheat Board and pay freight costs to Vancouver, even though, where I farm, I have access to two Canadian malting facilities within a 100-mile radius. The wishes of barley producers echo the calls from the Malting Industry Association of Canada, whereby producers and maltsters need the ability to deal directly with each other on malting varieties, quality, quantity and pricing contracts. These contracts then allow producers a bankable contract and the maltsters the barley they require to run their facilities.

For 10 years, the Canadian Wheat Board has conducted surveys, and for 10 years barley producers have supported marketing choice. In all 10 years, support for the complete Canadian Wheat Board control on barley has never exceeded 36 per cent.

Cash Plus is the Canadian Wheat Board's answer to 10 years of barley producers asking for marketing choice. Cash Plus was soundly rejected by the majority of malt producers and our malting industry. This program still has the Canadian Wheat Board playing an interfering role as an unwanted middleman.

The inability of the Canadian Wheat Board to give producers adequate, clear pricing signals is currently the major impediment for maltsters to get barley into the facilities, thereby threatening their operations as barley is the only product they can use. I would note that in Alberta alone, there are over 1 million acres of barley production whose producers do not have Canadian Wheat Board permit books. That means 1 million acres of top quality barley that our malting industry cannot touch.

The need for more malt in the world is growing. One of Canada's largest malt processors made it clear in late-January here in Ottawa that they are expanding and growing their operations. Yet due to the Canadian Wheat Board, they will not invest in Canada. More malting facilities here would create more value-added and greater economic returns to all of Canada, yet we see have seen new builds that should have been in Western Canada go to the U.S.

As a feed barley producer, domestically, I have choice. I can sell directly to an end user such as livestock operations. If we had true barley marketing freedom, we would be able to react to all the barley marketing options quicker and bring that value back to the farm. An example of this is the 800,000 tonnes our Canadian grain trade sold internationally last spring, speculating that the Wheat Board monopoly would end August 1 of last year. At the same time, the Canadian Wheat Board refused to participate in that market.

As a Western Canadian market producer, I am frustrated with being forced to use this monopoly when fellow farmers in Ontario, Quebec or the Maritimes can export for free. In support of the Canadian Wheat Board, I believe it can transition into an entity that will allow those who wish to market through it that option. Perhaps a new-generation cooperative could be an avenue to look at.

We are all aware of the possible international changes that are fast approaching. If we do see consensus at the WTO in the coming months, the Canadian Wheat Board will lose its government guarantees in 2013.

The Canadian Wheat Board's marketing expertise and international reputation will successfully carry it forward under its evolved entity, even without the monopoly control. Barley producers have support for marketing choice from the three provincial provinces – B.C., Saskatchewan and Alberta, Marketing Choice Alliance, the Malting Industry Association of Canada, Ice Futures Canada, the Western Canadian Wheat Growers, the Alberta Barley Commission, the Grain Growers of Canada, the Western Grain Elevator Association and the Brewer Association.

I respectfully ask all senators to vote against Bill S-228 and speedily vote for Bill C-46 and Bill C-57 when they are brought before you.

Richard Phillips, Executive Director, Grain Growers of Canada: I am currently the executive director of the Grain Growers of Canada. My wife Sally and I own a small seed farm in Saskatchewan where I have produced seed for over 20 years. In addition, together with my father, we own a couple hundred feeder cattle.

Prior to this job, I worked off farm with the ecumenical Canadian Food Grains Bank and also with the former minister of the Canadian Wheat Board, the Honourable Reg Alcock.

Bill C-228 touches on governance; and I want to touch on one point quickly, which is reducing the number of appointed directors from five to three. When I sat on the board of directors of United Grain Growers, we were a large cooperative and we were struggling financially. Prior to taking the company public, we had 100 per cent farmers on the board of directors. When we went public, we brought in outside directors. I cannot say strongly enough how important it is to have outside strength on your board of directors.

We have seen from history, even with the Wheat Pools, that the one challenge of some of these organizations is that we have too many farmers. I say that with the greatest respect as a farmer because we do not necessarily have that board strength of assessing human resources and international currency risks. There are also other things at play that we as farmers do not experience on our farms.

Therefore, we think this bill is a step in the wrong direction. You need that bench strength if you are to compete in the global grain trade.

The gist of the CWB debate and the bills come down to two key issues as Mr. Nielsen mentioned. First, have farmers clearly expressed their desire for change as required in the act? Second, can the Wheat Board successfully be part of an open market?

I have circulated the actual questions asked in the plebiscite and the results. I am here following up on what the Wheat Board and the minister talked about. People say the questions were not clear and even if they were clear, the Wheat Board cannot operate in an open market. I would like to take a couple minutes to address that.

The first option was: The Canadian Wheat Board should retain the single desk for the marketing of barley for domestic human consumption and export markets. It is very clear that you are voting for the Wheat Board monopoly.

The second option was: I would like the option to market my barley to the Canadian Wheat Board or any other domestic or foreign buyers. This, again, is clear for the farmers. It will be an open market, but we want the Wheat Board as part of it.

The third option was: I want nothing to do with the Wheat Board whatsoever.

The results indicate that 37.8 per cent wanted the monopoly, 48.4 wanted an open market with the Wheat Board as a player and 13.8 wanted no Wheat Board whatsoever. What the minister looked at and what we would look at is that combining option two and three, about 62 per cent of the farmers either want no Wheat Board or they want the Wheat Board only as an option. It is clear that the majority of western Canadian farmers want the ability to market their own barley or to market through the Wheat Board as an option when it is competitive with its prices.

Another issue, though, is whether number two was even a valid option. That is what you hear from the Wheat Board and others: We cannot compete and cannot add value in an open market. I heard them bring that point forward here before the committee.

We feel strongly that they can add value and provide a great service to farmers even without the monopoly. If you look at the numbers again, and I believe it was Senator Callbeck who raised it, over 80 per cent of the farmers want the Wheat Board.

If you were in Senator Peterson's real estate business back in Regina and 40 per cent of the people wanted to deal only with you and 50 per cent of the people would like you to be their option, you would be ecstatic to have that sort of corner on the market without have 100 per cent of it.

It adds up to approximately 86 per cent of farmers either want the Wheat Board monopoly or the Wheat Board as a strong option to deal with. They have a huge base of support that already wants to deal with them. Yet they say they cannot compete or add value. However, we think people will deal with them. Forty per cent of the farmers will still deal with them and, probably, exclusively with them. That is a huge volume of grain.

There is the voluntary Wheat Board in Ontario. They, too, handle a large percentage of the grain every year because they add value.

Another issue that the Wheat Board and others raise is that the Wheat Board does not own facilities so how can they compete with the private grain trade. If the Canadian Wheat Board went to tender and asked who wants to handle all the Wheat Board barley that they will buy this year, those grain companies would jump all over each other trying to buy that grain. It is a volume driven business and people want to put as much grain as possible through those grain elevators. It is a very competitive business. You would have Cargill, Viterra [GB1] and Canadian companies like Parish and Heinbecker [GB2], Paterson Grain [GB3] and James Richardson International [GB4] falling all over themselves to bid and trying to get that business through their driveway. Having to own the facility is a red herring. There are many people out there willing to handle that grain for them.

I sat on the board of directors of a grain company for a number of years. Another thing the Wheat Board does probably not understand is that the margins are razor-thin in the grain trade business. If they think owning a facility to handle only Wheat Board grains will make money, they are wrong. They will lose hoards of money doing that.

You have to be able to handle canola, peas, lentils, flax or whatever crops are needed at a port position. You need to have the flexibility to handle all of that and not only the Wheat Board grains. My prediction is that they would go under in record time. They may take issue with that. However, you have to be flexible in that business to make a living.

In summary, first, we feel strongly that farmers have spoken clearly. They want change and they want choice. Second, we believe the Wheat Board can add value and be a strong competitor in an open market. Thank you.

The Chair: Thank you.

Senator Mahovlich: Bill S-228 proposes that two of the five appointed directors be chosen by ten elected directors rather than by the government. Are these ten elected directors who will make this choice elected by producers?

Mr. Phillips: Yes.

Senator Mahovlich: In other words, it is fair then.

Mr. Phillips: If we were to move to the middle ground on this, I would say that maybe there needs to be some sort of joint approval for those five outside directors. The board could recommend names, the government could recommend names and together they could find common ground. That would be a preferred method if there will be movement on this.

Now, the government appoints all five members. They may appoint people whom the board likes or does not like. Likewise, maybe the government would change and the new government would appoint all five with a different view.

We feel that joint decision-making would be the best way to shake out this issue.

Mr. Nielsen: On the election issue, 10 members are elected by farmers. Currently, there are regulations on how to obtain a ballot and Bill C-57 is looking at that as well. There are a lot of producers that do not vote in Canadian Wheat Board elections due to the fact that they do not grow Board grains at the current time. Therefore, the minister is looking at changing that in Bill C-57.

Senator Mahovlich: How would this improve the governance of the Canadian Wheat Board?

Mr. Phillips: Are you asking about the suggestions in Bill S-228?

Senator Mahovlich: Yes.

Mr. Phillips: Anything that would strengthen your outside directors to have truly competent people in their areas of expertise would be good. I think what the elected board members could best identify, along with senior management of the Wheat Board, is what areas of expertise are needed on the board of directors rather than picking the appointed directors. Then the government can look for names of qualified people.

For example, if the Wheat Board said we are missing accounting and auditing skills on our board, then the government could go to Deloitte & Touche or elsewhere to find that expertise, which they recently did by finding an ex-financial officer of one of the largest grain companies in Canada.

I think that those directors should be identifying the areas of expertise rather than picking people. The perception would be that some of the people on the board would only want to pick people who think their own way politically and there is a concern about that. It is much like the concern that the government would pick people who think its way. Therefore, I think a joint process would be best.

Senator Peterson: As a point of interest, do you think there was ever a time when barley producers wanted to be part of a Canadian Wheat Board?

Mr. Nielsen: That is a very good question. The 10-year survey show it has not been there and in Alberta, it is probably closer to 20 years where their voice has supported marketing choice. I remember the day when I had to market all of my barley through the board.

The whole marketing system and the marketing environment has evolved into something completely different from what it was 10 or 30 years ago. It is evolving constantly. Our markets are changing and we have to see the opportunities to market into new environments quicker. Unfortunately, the Canadian Wheat Board cannot respond to those opportunities as quickly. We saw that with 800,000 tonnes of grain last spring.

Mr. Phillips: Things have changed a lot. If you go back 20 or 30 years as a farmer -- I am old enough to do that -- we did not have access to information. We did not have the Internet or the ability to know what grain prices were. There was a time when people loaded up their trucks with grain, drove to town and the elevator companies offered them a low price. They accepted the price offered because they were not about to drive their grain all the way back to the farm. Today, farmers phone ahead, send a fax, or check on the Internet to know the price of grain. We farmers are better able to price our crops, the same as we do with flax, oats peas and lentils. When the CWB started, there was a good role for it because the farmers were getting ripped off by the grain companies. However, that has evolved with the move to the information age because farmers are no longer in a position of feeling beholden to the grain companies in the same way.

Senator Peterson: On the recent plebiscite with the three questions that you handed out, do you think that there would have been a great deal of confusion when people were voting? Might they have thought that it was more than a barley plebiscite and that it was about the Wheat Board in the bigger picture?

Mr. Phillips: I do not believe so. Some people made allegations that it was the start of the slippery road to getting at wheat. For the purposes of this plebiscite, it was clear that it was only about barley. It was clear in the media, announcements and letters to the editors that it was about barley.

Senator Peterson: Would it not have been better had there been fewer questions? The results depended on which side of the fence you were on and whether you added one and two to get your percentage or added two and three to get your percentage. It is unfortunate that it comes down to that.

Mr. Phillips: We do not disagree with you, senator. One or two questions would have been clearer. The people who voted for number 3 probably would have voted for number 2; then it would have been either the Wheat Board or an open market.

Senator Peterson: Do you think that in trying to revolve this, it would have been better to make barley a separate discussion rather than bring the Wheat Board into it? Would that have been the way to do this?

Mr. Phillips: With respect, it was clear to us that it was about barley. Perhaps I am misunderstanding your question.

Mr. Nielsen: It clearly involved barley. Due to the three questions, you would have to check with Minister Ritz but Minister Strahl was obligated to offer the three choices. You would have to talk to Minister Ritz to obtain clarity. Out of the 10 million tonnes to 12 million tonnes of barley crop produced in Western Canada, only 2.8 million tonnes are handled through the CWB. We have a struggling but dynamic feeding sector in Western Canada. The only barley that the Canadian Wheat Board has ever handled has been for the malt market. Last year, there was an opportunity for the feed market and a private grain trade saw that opportunity and took advantage of it but decided to deal with the Canadian Wheat Board to move those tonnes through the system. The Wheat Board handles only 10 per cent to 20 per cent of the barley crop. Dealing with them is a real thorn in the side of barley producers when it is such a small percentage of their business.

Senator Mercer: I go back to political science class many years ago at university when a professor told me that figures do not lie but liars figure. As Senator Peterson said, the results depend on which two numbers you add together. I would disagree with you that the elimination of question 3 would bring any clarity. The elimination of question 2 would bring greater clarity on what the producers want. There were substantiated allegations in the media that a large number of voters were dropped off the voters' list just prior to the plebiscite.

Mr. Nielsen: Yes, that happened in the last director elections, and I believe Bill C-57 addresses that. Many producers vote in the director elections that have no actual ties to the production of the grain, and the minister at the time was trying to clarify that. To define "producer" is what we want. As Minister Ritz said, you do not want your banker or someone else with a special interest having a vote when they have no direct contact with how you manage your own business. Many farmers need to have a land base and have multiple landowners. They are on a cash share basis and lease out their land for cash. Even though I am paying cash to rent from them, they do not have a right to tell me how to run my business. If they have a crop share whereby they are paying part of the cost of producing the crop and receiving a return for the crop, then maybe then they can have an opinion, but that is a dicey area too.

To clarify, you want actual producers on the voters' list. You do not want a retiree, no disrespect intended, from Florida or Arizona sending a Wheat Board ballot back when they are not on a farm in Canada delivering the grain to an elevator.

Senator Mercer: That might be true but I am not sure that I feel comfortable having the Minister of Agriculture making some of those decisions either. That needs to be clarified. Free advice is worth what you pay for it, but I will give some anyway. This has to be cleared up as this debate on the Wheat Board continues because it will receive a rough ride in this town if we do not feel comfortable that everyone involved has had a say.

I like your reference to finding quality board members. Farming is not a simple business. Some of the best entrepreneurs in the world are farmers. You have to be because you take the biggest financial risk of anyone. You take more risk than anyone on Bay Street each spring when you put the seed in the ground. You take the risk all year long in an environment that you do not control because you never know what the weather will do. We have talked many times before about how things can be going along fine until a hail storm hits in mid-August, and it is over just like that. Quality people for your board members are the farmers but the provision of some appointees will allow you to fill any gaps. Having worked with many boards of directors during my career, I know that the additional expertise at the table is not necessarily the elected members of the board, whether they be farmers or appointees. They are your senior staff and if you hire well and pay well, you will receive good advice. I do not think you need to have all of them at the table to vote but having them in the room giving quality advice can be invaluable. I apologize for giving a speech.

My concern is that you start down this slope of dismantling the Wheat Board, although you say it is not that it is perceived that way because this is a perception business. Adding the results of questions 2 and 3 together and following that number would bring us to the edge of that slippery slope to dismantling the Wheat Board, which has served Canadian farmers very well historically. Certainly, the Wheat Board needs to evolve into something but I am not the expert on that.

You gentlemen have your crops in the ground now. What happens if there is no Canadian Wheat Board and we have a glut of grain and barley around the world, and the price tanks? Senator Gustafson has helped educate me about the price of wheat since I have been on this committee. When I came on the committee the price of a bushel of wheat was \$1.50. It is not \$1.50 anymore.

What happens if the price of barley drops because of a world glut of barley or wheat; if everyone has good crops all over the world?

Mr. Phillips: I do not think it would be much different with or without the CWB. The Wheat Board is selling into a world market and many other people are selling the same crop. Whether there is a Wheat Board, the rising tide floats all ships. Likewise, with the grain prices, everyone goes down together.

For us, as farmers, we have diversified away from Wheat Board crops so that we can manage our risk be more profitable. It would be no different than if there was a glut of oilseeds with my canola crop, flax, peas, lentils or any other crops that we grow. We manage all of that risk ourselves, follow the pricing signals and market all that grain ourselves.

The Wheat Board, if there is a global glut of barley, will not make any more progress than what anyone else would make in terms of moving it at a better price. In the world market, there are just price takers, competing against Australia, Brazil, Argentina, Europe and the United States. It is a global marketplace even for them. There would not be much of a difference for us as producers from the grain price side.

If I can return to the point I think you were originally on with respect to the questions; should question 2 should be gone? That has been a debate. Is question 2 a valid question? Should just question 3 be gone and say I either want a complete monopoly or the Wheat Board in an open market along with everyone else.

The question has been: Can the Canadian Wheat Board operate and add value for farmers in a competitive marketplace. We believe it can. We think that question 3 could be gone if something was to be that one. There is no reason the Wheat Board cannot operate just like the Australian Wheat Board [PR5]operates in ran open market, as does the Ontario Wheat Board. They compete against the private sector. I believe they are holding close to half the grain in Ontario because farmers want to deal with them because they add value.

Not all farmers want to market their own grain. Some people say, "I take enough risk pricing my canola, peas and lentils. I like to put some grain into the CWB and let them do the marketing for me." Many farmers want that.

That is why we are not saying we should end the Wheat Board. We are saying the Wheat Board has to be strong and it must be there, even in the open market. People want to do business with it. The discussion the Wheat Board will not engage in is: What tools might you need to ensure you will be strong and competitive in an open market? That is where the debate has never gone. We have

asked the Wheat Board to let us have that discussion. However, they are afraid that is the start of a slippery slope; if they engage in that discussion, it is as if they are admitting they will move to an open market. That is unfortunate.

Senator Mercer: You did not comment on my reference to the quality of the board members and the quality of senior management, which helps the board make its decisions.

Mr. Phillips: I will return to when I was on the board of the United Grain Growers[PR6]. We were a publicly-traded company and, suddenly, there was a hostile takeover bid. This is an example. As farmer directors, we bring a lot of strength from the customer side of how the business needs to be. We were fortunate to have John Grant. I do not know if you know of him, but he was on our board and he fought off a hostile takeover with Lac Minerals[PR7].

There was that outside expertise that is absolutely critical. As grassroots farmers, no matter how risk-oriented we are, no matter how entrepreneurial we are, we do not have that expertise or that history or knowledge of some of those issues. Therefore it is critical to have that.

I will talk about senior management. The reason you have those outside directors on your board is so you can actually challenge and ensure your senior management is following things, doing things proper and ensuring they have appropriate risk management tools in place. That is hard to assess when you are a farmer on a large board like that.

There was a CEO named Brian Hayward [PR8] on the board of the United Grain Growers. He was making excuses why the company was not making money or meeting its budget. Art Morrow[PR9], CEO of Investors' Group was on there, and Mr. Hayward said to him, "It is a unique business." Mr. Morrow said, "Nonsense[PR10], young man. If I had a dollar for every CEO who said he was not making money because his business was unique, I would be a rich man today."

You need that strength. We, as farmers, were appalled. How does one talk to a CEO like that? However, that is what you need on your board to strengthen your farmer directors to ensure management is on track, doing what they are supposed to be doing and delivering on the goals.

Mr. Nielsen: I agree with that. I was with AU[PR11] and United Grain Growers. With AU, we actually had Allen Andreas[PR12], CEO of Archer Daniels Midland at the time. His wealth and experience brought wonders to that board. He never challenged or came up away from a challenge; or be restricted to our board. He added value and quality questions where they were needed.

I would like to address a couple of points brought up. One was regarding the directors itself. All the Canadian Wheat Board directors have taken director training. I took it myself when I was where Agricore United[PR13] and, at the end of it, if they passed the test, they received a "diploma" saying that they were chartered directors. It is a very intense session where you are learning corporate governance, financial management and social responsibilities. I found it frustrating taking the course. Some of the directors who had taken the course do from the Canadian Wheat Board do not follow the teachings of that course.

That is why we need strong appointed directors, whether it is joint advisory board who select the directors or not. Regardless, you need them on there to add their expertise. There have been politicized issues before the board. To have them run and go forward in the future and be strong, you need to remove that from that board.

When it comes to the two questions: In the latest began Gandalf Group[PR14] survey, they asked two questions. The question was: If you had to choose between two different approaches in marketing barley, which would you prefer: One was solely Canadian Wheat Board and one was open. Three years out of ten, the CWB had a slight margin above that. However, the seven years out of ten, including this last year, was 52 per cent voting for an open marketing system. That was the Canadian Wheat Board's own survey.

Senator Callbeck: I have a couple of questions. You have said you are not for Bill S-228 but that you favour Bill C-56 and Bill C-57 that are in the other place.

I want to ask you a question on Bill C-57. Right now, as I understand it, to vote for a director, you have to be a permanent book holder. Under Bill C-57, that will be changed. You would have to produce 120 tonnes of grain in either the last two years. The reason I am asking you this question is

because, in 2005, there was a panel that recommended 40 tonnes. One-hundred and twenty is three times what the panel recommended. Does that mean that a lot of small farmers will not have a vote?

Mr. Phillips: I will touch on a couple of things; one is: How do you vote today? In the permit books that you have, the actual producers are listed, as are interested parties and land owners. For example, if Senator Gustafson passed away tomorrow and left his land to six children, all six of them would have ballots whether they were school teachers in Kelowna B.C. However, they may not be the producers. Anybody that was listed at all had ballots.

The other way is: If you did not have a permit book, you could swear an affidavit that you were a farmer and you could get a vote. Therefore, anyone who did not have a permit book could still have a vote. That is currently what is happening today.

I was instrumental in Minister Alcock [PR15]as office in getting up and running the panel that brought forward the 40-tonnes. They came back with the 40 tonnes. The minister's office came forward with the recommendation for the 120 tonnes.

I think we could live with either one of those. We think 120 tonnes is likely a more realistic number of what we would call a "commercial farmer." As an organization, we are trying to get at saying, "Whoever wins the Canadian Wheat Board elections, wins the elections. However, let us have the actual producers who make a living from farming voting." How do we get to that stage? Forty tonnes of grain is very small. Only a small hobby farm would produce that anymore.

We are trying to move away from having interested parties who do not have farms or who just have small hobby farms, and say what is the minimum amount of grain? Senator Peterson and Senator Gustafson are from Saskatchewan and they would know that 120 tonnes of grain is roughly a quarter section of land. You can be a pretty small farmer today and still have 120 tonnes of grain. Even that is a relatively low bar by today's standard.

Mr. Nielsen: Generally, if you have 120 tonnes in a given two-year period, you cannot be a farmer because you would not be economically viable if that is all you produce. You would need to have an off-farm job. In a sense then, you are not really a farmer.

Senator Callbeck: This strikes me as strange that a panel would come up with 40, and the legislation would come in saying 120.

Mr. Nielsen: The panel actually had a wide range. I know the grain growers appeared, we appeared. The wheat growers wanted 500 tonnes and a ballot for so many tonnes after that. To condense it down, that is the figure they came up with that time.

Mr. Phillips: We could probably live with either number, as the Grain Growers of Canada. The 40 tonnes takes 30 to 40 per cent of the names off the voters' list that Sen. Mercer referred to as being reduced a little bit. I believe that the percentage is a little higher than that for 120 tonnes, but perhaps not significantly. It does take a lot of names off of people who do not actually farm, whether it is 40 or 120 tonnes.

Mr. Nielsen: Once again, it still allows those people, if they want to vote, to get a statutory declaration and say that they have an interest in the farm. You do not get the ballot mailed to you, but you can apply for the ballot.

Senator Callbeck: If you grow less than 120 tonnes, you can still vote?

Mr. Nielsen: Sorry, if that bill passed, no, but –

Mr. Phillips: The issue is these voters' lists. There is not a really good voters' list out there. The best voters' list is those people who report farming income, but Revenue Canada will not release that information for privacy reasons.

If you go to the Canadian Wheat Board list and mail out to all the people with permit books who deliver 120 tonnes or more, it will take a lot of people off who do not deliver that much grain. If Jeff Nielsen does not have a permit book and still produces 120 tonnes of grain, it would still be available for him to get a ballot by swearing a declaration to that effect in front of a notary. Anyone who does not have permit books would still be able to get a ballot and vote as long as they met the minimum qualifications.

Senator Callbeck: Making it 120 will take a lot of people off that list, which will have an effect on the voting – that is the bottom line. I would think most of those people at the low end would want the Wheat Board.

Mr. Nielsen: You could give that argument, but it comes down to the fact that we want a successful Canadian Wheat Board that will work for the majority of producers. If you look at your past speakers, Minister Ritz, Minister Bennick and Chairman Hill, they all have large operations – or Minister Ritz had one at one time. To be successful in agriculture, you need a large land base to produce the grains and you need to be diversified in crops to balance the risk over that with the different crops. Some farmers balance it out with livestock production.

I would go out on a limb and say that you cannot live off a quarter section of land.

Mr. Phillips: Who do we want directing where we go in agriculture? I think we want business-sized farms. Who are the people who are going to make this industry grow and thrive? It will not be the people who produce under 120 tonnes or 40 tonnes. People that are only producing that amount will not make this industry grow into the future. Those are not commercial-sized farms.

Senator Callbeck: Mr. Phillips, you spoke about the importance of the board being strong. If the government gradually moves more grain products into the open market and you have fewer people dealing with the Wheat Board, will that not weaken the Wheat Board? Will it not be difficult for the Wheat Board to be in competition with the multinationals?

Mr. Phillips: It is not fair to say it is the smaller farmers that support the Wheat Board. We see support for the Canadian Wheat Board all the way up to very large farmers. There will be lots of people who still want to do business with the board. It needs to show it is adding value – if you deal with us, here is what we can do for you.

The Wheat Board has a number of tools in its toolbox that the private sector does not have. They have some government guarantees and the ability to pool prices so that the farmer does not have to worry about picking the high or low. He can put it in there and take a pool price.

They offer a lot of strengths that a lot of farmers, large and small, will still want to take advantage of. That is why you see roughly 40 per cent of the farmers want to deal only with the Wheat Board. They have a huge customer base that will continue to deal with them, which will not lead that strength in the board to go to the private sector.

There also are people who want out of the Wheat Board, so let them go to the private sector. You still need the board to be strong and effective. It cannot be trying to operate and somehow be neutered in this world. We would like to see the Wheat Board engage in that discussion, as to what tools they might need to ensure they remain strong even in an open market. What is it that you need? That is the discussion we would really like to have.

Senator Callbeck: Do you feel there will be any problem with the Wheat Board competing with the multinationals?

Mr. Phillips: We are only talking barley here, which is 15 per cent of their business. They will still have the monopoly on wheat, which is 85 per cent of their business. The Wheat Board will still be a strong entity. The question is can they compete in that barley market?

I would say they have a huge head start on the multinationals. They have the customer contact list for anyone who has bought barley from the Wheat Board in the last 20 years, which the private sector will not have. They have government guarantees for their sales. In some of these cultures where you do business, especially in the Asian ones, it is about relationships. It takes time before you make a sale because you have to build a relationship. The Wheat Board has all those relationships. They are way ahead of the private sector, and I think they would still be very strong competitors.

Mr. Nielsen: On the handling side, grain companies are bidding for business. They need to have the turnover in their facilities, whether inland or at the port. When it comes to the Wheat Board saying we have a 100,000-tonne shipment to Saudi Arabia, who wants to bid on it, it will be picked up fast. Then that company will be able to source it from producers and move it through their facilities. The competition for moving the grain will be phenomenal.

Senator Gustafson: This Senate agriculture committee is a strong booster for farmers. Like farmers, we do not agree on everything, but I think this morning we found your views very invigorating, especially from younger farmers – I do not know where that cut-off is, but I view you as younger farmers – and that is positive.

My questions are on the global situation and what you are finding. I know you are on computers and probably following these things closer than most. In the global economy, we are hearing of food shortages, grain shortages and high input costs. What do you see in the global economy and where do you see this thing moving?

Mr. Nielsen: That is a very interesting question and one that we probably can speak on all day. We are in such a changing environment now. This can come back to the Wheat Board on barley. We are not seeing the advantages and growth on barley that we could if we had changes there.

You look in the U.S. and in eastern Canada here, where a lot of corn production is, and you see the phenomenal growth in corn due to plant research and breeding. We have not seen that in barley.

What we can do in this world, and what we do in Canada, is grow a lot more grains. However, as some of the respected witnesses before me stated, we are landlocked. It costs a lot of money to get our product to an export position. Due to that cost being so high, and the fact that we need to make a good living at it, it is hard for us to be the breadbasket to the world because we need to see a proper return back to us.

We try to add value to our grains here and diversify into that; and then hopefully try to add value to other countries with research and development and encourage them to help them to grow some more of their own crops.

Mr. Phillips: I will touch on the point of the food versus fuel debate. That is a global issue.

I believe, and I think someone else said it previously, the best cure for high grain prices is high grain prices. Grain prices will spur production and some of this will be resolved quickly. The bio-fuels industry has been pointing out clearly that it is not only bio-fuels driving grain prices, it is also speculation on shortages. We anticipate seeing a higher base price on most of our grains for a number of years to come.

The last time we were here, we asked about hog prices and we boldly predicted that hog prices would turn around. I would like to point out that hog prices went up the very next day.

Senator Gustafson: In your opening comments, you mentioned the Canadian Foodgrains Bank[GB16], which provides food for Third World countries and does tremendous work. Can you give us an update?

Mr. Phillips: It is an organization to which farmers donate grain. A farmer anywhere in Canada can go to his grain elevator and donate part of his crop. That revenue is then transferred to the Canadian Foodgrains Bank, which then uses it to receive a four-to-one match from CIDA to provide food aid anywhere in the world.

We would like to thank everyone involved with the untying of food aid. Although farmers are giving grain to the Canadian Foodgrains Bank, the cost of shipping grain overseas today is too high and the time it takes to get there to respond to a crisis in Ethiopia is too long. Untying the food aid has been a tremendous benefit for everyone in the international community. The more resources we use as Canadians to support local markets in Africa to strengthen African farmers and the farm base, the more we benefit those at the bottom. The more we do that in the world, the better world we will leave for our children.

Senator Gustafson: If a farmer donates a bushel, what does the government provide?

Mr. Phillips: CIDA provides up to \$20 million at four-to-one matching.

Senator Gustafson: In other words, it is four bushels from the government to one by the farmer?

Mr. Phillips: Yes. When I worked at the Canadian Foodgrains Banks, one farmer in Alberta donated a quarter section of land. I said that is generous, but why would you give us land? He said he had paid taxes to the federal government all his life and he thought that this way with the crop

from that land every year the government will have to pay all the taxes back and do something good with it. If I wanted all the land in Alberta donated, that will be my marketing campaign.

Senator Gustafson: The Canadian Foodgrains Bank is an NGO that the past government and, I am sure, this government as well held in high esteem for their accomplishments.

Mr. Phillips: I am hoping we will be able to provide closing comment as well.

The Chair: I have one more question from Senator Peterson.

Senator Peterson: Do you have the breakdown on the sales that the Canadian Wheat Board makes to line companies versus sovereign countries? You said the Wheat Board sells a lot to line companies or they buy it when there is an auction.

Mr. Phillips: The Wheat Board does not have facilities per se. However, if there was an open market and the Wheat Board did not own grain elevators, they would make an estimate that they will handle, for example, 75 per cent of the barley tonnage for malt barley. Therefore, it would be X number of tons. They would put that up to tender and the grain companies would bid for the right to handle the Wheat Board tonnage.

That is one model that may occur, but it is not actually what you are getting at.

When the minister appeared, he talked about line companies selling Wheat Board grains directly overseas and the Wheat Board selling some. Only the Wheat Board would have those internal numbers. For example, Parish and Heinbecker, a small Canadian company may have a relationship with General Mills in Minneapolis and they may sell Wheat Board wheat or barley directly to them. In that case, they would buy it from the Wheat Board and sell it. I do not know percentage the Wheat Board sells directly versus their authorized or accredited agents. I do not know what that split would be.

Mr. Nielsen: All grain companies that are sellers of Wheat Board wheat and barley for export are agents of the Wheat Board and shall be Canadian based whether they are U.S. or Canadian owned companies. That is how it is termed in the Canadian Wheat Board Act. These companies have sellers for canola, pulses, oats, et cetera. If they make a deal on oats to Japan, the buyer may say they also want X amount of wheat. The company would work on behalf of the Wheat Board to sell the buyer that wheat. They would get a price from the Wheat Board and facilitate that deal because they are licensed agents of the Wheat Board.

Senator Peterson: If the Wheat Board makes a major sale of 2 million tonnes to China, does the Wheat Board arrange for transportation?

Mr. Nielsen: The Wheat Board goes to producers and signs contracts to buy certain qualities of wheat. Then they make the sale and ask the elevators to bring in a certain amount of wheat of that grade into their facilities for export. Through the Canadian Wheat Board Act, you are paid handling fees by the producers for those facilities to handle that grain on behalf of the Wheat Board.

Senator Mahovlich: You mentioned that the Australian Wheat Board [GB17] is competitive. Are there other countries in the world that operate on more of a sure footing than Australia or is Australia a good example?

Mr. Phillips: Australia is a fairly good example. They have a small domestic market and an export market. Many countries have varying types of monopolies. New Zealand has a producer-owned co-op for exporting dairy products called Fonterra [GB18]. Other countries have bits and pieces of monopolies, but there are many state trading enterprises remaining in the world.

However, Australia would be one. New Zealand's Fonterra would be a more modern version of marketing board for producers.

Senator Mahovlich: What about Russia?

Mr. Phillips: I do not believe they would not have a state exporting agency. However, I could be mistaken on that.

The Chair: Thank you very much. This has been a very good discussion and very helpful. I think you both want to say a final word.

Mr. Phillips: We would like to say a couple things in closing.

People are concerned and there is always fear of change. When oats was removed from the Wheat Board, that industry exploded. We have seen value-added processing facilities develop across the Prairies. Entrepreneurial farmers came together, found markets and added value to the product. It has been a tremendous success story on the Prairies.

We also see now an additional 3 million tonnes of additional malting capacity for barley around the world. Not one single tonne is being built in Canada because the maltsters will not invest here until they have an ability to analyze what they want for malt and buy directly from the farmers. Until producers can deal directly with the malting companies on this, separate from the Wheat Board, we will not see any malt plants built. The industry has been crystal clear on this. Canada grows some of the best malt barley in the world and it is a shame that we are not seeing that value added processing put in place here.

Can the Wheat Board compete in an open market? When we look across the Prairies, I would say other agricultural co-ops compete. We see the United Farmers of Alberta, which is a very large organization, sell fuel and farm supplies. They compete directly against the private sector. Federated Co-operatives Limited[GB19], which operates one of the largest companies in western Canada, competes with the Wal-Marts and Canadian Tire and go to head-to-head with these companies.

We see credit unions and caisse-populaires compete. If you want to talk about trying to deal with the big grain companies, try to deal with big banks. Yet, they successfully operate.

We see examples of cooperatives operating in the open market all across Canada in all sectors because they provide service and value. People who do not have to deal with them, they choose to deal with cooperatives.

We feel that if the Wheat Board put its mind to it, it could do the same job that these other cooperatives are and they would be very successful at it.

Mr. Nielsen: I echo the comments of Mr. Phillips, especially in terms of barley and malting barley. At one of our malting facilities in Alberta, the grain buyer there can stand on his facility and look over hundreds of acres of barley production surrounding him and cannot buy an acre of it due to the fact that those producers do not wish to go through the Canadian Wheat Board. They built that plant in the higher barley country to source that barley.

I need to build the relationship with the maltster regardless of what company it is and have the contracts in place where I know what quality, quantity and price I can get. I can take that to the bank, do my financing for the year and work through it.

I cannot work under possible price scenarios such as a pool return outlook. I do contracting with my pulses and oilseeds. I may not hit the peak of the market and many times I do not. Last year, I got \$8.25 per bushel for canola when I sold it. When I took it to the elevator, it was selling for \$13 per bushel. At the time I was doing my financial plan, it showed me that I was making money at \$8.25 per bushel. This year, I have contracted some canola for over \$13 per bushel, so I am looking forward to that.

I look forward to your support on the bills that are currently in the House of Commons where the actual wishes of producers are better reflected.

I would remind you that barley is a minor crop that the Canadian Wheat Board Act handles. They can still add value to it if they choose, but they are restricting it greatly at the moment.

The Chair: Thank you. This has been a very good discussion today. We are pleased that you came and gave us your time. We have learned a lot.

The committee adjourned.