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• (1835)

[English]

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

Colleagues, welcome back. It's great to see a full room here for today's meeting.

This is meeting number 51 of the House of Commons Standing Committee on Agriculture and Agri-Food.

I'm going to start with a few reminders.

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

Taking screenshots or photos of your screen is not permitted. My understanding is that this also includes those who are in the room. Please do not take photos during our proceedings.

We have a great crowd in here tonight. If you're not able to get access to a headset, we apologize. We're doing our best. For those who do have access, you are able to grab your instrument over there, and this fine gentleman will help you out if you need it.

Colleagues, pursuant to Standing Order 108(2) and the motion adopted by the committee on Wednesday, October 5, 2022, the committee is resuming its study of food price inflation.

I would now like to welcome our witnesses for the first one-hour panel.

With us in person today we have, from the Dairy Processors Association of Canada, Mathieu Frigon, who is the president and chief executive officer. Joining online is Philip Vanderpol, who is the chair of the board of directors. Welcome to you both.

From Food and Beverage Canada, we have James Donaldson, who serves as the chief executive officer of the BC Food and Beverage organization.

From Maple Leaf Foods Incorporated, we have Michael McCain, executive chair of the board and chief executive officer.

To all our witnesses, thank you so much for taking the time to be here, and we look forward to hearing from you.

The way this will work is we'll have five minutes of opening remarks for each organization and then we'll turn it over to questions from our colleagues.

I'm going to start with Dairy Processors Association of Canada.

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

Mr. Philip Vanderpol (Chair of the Board of Directors, Dairy Processors Association of Canada): Good evening, Mr. Chair, and members of the committee.

Thank you for the invitation today to discuss dairy processors' views on food inflation in our country.

As you mentioned, I am the board chair of the Dairy Processors Association of Canada. As well, I'm the president and CEO of Vitalus Nutrition. With me today is Mathieu Frigon, president and CEO of DPAC.

DPAC represents more than 90% of the milk processed into dairy products in Canada.

There are two key areas we would like to discuss with you today from the perspective of the dairy processing industry. We would first like to discuss the inflationary factors affecting our industry, and second, the importance of a grocery code of conduct to promote contractual certainty and fair trading throughout the grocery supply chain.

As you know, the causes of inflation are multifaceted. Geopolitical pressures, weather-related events and the pandemic with the associated macroeconomic stimulus all played a role.

In dairy processing, between 2020 and 2023 the cost of raw milk increased by 10.6%. The cost of energy more than doubled. Packaging and material rose by 24%, while the cost of machinery and labour increased by more than 10%. Dairy processors strive to make efficiency gains and work to mitigate the impacts affecting customers and consumers, but with cost increases of this magnitude, it is obvious that costs have had to be passed down the supply chain.

Statistics Canada data shows that prices for dairy products sold by Canadian processors increased by 9.5% from 2020 to 2022, which is still below the inflation cost pressure faced by dairy processors over the same time period. For reference, the average profitability of dairy processors as a sector has, for many years, been lagging behind the average of all CPG—consumer packaged goods—manufacturers in Canada.

The factors that have been at play in Canada have also been seen in the U.S. If we compare the evolution of the price of dairy products at retail in Canada and the U.S. between 2020 and 2022, we see that dairy products overall have increased by 11.7% in Canada, while prices have risen 13.6% in the U.S.

Over the last 10 years, the inflation on dairy products in Canada has been less than half that of the other foods at retail. Food prices have risen by 27%, while the price of dairy products has increased by 11%. Cost, including farm milk prices, has definitely risen more than 11% in the dairy sector, so the 11% increase in dairy retail prices over the last 10 years reflects the efficiency gains that have taken place in the dairy supply chain over that time period, most notably at the dairy processing level.

I will now have Mathieu Frigon, president and CEO, speak on the grocery code of conduct.

• (1840)

[*Translation*]

Mr. Mathieu Frigon (President and Chief Executive Officer, Dairy Processors Association of Canada): Along with other industry associations that have appeared before this committee, our association is part of the steering committee working on the development of a code of conduct for the grocery sector. We cannot overemphasize the importance of a Canadian code of conduct to improve efficiency and collaboration throughout the supply chain.

The code will aim to bring transparency and greater contractual certainty to business relationships through clear terms and agreements between suppliers and retailers. The code will ensure that agricultural producers, processors, wholesalers, and large and small retailers adhere to ethical standards and ensure fair transactions throughout the value chain.

The code will be more than a written document, because it will also aim to establish a dispute resolution process that will allow for the quick and efficient resolution of commercial disputes between suppliers and retailers, if they cannot resolve these disputes on their own.

It is important to note that the code will need to be business-friendly, which means that it will need to be clear and simple, rather than include overly rigid rules and cumbersome processes. The goal is to increase efficiency by reducing bureaucracy, certainly not the other way around.

My association believes that the code should be mandatory and enforceable so that it truly enhances the opportunity to achieve better collaboration between suppliers and retailers.

In conclusion, the dairy processing industry has been a strong contributor to the Canadian economy over the years and we believe that the inflationary pressures we have faced have been mitigated to the greatest extent possible through efficiency gains at the processing level. The implementation of a code of conduct for the grocery sector will help to make the sector more efficient and resilient, and therefore better equipped to meet the challenges that will undoubtedly arise in the future.

Thank you again for your time and consideration on this very important topic. We welcome any questions you may have.

The Chair: Thank you very much for your testimony, Mr. Frigon and Mr. Vanderpol.

I will now give the floor to Mr. Donaldson for five minutes.

[*English*]

Mr. James Donaldson (Chief Executive Officer, BC Food and Beverage, Food and Beverage Canada): Thank you and good evening, committee members. Thank you for the opportunity to speak to you this evening.

My name is James Donaldson. I'm CEO of BC Food and Beverage, which is an industry association supporting the food and beverage industry in B.C. I'm also vice-chair of Food and Beverage Canada, which is a national industry association formed by Canada's provincial food and beverage associations. It represents over a thousand food and beverage manufacturers.

There are almost 8,000 food and beverage manufacturing establishments in Canada, the majority of which are small and medium-sized businesses that employ 300,000 people. Despite the small average size of businesses in the industry, it's also our country's largest manufacturing sector, in addition to being an essential service. Processors are the largest purchasers of Canadian agricultural products. As a result, these sectors are intertwined in terms of their long-term success.

Inflation is something that every Canadian has had to deal with in all aspects of their life. Obviously, food price inflation is no exception. Escalating food prices are highly visible as groceries are purchased at least once per week in Canada.

The other challenge is that food is essential. Some of the drivers of this are beyond our control, such as the war in Ukraine, droughts that have impacted many crops in North America, the pandemic and global supply chain disruptions. That makes it imperative for Canada to focus on these issues that are within its control to ensure a stable and competitive industry.

In recent months, there's been a lot of talk in the media about grocery retail business practices, which is an issue I'll touch on in a moment. However, the causes of food inflation are a lot broader than that. There are labour challenges, transportation costs, ingredient costs, packaging material costs, pallet costs, the cost of feed, and the cost of manure and fertilizer. There's been a rise throughout the supply chain.

In exploring solutions to these challenges, we need to start to look at the entire food system, which is especially critical in a country with such a large land mass and a small population. A food system is like an ecosystem: It works seamlessly when it's in balance. Right now, it's out of balance, and that is putting our industry at risk.

Processors have unique challenges versus other components of the supply chain. While rising costs have impacted everyone, including retailers and food service distributors, other stakeholders in the supply chain have the ability to pass those costs on to their customers—but not our industry. Processors have had to absorb increases in ingredient costs of up to 40% and in freight costs of up to 400%, particularly in B.C. during the flood crisis. They skyrocketed due to the imbalance between the companies providing the food and Canada's largest retailers.

It's difficult, and at times impossible, to pass those costs on through pricing, due to blackout periods and flat out rejections by some retailers. This situation, along with the excessive fees and fines administered by retailers, which cannot be passed on, and the inability to even negotiate with retailers are all impacting our industry's ability to compete. Essentially, Canada's processors are getting squeezed from both sides, and it's not sustainable. Small to mid-sized processors, which comprise most of the industry, don't have the resources and cash flow to withstand these challenges on a continuous basis.

We've heard some of the past testimony from retailers, who cited that processor margins are stable and used examples such as Pepsi, Procter & Gamble and Kraft. Those are not typical examples, as they are not reflective of the majority of industry in Canada.

We've also seen them try to shift focus from their record profits to their low margin percentages. Sadly, I can tell you that of the processors we have spoken to, even those with the good fortune of experiencing top-line growth have struggled with eroding margins. The average processor does not have the luxury of rejecting price increases from their suppliers or charging them fees and levies with no backup or prior notice.

I just wanted to point out that this is not a high-margin industry to begin with.

I'd like to make the following recommendations for your consideration.

First is the need to focus on industry competitiveness, capacity and resiliency. A lot of important work has already been done in recent years, such as the agri-food economic strategy table and the supply chain task force. We ask that this important work be revisited and implemented to move us to a more competitive position locally and globally.

Second, work with industry to resolve its labour challenges. Continue to support industry labour initiatives such as the national workforce strategy for agriculture and food and beverage manufacturing and the Achieving Our Workforce Destination program. Create a clearer and faster track to permanent residency for foreign workers.

Third, support further investment and funding for technology and automation for food and beverage manufacturers. According to the Canadian Agri-Food Policy Institute, food and beverage manufacturers are underinvested in advanced manufacturing relative to other manufacturing sectors and relative to other countries. We're falling behind. Investment in automation and technology modernization is critical for our industry to control costs, to mitigate labour risk and to scale and grow.

Most of the innovation and technology grants provided by government are not applicable to food and beverage companies. We need to revisit a broader definition of "innovation" to allow our industry better access to grant funding and dedicated funding programs for the food and beverage sector.

Thank you.

● (1845)

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

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

Mr. McCain, as the sole Atlantic Canadian member of Parliament on this committee, let me just recognize that I appreciate your work and your family's legacy in Atlantic Canada and indeed across the country, from a business sense and also from the investments you've made on the social side. Thank you for accepting our invitation.

The floor is yours for up to five minutes.

Mr. Michael H. McCain (Executive Chair of the Board and Chief Executive Officer, Maple Leaf Foods Inc.): Thank you.

Good evening, Mr. Chair and committee members. I am Michael McCain, CEO of Maple Leaf Foods.

Maple Leaf is one of Canada's leading meat and plant-based food processors. We employ over 14,000 people in Canada and the United States. We are pursuing a bold vision to be the most sustainable protein company on earth. In 2019, we became the world's first—and I emphasize "world's first"—scale food company to be carbon neutral.

Here are the things I intend to address in my remarks. Number one is the challenge of food inflation. Number two is the root causes. Number three is some suggestions we have on policy considerations going forward.

I happen to be old enough to have lived through previous periods of high inflation. Fortunately, in the past 30 years most industrialized countries have benefited from stable inflationary conditions. Induced by macroeconomic factors connected to the pandemic, Canada is now facing, as you know, inflation rates close to 7%. The good news is that it appears to be abating, although it's not going away yet. Because of other macro factors in addition to extreme sensitivity to global supply chains, food inflation has been running at over 10%. For comparison, on the other hand, food inflation in the U.K. and the EU has been over 16%.

As you know, this is having a very significant impact on Canadians. Research conducted by the Maple Leaf Centre for Food Security found that one-quarter of Canadians are very concerned about their ability to feed themselves, a rate that has doubled in two years. Among Canadians, 62% have ranked the rising price of essentials as their number one concern.

Food insecurity was a serious issue before the pandemic. Now reports from food banks show that the rising cost of living is forcing even more people to resort to emergency food relief to put food on the table. This is a serious problem that needs structural solutions and not food charity.

Our Centre for Food Security is working collaboratively to reduce food insecurity by 50% by 2030. We do this through funding innovative projects, advocating for a stronger social safety net and bringing together those on the ground to advance change.

I hope this committee's focus on food access and affordability stimulates a broader discussion and action on food insecurity. We need every voice behind this.

Many witnesses have appeared before you to discuss the root causes of food inflation. We would start with the central observation that this is not a Canadian problem; it's a global problem, with inflation rates that are at or above our own.

There are three overwhelming root causes. Number one is supply chain instability, including labour availability. Number two is the war in Ukraine. Number three is general inflation.

Food production operates in a global supply chain. This global supply chain reduces the cost of food day in and day out. It's a delicate, operationally sensitive supply chain, and the unprecedented impacts of the post-pandemic economy have been profound. Transportation costs ballooned. Supply became unreliable. Labour availability constricted. While it is getting better, it has not fully recovered.

Grain complex multi-year price charts, which weave their way into most every food cost in some way or other, illustrate the rapid rises experienced in these markets, exacerbated by the supply chain restrictions threatened or imposed due to the war in Ukraine.

Finally, general inflation has shown up across the food chain in everything from supplies to ocean freight rates to capital costs, packaging and everything else. They all contribute to the most turbulent market conditions I've experienced in my 40-plus years in the food industry.

The profit margins of any food participant in the food value chain are pennies on the dollar. In our case, spiralling inflation and market volatility have been a massive headwind. In the first three quarters of 2022, our adjusted operating earnings declined 60% to 70% compared to 2021. Our margins compressed materially as we tried to keep up. Of course, this is unsustainable, and we have no choice but to pass on higher cost inputs, but always in the context of highly price-competitive markets, regionally, nationally and internationally, with an open border for food imports, including imports from U.S. meat processors that are over 10 times our size.

● (1855)

The food industry has an important role in supporting food affordability. We meet that responsibility by operating as efficiently as we possibly can, by providing consumers choice in the marketplace and by investing in scale and technology to ensure our productivity is world class.

Food inflation and inflation in general are, simply put, global problems. There's little any of us in the room can do to modify or control that. Governments and public policy can, however, play a role in addressing the consequences of food inflation in building a better food system.

Our recommendations would include, one, focusing on fiscal discipline to restrain overall inflation; two, addressing historic labour shortages, including modernizing the immigration system to address skills gaps and mobility issues; three, setting a goal to reduce food insecurity by 50% by 2030, just as our centre has, and enlisting support from civil society and the private sector; and finally, building a focus on productivity and competitiveness in our economy, including regulatory competitiveness.

Thank you, Mr. Chair, for this opportunity, and I look forward to the discussion.

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

We're now going to questions.

We're going to begin with the Conservatives and Mr. Lehoux. You have six minutes, please.

● (1855)

[*Translation*]

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

I would like to thank the witnesses for being here this evening.

My first question is for the Dairy Processors Association of Canada.

In the current context, what connection do you draw between the code of conduct—which you referred to at the beginning of your presentation—and, generally speaking, the inflation that has affected your industry?

Mr. Mathieu Frigon: Thank you for the question.

The best way governments can help us deal with inflation is to increase supply chain efficiency. We believe this is precisely what a code of conduct would achieve for the grocery products sector, by improving contractual certainty and collaboration between the different links in the chain. The link between inflation and the code of conduct is probably an indirect one, but it's there nonetheless, in that it will improve supply chain efficiency and help manage inflationary pressure.

Mr. Richard Lehoux: Thank you.

To follow up on that, why do you feel that the code of conduct should be binding rather than voluntary?

Mr. Mathieu Frigon: Precisely to meet the objectives I've just described.

Mr. Richard Lehoux: So if it's voluntary, those objectives will not be met.

Mr. Mathieu Frigon: Let's say that it would be more difficult to achieve them. We certainly prefer a binding and enforceable code, to make sure that the code's objectives are met.

Mr. Richard Lehoux: What obstacles do you feel stand in the way of enforcing the code?

Mr. Mathieu Frigon: We work well with the other parts of the chain, at this time. An industry committee is currently working on a code and consultations will be launched. Collaboration is very good and there have been marked improvements. So the next few months will be critical.

Mr. Richard Lehoux: In your presentation, you mentioned the sector's strong contribution to the economy. To do processing, you need production.

If you break down the price of a product that is placed in-store, do the producer, the processor and the retailer each receive one third of the revenue? Is that how you are seeing the revenue breakdown?

Mr. Mathieu Frigon: Each situation is different. It depends on the products and their added value. I'll refer to the dairy sector because it's the one I'm familiar with. For liquid milk, there is probably less added value. It involves pasteurization, among other things. In that case, the dairy producer's share will probably be higher. If you take products with higher added value, which would be the case for products that are more processed, it would be different.

So it's not only a matter of revenue breakdown...

Mr. Richard Lehoux: Do you think we should ultimately aim for a fairly even breakdown, regardless of the product? If there are no producers, you won't have distributors. In any case, it would be managed very differently.

How do you see that? Processing is important, of course, but should we focus a little more on producers and retailers? Should the revenue breakdown be somewhat more even?

Mr. Mathieu Frigon: Yes, certainly. I believe that the code of conduct will help in that way. As I said, we want to improve efficiency and collaboration between all parts of the supply chain. The consumer will ultimately benefit. I'm not the one saying this; studies in the U.K. have shown it works. That's why the United Kingdom established a code of conduct.

To come back to your question, indeed, everyone needs to benefit, including consumers.

Mr. Richard Lehoux: I take it your membership includes small, medium and large businesses.

How do they all get along?

We know that in larger markets the big brands are basically the more appealing ones.

Do medium-sized businesses have their fair share of the market in the current context?

Would a code of conduct even the playing field?

Mr. Mathieu Frigon: It's hard for a business of any size, especially for SMEs, given inflationary pressures, among other things. In addition, the different players don't necessarily get along as well as they could within the supply chain. I would say that SMEs have to deal with particular issues.

Mr. Richard Lehoux: So SMEs are the ones facing more issues.

Thank you.

At the start, you mentioned that price increases in the United States were higher than in Canada. When you take a step back, it appears the way Canada manages its dairy sector does have some good things about it.

• (1900)

Mr. Mathieu Frigon: As Mr. McCain said, it's happening around the world. Inflationary pressures are not only happening in Canada. Dairy products have gone up in price in Canada, but less so than in the United States, as you said.

Mr. Richard Lehoux: Mr. Frigon, you sometimes hear that some of Canada's systems don't benefit consumer pricing, but if you look at the numbers we're given, that might not necessarily be the case.

Mr. Mathieu Frigon: On the level of inflation, over the last two years, it's certainly been similar.

Mr. Richard Lehoux: Thank you very much, Mr. Frigon.

I would like to ask Mr. McCain a question.

You talked a lot about the importance of labour. You said it was necessary to lessen the burden of red tape.

How do you picture the end result of a system where we would see a greater supply of labour coming from abroad, because there isn't enough in Canada?

[*English*]

The Chair: Unfortunately, we're out of time, but I'll give Mr. McCain 10 or 15 seconds if he wants to give us a quick response.

Mr. Michael H. McCain: If I understood the question properly, you're asking what kind of regulatory change would be required.

The bureaucratic obstacles to the foreign worker program, for example, have been acute for us. We would see opening up the aperture on that as being very helpful.

The Chair: Thank you very much.

We'll now turn to Mr. Drouin for up to six minutes.

[*Translation*]

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

I thank the witnesses before us today.

I don't want to single out one sector more than another. However, we are here today because our fellow citizens are asking us questions. People are worried, and as people in the sector have mentioned, inflation has affected the price of food and more Canadians are depending on food banks.

My first question is for Mr. Frigon.

According to discussions with your members, how would you describe the relationship between processors and supermarkets? Is it a good relationship?

Are your members saying that they're satisfied with negotiations that occur when, for example, they face a price increase?

Obviously, they have to pass on those increases to retailers. Are the relationships good, or do you really need the code of conduct you've been promoting since the beginning?

Mr. Mathieu Frigon: Of course, every case is different. In general, however, it's not a good relationship. That's why we've been working for several years on a code for grocery sector products; to improve the relationship between all the links in the chain.

It also affects agricultural producers. It's not just about producers delivering their products directly to retailers, but also about dairy farmers whose milk we buy because, ultimately, the pressure we experience spills over onto producers. As I was saying, we've been working on this code for a few years now, and it is exactly because relationships could be significantly improved.

Mr. Francis Drouin: We saw it in the chips sector with PepsiCo and Loblaws. At one point, certain brand-name products were not available on the shelves.

Did some of your members experience the same consequences?

Sometimes it's more difficult, because there are those who are more specialized in certain subsectors; cheesemongers, for example, or others who work in more specific fields.

Have your members reported cases where supermarkets refused to put their products on the shelf because these businesses considered negotiations between them unfair?

Mr. Mathieu Frigon: Yes, I'd say the issue is similar. Obviously, we don't discuss it as a group, but when I talk with my individual members, I certainly hear anecdotes. I've heard of cases similar to the example you referred to.

Mr. Francis Drouin: You obviously looked at what happened in England after they passed the code of conduct. In your opinion, did this code lead to an exorbitant price increase among retailers, or did it contribute to reducing prices?

Mr. Mathieu Frigon: We looked at inflation after the United Kingdom's code of conduct came into force and compared it to inflation from 2012 to 2020, before the pandemic, because that changed a lot of things. Inflation in countries with a code of conduct was somewhat lower than in Canada. It proves that a code of conduct doesn't increase prices. As I was saying in my presentation, it increased the supply chain's efficiency and operation. The best proof is that retailers in the United Kingdom support the code of conduct.

I also referred earlier to a broad study led by the United Kingdom's competition authority in 2008, I think, which recommended this type of action. The authority also stated that maintaining the status quo would lead to consumers paying the price in the end. It's thanks to that study the United Kingdom put a code of conduct in place.

• (1905)

Mr. Francis Drouin: Thank you very much.

[English]

Mr. McCain, thanks for coming before the committee.

I know you've provided three recommendations. Like Mr. Lehoux, I'm going to ask you about modernizing the temporary foreign worker program. Obviously, you're looking at how to increase capacity within your own manufacturing and processing sector. Are you looking at automation to provide that lack of labour? Lack of labour is not unique to Canada. When I talk to politicians in the U.S., they say it's an issue there, and it's an issue in most developed worlds in the food processing sector.

How do we attract more talent in the food processing sector, and can automation solve that problem?

Mr. Michael H. McCain: I think our industry has frontline roles that are not necessarily, in the first instance, the most attractive. I think people gain attraction and affinity for the roles once inside the industry, but in the first instance, they're not necessarily the most attractive. Our compensation programs are very competitive. I think it's simply access to an available pool of people to fill the vacuum that's been created in the last two years particularly. It's really over the course of the last two years that the vacuum has been created.

The challenges that we have are not from lack of capacity. We actually have oodles of capacity. In fact, our specific industry in Canada is operating with underutilized capacity. We have challenges around raw material supply, livestock and people. I think much can be done to accelerate that.

The Chair: I'll have to leave it at that.

Thank you, gentlemen.

Thank you, Mr. McCain and Mr. Drouin.

[Translation]

Mr. Perron, you now have six minutes.

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

I thank the witnesses for being with us this evening. We're very pleased.

Mr. Frigon, I'd like you to explain something from your conversation with Mr. Drouin earlier on negotiations and relationships with retailers. Currently, we're looking into all these issues to see if there is a problem.

How do you set prices when negotiating with a retailer?

Mr. Mathieu Frigon: First of all, our association does not participate in negotiations with retailers in any way. As you know, on the farm, price setting is fully regulated. A dairy processor buys their products on a market that's fully regulated, because the price is set by the Canadian Dairy Commission. After that, the processor sells their products on a market that isn't regulated at all.

Negotiations happen on a case-by-case basis. It's the processors themselves who negotiate with retailers and distributors.

Mr. Yves Perron: So, the code of conduct would fill this regulatory gap.

When your input costs go up and your members want to pass on a minimal amount of inflation, are they able to obtain a price increase from retailers?

Other witnesses explained to us that there are sometimes delays. Retail representatives explained to us that they froze price increases for a certain time. Does your members' experience sound similar?

• (1910)

Mr. Mathieu Frigon: Yes. One study, in which I did not take part, was led by our lawyer's firm. Confidentiality agreements were in place. Indeed, we noted that the difficulty of passing on regulated price increases to retailers is definitely a big problem.

Furthermore, I must say that a code of conduct won't regulate prices as such. However, cooperation and influence come into play when it's time to establish contractual certainty. Indeed, as I was saying, the intention of the code of conduct is to improve relationships and reduce bureaucracy, fees and arbitrary penalties in favour of contractual certainty. That is what will actually help the industry, rather than regulating sale prices that processors charge retailers.

Mr. Yves Perron: When you talk about arbitrary fees, are you talking about fees for points programs, for unsold products or reward programs, and so on?

Mr. Mathieu Frigon: Yes, exactly.

Mr. Yves Perron: I don't know if all this is true, but according to the impression we sometimes get, providers probably pay those fees. Is that right?

Mr. Mathieu Frigon: Exactly so.

Mr. Yves Perron: Very well.

Mr. Frigon, you told me that passing on price increases is not an option. At the same time, retailers told us that increased input costs caused inflation.

Do you have any comments on the testimony we've heard, which blames inflation on the supply chain?

Mr. Mathieu Frigon: I will speak as an economist, because I am one.

We have to distinguish between periods. I'd say that there was one period, probably from 2012 to 2020, when the retail cost of dairy products didn't go up, but input costs did go up during that time.

Over the last two years, with high inflation, the situation was different. There were increases, and Statistics Canada's data show it. Bulk costs also went up; Statistics Canada collects data on that.

As for the selling price dairy processors are asking of their clients, there were increases, but they reflect increased costs observed over the last two years. However, if we look at the previous period, I'd say that the situation was very different.

Mr. Yves Perron: I see.

Some witnesses recommended that the Competition Bureau inquire into the price-setting process.

Is that a good idea?

Mr. Mathieu Frigon: About what?

Mr. Yves Perron: It was recommended that we ask the Competition Bureau to look into the price-setting process.

Mr. Mathieu Frigon: The Competition Bureau is currently holding consultations which we will be involved in. The scope of the consultations goes beyond this issue, but the Bureau will indeed determine if the act should be revised and amended.

Mr. Yves Perron: Thank you very much.

Mr. McCain, you, on the other hand, are here as a representative of a big company. What is your situation? Are you seeing the same type of issues that Mr. Frigon has just described for retailers, like fees, problems with getting prices increased, or similar difficulties?

[English]

Mr. Michael H. McCain: I've been selling to the retail market since 1979—just short of 45 years—in every major market around the world. I started my career as a retail salesman. The challenge of selling into a retail distribution system—a food service distribution system—in Toronto, New York, London or Sydney, Australia is the same. It's always challenging, whether you're selling food, jewellery, clothing or any other product into a distribution system. They demand a lot on behalf of their consumers and others, and for their own improvements. It's just the reality of the business we're in. Experienced people know how to deal with that and manage it. That's what we do. That's just the business we're in.

I would describe it like “economic gravity”. You can't change it. It is what it is. It's been that way for 50 years. It will probably be that way for another 50 years, and I'm totally fine with it. I've experienced both. I've sold products in jurisdictions with a code of conduct and jurisdictions without a code of conduct. We are completely agnostic to that.

Truth be told, I think it will have absolutely no impact on our business, on anybody else's business or on the consumer outcome. However, if the industry wants to put it in.... We have certainly sold lots of products in the U.K. with a code of conduct, the same as we have in the United States and here. We are completely and utterly agnostic, from our perspective. That's just the way it is.

• (1915)

The Chair: We'll leave it at that.

Thank you, Mr. McCain. Thank you, Mr. Perron.

We now have Mr. MacGregor for up to six minutes.

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

I'd also like to extend my thanks to all of our witnesses for appearing before our committee today and for helping to guide us through this important study.

I think it was mentioned in the opening comments that this is a very sensitive issue. I think Mr. Drouin mentioned that we are hearing from our constituents. Food is a necessary item for their families to get by, week by week. That's the thing that unites us all: Everybody eats. For people in my area on Vancouver Island, it's a painful experience every time they go to the grocery store.

One of our previous witnesses was Dr. Jim Stanford. He very helpfully provided the committee with a brief that showed the doubling of food retail profit since before the pandemic. That would have been in 2019. The fact is that food retail margins have soared, and both of these things are happening at a time when real supermarket sales volumes have actually been declining.

I just saw his Twitter feed. He saw that the Q4 information for last year was just reported, and the food retail margins for the grocers went up yet again.

Mr. Vanderpol, I'd like to start with you and DPAC. You did mention that for processors, the average profitability has been lagging behind other sectors.

Given the nature of Canada's concentrated grocery retail sector and the fact that three companies—Empire, Loblaws and Metro—control so much of it, we have definitely heard a lot of testimony about the need for a grocery code of conduct. I want to get a bit more of a sense of what it's been like for some of your smaller and medium-sized enterprises and the hurdles they face when they are trying to negotiate with a company that has so much market dominance and power that it can bring to bear. I think that's the crux of the matter. It's the inequality that exists between the two sectors here.

Mr. Philip Vanderpol: Thank you, Mr. MacGregor.

As you know, the business models of the processors and the retailers are very different. We're really in the business of investing in machinery, equipment and plans to process raw material into finished food products ready for consumption. Retailers are really in the business of investing in space and location to buy products to distribute and sell to consumers.

I know a lot of numbers are thrown out about comparisons of profit margins. I think you may have to look at different metrics, such as profit per dollar of total capital invested. That one may not even be perfect.

Maybe a better definition than profit margin is to look at the cash cycle or the free cash flow. That's where, as I said earlier, processors have struggled. We typically don't have the scale that some

processors have, such as those in the United States. The return that ultimately results in free cash flow is squeezed. Therefore, it's harder to make new investments to get even more efficiency or automation and things like that. That's where we've been struggling. As processors, we need to do that, but it's hard to get that return on those types of investments.

Mr. Alistair MacGregor: It was mentioned by you, Mr. Donaldson—and this is a nice segue to turn to you—that you're kind of caught in the middle. Farmers have their input costs for what it takes to grow a certain product or produce a product from a certain animal. They have to sell that to you, but then you're negotiating with a large retail giant who may just say, "Well, we're buying it at this price."

I want to focus on the situations of your smaller and medium-sized enterprises. You mentioned that we have over 8,000 businesses in Canada. That's fantastic to see. I want to see more of those particular companies succeed, but anecdotally, what have you been hearing from your members on what it's like for them to negotiate with grocery retail giants who have such command and control over that size of market?

• (1920)

Mr. James Donaldson: It has certainly been very difficult. In B.C. we don't have any really large companies. We don't have any big multinationals. As I always say, even the big companies in B.C. are relatively small on the national scope.

Yes, they are finding it very difficult. I talked to a member last week who over the last four years has almost tripled their top-line growth, but their margin has shrunk by 25%. They are happy to have that expanded distribution and expansion, not just in Canada but into other markets, but for the smaller entrepreneurial businesses that make up the bulk of our membership, it's almost impossible. There are extended blackout periods. Even when you're trying to negotiate a price increase, it could take several months to negotiate. There's not honouring payment terms. If you're a small business and you have an agreement for net 15 days to get paid, it can take 60 to 90 days. A large retailer can hold back on that money. They are making millions of dollars on interest, but that's the risk small businesses have.

I always use the adage that in the processing industry, it's not any one or two things that get you; it's the death by a thousand cuts. Small processors don't even have the luxury of withstanding a thousand cuts. They might have 30 or 40. When they don't get paid on time, it can really risk their very viability, their ability to pay their employees. Then there are also the fees and the charges.

I think probably the most frustrating thing I have been hearing from our members is that they don't have these issues if they are big enough to start exporting and going to the U.S. U.S. retailers are not giving them all the program spends and fees and fines and retroactive payment adjustments. Here they can be supposed to be getting a cheque and they have \$50,000 or \$60,000 taken off for some retroactive adjustment from two or three years ago.

It's impossible to even account for those and plan for them. I think that makes it even harder. You have to really keep things very lean and have a very clear understanding of your cost centres. When the goalposts keep moving, when you don't know when you're going to get paid or how much you're going to get paid or how long it will take to get paid, it's very hard to withstand that situation.

I ran out of time in my speaking notes that I shared. I did have a couple of comments about the code of conduct, but it's not directly—

The Chair: Mr. Donaldson, I apologize. I gave you and also Mr. MacGregor a fair amount of runway. I have tried to be pretty generous, but unfortunately I can't give you any more runway.

Thank you, Mr. MacGregor. Thank you, Mr. Donaldson.

Colleagues, we're going to go to our second round. We started a little bit late. I have 15 minutes left that I will grant to our last folks, but I will be really tight. I will be shutting it off at five minutes, with no more leeway.

Mr. Steinley, we go over to you for five minutes.

Mr. Warren Steinley (Regina—Lewvan, CPC): Thank you, Mr. Chair.

Thank you to the witnesses for being here this evening.

I was going to have a few dairy questions because I'm a dairy farmer at heart. I grew up on a dairy farm in southwest Saskatchewan.

Mr. McCain, you brought up a few things that I would like to delve a little further into. First and foremost, what is the difference between your transportation costs in your plants in the States compared to your plants in Canada?

Mr. Michael H. McCain: It's very challenging to compare them, because they are product-specific and customer-specific in our product mix, our customer mix.

In Canada, a big chunk of our product coming out of Manitoba, for example, is exported. It's mostly containerized and includes an ocean freight component that's not comparable to a product sold out of central Canada in our plant-based business. It's not comparable.

Mr. Warren Steinley: What would your trucking costs be, just for freight on trucks? What would a trucking cost comparison be?

Mr. Michael H. McCain: They're comparable.

Mr. Warren Steinley: Okay.

In 2019 Maple Leaf Foods decided to open a plant, or invest in a plant, in Shelbyville, Indiana, instead of investing in a plant in Canada.

Can you tell me what went into that decision and what some of the taxes or some of the incentives were that made you decide to invest in Shelbyville, Indiana, instead of in a plant in Canada, especially with the pulse food? I would believe there would be more opportunity to have access to pulse crops in Canada or—

Mr. Michael H. McCain: No. Ninety-five per cent of the business is in the United States. It's not a Canadian business. It is a U.S. business, it's 95%, maybe 98%.

The economics of the plant-based protein business are about outbound freight, not inbound freight. For the outbound freight, we located in Indiana because it was smack dab in the middle of our market. The freight economics were black and white. That was the logical place to locate it.

• (1925)

Mr. Warren Steinley: Perfect. Thank you very much. I appreciate that.

You said in some of your comments that inflation is a worldwide phenomenon, but your three recommendations are very much within the federal government bailiwick. It was fiscal discipline, labour—and you talked about labour again in a subsequent question—and bureaucratic obstacles.

A few people have talked about how it's a made-in-Canada phenomenon with inflation, and your three recommendations focus on issues that this federal government could tackle if there is a political will. In your opening comment, you said it was more of a world phenomenon, but how come your recommendations focus strictly on a made-in-Canada situation, especially around the fiscal discipline and making sure that you could get inflation under control if we had that fiscal discipline?

Mr. Michael H. McCain: My recommendations in public policy would be focused on the things that we can control and not on the things that we can't control. Those are a few things that we can control.

With respect to fiscal discipline, I think that should obviously be done in the context of global economies.

With respect to labour, I think that is something that is completely within our control, and we can assist in that vein.

Regulatory competitiveness is something that governments for the last 20 years should have been more focused on, and in the next 20 years, I think, should focus more on.

Mr. Warren Steinley: Thank you very much; I appreciate that.

I have a minute and a half left. I have two more questions.

First, what are your biggest concerns around competitiveness in Canada? Labour is one of them. Would the tax regulatory system be your second-biggest concern?

Mr. Michael H. McCain: No. I've never made a business decision or locational investment on the basis of tax regimes. They're close enough; they don't make a difference.

The biggest things that we can focus on would be labour, labour availability and overall regulatory competitiveness.

Mr. Warren Steinley: You've said that a few times—overall regulatory competitiveness. Can you break that down for me in 30 seconds? What would you say is our weakest link when it comes to competitiveness in Canada?

Mr. Michael H. McCain: The challenge of regulatory competitiveness.... I'll use a metaphor. The one that I use commonly is that it's a ton of feathers. We've analyzed this on virtually every link in the value chain. There's no one item in there that's any more than a feather. If you have a ton of feathers, it's still a ton. The problem is that identifying any one feather almost feels trite, but in aggregate it's very significant. We can demonstrate that on many different layers.

The Chair: Thank you, Mr. McCain. Thank you, Mr. Steinley.

We now have Mr. Turnbull for five minutes.

Mr. Ryan Turnbull (Whitby, Lib.): Thanks to our witnesses for being here tonight.

I'll probably focus exclusively on you, Mr. McCain.

I appreciated your opening remarks and the bold vision that you have created for Maple Leaf Foods, specifically with regard to sustainability. I want to ask you a little bit about that and connect it to food price inflation.

Would you say that Maple Leaf Foods has shifted its corporate strategy significantly in the last decade to hold itself to a higher standard when it comes to social and environmental responsibility?

Mr. Michael H. McCain: Yes.

Mr. Ryan Turnbull: Do you think that makes you more competitive as a company?

Mr. Michael H. McCain: No.

Mr. Ryan Turnbull: Okay. Why do you say that?

Mr. Michael H. McCain: If you define competitiveness as your cost competitiveness or being cost-competitive, the answer is no. It adds cost to our system in several areas. We've accepted that. We have a deep belief in the ethos of multi-stakeholderism and shared value creation. We embrace the magic of the word “and” and reject the tyranny of the word “or”, which to us means we look to satisfy all the stakeholders and meet their needs. We reward our shareholders for our commitments to social shift by making it more attractive to do more business with us at the same price, which is lucrative for the shareholders.

We have a pipeline of customers who want to do more business with us because we are who we are, even though we don't charge for most things. We do have to elevate our price for some things that we do, not the least of which is the process of raising animals without antibiotics, which is a significant portion of our portfolio. We have to pass on the additional cost.

• (1930)

Mr. Ryan Turnbull: Is there then a sustainability advantage at the very least for Maple Leaf Foods?

Mr. Michael H. McCain: Yes, there is. There is today, by virtue of the fact that we're small enough in the North American industry

to be rebellious and large enough to commercialize our rebellious ideas. At the end of the day, the answer is yes. It attracts more business to Maple Leaf Foods.

Mr. Ryan Turnbull: I know you've made significant efforts in reducing your carbon footprint as a company. I'm sure that's had an impact on reducing your operational costs to some degree. Is that true?

Mr. Michael H. McCain: Yes, it is. For that particular example, the answer is yes. My prior comment was not exclusively true, but it's true in aggregate.

Mr. Ryan Turnbull: I get it.

In terms of enabling you as a company to absorb some of the inflationary pressures and shocks we've been under, do you think that this reduction in operational costs has created some added ability for you to absorb those shocks?

Mr. Michael H. McCain: Given that our profitability was down 60% to 70% through to the third quarter of last year, I would only factually say the answer is no, but maybe in the future.

Mr. Ryan Turnbull: Okay.

You talked about a bold vision. You have also been doing the Centre for Action on Food Security, which has a pretty bold vision for reducing food insecurity. What are the trade-offs?

You mentioned profit margins being razor-thin. You see a core responsibility to offer food affordably and a commitment to reducing food insecurity by 50% by 2030. That's a pretty tall order.

What are the trade-offs there, and how do those things interact? Can you give me a bit of an overview?

Mr. Michael H. McCain: I think the plight of food insecurity in Canada and around the world is a very complex one. It's based on a series of interdependent root causes. We need to find systemic answers to those root causes. They include things like access, nutritional and financial literacy, mental illness and disability. Over 50% of all those who are food insecure are people with disabilities. There are a range of causes in addition to income and poverty.

I think the solution is found in systemic solutions. Probably the heavy hitter is strengthening the social safety net we have in Canada versus other jurisdictions.

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

[Translation]

Over to Mr. Perron now.

Mr. Perron, you have the floor for two and a half minutes.

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

Mr. Donaldson, I'm going to carry on with the same topic as previously.

If I understood correctly what you told Mr. MacGregor, you are impacted by problems with negotiations and price-setting, fees that are charged for unsold merchandise and loyalty program financing.

Can you please tell us more?

[*English*]

Mr. James Donaldson: Yes, certainly.

I don't want to repeat what was said earlier, but I want to clarify this. The code of conduct has been brought up a few times and was in our notes. I don't see it as a magic bullet for solving food pricing issues; it's more about bringing balance to the overall food system. Right now we have a small number of large retail customers and a very large number of small suppliers. This creates imbalance and makes things very complicated.

Honestly, when you don't have the leverage of a larger company, it's very hard even to get their attention. One of the key issues we're finding is just getting their attention. You'll hear from the retailer when they need you for something. However, if you need something from them or have to set up a meeting to discuss some of your pricing, costs or challenges, you generally don't hear back. It's been very complicated that way, even in trying to have that collaborative dialogue and find a mutually agreeable solution to some of the challenges.

• (1935)

[*Translation*]

Mr. Yves Perron: If I understand you correctly, Mr. Donaldson, you're telling me that the problems vary depending on the size of the business. Perhaps that's why Mr. McCain was saying that he is agnostic when it comes to a code of conduct. The smaller the business, the weaker its negotiating power. The smaller businesses find themselves increasingly at the mercy of the retailers, who can sometimes impose unfair conditions.

Is that indeed the situation?

[*English*]

Mr. James Donaldson: That's correct.

[*Translation*]

Mr. Yves Perron: I think that we have said everything that needs to be said about a code of conduct.

Mr. Frigon, I will ask you my last question. Do you have any comments? Is there a recommendation that you really want to highlight?

You have 10 seconds to provide an answer.

Mr. Mathieu Frigon: Thank you.

Just as Mr. Donaldson was saying earlier, I believe that the reality of plants that can only sell their products in Canada is very different from that of those that can look to many markets in various countries.

Generally, as you know, the dairy sector plants can only sell their products in Canada because of the supply management system, and this means that the reality for the various agri-food sectors' can differ greatly.

I'm not surprised to hear differing views or...

The Chair: Thank you very much, Mr. Frigon and Mr. Perron.

[*English*]

Finally, Mr. MacGregor, you have two minutes and 30 seconds, my friend.

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

Mr. Donaldson, I'd like to turn to you for this final question of mine.

Some of the big retailers have their in-house brand of private products. Loblaw's of course has the No Name products, which famously experienced a price freeze that didn't last very long. My own local grocer, Thrifty, which is owned by Empire, has the Compliments brand.

How do those in-house private brands that the retailers own...? What is your company's relationship in manufacturing those and providing the foodstuffs to make them? How has that affected the whole relationship that you experience with the big grocers?

Mr. James Donaldson: Thank you for your question. That's a broad question, so I'll try to be brief.

A lot of our members do provide private label products to different retailers. It becomes an important part of their business. Sometimes it's just a way to get into the store. It's also for remaining competitive. If you have capacity, it's also a great way to fill a facility to capacity and cover its overhead costs.

It has been interesting that we've seen a real shift with retailers. We're seeing an ever-growing presence of private label products on their store shelves. It's becoming a strategic priority for those retailers. That's actually creating less shelf space for the branded products that our members represent.

On one hand, it's helpful for them, and a lot of our members do play in that arena. On the other hand, we're concerned about the impact over the long term on branded products that are going to be on shelves. We know a lot of people that provide private label and the retailer won't carry their branded product because they are making their private labels. It makes for some difficult choices.

Mr. Alistair MacGregor: Thank you.

The Chair: Thank you, Mr. MacGregor.

Thank you, Mr. Donaldson.

Mr. McCain, I have one question for you about the regulatory competitiveness element.

You talked about a ton of feathers. Is the answer then to try to have some element or some type of lens around competitiveness with our regulatory agencies or our bodies on the federal level? What I heard in the answer to Mr. Steinley was that you could look at one certain area and you might pull a couple of feathers out, but there's still a ton of feathers.

How do you alleviate that? Is it just trying to create that lens throughout multiple agencies?

Mr. Michael H. McCain: I believe that to be true. I believe that the overarching common thread, if you will, among all of the regulatory frameworks that we've had to deal with over many years is to simply ask for a competitive lens to be applied. It's not a competitive decision; it's just for a competitive lens to be used in the decision-making process. I think that would move mountains in addressing a cultural and systemic issue across all of the regulatory frameworks in the country.

• (1940)

The Chair: Thank you very much.

Colleagues, thank you for our first panel.

Let me thank our witnesses on behalf of all of you. They were, from Dairy Processors Association of Canada, Philip Vanderpol and Mathieu Frigon; from Food and Beverage Canada, Mr. James Donaldson; and from Maple Leaf Foods Inc., Mr. Michael McCain. Thank you for your testimony. Thank you for your work in agriculture. It was a very fascinating discussion.

Colleagues, don't go far. We're going to transition over to our second panel in just two or three minutes. We'll take just a minute to do that.

• (1940)

(Pause)

• (1945)

The Chair: Colleagues, thank you so much for your patience in getting everyone on board.

We're going to start with our second panel. We're running a few minutes late, but we'll do our best, and I'll do my best to get you caught up.

Today we have three different organizations presenting. From the Competition Bureau of Canada, we have Ann Salvatore, the deputy commissioner for the cartels directorate. We also have Anthony Durocher, the deputy commissioner of the competition and promotion branch. We have Krista McWhinnie, deputy commissioner of the monopolistic practices directorate.

Welcome to all three of you here in the room.

From Innovation, Science and Economic Development, we have Mark Schaan, senior assistant deputy minister, strategic and innovation policy sector.

From Statistics Canada, joining us via video conference this evening, we have Chris Li, who is the acting director of the consumer prices division, and Matthew MacDonald, assistant director of the consumer prices division.

Welcome to you online, so to speak.

Each organization is going to have up to five minutes for opening remarks. I'm going to start with the Competition Bureau.

The floor is yours.

[Translation]

Mr. Anthony Durocher (Deputy Commissioner, Competition Promotion Branch, Competition Bureau): Thank you, Mr. Chair and members of the committee.

Thank you for the invitation to appear before you today. As the chair has just said, my name is Anthony Durocher, and I am the deputy commissioner of the Bureau's competition promotion branch. I am joined today by my colleagues Ann Salvatore, deputy commissioner of the cartels directorate, and Krista McWhinnie, deputy commissioner of the monopolistic practices directorate.

The Bureau is an independent law enforcement agency that protects and promotes competition for the benefit of Canadian consumers and businesses. We do this because competition drives lower prices and innovation while fuelling economic growth.

We administer and enforce Canada's Competition Act, which means that we investigate and address business conduct in four main areas: abuses of market power, anti-competitive mergers, price-fixing, and deceptive marketing practices.

The Bureau also advocates for pro-competitive government rules and regulations.

[English]

We have heard Canadians' concerns about high grocery prices, so on October 24 we launched a market study of grocery store competition in Canada. This study is not an investigation into any specific allegations of wrongdoing. Instead, we are proactively looking for ways that governments can act to improve competition in the sector, because more competition means lower prices, more choice and more convenience for consumers. We expect to publish our findings and recommendations in June.

In addition to this study, we will continue to vigorously enforce the Competition Act for the benefit of all Canadians.

Whenever we find evidence that someone may be doing something against the law, we will not hesitate to investigate and take appropriate action. I would note that high prices and high profits are not in and of themselves violations of the Competition Act, which sets specific criteria that the bureau must meet when considering whether to bring a case.

We are also guided by the jurisprudence from the Competition Tribunal and the courts. The bureau conducts thorough and rigorous investigations during which we follow the evidence and make a determination as to how to proceed.

Some question whether the bureau has sufficient teeth to carry out its work. Last year the government introduced important amendments to the Competition Act and also launched a comprehensive consultation on Canada's competition laws. This consultation is ongoing, and the bureau will continue to push for responsible reform. We need to ensure that the Competition Act contains the right provisions and that we have the right tools to protect and promote competition in the Canadian economy.

Before fielding your questions, I would note that the law requires that the bureau conduct its investigations in private and that we keep the information we have confidential. This obligation may prevent us from discussing some past or current investigations.

Thank you for the opportunity to appear before you today. We look forward to your questions.

● (1950)

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

We'll now turn to ISED. Mr. Schaan, we go over to you for up to five minutes.

[Translation]

Mr. Mark Schaan (Senior Assistant Deputy Minister, Strategic and Innovation Policy Sector, Innovation, Science and Economic Development Canada): Thank you, Mr. Chair, and all the members of the committee for inviting me to appear before you this evening to speak about the topic of food price inflation.

My name is Mark Schaan, and I serve as the senior assistant deputy minister in the Strategy and Innovation Policy Sector at Innovation, Science and Economic Development Canada.

[English]

While federal government policies with respect to food may be most closely associated with my colleagues at Agriculture and Agri-Food Canada, there's no question that food has many dimensions and is of a critical importance that cuts across departmental lines.

In addition to encompassing several discrete industries and markets in the modern globalized economy, the production, transportation and distribution of foodstuffs represent important markets, industries and inputs in a number of dimensions, not the least of which is that they are fundamental inputs for all of Canada's workers, producers and consumers as well as a source of a tremendous amount of employment and investment that feeds our economy less literally.

It is there where my department enters the picture, focused on the rules and the resources that allow our economy to function and flourish to meet the needs of Canada's population.

It's well known at this point that the causes of inflation within the food industry and elsewhere go well beyond Canada's borders. I'm sure this committee has heard much about war, weather events and the effects of the COVID-19 pandemic on consumption habits and shipping capacity, which you don't need me to repeat.

Given the global nature of these phenomena, the solutions will need to be multifactorial, with the recognition that many players

will have to do their part to make it more manageable for Canada's population.

Macroeconomic responses lie with Finance Canada and the Bank of Canada. Questions of employment are handled by the federal, provincial and territorial departments and ministries with that portfolio. We at ISED try to ensure innovative, competitive markets that deliver the best results and benefits to businesses and consumers, including affordable prices, irrespective of the overall state of inflation.

[Translation]

First, I would like to discuss our role in well-functioning supply chains. Canada's division of powers prevents the federal government from simply legislating ground rules for specific industries, with the exception of the few set aside as federal areas by the Constitution.

However, we have joined forces with Agriculture and Agri-Food Canada to convene participants from different stages of the food supply chain to work out a code of conduct that governs their commercial relationship.

[English]

Details are still being finalized on this project, but through the hard work of the industry steering group, as well as that of a host of federal and provincial governments, a framework has been coming together to promote fair trading practices and contractual certainty. This will help ensure an equitable and prosperous relationship between food manufacturers and the grocers who bring their products to the public.

The code of conduct will set out principles and clear definitions, subject to various dispute resolution and adjudication mechanisms. It will help smooth over some of the problems that have surfaced between grocers and their suppliers. It does not directly address consumer pricing—to be very clear—but the importance of stable and healthy supply chains cannot be overstated in providing a competitive retail food market in which customers have their choice of many different offerings at the best available price.

● (1955)

[Translation]

My department also has stewardship of the Competition Act. The statute sets out a law enforcement regime to address business practices that harm competition, such as collusion among competitors, mergers that lead to undue concentration, or steps taken by dominant firms to undercut the competitive process.

[English]

I raise this point because these general rules inform business behaviour and can be an important part of fuelling competitive dynamics. More specifically, at this stage the department does not possess the best evidence to confirm or refute any specific suggestion of anti-competitive activities in the food sectors, which would in any case be a matter of fact within the remit of the Competition Bureau and the courts. However, Canada's grocery sector is relatively concentrated, which means that remaining vigilant and ready to respond to any threats to competition in an inflationary environment that may provide cover for unlawful activity is always top of mind.

On this, the government has taken and continues to take action to reinforce our competition enforcement regime. In 2022, the Competition Act was bolstered by a series of amendments to fill gaps and bring Canada more into line with its international partners. For instance, in the wake of concerns over potential wage-fixing coordination in the grocery industry during the early stages of the pandemic, the act was amended to ensure that agreements between different employers to collude on wages or conditions of work, thus harming competition for labour, were treated the same way that harmful price-fixing agreements were.

Other amendments updated maximum penalties to make them proportionate to the benefit derived from anti-competitive or deceptive conduct to make sure that penalties are meaningful and not simply the cost of doing business. The consumer-unfriendly practice of drip pricing—that is, hiding mandatory fees to make it harder to do accurate comparison shopping—was clarified as a deceptive practice.

Numerous other targeted but important updates were made to the law for shorter-term improvement.

Now a full consultation is under way with respect to the broader, more open-ended question of how the Competition Act should serve the modern economy.

The Chair: We're going to leave it at that, Mr. Schaan. Thank you. Unfortunately, we're at time. I even gave you a few extra seconds, but I know my colleagues will dig in with you in questions and you'll have the chance to elaborate in your responses.

I will now head over to Statistics Canada, please, with either Ms. Li or Mr. MacDonald.

Mr. Matthew MacDonald (Assistant Director, Consumer Prices Division, Statistics Canada): Thank you, Mr. Chair and committee members.

Good evening, and thanks for the invitation to appear before this committee this evening.

I am Matthew MacDonald, the assistant director responsible for the consumer prices division. I am joined by Chris Li, director of the consumer prices division.

Since early 2021, higher prices for gasoline, shelter, food and consumer durables like automobiles have put upward pressure on consumer inflation. During this time, we have experienced a global pandemic, supply chain disruptions, extreme weather events, geopolitical conflicts, low unemployment, labour shortages and

higher transportation and import costs, as well as robust household demand.

As inflation ramped up in 2022, Canadians reported that they were most impacted by rising food prices, followed by higher costs for transportation and housing. By mid-2022, consumer inflation had accelerated to its fastest pace in four decades, peaking at 8.1% in June. While the headline rate eased in late 2022 as gasoline prices fell, key sources of inflation, such as food, showed little sign of moderating.

In January 2023, prices increased on a year-over-year basis in every food category, including meat, vegetables, dairy and bakery products. Food prices have been impacted by already high production costs, such as energy and fertilizer inputs, as well as erratic weather events, supply constraints related to avian influenza and a general dependence on imports.

Canadians living across the country have been impacted by price inflation, albeit to varying degrees, depending on consumption patterns and supply chain challenges faced.

From a global perspective, all G7 countries have been impacted. Compared to international peers, Canada's inflation rate has been slightly lower, including that of the United States. The pressures driving inflation in Canada and in other G7 nations have been occurring simultaneously and in a more pronounced manner, leading to broad-based increases in food prices across the globe.

All of these insights are possible as a result of Statistics Canada's consumer price index, or CPI, which is produced every month and aligns with international standards. The consumer price index tracks the changes in consumer prices for a fixed basket of goods and services of constant quantity and quality. A variety of product and regional details are published within eight major project categories, of which the largest three account for more than half of the expenditure basket. These are shelter, food and transportation, because as collective consumers, we spend most of our money putting a roof over our heads, feeding our families and getting around.

Statistics Canada has been committed to further strengthening the consumer price index and other economic indicators by leveraging more timely and higher-quality alternative data sources. With regard to food prices, we are broadly leveraging scanner data, sometimes referred to as point-of-sale transaction data, with millions of food prices received directly from grocery chains across Canada. This approach is considered the gold standard among international statistical organizations in this expenditure category.

In addition, the CPI has transitioned from updating baskets every two years to annual basket updates. This means that we update our consumer expenditure patterns annually to ensure that price movements accurately reflect consumer preferences.

We also continue to develop new statistical products, such as our online CPI portal and personal inflation calculator, allowing individuals to enter their own expenditures to see how their personal inflation rate differs from the averages in the CPI.

As you can appreciate, the interest in our data in this high-inflation environment has never been higher. We continuously work with Canadians to provide increased access to our information and improve their data literacy and interpretation capacity.

Specifically, in addition to the CPI, the agency produces a complementary statistical product called the average prices table. This is the data that was perceived to have been removed. These are average prices that cover many food items for a standard unit of measure. They have been available historically and continue to be available today.

A year ago, Statistics Canada combined the national average retail prices and the monthly average retail prices tables to create a more comprehensive and representative product. This included the incorporation of higher-quality point-of-sale data, with improved coverage and granularity. The prior table had 52 products that were only available nationally, and we now have 110 products available provincially and nationally.

Thank you once again for the opportunity to meet with you today.

• (2000)

The Chair: Thank you, Mr. MacDonald.

We'll now turn to questions.

Colleagues, we're going to do about 36 minutes, so we'll do the first round with six minutes. The second round is going to be four minutes for the Conservatives and Liberals and two minutes for the NDP and the Bloc. We've had really good, robust discussions, but I think that's the best way to go.

Ms. Rood, it's over to you for up to six minutes.

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

Thank you, witnesses, for appearing here today.

I have been sounding the alarm for years that 80% of the grocery market in Canada is controlled by only five major retail grocery chains. The oligopoly of the grocery industry keeps profits high while often forcing farmers and producers to sell at a loss, and it's directly contributing to the death of family produce farms in Canada.

While the Competition Bureau is familiar with the abuse of dominance, for those watching at home to understand, it is quickly put as when a company has a dominant market position and engages in anti-competitive acts with an intended negative effect on a competitor or engages in conduct that results in a substantial lessening or prevention of competition.

My question to the Competition Bureau is this: Given the record profits of grocers, sky-high prices facing consumers and increasing fees being charged to farmers just for the privilege of selling to grocery retailers, would there be grounds for an investigation on an abuse of dominance in the grocery industry?

Mr. Anthony Durocher: As I stated in the opening, right now we're studying competition in the grocery sector with a view to making recommendations to government as to how we can enhance competition to the benefit of consumers and the economy as a whole.

With respect to any investigation on the law enforcement side into an abuse of dominance, we're driven by the facts and the evidence and we'll absolutely take appropriate action if we find evidence of wrongdoing, either through this study or otherwise.

We have taken action in the past in the grocery sector, including a very detailed investigation into practices from Loblaw with certain suppliers. Fundamentally, when we concluded our investigation, we provided a lot of clarity and guidance to the industry to try to draw the line between what is anti-competitive conduct on which the bureau would take action and conduct that is not necessarily crossing that line. We are certainly very vigilant about any potential anti-competitive conduct.

• (2005)

Ms. Lianne Rood: Thank you for that.

I have a question about the study that you're doing. It's not an investigation but a study; so is the study transparent? Are we able to access any of that prior to its completion as you're doing the work, or do we have to wait for it to be complete?

Mr. Anthony Durocher: By and large, we're waiting for our report to be published in June. We launched our investigation in October. We do have a portal where certain submissions in regard to our study are available to the general public to view, and we have heard from a lot of Canadians. We've heard from over 500 Canadians directly in respect to the study. We hear their concerns about what they're seeing in terms of grocery prices right now as well. Our findings and recommendations will be published in June.

Ms. Lianne Rood: Is the Competition Bureau currently investigating the practices of large grocers for any reason other than this study?

Mr. Anthony Durocher: Typically speaking, our studies and investigations need to be kept private and confidential under our law. There is at least one investigation that is public at this time.

Ms. Lianne Rood: We've heard a lot of talk about the grocery code of conduct. In the previous panel, we heard from Michael McCain, who said the code would do nothing to help consumers. I'm wondering—this is not necessarily to the Competition Bureau, but to the department—if the department could speak quickly as to what you will do to make the code have some teeth, to make it stick so that it does stick and that there are some repercussions if the practice isn't followed.

Mr. Mark Schaan: The code of conduct will set principles and clear definitions and include various dispute resolution and adjudication mechanisms. It's a project that's under way. It includes our colleagues over at Agriculture and Agri-Food Canada as well as industry. We've heard loudly from other parts of the supply chain that smaller suppliers do want contractual certainty and that they do want mechanisms to be able to engage around the practices of the retail side of the industry, so the goal of the binding adjudication and some of the dispute resolution is to allow for those mechanisms for the industry to be able to engage across the supply chain.

Ms. Lianne Rood: This is my last question to the Competition Bureau today. Sometimes we tend to see a successful group of independent grocery stores emerge. An example is a local store here, Farm Boy, which started right here in Ottawa. We tend to see big grocers come and buy these stores out. In this case, I believe it was Empire Foods. We have so few independent grocery stores left in this country; I think the figure is something less than 34% or so.

Do you not see this as problematic for Canadian consumers, especially given the fact that big grocers have already been exposed for engaging in practices such as the bread price-fixing scandal?

Mr. Anthony Durocher: With respect to our grocery market study, one of the central issues we're looking at is to try to better understand how we can lower barriers to entry and expansion at the retail level to try to facilitate new competitors opening new stores in all areas.

With respect to acquisitions and mergers in the industry, we've taken action in the past to preserve competition from that, and what I would suggest is that in the current consultation on the Competition Act in Canada, one of the central areas for discussion relates to our merger law and the extent to which the Competition Bureau is equipped to take action against mergers that can harm the Canadian economy.

The Chair: Thank you, Ms. Rood, and thank you, Mr. Durocher.

We're now going to go to Ms. Taylor Roy, but I neglected to mention that Mr. Bains is here before our committee. It's great to have you on behalf of Ms. Valdez. Welcome to agriculture. As you can see, it's a lively and great committee. Welcome.

Ms. Taylor Roy, we'll go over to you for up to six minutes.

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

This issue is not unique to Canada, and we've seen numerous studies being done around the world on this same issue.

I was looking over the study that you're undertaking right now and some of the issues that were raised, and I'm wondering. You say that government policy is central to driving competition. We don't hear very often that governments can drive competition, but given the studies that have been done in other jurisdictions around the world or in other countries around the world, are there things you've seen coming out of those studies that have increased competition in those markets? Some of these studies were done 10 or more years ago.

• (2010)

Mr. Anthony Durocher: Thank you. That's a great question.

Generally speaking, government policy can absolutely drive competition. In any regulated sector of the economy, government rules and regulations play a big role in how easy it is to start up a business or expand. It goes to what a previous witness mentioned about regulatory competitiveness in Canada as well. Competition is central.

Specifically with respect to what our international peers have looked at in the grocery industry, obviously in the context of our study we have talked to them to better understand what they looked at. Every market is unique, but there are similarities.

To give an example, one issue that we're looking at is what we call restrictive covenants, which are restrictions on the use of real estate in markets in terms of what you can do with that real estate. That oftentimes can impede a new store from coming in and taking over an abandoned store, as an example. That's an issue that numerous jurisdictions have looked at, and we're currently looking at it as well in the context.

The other issue that is common in many grocery markets relates to the wholesale access. It's critical for retailers to be able to source their grocery products at competitive rates to compete. That is certainly a live issue, and it really intersects with some of the conversation around the code of conduct, which is separate and apart from our study.

Ms. Leah Taylor Roy: On the code of conduct, do you think that it will help increase competition?

Mr. Anthony Durocher: It would certainly be our hope that it would be designed in the most pro-competitive way possible. It is separate and apart from competition law enforcement, but to the extent that a code of conduct can help promote transparency and predictability, which in turn can help innovation and investment decisions to have that certainty, it can certainly be a good thing for competition.

From our perspective, I think we'd need to see what the final product is going to look like.

Ms. Leah Taylor Roy: Do you think it should be mandatory, then?

Mr. Anthony Durocher: I don't think we have a view, because we haven't studied the issue of a code of conduct in depth. Again, our role is really to administer and enforce the Competition Act. We are certainly familiar with the issues that have led to the code of conduct, but in terms of the debate as to whether it should be voluntary or formal, that's not a specific issue that we've studied.

Ms. Leah Taylor Roy: Going back to some of the previous witnesses we've had from the grocery chains, it's very hard to get detailed financial data on specific sectors or even to look at the grocery sector versus other sectors within their chains, so it's hard to analyze what's happening. I noticed that this was one of the limitations of the study that you mentioned as well.

How do you think that can be addressed? I understand that most of the data you look at is confidential. Do you think that we need to have more teeth there so that we can actually get more granular data and see what's happening?

Mr. Anthony Durocher: Thank you for the question.

Yes, that is a limitation of the Competition Bureau's ability to conduct market studies. When we are enforcing the law and doing investigations, we are able to collect the information we need to make decisions. When we do a market study to try to inform government and policy, we do not have that ability to collect data and information. We're working with publicly available information or what people are giving us voluntarily. That clearly limits the depth of the work we can do and the quality of our recommendations.

The solution is the Competition Act. That is an issue that's been talked about for quite some time. I think it's live with the current consultation on the Competition Act. What type of power should the bureau have to do this work? Our respectful submission is that it is very important that we be able to compel information in order to do these types of studies properly and inform government of our findings.

Ms. Leah Taylor Roy: I have one last question.

In the environment committee, we've been talking a lot about hot spots, vulnerable populations and how to address environmental concerns. When it comes to competition in the retail grocery sector in particular, is there any consideration for captive customers or vulnerable populations?

I'm talking about seniors, students or people who can't travel to other areas. Is that taken into account at all?

• (2015)

Ms. Krista McWhinnie (Deputy Commissioner, Monopolistic Practices Directorate, Competition Bureau): Thank you for the question.

Yes, exactly. When we do an analysis of, say, retail grocers merging, it is a local market analysis. We're looking at specific demand. If there are specific aspects of a population that make them captive or vulnerable, those would go to our determination of what a substitute is and where they can travel to buy their groceries.

The Chair: Thank you, Ms. Taylor Roy. Thank you, Ms. McWhinnie.

We'll now turn to Mr. Perron.

[Translation]

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

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

I would like to thank the witnesses for being here with us. We are very grateful.

I will start with you, Mr. Durocher. When you take a look at the various sectors in general, excluding the food sector, is there a threshold for competitiveness or competition that the Competition Bureau feels is optimal to ensure correct pricing? Is there any data? Does it depend on the sector?

Mr. Anthony Durocher: Thank you for the question.

It does indeed depend on the sector; there is no magic threshold.

We have guidelines for mergers, for example. A 35% threshold is an indicator that there might be competition problems. For example, there would be a problem if the market share was higher than 35% after a merger. The act, however, does not allow us to challenge a merger solely on the basis of concentration thresholds.

You really have to look at each sector individually. It depends on the facts and the data. Concentration is an important factor when we look at competition.

Mr. Yves Perron: If I understand you correctly, you're telling me that if there were five players that control 80% of the market in the food sector, for example, that would not be considered unusual or hamper price-setting, based on your criteria.

Mr. Anthony Durocher: It's obvious that that would be a highly concentrated market. In this type of market, we have to remain vigilant in terms of anti-competitive behaviour, whereby a merger would lead to concentration or possible collusion. Obviously, you have to be more vigilant in this type of sector.

Mr. Yves Perron: Thank you.

When you look at competition between five players that control 80% of the market, for example, do you take a look at the effect that this can have on the relationships between the small suppliers and the big ones? Earlier, we spoke of the practice that consists of making them pay the costs of loyalty points or penalties for unsold merchandise, for example.

Are those issues that you have raised?

Mr. Anthony Durocher: Absolutely.

We look at the situation through the lens of the consumer as well as the supplier in almost all sectors; that means examining the market from top to bottom. In the industry, we talk about monopsony. This is the purchasing power of the buyer with its suppliers. We can take this aspect into account when there is a merger, for example.

Mr. Yves Perron: Let's say that these five big players are buying up independent suppliers, such as the case described by Ms. Rood earlier. Would that merger concern you? Could you block such a merger even if the players held less than 35% in terms of market share?

Do you have the authority to block such mergers?

Correct me if I'm wrong, but I am getting the impression that you undertake studies but that you don't actually have any real power.

Mr. Anthony Durocher: Market studies are rather separate from the work we do to enforce the act, for which we are authorized to collect information.

When it comes to mergers, it is the legal test that allows us to determine if a merger can reduce or considerably hinder competition. As to whether we have enough real powers, that is a question that the government is looking at right now. The Bureau is working on recommendations on ways to improve our framework in order to be able to block mergers that could be harmful to consumers or the economy.

Mr. Yves Perron: This is a most interesting exchange and I like the fact that you are anticipating some of my questions.

The Bureau recently published a market study notice stating that you have fewer powers than the American institutions, for example, when it comes to collecting data. Food supply chain representatives have provided testimony to us indicating that financial statements are very opaque. We are presented with profit margins that have been collated and someone tells us that it is the pharmaceutical sector that is responsible for growth and that the food sector is not really profitable. It is impossible for us to check if that is true. You are the ones that need to be able to do this.

If you had to make one single recommendation to our committee to improve the situation, what would it be?

• (2020)

Mr. Anthony Durocher: In that context, I would recommend that we look at market concentration as well as the concerns of Canadians. I would say that there are two concerns and that they deal with the Competition Act. We should be looking at the powers that we can wield in order to collect data for market studies. It is obvious that we are limited in this regard.

Secondly, we should look at our framework, the acts that deal with mergers, in order to be sure that we have the necessary means and adequate tests to prevent mergers that can hamper competition, especially in concentrated sectors.

Mr. Yves Perron: If I understand you correctly, and do set me straight if need be, the study that you are doing currently is not really about price-setting mechanisms, but the situation.

You should know that witnesses have told us that it would be good if the Competition Bureau were to undertake a study on price-setting mechanisms.

I would like to know what you think about this.

Mr. Anthony Durocher: I just want to clarify one thing. When you talk about price-setting, you are not necessarily talking about collusion.

Mr. Yves Perron: No, I was talking about unfair negotiations, for example.

Mr. Anthony Durocher: We have looked at this issue in the past, especially during our study on Loblaw and its practices in dealing with its suppliers.

The Chair: I'm sorry to interrupt, Mr. Durocher, but the member's speaking time has run out.

Mr. Perron, you will have two more minutes later on to get back to this issue.

[English]

Mr. MacGregor, you have six minutes.

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

I'd like to start my line of questioning with the Competition Bureau and dig down into the differences between a study and an investigation.

Your release did state that "unlike many of its foreign counterparts, the Bureau does not have the power to compel businesses to provide such information for the Study." In the annex, you listed some of the countries, including the United States, Mexico, New Zealand and the European Union.

Some of the information that you could glean from this exercise could potentially lead to an investigation. I guess a company, because they're not compelled to release this information, could withhold information that would be vital and might serve as the basis for you to launch an investigation.

How are we, as policy-makers, to address this problem that could potentially exist?

Mr. Anthony Durocher: If we're not able to compel information from certain parties, that does play a role in terms of what we can find out that could inform an investigation.

The key issue that I would come back to is that our market study is not really geared to look at any allegation of wrongdoing. We're not necessarily looking for something that could be an offence under the act. We're looking to make recommendations to government on how to improve competition.

That said, if we come upon information that's problematic, it could be grounds for further investigation. In those instances, we would have access to more powers, such as subpoena powers or search and seizure for potential criminal offences.

I think the key solution is looking at the Competition Act itself. The government's consultation right now is ripe for discussion as to whether it would be appropriate for Canada, like many of our peers across the world, to be able to have that information and to collect data and information to inform our studies.

Mr. Alistair MacGregor: Thank you.

I appreciate the recommendations you made, so I won't go over the same question. I think I get a sense of where your wants are legislatively. Of course, we do take note of the recent changes to the Competition Act. I guess I want to theme my question more on the resources of the Competition Bureau. I want to zero in on the bread price-fixing scandal.

It was in 2015 that Loblaw admitted to the Competition Bureau that it had conspired with other companies. It was two years later that you obtained and executed a search warrant from the Ontario Superior Court. A lot of time has passed, so I just want to know what the status of that investigation is. Is that a case study that we need to look at to gauge whether the Competition Bureau has enough resources?

I know your heart is in the right place and that you are going to work every day in service of Canadians, but you are up against companies worth billions of dollars that have an army of lawyers at their beck and call. I just want to get a sense from you. Paint a picture of what you really are up against here.

● (2025)

Ms. Ann Salvatore (Deputy Commissioner, Cartels Directorate, Competition Bureau): Thank you for the question.

I can understand where you're coming from in terms of the length of time this investigation has taken, but I can confirm that this is a very active investigation. We continue to investigate all aspects of this case. It is a very complex case. There are multiple parties involved. The time period of the alleged conspiracy was quite lengthy, and so these investigations do take time.

It is being investigated under criminal provisions, so we have to be vigilant and we have to be vigorous in our investigations. Hopefully, we'll come to a conclusion in a timely manner.

Again, I will just emphasize that this is a very complex case.

Mr. Alistair MacGregor: With respect, Ms. Salvatore, I understand that, but it is 2023. What are your internal benchmarks here? What are your internal timelines for coming to a conclusion?

I understand that it's complex, but at the same time we do want to reach a conclusion. There are Canadians who are expecting an answer. If you could flesh that out a little bit more for the committee, it would be appreciated.

Ms. Ann Salvatore: Again, the investigation is quite complex. There isn't a set time period that I can point to in terms of how long these investigations take. They are really fact-specific. They really depend on how many parties are involved and the length of time of the alleged conspiracy. In this particular case, we've executed 24 search warrants over that period of time. We've collected a vast amount of evidence, which has to be studied and analyzed. If we have sufficient evidence, we will refer that evidence to the Public Prosecution Service of Canada for a decision on whether a prosecution should go forward.

The Chair: Thank you, Mr. MacGregor. Thank you, Ms. Salvatore.

We'll now turn to Mr. Barlow for four minutes, please.

Mr. John Barlow (Foothills, CPC): Thanks, Mr. Chair.

I appreciate the testimony here.

I want to get back to Mr. Durocher from Mr. Perron's question.

You said that under this current study that you're doing, you can't peel back the difference in the profits from pharmacy and food

prices with the current mandate and tools you have right now. Is that correct?

Mr. Anthony Durocher: That's correct. We have to rely on public information or what is provided to us voluntarily. We cannot compel that type of data and information, which is obviously an important factor in assessing the role of competition with high grocery prices right now.

Mr. John Barlow: All right.

Maybe you can't answer this question, but how accurate would the study and the recommendations that you provide be if you're not able to dive down into all of that data? Is the data going to be substantial enough for you to provide prudent recommendations with the information that you are able to gather?

Mr. Anthony Durocher: We're confident that our study is going to produce meaningful recommendations on how to improve competition. We're doing a deep dive. We're speaking to a number of parties, including suppliers and retailers, big and small. We're trying to examine the role of regional competitors. Why are international retailers that could potentially shake up the Canadian market not coming in? We're confident that we're going to provide a report with meaningful recommendations.

Is it as rigorous and as deep a dive as we would like? No, it is not.

● (2030)

Mr. John Barlow: I had the opportunity to tour some of the produce producers and visit their farms earlier this fall. They certainly outlined to me some of the concerns they had in dealing with the large retailers and the fees they were charged, kind of pitting one farmer against the next, but they were really hesitant to speak out against those retailers because of the fear that they would lose those contracts.

As part of this study, you said you spoke to 500 different Canadians. Are you confident that you're getting frank conversations and details from those producers who have been hesitant, let's say, to share the true on-the-ground stories that they're telling? Are you feeling that you're getting that kind of detail?

Mr. Anthony Durocher: I think our focus in looking at those issues is really retail competition. We're trying to speak to the key stakeholders in that respect, including some key suppliers or industry associations representing suppliers.

A key tenet of the Competition Act is the role of confidentiality. People can provide us with information knowing that we're going to keep that information confidential. I think we're relatively confident that we're getting candour from parties. We're not getting full co-operation from everyone we'd like in respect to this study, which is just the regime that we're operating in, but from those who are co-operating, I think we're getting frank views. It certainly is helpful for us.

Mr. John Barlow: I don't want to cut you off, but I have one question for Statistics Canada.

Mr. MacDonald, we had testimony earlier in this study from Dr. Sylvain Charlebois, who raised concerns about Statistics Canada's removal of historical food inflation data from the website. You mentioned that this wasn't the case. Was data ever removed from the Statistics Canada database, particularly on the website, yes or no? If it was, then it's been put back up, from what I understand from your explanation.

Mr. Matthew MacDonald: No. No food price data has been removed from our website, nor are there any plans to remove any data in the future. The previous average prices table that you're referring to remains online and accessible to users. It still has food prices remaining, and they're available back to 1949. We did, however, make improvements to our data and expanded the accuracy and relevance by creating more granularity and much more product detail to exploit the higher-quality data sources that we now have available to us.

The Chair: Thank you, Mr. MacDonald and Mr. Barlow.

Mr. Louis, you have up to four minutes.

Mr. Tim Louis (Kitchener—Conestoga, Lib.): Thank you, Mr. Chair. Thank you to all our witnesses, both here and online.

Canadians feel unprotected by food prices. That's why we're doing this study. We're looking to understand the high costs that people are seeing every day. Many people are feeling that grocers should be more ethical, because food is a fundamental need. I think that's at the heart of the conversation we're having, and these are important conversations.

We see that this market, as you said, is dominated by a small number of suppliers, so maybe I would start with the Competition Bureau. Many of the questions have already been addressed, but they deserve to be talked about.

You say that competition drives lower prices and innovation while fuelling economic growth. Canadians are concerned about price-fixing, and they come by it honestly. We can talk about the packaged bread prices being artificially inflated for about 14 years as companies communicated with each other to raise the price at least 15 times. I understand that you may not be able to comment on a specific case for confidentiality reasons, as you said, and because it's an active investigation, but I'm sure you can appreciate Canadians' concerns.

You've had other inquiries before into the food sector. Can you cite some other examples that you can speak about in generalities and summarize the findings and the charges requested and let people know if those charges were implemented?

Ms. Krista McWhinnie: I can speak to an extensive abuse of dominance investigation that we did into certain practices that Loblaw had in place with its suppliers. This was a three-year investigation. It was a very, very deep dive into those policies to understand the intent behind them and the effect.

When we're looking at something under the abuse of dominance framework in Canadian competition law, we have to prove three things: that they are dominant, that they're acting with anti-competitive intent, and that their actions cause a substantial lessening or prevention of competition. During the course of that investigation, Loblaw ceased the majority of the problematic practices. Neverthe-

less, we felt it important to keep investigating to make sure that it had stopped enforcing those policies in all forms and to be able to really understand the behaviour and provide guidance.

We issued quite a lengthy public statement following that investigation to try to explain where the line is in those policies between retailers and suppliers between hard bargaining, which is not prohibited by the Competition Act, and tipping over into being a retailer that is trying to shield itself from competition by other retailers.

• (2035)

Mr. Tim Louis: Thank you for that. I appreciate it.

This might be a question for Mr. Schaan. It's confusing to remember who answered. It's about wage-fixing. I think you would be the person.

Wage-fixing is similar to price-fixing. You mentioned that wage-fixing undercuts competition and that an easy way to think about that, for the average Canadian, was to think about when representatives from Loblaw, Metro and Empire were asked why they made the decision on the same day to decrease wages or to get rid of wages for the frontline grocery store workers during the pandemic.

How do you describe the fact that they moved in that direction, and can you describe any other examples of wage-fixing that are actually going to be in the Competition Act?

The Chair: You have about 30 seconds, Mr. Schaan.

Mr. Mark Schaan: Without getting into any specific instances, because those would be matters that would be under the investigatory powers of the bureau, I would note the shift in law that we made in 2022, which was essentially to put potential wage-fixing coordination under the auspices of the act. The act was amended to ensure that agreements between different employers to collude on wages or on conditions of work, thus harming competition for labour, were treated in exactly the same way that harmful price-fixing agreements are. It's a cost of input.

The Chair: Thank you, Mr. Louis. Thank you, Mr. Schaan.

[*Translation*]

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

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

If I understand correctly, you are looking at abuse of dominance. That is similar to the issue that we were going to discuss earlier, Mr. Durocher. As to you, Mr. Schaan, if I understand correctly, you are looking at cases of collusion in terms of wage-fixing. I am new to all this, but I think we are seeing both phenomena in the food sector.

What has been the impact of these studies?

I'm not sure who could answer the question.

Mr. Anthony Durocher: I can start by talking about the amendments made to the Competition Act. The amendments will enter into force in June. Changes have been made to the act, and stakeholders as well as businesses will have a year to adapt to the amended criminal provisions of the act.

We are currently working in order to be able to provide more information to stakeholders on the way that we will be enforcing the provisions. We are developing a guide.

Mr. Yves Perron: That means there will be no sanctions linked to previous studies. Stakeholders will have one year to adapt to the new provisions. Is that right?

Mr. Anthony Durocher: That's right. The big change to the act will come into force in June 2023.

Mr. Yves Perron: Do you believe that the code of conduct will reduce irritants and limit these practices that, from the outside looking in, at least, seem unfair?

Mr. Anthony Durocher: It is our opinion that the code of conduct seeks to redress a certain imbalance in terms of negotiating powers between two parties, i.e., the suppliers and the retailers. We are concerned about anti-competitive behaviour, which is a bit different. That said, when there is a code of conduct that can improve transparency within the industry and provide more certainty in terms of practices, it is very possible that this will encourage innovation and investments in the sector.

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

And finally, Mr. MacGregor, you have the floor for two minutes.

[English]

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

I think my final question I will direct to Statistics Canada.

In a previous meeting of this committee under the same study, we had Mr. Tyler McCann from the Canadian Agri-Food Policy Institute. He informed us that Canadian researchers don't have access to the same data on agricultural and retail prices as their counterparts in the United States do. I'll just read a quote. He said:

We simply do not have this level of credible, meaningful analysis in Canada. Your committee's study would benefit from an organization like Agriculture Canada, Stats Canada or the Competition Bureau producing this level of detail. The committee should consider recommending that the Government of Canada take the steps necessary to collect data and conduct the same level of analysis that is available in the U. S. and to make the results of that analysis public.

I think what was specifically being referred to here was the United States Department of Agriculture's economic research service.

My question to you is simply what your response to Mr. McCann's comments would be and what would be required for you to provide that same type of data so that policy-makers could act on it.

• (2040)

Mr. Matthew MacDonald: Thank you for the question.

The majority of the information we collect is used for statistical purposes to create economic indicators that ultimately feed into measures of economic output or macroeconomic indicators.

I think what you're referring to is a regulatory framework in which you would have financial information that you track entirely

through the supply chain in order to be able to have these hand-offs between these different sectors of the economy, which we don't really have right now. We just collect this information from different industries, and then we aggregate it and produce it in an aggregate form.

To answer your question, I think it would require a bit more of a regulatory framework to provide this information or impose a requirement for this information.

Really, the information that we collect is safeguarded under the Statistics Act, meaning that we collect confidential information about companies but we're not allowed to disclose it. Therefore, we only produce it in aggregate for economic indicators.

The Chair: Thank you, Mr. MacDonald. Thank you, Mr. MacGregor.

Mr. Durocher, I have two quick hitters for you. Just so I'm clear, you have the legislative tools to compel evidence in investigations but not in studies. You've made it very clear that it would be helpful in the studies. I see you nodding, so I'll take that as a yes.

What is the threshold in order to be able to establish an investigation? Is there a legislative threshold, or is that really discretion that's held by the bureau? Is it what Ms. McWhinnie was talking about with the three different factors? That's question number one.

As question number two, if you launch an investigation and you then are able to collect evidence because of your ability to compel it, is there any preclusion from using that evidence and that information in the study down the line?

Mr. Anthony Durocher: On the threshold question, generally speaking, there's a threshold to go into an inquiry under the Competition Act. Once we're on a formal inquiry, that's when we can apply to the court for subpoena powers or for search and seizure if there's a criminal offence. Basically, you need a reason to believe that an offence under the Competition Act may have occurred. You really need grounds. You can't just think that something is amiss. It's a concentrated sector, so we need evidence to substantiate why we think we need to compel information. It's an important threshold.

In terms of using the information we obtain, it's case by case. There are considerations between civil and criminal issues that we take into account. In all cases, I think we're informed by the legal advice from our counsel with the Department of Justice as to the appropriate way to use the information we obtain.

The Chair: There's nothing from the legislative side that would require further clarification on what you can and can't do on that side, or would it just be the general principles of evidence from criminal law and civil matters from lawyers?

Mr. Anthony Durocher: Yes. That's correct.

Our respectful submission is that legislative issues are live for the Competition Act right now, and the ability to compel for market studies issue and for merger law in general is ripe for conversation. The ability for the bureau to tackle any competitive mergers is an essential issue in the consultation right now.

The Chair: Thank you, colleagues, for the small indulgence.

Thank you to our witnesses. On behalf of all of our committee, thank you to the folks at the Competition Bureau for the work that you do. Thank you for being here today.

To Mr. Schaan with ISED and to our folks online from Statistics Canada, thank you so much.

Colleagues, good night. I'm being told to hit this hammer to say that we're done.

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