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Chair: Mr. Kody Blois





## Standing Committee on Agriculture and Agri-Food

Monday, December 4, 2023

• (1530)

[English]

**The Vice-Chair (Mr. John Barlow (Foothills, CPC)):** I call this meeting to order.

Because of potential votes, I will ask for UC, when the time comes, to do the votes virtually and carry on, as Mr. Medline has a hard stop at 4:30. To delay would inhibit our ability to carry on with this first panel today. If everybody is okay with that, we will carry on. We'll make sure that Ms. Leah Taylor Roy and Mr. Carr and Mr. Drouin are up to speed. I will have everyone's assurance there will be no shenanigans in the meantime.

Welcome to meeting number 86 of the House of Commons Standing Committee on Agriculture and Agri-food.

I have a few reminders for our witnesses, although I know that Mr. Medline has been here before.

Today's meeting is taking place in a hybrid format. The proceedings will be made available via the House of Commons website.

[Translation]

**Mr. Yves Perron (Berthier—Maskinongé, BQ):** There seems to be a problem with the French and English channels.

[English]

**The Vice-Chair (Mr. John Barlow):** Is it good now?

Good. It's working now. Does he have that channel working correctly?

Mr. Blois, it's good to have you here.

I see that the bells have started. Colleagues, I'm going to ask for unanimous consent that those of us who are here vote virtually, and then we can carry on.

**Some hon. members:** Agreed.

**The Vice-Chair (Mr. John Barlow):** Mr. Medline, we'll carry on. We may have to stop for everyone to do their virtual voting, but, in the meantime, we'll carry on.

I have a few comments for the benefit of the witnesses.

Members and witnesses may speak in the official language of their choice. Interpretation services are available for this meeting.

Mr. Medline, if interpretation is lost, you may see a hand go up, and we'll ask you to pause for a minute as we get that in order. Before you start speaking, I will recognize you, and then you can start.

You'll have five or six minutes, Mr. Medline, for opening comments. I will raise my hand when you have about a minute left just to give you a bit of a heads-up, but since you are the only witness in this panel, I'll give you a little extra time if it's needed.

Mr. Medline, I will turn it over to you for your opening comments.

**Mr. Michael Medline (President and Chief Executive Officer, Empire Company Limited):** Thank you, Mr. Chairman.

Sobeys has taken seriously Minister Champagne's September 14 call to action to do even more to combat food inflation in Canada. On October 6, Sobeys formally submitted to the Minister of Industry our plan to help further stabilize food prices for Canadians. At this committee's request, we then submitted our plan to you on November 3.

We worked diligently to put the material together in a short time frame. Our plan included an overview of the current food inflation trends and outlook, a summary of our current and past efforts to help stabilize food prices and provide value to Canadians, and most importantly, recommendations for actions to be taken by our company and by the federal government.

As we've said consistently over the past 18 months, we don't like inflation, we don't like the choices it forces our customers to make, and we are not benefiting from it. We can all agree that global inflation is hurting Canadians where it counts. Although our country's food inflation has been among the lowest in the world and Canada is among the most competitive nations on earth when it comes to grocery retail, this provides little comfort to Canadians who are struggling.

Having said that, we know that our efforts to date are helping to slow food inflation and we expect this trend to continue. The goal, as set out to us by the Minister of Industry, is to help reduce the gap between food inflation and Canada's consumer price index. We are pleased to see that since the mid-September meeting grocers had with Minister Champagne in Ottawa, as predicted, food inflation continues to decline, and we believe this gap will keep moving in the right direction.

The latest figures from Statistics Canada indicate that overall CPI was 3.1% in October, 2023, down 70 basis points from the prior month, and food inflation was 5.4%, down 40 basis points from the prior month. Overall, food inflation has been declining since its peak of 11.4 % in January 2023.

At Empire, our internal food inflation numbers show a consistent trend, with steady declines over the last several months, and our internal inflation has remained below the CPI food inflation rate. Our plan, which we began implementing in our stores across the country in early November, is designed to help bring meaningful relief to Canadian consumers. The proposals were novel and detailed, and contained timelines.

As you are likely aware, it has been our practice, historically, to freeze the majority of our prices on all packaged products between November and January, in partnership with our supplier partners. This practice has never been an external or public commitment, nor was it a mandatory practice internally. Typically, we would hold prices on approximately 90% of packaged products during this time, subject to exceptions in select instances.

This year we have expanded this practice by freezing everyday prices on the totality of our packaged product portfolio, representing approximately 20,000 items, between the first Sunday of November 2023 and the first Sunday of February 2024. This is a meaningful step up from prior years and has resulted in the cancellation of price increases on approximately 1,700 additional products that were initially planned to occur during this time frame. This commitment will remain in place regardless of any internal or external conditions that might cause those prices to go up.

Additionally, and as you will have read in our confidential submission, we also have meaningful plans in development to continue to help stabilize food prices past January, but we will not discuss these publicly, as they remain commercially and competitively sensitive until launched in our stores. We have been advised by external counsel that sharing such plans could be in contravention of Canada's Competition Act.

Our submission also includes recommendations on real measures the federal government can take to address food inflation and strengthen Canada's food supply chain. This includes actively supporting the implementation of a grocery code of conduct, which many of us have been advocating and working towards for over three years.

As you know, an effective code of conduct is a key pillar of our plan to help further stabilize food prices for Canadians.

● (1535)

Let me say this, however: Although we are ready, willing and able to sign the code today, we now have serious doubts as to whether the code will actually come into effect, due to recent opposition by some retailers.

In no way do we believe, nor does evidence show, that a grocery code of conduct would lead to higher food prices or less choice for Canadians. In fact, it's quite the opposite. We would be pleased to see more immediate action from the government on this issue and would urge you and your colleagues to be even more engaged on this file in order to ensure the swift adoption of the ready-to-go code by all stakeholders.

We at Sobeys are on board to help lower food prices, but I also believe that there are short- and medium-term actions Parliament can take to relieve affordability pressures on Canadians.

Thank you for your time and for having me here today.

**The Vice-Chair (Mr. John Barlow):** Thank you very much, Mr. Medline. I appreciate that.

We will now go to the Conservatives for six minutes, please, with Ms. Rood.

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

Thank you, Mr. Medline, for being here with us today as we discuss these important issues of food inflation and the cost of food for Canadians.

The current government promised Canadians that they would lower the price of food for Canadians by Thanksgiving, and they broke that promise. You mentioned in your opening remarks that you have put price freezes on some additional 1,700 products to keep those prices static until at least 2024. I've heard from some suppliers that they're not allowed to ask for price increases regardless of whether their costs go up.

I have a couple of questions. Is it standard practice to freeze prices at this time of year? What should consumers be preparing for in 2024, when the price freeze is lifted? How much are food prices going to go up?

Also, could you clarify? You mentioned that it's just a price freeze on packaged products. Does that include fresh produce and meats?

**Mr. Michael Medline:** These are great questions. Thank you very much, Ms. Rood, for your interest in this, as always.

It's the standing practice to freeze around the holiday period, for both the stores and the customers, price increases on packaged goods. However, that only applies, historically for us—and I don't know what happens to our competitors—to about 90% of the packaged goods. Sometimes, under extenuating circumstances, there have been, I'd say, 1,700 to 2,000 price increases that go through in that period, so it's not a full freeze. This year, because of what's going on with inflation and because of the interest of Parliament and this committee, we have decided at Sobeys to freeze all packaged goods for the entirety of the period.

The reason we say "packaged goods", which make up approximately 20,000 out of a normal store's 26,000 to 28,000 items, and not fresh, is that.... They're very different. The cost for fresh items can move daily in some cases, and certainly weekly. We're buying on the market, and the world and North American price can change, especially, as you can understand, for produce in the winter. It can change very quickly.

To be able to import and to make sure that we have fresh goods in our aisles, especially during the winter, we have to make sure that we can buy the product, and the price moves all the time. It can move up and it can move down. Since I talked to you last March, some of the products have moved up and some of the fresh products have actually moved down—

**Ms. Lianne Rood:** Thank you, Mr. Medline. I'm sorry, but my time is short here.

**Mr. Michael Medline:** That's okay. Go ahead.

**Ms. Lianne Rood:** I'm going to move on to the next question.

**Mr. Michael Medline:** Sure.

**Ms. Lianne Rood:** Recently the Prime Minister summoned you to Ottawa. I understand that they have given you a list of asks, but could you tell this committee what specific asks or recommendations you asked the Liberal government to initiate and how many of those recommendations have been acted upon?

● (1540)

**Mr. Michael Medline:** Well, we said what government could do. We said that when we were summoned and we said it in the submissions we made. To get this code of conduct done is the first one. Get it done. Get it in place. It's taken way too long since we called for it three years ago.

We talked about over-regulation and labelling and packaging at a time when costs are rising. Front-of-pack labelling, nutritional labelling...these costs add up and go on the grocery bill. Although some of them may be important in the medium and the long terms, they do hurt consumers in the short term.

Strengthen the Canadian dollar so that Canadians can pay less for fresh goods.

Help fund national food rescue or food diversion programs.

Adopt food diversion through tax incentives for donations.

Ensure the potential downstream cost impacts of new policies and regulations on grocery prices are considered as part of the decision-making process of Parliament.

Amend part III of Schedule VI of the Excise Tax Act to ensure that fresh prepared foods such as salads are zero-rated.

Incentivize Canadian greenhouse farming to lower costs, shorten our supply chain and make us less dependent on other nations.

Those are a taste of some of the recommendations we have made. I don't know how many are under consideration by the government. Perhaps you could ask the government that, or Parliament. I'm not an expert on that.

**Ms. Lianne Rood:** Thank you very much.

Mr. Medline, one thing I didn't hear you mention is the carbon tax.

Could you explain to this committee how the carbon tax would affect the price of food at the retail level, and where along the supply chain your company would pay the carbon tax?

**Mr. Michael Medline:** Thanks.

As you know, it's not my role, Ms. Rood, to comment on the specifics of government tax policy. However, from what I've seen, I agree with food professor Sylvain Charlebois that there hasn't been enough significant research in this area. We need more. Obviously, any tax flows through the entire supply chain and affects everyone, from the farmers up through the supply chain.

What I know is that any time input costs are added to the food supply chain, they will inevitably impact consumer prices. Govern-

ment taxes, regulations and requirements of any sort, of course, make food more expensive.

**The Vice-Chair (Mr. John Barlow):** Thank you very much, Ms. Rood.

Thank you, Mr. Medline.

Ms. Taylor Roy, go ahead for six minutes.

**Ms. Leah Taylor Roy (Aurora—Oak Ridges—Richmond Hill, Lib.):** Thank you, Mr. Chair.

Thank you, Mr. Medline, for being here again and for your submission to the committee.

You met with Minister François-Philippe Champagne and have co-operated with, and participated fully in, his efforts to help us address the rising cost of food and stabilize prices. There were five actions Minister Champagne announced. One of them was securing commitments from the five larger supermarket chains. It seems, from what you have said, that you are expanding price freezes on many more items than you have in the past. From your submission, it's clear you're taking this seriously.

One of the other things that were mentioned—my colleague just mentioned it—is the grocery code of conduct. You referenced that you're worried about whether this code of conduct will go forward, given that certain grocers are not seeing the benefit of it or willing to participate fully.

Are you worried the code of conduct might be implemented by each province individually? If that were to happen, what effect would it have on you, as a national chain?

**Mr. Michael Medline:** I just spoke to Ms. Rood about too many rules and regulations at a time when Canadians are struggling. I think it would be unfortunate if we couldn't come to one common code across the country. If we can't, it would put a level of complexity and cost into the system that would hurt Canadians. It would be incredibly complex to put into effect and regulate. We would have different codes in different places. We know how that works: It doesn't work at all.

We have a code that's ready to go. Almost everyone is ready to sign on. I ask you, because you're interested—thank you for your interest—to please help us push this code past the finish line. I wouldn't say it's on life-support, but it's in dire straits, because those who don't like the code are stalling. They're saying things that aren't true and hurting our chances of putting the code forward.

I can't think of any party that doesn't support the code, either provincially or federally. This is a great idea; it's just taking too long. Let's get to it.

● (1545)

**Ms. Leah Taylor Roy:** Thank you very much for that suggestion.

In line with some of the elements of the grocery code of conduct—that was something Minister Champagne also highlighted—is the imbalance between smaller producers and suppliers and, of course, the larger grocery chains.

I know that right now, on the plan you put forward, there's concern about price reductions being passed down to manufacturers or producers.

How do you plan to support smaller producers and suppliers in negotiations with the larger grocery chains, outside of the grocery code of conduct? What are you doing now?

**Mr. Michael Medline:** We're leaders in this field at Sobeys. I think the chair would kill me, but I could take up the entire hour talking about everything we're doing to support smaller and local businesses across our great country. We have put in place an organization in our business to make it simpler for smaller supplier partners to do business with us. I have to tell you that we don't need a code to treat them well. We treat all of our supplier partners well. We just want a level playing field. That's all we're asking for here. Everyone should treat people with respect in this industry.

As I said, when I came into this business, I was surprised there wasn't more respect for all levels of the supply chain—from the farmers on up—in terms of making this a better business—

**Ms. Leah Taylor Roy:** Absolutely. I'm sorry to interject, but I have one last question.

**Mr. Michael Medline:** I get passionate.

**Ms. Leah Taylor Roy:** You do, and that's great to see.

You mentioned that you have respect for the suppliers and the farmers, which I greatly appreciate. We all do. I'm wondering, though, in terms of respect for the consumers... As you say, prices have been high. We're trying to stabilize them and bring them down.

There are record profits being made by the grocery chains. I understand that margins are the same, but because of inflation, of course, the dollar amounts of profit have gone up and extraordinary profits are being reported. Do you feel there's any lack of respect or anything you could do to address what the public sees as perhaps your chain making excess profits while they're struggling to put food on the table?

**Mr. Michael Medline:** It's so hard for Canadians. I know that you know this. It's the cost of living, the cost of rent, the cost of mortgages, and then you go into the grocery store and you see these prices that are caused by global inflation. It's sad. It's hard.

We're trying to do everything we can, as you saw from our submission. I get a little impatient that we're jumbled up with the entire industry all the time. Every company is different.

I'll give you an example. I'm only talking about our company, Sobeys, here. Since inflation started, out-take on our net earnings has been a meagre 1.8%. Last year we made less than the year before, when inflation occurred. We made less money. Our net margin has fallen during inflation from 2.5% to 2.4%. It's lower than our competitors' and it's among the lowest in margin businesses in the country.

I see why people are frustrated. I know that some people want to fan the flames. It's tough. When you walk in, who cares what the reasons are? You're paying too much. That's what I think.

**The Vice-Chair (Mr. John Barlow):** Thank you, Mr. Medline. Thanks, Ms. Taylor Roy.

[*Translation*]

Mr. Perron, you have six minutes.

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

Thank you, Mr. Medline, for making yourself available to us again today.

You had a lot to say about a code of conduct. You said there's opposition and that not everyone would voluntarily comply. In your case, your business does comply, and you'd like to see the code of conduct implemented quickly.

What will happen if retailers don't sign this code of conduct?

**Mr. Michael Medline:** Thank you for the question.

[*English*]

It would be a sad day. For me, it would be a sad day, and I think it would be a sad day for Canadians and the industry.

This code is not a huge ask. It asks this industry to act with respect. It asks for some very basic rules that apply and that retailers just do in retail areas other than grocery. It would be a missed opportunity of epic proportions. We have never been this close to a code.

You've seen that the code in other parts of the world has operated wonderfully. It's a Canadian code, but we looked across the world. We've put tons of work into it over the last three years.

I would say that the last year has been a waste of time. We could have implemented this code a year ago. We've been willing to sign it. You can also talk later to—

• (1550)

[*Translation*]

**Mr. Yves Perron:** I'm sorry to interrupt you, Mr. Medline, but I'm short on time.

Along the same lines, some say that the best way to lower prices is to increase transparency and competition in the sector. I'll start with transparency.

During a previous meeting of this committee, I asked five corporate representatives if they would commit to giving their numbers to the Competition Bureau. I can understand people not wanting to share their numbers in public meetings. You said that your company's profit margin went down, but what we've see overall is that profits have gone up. We certainly want to believe you, but most people would have a hard time believing that.

When I asked those five reps that question, every CEO promised to give the Competition Bureau their numbers. I was deeply disappointed to learn, upon reading the Competition Bureau report, that not all of them did.

What happened? Can you help us understand?

Did you provide your numbers? If so, what are your thoughts on the level of co-operation from others in the sector?

[*English*]

**Mr. Michael Medline:** I can't comment about others.

I remember your question. It was a good question. We gave to the Competition Bureau a level of transparency that we've never given before. I think they want more and more and more transparency. We gave them what we thought would give them all of the information they needed.

You can look. You don't have to believe me when I say 2.4%. You can see that in our public documents.

I can also tell you today that we gave them the food margins and split it off from the rest of our business, just as you and some of your colleagues in Parliament asked us that day. When we make a promise, we do it. Whether it was 100% to the bureau's liking, I don't know, but boy, did we put a lot of work into it. I personally got involved.

[*Translation*]

**Mr. Yves Perron:** Thank you very much for your answer.

As I understand it, your company provided its numbers. Thank you for that. I'll ask the next witnesses the same question.

Our committee suggested another way to improve grocery prices. The idea would be to increase competition in the sector, given that only five players control 80% of the market.

As a company, what are your thoughts on that? We draft bills. We could maybe see to it that the government takes steps to make it easier for other players to enter the market. Would you be open to the idea of increasing competition in the sector?

[*English*]

**Mr. Michael Medline:** I'll answer that in two parts.

First, people say that this is not a competitive market. It is one of the most competitive markets in the world. Any place else.... You have Amazon, Walmart and Costco competing with grocers, and you have independents competing as well. It's competitive.

Having said that, competition is good. There's always going to be new competition, and we will face it when it comes. I don't think there have been huge barriers to competition in this country, but I'm

sure that the government will put in place, in the Competition Act, even greater ways that we can compete. We welcome all that.

I would also point out that independents can thrive in this country. One way that we can make this more competitive for them and make sure that smaller start-ups can become big is to push the code—code, code, code.

[*Translation*]

**Mr. Yves Perron:** Okay, thanks for your answer.

You talked about the steps you took after meeting with Minister Champagne. I assume you were acting in good faith, of course, but it was a bit of a photo op on the government's part, too.

What have you done differently this year compared to other years? What have you actually done?

You talked about the pre-holiday price freeze. Isn't that just standard practice?

[*English*]

**Mr. Michael Medline:** It has occurred before. We took it to another level this year after meeting with Minister Champagne.

As you also probably know, we gave a confidential memorandum to this committee, which shows exactly how serious we are about helping to stabilize and, hopefully at some point soon, lower prices for Canadians on food. It's novel and it's material. We gave timelines. We've had numerous conversations with the government. That will become public in late January as it rolls out across our entire system.

● (1555)

**The Vice-Chair (Mr. John Barlow):** Thanks, Mr. Medline.

What we're going to do before we go to Mr. MacGregor is.... We have a few minutes left before the vote starts. If everyone is amicable, we'll do Alistair's round of six minutes, and that should still leave us six or seven minutes to vote. We're all going to vote on the app, I'm assuming. Is that okay with everyone?

**Some hon. members:** Agreed.

**The Vice-Chair (Mr. John Barlow):** Go ahead, Mr. MacGregor.

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

Thank you, Mr. Medline, for joining us today.

I think one of the hard things about the food inflation crisis over the last 23 months has been just how many people with solid full-time jobs have been struggling to put food on the table and have been using food banks. I think that's a very detrimental record for our country.

Some of those workers also include workers who work at your stores. I think that if we are to talk about food price inflation and efforts that are being made to combat it, we also need to talk about the workers who work at Sobeys.

I've been in contact with some of the striking workers at Pete's Frootique—which is owned by your company—in Atlantic Canada. They've been on strike since mid-November. Many of those employees have stated that they themselves are unable to afford the food prices at the store where they work.

I guess I'd like to hear from you—and I think, indeed, many Canadians and the workers who are at your stores would like to hear from you—on this: How is it that many Canadian families can afford to shop at Sobeys when your own employees cannot?

**Mr. Michael Medline:** Thank you for that question, Mr. MacGregor.

As always, thank you for your passion on agriculture and food. I follow some of this closely and I know how passionate you are.

First of all, on the labour stoppage, the strike at a store in Nova Scotia, I'm not going to negotiate a collective agreement publicly here. I don't know if that's legal or not, but I'm not going to do it either way.

That's unfortunate. I think that these food price increases, which are horrific, are impacting everyone. They impact our teammates as well. I looked at our full-time teammates across the country. We have 130,000 teammates. They had, on average, 5% increases last year. For part time, it was an almost 8% increase in the last 12 months as well.

The problem with food banks is they vary. What's going on is a sad state of affairs. People are hurting more than ever due to prolonged inflation and high interest rates. We have to end this.

One of the most impactful ways we at Sobeys help is by donating food. Since May 2021, we've donated over 21 million kilograms of food, which is the equivalent of over 46 million meals, in our partnership with Second Harvest. We've supported more than 1,100 local non-profits. We offer fruit at significantly discounted prices through FoodHero. As part of The Grocery Foundation, we support the breakfast program known as Toonies for Tummies. We have partnered with Breakfast Club of Canada and Student Nutrition Ontario—

**Mr. Alistair MacGregor:** Thank you, Mr. Medline—

**Mr. Michael Medline:** I have a whole list here. We have to help more, and I hope the government can also help more. That was one of the asks.

**Mr. Alistair MacGregor:** Thank you.

I'm just noticing the clock.

Now, I understand you don't want to negotiate in public. I totally understand that, but the latest offer your employees were talking about was that your company offered them a 5¢ increase in their wages above minimum wage. I'm holding in my hand a nickel; it's not worth what it once was.

With respect to your executive compensation last year, it was worth 172 million nickels.

Again, you don't need to negotiate here online, but realistically, how do you think a 5¢ increase or, in other cases, a 5% increase, is going to realistically help those people afford items at your store? What could they afford?

**Mr. Michael Medline:** As you can appreciate, Mr. MacGregor, that's an oversimplification of this collective bargaining that goes on in this country.

Since I joined seven years ago, we've had 350 collective agreements come up. Until this strike at one store, which is an important store to us, we've had two strikes. We settled the mass of them. You heard what I just said in terms of the salaries going up 5% for full time and 8% for part time. We're negotiating these all of the time.

Strikes are horrible. They're especially horrible for our teammates. We try to settle them under fair terms. They're bad for customers, too. That's why we have so few and that's why there's collective bargaining in this country.

• (1600)

**Mr. Alistair MacGregor:** Thank you, Mr. Medline. Again, I'm just reporting back what I'm hearing from your workers.

Just in the final minute, much has been made about your meeting with Minister Champagne, along with the other grocery CEOs. What do you make of it when your competitor, Eric La Flèche from Metro, goes onto Quebec media and publicly states that the meeting had zero impact on food prices?

I think what the Canadian public ultimately wants to know about is what exactly was discussed in the closed-door conversation with the minister. One of your main competitors is now coming out and saying that it had zero impact.

What do you make of Mr. La Flèche's comments in that regard?

**Mr. Michael Medline:** I didn't hear that Mr. La Flèche said that. I don't know what he said. I can only speak for myself.

Look, this is a global issue. It's global inflation exacerbated by all sorts of things that are going on. We have respected that meeting with Minister Champagne. We have done everything we were asked to do in that meeting. If it can take down food prices and help speed that up, then we're all for it.

I can only speak for Sobeys.



**The Vice-Chair (Mr. John Barlow):** Thank you, Mr. Medline. I appreciate that.

We're going to suspend for a couple of minutes just to let everybody here vote, if they haven't already done so.

We'll be right back to Mr. Medline in a couple of minutes.

• (1600) \_\_\_\_\_ (Pause) \_\_\_\_\_

• (1600)

**The Vice-Chair (Mr. John Barlow):** Colleagues, we're going to come back to order.

Now we'll go to the Conservatives.

Mr. Medline, are you okay to continue?

**Mr. Michael Medline:** I certainly am.

**The Vice-Chair (Mr. John Barlow):** Thank you.

We have Mr. Epp for five minutes, please.

**Mr. Dave Epp (Chatham-Kent—Leamington, CPC):** Thank you, Mr. Chair, and thank you, Mr. Medline, for joining us today.

The Prime Minister promised lower grocery prices by Thanksgiving, whether American or Canadian, they've both passed. We're now looking at Christmas.

Thank you for making the statement that no one is benefiting from inflation. I'm assuming you were speaking on behalf of Empire and not on behalf of all retailers. I just want to get that on the record, Mr. Medline.

• (1605)

**Mr. Michael Medline:** Yes, I'm only speaking about us today. I don't know about the others. You'll have to ask them.

**Mr. Dave Epp:** Suppliers to you and other suppliers have said that Sobeys had taken, prior to the freeze, significant price increases—up to 8¢ to 10¢ per unit from a particular supplier—and then, however, also increased their prices by 15¢ to 30¢ per unit on their products. Can you tell me about how that relates to the rate of inflation?

**Mr. Michael Medline:** With that kind of detail, I really have trouble answering, because I don't know what it is, when....

We put in the price freeze. We also started our price freeze on packaged goods prior to that date, so there would be no question on what we had done. If that supplier in any way thinks we put a price increase through after we should have or in an unfair way, they should come to us, because that's what we would do under a code of conduct.

**Mr. Dave Epp:** Thank you very much.

**Mr. Michael Medline:** Thank you.

I think people fear there's retribution or something. We just want to get this right. I'd say, "Come talk to us."

**Mr. Dave Epp:** We appreciate your support for the code of conduct.

**Mr. Michael Medline:** Also for that, yes.... Go ahead.

**Mr. Dave Epp:** I'll go there right now.

Who is holding up the code of conduct? Is it the federal government? Is it some of the individual provinces? Is it the other retailers?

**Mr. Michael Medline:** I know for sure that the independent grocers are in. I know there are large retailers that are behind it, not only Sobeys. I know that the supplier partners were the ones who first came to me three years ago and asked me why I didn't support the code. We looked into it, and we supported it.

I think there are one or two large grocers that do not support the code in its current form, or maybe any code. That's slowing things down, obviously.

**Mr. Dave Epp:** You made a statement that coming into this period of a price freeze, you went from 90% price frozen to 100%, so you cancelled price increases. What happened to those margins that were cancelled to the suppliers?

**Mr. Michael Medline:** Sobeys ate them.

**Mr. Dave Epp:** Then you accepted the price increases and you reduced your margin. Am I understanding you correctly?

**Mr. Michael Medline:** Yes, that's exactly right. Even on ones that we would otherwise have had to pass through, we decided in that period of time, because of inflation and because of our meeting with the minister and because of the concern of the ag committee, to do 100% rather than 90%.

**Mr. Dave Epp:** I'm going to ask a couple more specific questions, but I'm asking them as to whether they would fall under the code of conduct.

Can you explain to the committee what "fill rates" are? Why does Sobeys fine suppliers and demand fill rates of 98.5%? The costs are imposed on suppliers, which obviously end up in food costs later, which I believe is self-evident.

Also, on vendor data, I understand you charge suppliers for internal data that would help both you and the vendor to be more appropriate in their product mix. That's a charge.

Would those two areas be covered by a product mix, and can you explain to the committee exactly what they mean?

**Mr. Michael Medline:** In the industry, you need to have rules among the parties, and you have to have transparency, and you have to have fair negotiations. That's what [*Technical difficulty—Editor*].

Yes, we expect certain things from our suppliers. If they promise to....

I'm having trouble with the headphone here.

**The Vice-Chair (Mr. John Barlow):** Just hang on. We'll stop the clock there. We'll test your mic, Mr. Medline. Just start speaking again

**Mr. Michael Medline:** Can you hear me now, Mr. Chair?

**The Vice-Chair (Mr. John Barlow):** Yes.

Is that okay with the translation?

**A voice:** Yes.

**The Chair:** Keep saying a few words there, Mr. Medline.

**Mr. Michael Medline:** If it's working, I'm now going to answer the question.

**The Vice-Chair (Mr. John Barlow):** I think you're okay. Just make sure the microphone doesn't touch your face. I think you're good now. Carry on. Thank you.

**Mr. Michael Medline:** At the same time, if we order products, we have to take delivery of them. Without a code in this industry, what's going on in some cases is that there's no negotiation and there's no discussion and there are no notice periods. Sometimes it is even retroactive. I believe you're going to have Mr. Graydon from FHCP later. You can ask him about it.

What we're trying to do in the code is to make it so that there's predictable business available and that we're not taking advantage because of size or power. We're trying to make it so that it's fair.

There is always going to be negotiation. There are always going to be disagreements, but some of the things that were going on were not fair business, and they should not be going on.

• (1610)

**The Vice-Chair (Mr. John Barlow):** Thank you, Mr. Medline.

Now we go to Mr. MacDonald for five minutes. Go ahead, please.

**Mr. Heath MacDonald (Malpeque, Lib.):** Thank you, Chair.

Thank you, Mr. Medline.

It's very interesting to hear some of the conversation that's transpiring here today relevant to groceries.

I'm going to start by saying it's nice to hear you support the code, and you're obviously very passionate about it and about how it is required.

Can you elaborate as to where this code has set precedent before? Was that in the U.K., in Europe? What is it leaning towards and what are the benefits of it?

**Mr. Michael Medline:** The U.K., Ireland, and Australia have great examples of codes that work. What ends up happening is that instead of fighting each other and having unfairness to the supplier partners, that conversation is taken out of it, because people are fair to each other. They don't do things retroactively. They negotiate. They converse.

What ended up happening in these regions was that they started having conversations about how to take extraneous costs, like supply chain costs, out of the system, which could help lower grocery costs.

It was Michael Graydon of FHCP and the president of a very large company who came to me three years ago, and I said, "Take me through everything that's going on around the world. Let's look at what a code could do here." They convinced me, a retailer, that this would be good for Canadians and good for the whole industry. That's why we got behind it.

**Mr. Heath MacDonald:** In your preamble you mentioned world inflation and you said that Canada has possibly some of the lowest grocery costs relative to inflation in the world.

Has that always been consistent? We know that since the epidemic started, supply chains have been an issue, as have been many other factors, including climate change. Has that been consistent for the past number of years?

**Mr. Michael Medline:** I have to admit that I don't know the answer to that one, because until inflation took off it wasn't always so much on our minds. We were looking around the world to see if there was something wrong with Canada or if there were things we could do, and we looked at best practices.

With respect to food inflation in 2022, out of seven—France, Canada, U.S., all of Europe other than France, U.K., Mexico, and a group of other countries—we had the second-lowest inflation rate, and in 2023 so far we have the third-lowest. If you averaged it all out, we'd be probably the second-best overall for those two years, but I would have to do the math.

That's a great question, Mr. MacDonald. I'll take a look at it and I'll get back to you privately.

**Mr. Heath MacDonald:** Going forward, what is the biggest or most consistent issue facing price fluctuation? I know there is the unexpected, because we've just gone through all that, but to your mind, relevant to producers or manufacturers or whatever, what's the biggest issue we're going to be faced with in Canada going forward with respect to price fluctuation for groceries?

**Mr. Michael Medline:** You've seen that the gap between grocery and the regular CPI has come down appreciably. When I was last with you, I think the gap was 5.4% between grocery and CPI, and now it's down to 2.3%. It's still not good enough. We have to get it to be lower than normal CPI.

It's hard to say what's going to happen. I think climate shocks in the United States during peak produce season, when we depend on that so much, could have an effect. As you said, there are world affairs, and if large multinational suppliers try to pass on every single one of their cost increases, which they never did before this period of time, that could be a problem too, and that worries me.

Having said that, I think the vast majority of our supplier partners do the right thing.

**Mr. Heath MacDonald:** Thank you.

**The Vice-Chair (Mr. John Barlow):** Thank you, Mr. MacDonald.

Mr. Medline, you did have a response there to Mr. MacDonald's question. You said that you would get back to him privately. If it's okay, as it was a question that arose in the committee, you can provide a written response to the clerk of the committee so that all members have a chance to see that response.

• (1615)

**Mr. Michael Medline:** Yes. That's great. I meant that I couldn't do it right now and I'd pass it on.

Having said that, I have to make sure that I can get this information. It only became widely distributed during inflationary times, but I should be able to get something that would help you.

**The Vice-Chair (Mr. John Barlow):** Yes. I'm not putting the pressure on you in any way. We just want to make sure that Mr. MacDonald doesn't have privy information that no one else gets.

**Voices:** Oh, oh!

**Mr. Michael Medline:** I won't give him any insider information.

**The Vice-Chair (Mr. John Barlow):** It's more for your benefit. I just don't know what he would do with it.

**Voices:** Oh, oh!

**The Vice-Chair (Mr. John Barlow):** Thank you.

Now we go to Mr. Perron for two and a half minutes, please.

[*Translation*]

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

Mr. Medline, I'll pick up where we left off earlier.

You talked about measures you took after your meeting with Minister Champagne. Specifically, you said you extended the price freeze.

Have you taken other measures you can tell us about?

[*English*]

**Mr. Michael Medline:** Right now, prices are frozen on all packaged goods, so that's approximately 20,000 items in a store of 26,000 to 28,000 items, to give you some sense of proportion.

On the other one—which you know about, because I think it was given to the committee confidentially, and thank you for keeping it confidential—we'll let you and every Canadian know in the next couple of months. It's because of the federal government's Competition Act and other competitive reasons that we can't share it.

You also know that I think the code, if we can get that through, would have perhaps not an immediate effect but certainly would have a medium-term impact.

[*Translation*]

**Mr. Yves Perron:** Thank you very much.

If I understand correctly, there aren't any other measures besides the price freeze that you can tell us about today.

About that price freeze, the committee did a study on grocery price fixing. We were also interested in seeing what would justify implementing a grocery code of conduct, which you seem to be strongly in favour of. Thank you for that, by the way. During our study, we heard about a problem related to somewhat unfair practices. Apparently some of the major players can influence the definition of conditions, for example.

To what extent is your price freeze a disadvantage? Is it a disadvantage just for your suppliers, or are you also shouldering some of the burden of not raising prices, of this supposed price cut?

[*English*]

**Mr. Michael Medline:** As you know, and as you alluded to there, we haven't price-fixed. We have not had a charge of price fixing. I just want to be clear on that.

While we took the extra 1,700 items in our store, we decided to.... I'd have to check. Whenever I say "everything", I have to check, because that's 1,700 items, but I believe that we ate the cost on those items. We'll take that on ourselves during this period of time so we can say that 100% of our packaged goods are frozen in that period.

**The Vice-Chair (Mr. John Barlow):** Thank you very much, Mr. Perron.

Thank you, Mr. Medline.

Now we go to Mr. MacGregor for two and a half minutes.

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

Mr. Medline, in my earlier question I outlined the struggles that many of your striking workers have reported publicly and just the fact that they are having extreme difficulty in even affording to shop at the store they work at. The latest offer from your company was only a 5¢ increase on their minimum wage pay.

We also have a situation of seven million Canadians using food banks to some extent or other.

I do know that in one of quarters this year, your company posted a \$261-million profit. That's roughly a 39% increase over the \$187 million that was made in the same quarter of last year.

You talked to this committee today. You've said that in many cases you've had to "eat the price". Given the situation that so many Canadians find themselves in and the difficulty they're experiencing, how often is it that your company is eating the price and how often are you making an effort just to sell food at cost?

From what Canadians see right now, two things are true: Your company is making more profit at a time when they're struggling. They just want to see how sincere your efforts are at the food division of your company. How often are you doing things like eating the price or just selling at cost?

• (1620)

**Mr. Michael Medline:** Thank you.

I know the numbers probably better than anybody else in our company and I cannot figure out where you're getting that data from. However, I still get what your question is about. As I said, last year we made less money in net earnings than the year before—the out-take over two years was 1.8%—and our earnings margin went from 2.5% during inflation down to 2.4%, so I'm not quite sure about that.

I think I would stick up for a company making some money. You asked before about paying teammates fairly, which we want to do, and we do. To do that, you have to make some money to employ people, to give them pay raises, to invest in Canadian stores and Canadian warehouses, to support, in our case, the 939 communities that we're in, to pay dividends to hard-working Canadians and their pension plans, and to pay taxes.

Paying taxes is important. When we weren't successful.... When I came on in 2017, we were struggling mightily. It's a tough, competitive, low-margin, high-capital business: a small stumble, and you're heading toward unprofitability. At least now that we're stronger, we can do all of the five things I talked about, which a company should be able to do to support its country, support its teammates and support its customers.

**The Vice-Chair (Mr. John Barlow):** Thank you, Mr. Medline.

Looking at the clock, we have about six minutes left. I'm going to go three minutes for the Conservatives and three minutes for the Liberals to wrap up this first panel.

I know you have a hard stop at 4:30, Mr. Medline. Let us know if we're impinging on that. We'll try to get through that as best we can.

Ms. Rood, you have three minutes.

**Ms. Lianne Rood:** Thank you, Mr. Chair.

Mr. Medline, earlier this year, the Minister of Environment and Climate Change sought, and I will quote, "feedback on the development of a pollution prevention [or P2] planning notice for primary food plastic packaging" in respect of "Canada's large grocery retailers to prepare and implement pollution prevention plans...for primary food plastic packaging."

Did your company participate in those consultations on the proposed plastic ban for fresh food? Can you give this committee an idea of what it will mean for consumers from the retail perspective? We've heard from industry that the plastic ban is going to cost an enormous amount and will also leave us with potential food security issues. Do you know what this will do to food costs or food availability?

**Mr. Michael Medline:** Thanks for your question.

We did give feedback through our industry rep at the Retail Council of Canada, so feedback was given to the government.

Like almost every retailer, we're seeking to reduce our use of plastics. However, I am concerned that the legislation regulation is running way ahead of the packaging innovation and available technology. I was reading that a study commissioned by the Canadian Produce Marketing Association said that the proposed rules would add a 30% increase to the cost of packaging. That's supported by the Retail Council of Canada's preliminary estimate. This would obviously exacerbate inflation if it were to occur.

I'd also, as you mentioned, be very worried and uncomfortable about moving too fast. The number one job we have is to ensure food safety. That's our number one job in this country. We have a great country in terms of food safety. We have to be careful on that.

I'm worried that if we act in haste, food waste could increase, which is really bad.

We'll always look to eliminate plastics wherever we can, but let's make sure we're doing the right things and not acting hastily. We have to think things through.

**Ms. Lianne Rood:** Thank you, Mr. Medline.

You have a number of stores under your banner. You touched on food waste a little bit, but I'm wondering if you could share with this committee, and Canadians who are watching right now, how much food would be wasted if produce were not to come in plastic packaging. It does help to extend the shelf life and it does help to get food to rural and remote communities in this country.

Could you give us a quick idea of how much food would be wasted and what the cost would be to consumers? How much would the price of fresh food go up?

**Mr. Michael Medline:** Thanks for your question.

Without a feasible innovation that we could use to wrap fruit safely.... I don't have a number. I can tell you that it's a lot.

• (1625)

**The Vice-Chair (Mr. John Barlow):** That's a great way to finish, I guess.

Now we'll go to Mr. Louis to wrap things up. You have three minutes, please.

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

Mr. Medline, thank you for being here.

Canadians are seeing high global inflation numbers coming down slowly. They're not seeing that same rate of prices coming down in groceries. They're concerned.

I want to thank you, Mr. Medline, for being here on behalf of Empire, which includes Sobeys. You say that gap between CPI and grocery inflation is coming down and that stabilizing and reducing food prices is important to everyone.

I want to ask the question regarding our farmers. Kitchener—Conestoga and southwest Ontario have some of the best farmland in the country and a high concentration of agricultural producers. We want to ensure that our small producers and suppliers are treated fairly by your organization when it comes to controlling prices.

You were asked the question earlier on how Empire plans to support smaller producers and suppliers. You said that you were passionate about it, but you did not have time to expand on it. You explained that you want to make things easier and simpler for our smaller suppliers and partners.

Can you expand on that, please?

**Mr. Michael Medline:** Yes, sure.

By the way, since we last met—and thank you for having me here again today, by way of conclusion—food inflation has come down from 9.7% to 5.4%. That's good, but it's nowhere near where we'd like to see it. It has to go lower.

Again, I don't want to bore you with the code. The code will really help, but we also have a local scale pillar in our strategy, which we talk about to our supplier partners, and we discuss with our board of directors all the time. Not only is it the right thing to do, but it's also good business to deal fairly and buy from local suppliers, especially to help farmers across Canada.

We do anything we can do that makes sense to support that. Our customers love it. We like supporting it. Obviously, the government also has a role to play in that. I'm not in government, but if there's anything we can do to help government support farmers and make sure our supply chain is safer, less extended, cheaper and supports our own country rather than always having to rely on other countries, I'm all for it.

**Mr. Tim Louis:** Thank you. I have about 40 seconds here.

The Canadian government is creating a grocery task force to oversee industry practices, and the priority will be to monitor grocers' commitments. Can you explain to us what level of collaboration Empire foresees with the grocery task force to track information moving forward, which will give certainty and transparency and which Canadians are asking for?

**Mr. Michael Medline:** I don't have any details on the grocery task force at this time. Whatever it comes down with, I'm sure we'll look into, and if we can help it, we're going to help it.

We have been updating the Minister of Industry and his office constantly—they're probably getting sick of us—in terms of our progress since our meeting in September to help fight inflation in Canada.

**The Vice-Chair (Mr. John Barlow):** Thank you very much, Mr. Medline and Mr. Louis.

Mr. Medline, thank you for your comments and answers today. We appreciate your input and candidness.

We'll now suspend the meeting for a few minutes as we get ready for the next panel.

**Mr. Michael Medline:** Thank you, Mr. Chair, and thank you to all the parliamentarians here today.

They were great questions. I appreciate it.

**The Vice-Chair (Mr. John Barlow):** Thank you.

The meeting is suspended.

• (1625) \_\_\_\_\_ (Pause) \_\_\_\_\_

• (1630)

**The Vice-Chair (Mr. John Barlow):** Okay, team, we will bring the meeting back to order.

Thank you very much to our witnesses for getting that sound check done as quickly as possible. I know that most of you have been here before, but just as a bit of housekeeping, I'll remind you

to please not press your microphone on or off mute until I recognize you and invite you to speak.

You can speak in the official language of your choice; we do have interpretation here. If interpretation is lost, I will get your attention just to pause for a moment until we get that back up and running. Because of translation—we do appreciate the work of our translators—please try to speak slowly and clearly to ensure that they get the best opportunity to make sure that your comments are heard.

Address all your comments, please, through the chair.

To make sure that we stay on time, when you have about one minute left in your five-minute opening presentation, I'll raise my hand again to get your attention to let you know that your time is winding down.

With us today in this second panel, we have, from the Canadian Federation of Independent Grocers, Gary Sands, senior vice-president.

From Food and Beverage Canada, we have Kristina Farrell, chief executive officer.

We also have Dimitri Fraeys, vice-president, innovation and economic affairs, Conseil de la transformation alimentaire du Québec, and from Food, Health & Consumer Products of Canada, we have Michael Graydon, chief executive officer.

Thank you to our witnesses for making the time to be with us here today.

We will start with Mr. Sands. You have five minutes for your opening remarks, please.

• (1635)

**Mr. Gary Sands (Senior Vice-President, Canadian Federation of Independent Grocers):** Thank you, Mr. Chair.

Good afternoon. Thank you for the invitation to offer our perspective on efforts to stabilize food prices.

There are approximately 6,900 independent grocers in Canada. Many of those independents are also located in communities where they are very often the only grocery store. Issues around reliable supply and food prices in those areas are closely linked to food security. Independent grocers have a symbiotic relationship with the communities they serve. They live in the community, hire locally, buy locally and support local sports teams, activities and causes. This bond they have forged in myriad diverse communities is why they are such an important part of the tapestry that makes up this country.

Naturally, independent grocers are extremely sensitive to concerns around the inaffordability being felt by their customers. That is why the suggestion that there is “greedflation” taking place in the food industry is something our members find unfortunate. When you are an independent grocer with an overall average margin of 2% and you're receiving price increases from your suppliers that are often in the double digits, sometimes more than once a year, in what business model can you not pass on those costs to your customers?

We all know about the issues that have impacted the industry. Some of the more significant issues have been climate change; the war in Ukraine; port, rail, border and labour disruptions; and significant increases in transportation costs. These are felt more acutely by independents in rural and remote communities.

It's not really about what has happened to the food industry; it's more about what has not happened. That's why we don't point our fingers at our supplier partners. We understand the pressures that are driving up their costs. We also understand the desire of the government—I know it would be shared by this committee and all parties—to see price stability in the food industry. Who would not support that objective?

However, efforts to stabilize food prices can sometimes have unintended consequences. For example, if, as a result of making commitments to the government, retail chains use their leverage to impose price freezes or discounts on their suppliers, where does that leave the independent grocer and their customers? An independent grocer has no leverage to demand a price freeze or a drop in price. If government wants price stability, it has to be for all Canadians. It shouldn't depend on where you shop or where in Canada you happen to live.

The need for price stability and reliable supply for all Canadians is why we strongly support the proposed grocery code of conduct. The code will provide fairness and more balance in relationships within the industry.

The Canadian grocery industry is one that is overly consolidated. This has fostered a climate in which unfair and distorted market practices are all too prevalent. Unilateral and onerous fees imposed by some large retailers on their suppliers, and the need for reliable access to food supply for independent grocers, raised alarm bells for Ottawa and the provinces. In November 2020, there was a mandate given by federal, provincial and territorial ministers to the steering committee developing the code, of which I am a member.

It states:

Ministers discussed the concerns of processors, producers and independent grocers regarding increased retailer fees on suppliers and the need for balance in the supplier-retailer relationship, while also ensuring that Canadians continue to have access to a reliable food supply at affordable prices.

This code is not a document comprising overly prescriptive regulations; it's simply a straightforward set of principles of good behaviour developed by the industry itself. That's it. It won't increase food prices, as Loblaw's claimed. No one in the industry would support any measure that does that. No company should try to put a price tag on principles of good behaviour.

In an op-ed about the code in the Toronto Star last week, I quoted a former U.S. Supreme Court justice, who said, “Ethics is knowing the difference between what you have a right to do and what is right to do.” That is what the code is all about. It outlines what the industry itself feels is right to do when conducting business.

Just a few months ago, the Competition Bureau of Canada, in its market study report, welcomed the code as a good thing for consumers. The bureau also recommended that governments—federal and provincial—do more to support the growth of independent grocers.

The playing field in Canada will never be level for independents, but independent grocers would welcome governments doing more to just keep them on the playing field. Governments and this committee need to look at whatever measures they can to help support the Main Street grocers of Canada. One such measure would be the code, and giving that code a chance to work. We need all the support we can get to have that chance, including from this committee.

Thank you.

• (1640)

**The Vice-Chair (Mr. John Barlow):** Thank you very much, Mr. Sands. You're right on time.

Now we'll move to Ms. Farrell and Mr. Fraeys for five minutes.

I'm not too sure who is going to take the lead. I'll leave that up to you.

**Ms. Kristina Farrell (Chief Executive Officer, Food and Beverage Canada):** Thank you for the invitation today.

My name is Kristina Farrell. I'm the CEO of Food and Beverage Canada, which is a national industry association representing more than 1,500 businesses across the country. Our members include Canada's six provincial and regional food and beverage manufacturing associations, including CTAQ, which is on the call with us today, as well as many leading companies.

Our sector is embedded in every province, sustains 300,000 jobs and stands as the largest consumer of agricultural products. It crafts the array of goods lining your grocery store shelves, ranging from bread and cold cuts to yogurt, canned vegetables, bacon and butter.

Recognizing the pivotal role we play in the food supply chain, we acknowledge that our food and beverage manufacturers are price takers. At the same time, while we're an essential service, we cannot, like any business, operate at a loss and endure.

I would like to quickly discuss the impact of inflationary pressures as well as supply chain disruptions on our industry and in turn on the price of food.

The impact of unprecedented inflationary pressures resulting in significant input costs and rapidly rising interest rates, particularly those affecting our small and medium-sized suppliers, poses a threat to the existence of the unique Canadian products that we have all come to love.

Take, for instance, companies with loans from BDC, where the small business loan rate recently surged by 38%. These financial strains, coupled with disrupted supply chains, have propelled our costs skyward.

Since the onset of the pandemic, our manufacturers have grappled with ingredient shortages, increased input costs, weather and climate events, border closures, blockades, geopolitical incidents and labour stoppages. The ripple effects of such events, as exemplified by the current strike at Rogers Sugar in B.C., resonate across our nation and impact bakeries, distillers, packaged goods producers and more.

Today marks day 68 of the strike, and the repercussions extend beyond mere shortages. Our companies face not just scarcity but elevated prices, given the few sugar producers we have. This underscores the interconnectivity of our food supply chain and the far-reaching implications of external events, as well as the lack of protection our manufacturers have from these.

Other factors that we cannot ignore include things like the escalator tax on beer, wine and spirits, which will contribute to higher prices for consumers. Additionally, there are initiatives such as the pollution prevention notice for primary food packaging; we have to recognize that any requirements to change our packaging will lead to additional investments and, in turn, additional costs for Canadians.

I would now like to turn my time over to Dimitri from CTAQ, who will discuss this further.

[*Translation*]

**Mr. Dimitri Fraeys (Vice-President, Innovation and Economic Affairs, Conseil de la transformation alimentaire du Québec, Food and Beverage Canada):** Good afternoon.

The Conseil de la transformation alimentaire du Québec, CTAQ, which has over 650 members, is the primary industry association for food manufacturing businesses in Québec. It is a founding member of Food and Beverage Canada.

For several years now, CTAQ, alongside Food and Beverage Canada and other partners, has been advocating for a grocery code of conduct to place reasonable limits on the actions of major retailers in Canada. The catalyst for this was the negotiating power imbalance that exists because Canada's retail grocery sector is highly concentrated compared to the many small and medium-sized Canadian food and beverage manufacturers.

The code is being developed jointly by food and beverage industry players, retailers and food distributors. It would ensure that retailers can no longer unilaterally impose fees on our food and beverage manufacturers. That kind of thing directly influences prices because it increases suppliers' operating costs.

We firmly believe that a code of conduct would slow rising food costs and improve competition in the Canadian food sector. Data from the United Kingdom and Australia are encouraging because they suggest that, where mandatory codes are in place, retail prices have fallen. Food producers can also implement measures that will enable them to better predict inflationary crises like the one we're experiencing now.

Such measures might include diversifying raw ingredient sources to reduce vulnerability to price fluctuations, reducing transportation costs, improving logistical efficiency and minimizing losses throughout the supply chain.

Using traceability technology can also contribute to more precise and efficient management. Automating production processes can help reduce costs, address labour shortage issues and improve operational efficiency. Regularly reviewing and optimizing production processes can reveal inefficiencies. Businesses need to identify where they can improve and implement changes to improve efficiency, which is why innovation is so important.

Reducing energy consumption can save businesses a lot of money. Food businesses can invest in energy-efficient equipment, implement sustainable waste management practices and explore renewable energy to reduce their operating costs.

Thank you for your attention.

We're ready to answer questions.

• (1645)

**The Vice-Chair (Mr. John Barlow):** Thank you very much, Mr. Fraeys.

[*English*]

Colleagues, we do have the bells going again, so we're going to have a vote in about half an hour. I'm just looking for unanimous consent to see if we'll carry on and vote virtually when the time comes.

**Some hon. members:** Agreed.

**The Vice-Chair (Mr. John Barlow):** Excellent. Thank you. That's a benefit to our witnesses as well.

Mr. Graydon, it's good to see you again. We'll start your presentation, for five minutes, please.

**Mr. Michael Graydon (Chief Executive Officer, Food, Health & Consumer Products of Canada):** Mr. Chairman, thank you, and thank you for the opportunity to address you today.

Inflation's growing impact is a major challenge for Canadians, affecting both daily life and financial security. Over the past few months, FHCP has been closely engaged with the government on the topic of grocery inflation and affordability. On behalf of our members, I commend the government for its leadership and commitment to finding solutions to these economic pressures.

I'll begin by highlighting a pair of issues that are directly impacting our inflationary landscape.

You've heard it before today, but number one is the urgency of the implementation of a code of conduct.

Over the years, it has become increasingly clear that the imbalance between the handful of corporations that control 80% of Canada's grocery marketplace and the suppliers that work with them must be addressed. It has long stifled competition and hindered innovation.

Here are some facts to consider.

The cost for a manufacturer to place and keep a product on a grocery shelf has nearly doubled over the last 15 years, while remaining relatively stable in the United States, where consolidation is not an issue.

The cumulative impact of fees and fines from grocers to suppliers is estimated at \$5 billion per year. As a direct consequence, a worrying 23% of our members are considering withdrawing manufacturing capacity and/or products from product lines within the Canadian market due to these financial pressures.

The intensive negotiations for the grocery code of conduct, requiring compromises from all sides, reflect our united effort to address and rectify this deep-seated issue. I would like to recognize Sobeys and Metro. They have come to the table to represent large retailers and have done so in a very constructive way.

With that said, more needs to be done.

While we appreciate the government's efforts in understanding and addressing food inflation, the current focus on retailer-centric dialogues is impacting manufacturers' ability to recover and stabilize costs.

For example, some retailers' efforts, as you've heard today, to stabilize costs means that they will no longer accept supplier price increases for the foreseeable future, essentially passing inflationary responsibility to suppliers in the name of maintaining retail margins. Their actions perpetuate the very imbalances the code aims to solve. The burden of food inflation must be shared by retailers and suppliers alike, and government efforts, while well-intentioned, are penalizing suppliers only; hence, we believe the further need for a code.

The single best avenue for grocery cost stability remains a grocery code of conduct applied against all categories in a typical grocery store. This is not a food issue; it is a grocery issue. Speculation by a retailer that a code could lead to price increases is not grounded in evidence. Experiences with grocery codes in the U.K., Australia and Ireland have helped increase competition within the marketplace, stabilizing prices and ultimately lowering them.

The code is now finalized, ready for implementation, and supported by the majority of stakeholders, including agriculture, suppliers, retailers, independent grocers and others across the supply chain, representing thousands of companies that believe in the promise of a more equitable way of doing business, and it is balanced.

The exceptions are two companies, Loblaw's and Walmart. They continue to question its viability. It's ironic that the behaviour of these two companies is what compelled the agriculture ministers to conduct a study, resulting in the code of conduct that is in front of us today.

Government intervention that ensures implementation and participation in a mandatory, inclusive, and adaptable code of conduct is crucial. A code will only succeed if it is applied universally across all stakeholders, retailers and suppliers alike.

At this point, the implementation of the code is in jeopardy. Government intervention is the only solution to move it forward. I'm afraid it is not the position we wanted to be in, but it is the position that we are in.

The second issue I would like to highlight is the government's regulation agenda and its influence on food inflation.

Canada's food, health, and consumer product manufacturers face a myriad of regulations that, while aiming to ensure quality, safety and transparency for Canadians, also contribute significantly to growing operational costs.

These regulations require industry to navigate an ever-changing landscape of labelling, packaging and distribution changes that are often contradictory and ill-timed, particularly over the past few years, as companies manage ongoing supply chain and distribution challenges.

- (1650)

From front-of-pack labelling to supplemental food labelling, changes to nutrition facts tables, and now the requirements from ECCC with regard to recycling labelling, the industry is simply struggling to keep up with the volume and frequency of continued government requests. By way of illustration, the \$8-billion estimated cost for adopting Health Canada's front-of-pack labelling changes not only impacts businesses' operational expenses but also will trickle down to the consumer in higher prices.

The need for practical and efficient regulations that consider industry realities is critical. Labelling regulations should align with consumer demands for digital solutions like QR codes and other electronic labelling options, which offer cost-effective, flexible and less burdensome alternatives for industry and are much more consumer-centric.



Streamlining these regulatory processes and adopting new technology solutions is critical to controlling the inflationary pressures faced by Canadians.

Thank you again for the opportunity. I appreciate it.

**The Vice-Chair (Mr. John Barlow):** Thank you, Mr. Graydon. I appreciate that.

We will now move to Ms. Rood of the Conservatives for six minutes, please.

**Ms. Lianne Rood:** Thank you, Mr. Chair.

Thank you, witnesses, for being with us here today in this important study.

Mr. Sands, I have a question for you, as you represent the independent grocers.

Big grocers are freezing their prices right now on many food items, and I'm wondering how that price freeze by the big grocers affects our independent grocers.

**Mr. Gary Sands:** It affects the independent grocers, but what is really important is how it affects the customers of those independent grocers. I thank you for that question, because it's a really important one for this country.

As I said in my opening remarks, we have about 6,900 independent grocers. A lot of them are in rural and remote communities where costs and costs of transportation are higher. If there are unilateral price freezes or discounts being imposed on suppliers, the natural question that I hope everyone on this committee asks is this: What does that mean for all Canadians?

Again, independent grocers don't have the leverage to make those same price requests, so where does that leave our customers in those communities? Many of them would be in the constituencies of all the members of this committee. It puts those consumers.... The independent grocers have a competitive disadvantage, but it means that you're having price stability for some Canadians and not all Canadians. That's why it's such a good question. I think that everyone should be very concerned about that.

**Ms. Lianne Rood:** Thank you.

On that, I've heard that big suppliers and distributors will actually give preferential treatment to the big grocer retail chains if there's a shortage of a product. They'll supply the big grocers, and then they'll make available whatever's left over—if there is anything—to our independent retailers. Is this an accurate characterization of what happens on the ground?

• (1655)

**Mr. Gary Sands:** It absolutely is. It's one of the issues. I will add that we've addressed it in the code, but I'll just explain how that works. Michael Graydon from FHCP can speak to this too.

Retailers and their suppliers—that includes all retailers, not just the chains but also the independents—engage in what's called “forecasting”. They sit down together and negotiate what they anticipate ordering over the next year, and their agreements are built around those forecasts. What we have seen over years—and particularly egregiously over COVID—is that when there were product

shortages or there was high demand for certain products, certain chains would go to the suppliers and say, “We don't care, really, what's in our agreement. We want extra product.” They used their size and power to our disadvantage, because what the supplier ends up having to do is divert supply that was supposed to be earmarked for independents in Canada away from the independents and their customers in order to supply the large chain.

That results in some essential products not being available in those communities. We address that in the code. That's one of the principles that we think are very important, because if you don't have adequate supply, you're treading into the area of food security. That's very concerning to us. We were pleased that everyone on the steering committee supported that.

**Ms. Lianne Rood:** Thank you so much.

Mr. Sands, in Ontario, who are the biggest wholesalers for the independent stores? Who do you have to buy your supplies from in Ontario?

**Mr. Gary Sands:** Even though 59% of the grocery stores in Ontario are independents, the two biggest wholesalers in Ontario are Sobeyes and Loblaw. Most independents are buying most of their products from those two companies if they're not getting them at the terminal. That's unfortunate, but that's the lay of the land that we have in Canada as a result of consolidation.

**Ms. Lianne Rood:** Let me put that in perspective for Canadians watching right now. As independent grocers, you are forced to buy your supplies to stock your shelves from your biggest competitors in Ontario.

**Mr. Gary Sands:** That's right. That's correct.

**Ms. Lianne Rood:** You touched on this a little earlier in terms of getting food to rural and remote areas.

I'm wondering what your thoughts are on the ban on primary food plastic packaging and how that will affect your stakeholders, and also on transportation costs, because we've heard from independent grocers across the country that their fuel transportation cost to get the groceries to rural or remote communities in the north is astronomical because of the carbon tax.

Could you comment on the disadvantage independents are at because of those costs and the proposed plastics ban?

**Mr. Gary Sands:** Well, we have to remember that this is Canada and the transportation challenges we face in this big country, particularly at certain times of the year, are significant, but throughout the year for independent grocers in semi-rural, rural and remote communities—and we also serve a number of indigenous communities—those costs are significantly higher for transportation to those communities. That's already a concern.

I believe Mr. Medline spoke about the P2 initiative of the government. We have strongly urged the government to hit the pause button on that proposal, because we've heard from our partners with the Canadian Produce Marketing Association that costs for packaging will increase by about 30%. We can't take that. We can't absorb that. That will have to be passed on to Canadians in those communities. I hope the government is really looking seriously at the implications of that idea. How can you be moving forward with that proposal when you're at the same time advocating price stability?

As well, without the innovation in packaging that we need before you put something like that in place, the impact on getting fresh produce to those rural and remote communities is going to be huge. It's not going to be possible.

I'm sorry. I'm getting excited about that one, but it just gets us so dismayed that the government is still proceeding on this and that they haven't looked at the implications for all of the country. There's a big country out there. It's not just in the urban areas like Toronto, Montreal, Ottawa and Vancouver. There's a lot of rural Canada out there.

**The Vice-Chair (Mr. John Barlow):** Thank you very much, Mr. Sands.

Thanks, Ms. Rood.

Now we go to Mr. Drouin and the Liberals for six minutes, please.

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

Mr. Sands, I just want to reassure you that government is not moving anywhere yet on the P2 stage. Obviously they're going through a process. The former process would have required the Government of Canada to go to the Canada Gazette, part I, and ask for comments, and the government is not even at that stage yet, so I just want to say before we...

I understand that there have been some comments. I'm really engaged with the industry on this, and I am advocating on your behalf, obviously. We are having this committee: Both Minister Champagne and Minister MacAulay have asked us to have these meetings. Obviously we are concerned with the rising price of food, so any measure that could potentially increase the price of food is something that the government is sensitive to.

I want to get into a conversation about the grocery code of conduct and the importance of it. From your perspective, when you have two major grocers, and I know you are not the target we are talking about, and I'm a capitalist and I believe in very little government intervention, and I can say that as a Liberal, but government needs to step in when a few grocers own 80% of the market.

Two major retailers are now saying, "We've participated in the process and we've helped draft potential regulations, but screw you; this will increase costs, and we don't want to participate any more." What does that tell you?

• (1700)

**Mr. Gary Sands:** It should be a clear message to everyone about how much we need a code. What it also tells us, and what it will tell other stakeholders, is that I know there will be some people

who are presently supporting the code who will not support being included in the code while their retail competitors are not. This is very concerning to us.

Personally, I think there will be a number of people in industry who will be going to provinces to say, "We've got the document. We've developed the code. You're going to have to regulate this and impose it." That's going to be unfortunate, since industry has been able to do that itself, but the fact that they're opposing this and coming out with arguments that are just nonsensical.... Their communications on this just tell me very clearly that this code will make a difference and that they're worried about it. That should send a message to everyone in governments—and I mean governments plural—that we really need this code. I hope we don't have to regulate.

I just can't impress upon this committee enough how much independent grocers need this code.

**Mr. Francis Drouin:** Thank you.

[Translation]

Mr. Fraeys, you addressed this issue in your remarks. If a voluntary code isn't adopted nationally, the danger is that some provinces may decide to forge ahead regardless.

Wouldn't it be risky to have a number of regulatory regimes that differ from province to province? If that happened, it wouldn't really help bring prices down. Businesses would have to spend more money to comply with all the different regulatory regimes. Quebec's Minister Lamontagne insisted on making sure all agriculture ministers across Canada address this issue.

What are your thoughts on that?

[English]

**Mr. Gary Sands:** Is that question for me?

[Translation]

**Mr. Francis Drouin:** It's for Mr. Fraeys.

[English]

**Mr. Gary Sands:** I'm sorry.

[Translation]

**Mr. Dimitri Fraeys:** Quebec is in favour of a code of conduct. Whether it will be mandatory or voluntary depends on whether all the parties sign on.

At this point, we're talking about a voluntary code, but the process would have to work properly. I believe the other countries we've mentioned, including the United Kingdom, have mandatory codes. In that case, every province would have to pass its own legislation, which is yet another hurdle, but we'd have to make sure all the provinces sign on. Canada is a big country, and prices should be the same for all consumers everywhere in Canada.

[English]

**Mr. Francis Drouin:** I'll ask the same question to Mr. Graydon.

You've also mentioned it, but the fact is that we have two major players openly questioning, despite the fact they've been engaged in the process, and they are now saying, "We don't want anything to do with the process anymore." I don't understand, for the life of me, how you're potentially telling provinces, those that were very vocal about this, that this was the important issue. I would argue that the reason we are having this conversation nationally is that in a few provinces—and some were brought to the table kicking and screaming—the industry recognized that having regulatory frameworks in one province that are not necessarily the same in another province is bad for business.

I'd just love your opinion on that.

• (1705)

**Mr. Michael Graydon:** It will certainly add complexity to the situation. I have some confidence in the federal-provincial-territorial ministers process. If they feel strongly enough that a code is, in fact, a solution, they will come to agreement to try to have consistent regulations applied across the country.

We're also hopeful that if you get a large province or two that engage in the code and make it mandatory for participation, you would pretty much have to participate one way or the other anyway, especially if it happens to be the province of Quebec and/or, let's say, Ontario.

**The Vice-Chair (Mr. John Barlow):** Thank you, Mr Graydon. We appreciate that.

[Translation]

Mr. Perron, you have six minutes.

**Mr. Yves Perron:** Thank you very much, Mr. Chair.

I want to thank the witnesses for being here with us.

Mr. Graydon, you're not the only one saying that Loblaw and Walmart are reluctant.

What happens if some players don't sign on to the code of conduct?

[English]

**Mr. Michael Graydon:** I don't think it will move forward. I think you will find that the other retailers that have been very engaged in the program—Metro, Sobeys, and Save-On-Foods in western Canada—will likely see it as yielding competitive advantage to Loblaw and Walmart and likely won't sign on.

You also have an issue with some of the large manufacturers that look at it and say, "When 40%-plus of the industry is outside the code, we get very concerned about being too aggressively involved in it, in regard to the potential of retribution."

[Translation]

**Mr. Yves Perron:** What can the federal government do to encourage them to sign on?

As others have said, it's not straightforward. There's also the issue of jurisdiction.

[English]

**Mr. Michael Graydon:** I think the federal government can help in two areas. One is your voice in regard to encouraging the federal-provincial-territorial ministers to come to a common conclusion in regard to how we might move forward.

The other area is that we are going through revisions to the Competition Act, and this is a competition issue. Though the regulations and the Constitution don't allow for it as we speak today, adjustments in the Competition Act may allow for some oversight of the Competition Bureau in regard to a code of conduct if governments felt they want to go down that avenue.

[Translation]

**Mr. Yves Perron:** Thank you.

Do you believe this code of conduct will have an impact on food prices?

If so, what would that impact be, exactly?

[English]

**Mr. Michael Graydon:** Yes, we're very convinced and we work on the basis of looking at experiences from the U.K., Ireland, and Australia. The U.K. code has been in place now for 14 years, and it has had a remarkable impact on food inflation. It's gone a little out of whack post-Brexit, but I think that was another economic situation that put pressure on the economy in the U.K.

It's worked very well, and it's created a win-win-win. Manufacturers' margins improved, and their capital investment in innovation increased. Retailers' margins improved, as well as their investments in retail competitiveness, and the consumer gained through better pricing and the variety of products. New sustainable packaging was also part of the mix as well.

I work on the basis that we should look at something that's worked for 14 years versus standing on the sidelines and speculating on why it might not work.

[Translation]

**Mr. Yves Perron:** Same question to you, Mr. Fraeys.

What impact could the code have on food prices?

**Mr. Dimitri Fraeys:** The code of conduct will stabilize the situation and make negotiations a little more predictable, as was mentioned earlier. In the United Kingdom, the rules governing the supplier-buyer relationship are better defined, so the balance of power is more even. That also makes things more predictable for small and medium-sized businesses when they're putting their products on the market.

Quebec is very much in favour of implementing this kind of code to stabilize prices and improve predictability.

• (1710)

**Mr. Yves Perron:** Let's say there's no code. How else can the government help manufacturers deal with rising prices?

What can the federal government do to help you lower food inflation?

**Mr. Dimitri Fraeys:** First, we need to look at food taxation policy. In many cases, goods and services tax, GST, is still charged on various food products at the grocery store. I think it would be a good idea to rethink that and eliminate the GST on all packaged products. Right now, there's GST on some products and not on others.

Second, transportation costs are a big one for us. Reducing taxes on energy, both for transportation and for businesses, is extremely important. That's a big part of our production costs.

Third, we need to automate and computerize factories to boost productivity. Higher interest rates mean that some SMEs can't really afford to automate their factories. We need financial programs to support businesses and facilitate factory automation. Programs that were implemented in some provinces have shown that this can accelerate the adoption of new cutting-edge technology. If a factory can improve its productivity, it will automatically improve its profit margins. In Canada, manufacturers' profit margins fell by 15% from 2019 to 2023. Profit margins now are lower than they were in 2020.

Fourth is sustainability. We have to do a better job of managing waste and packaging, but we have to do it over a longer period of time. As was mentioned, front-of-package nutrition labelling begins January 1, 2026, for all general prepackaged foods that meet or exceed 15% of the daily value of certain nutrients. That will result in an incredible amount of packaging waste. All businesses will have to update their packaging at the same time, so we should expect packaging costs to go up over the next two years. As we heard earlier, that's likely to cost \$8 billion.

These costs could be reduced to help consumers. I think more time is needed to implement these things. Right now, we're really in the eye of the storm.

**The Vice-Chair (Mr. John Barlow):** Thank you very much.  
[English]

Now we have Mr. MacGregor for six minutes, please.

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

I'd like to echo the comments of all of my colleagues in thanking all of our witnesses today for helping guide our committee through this very important study.

Ms. Farrell and Mr. Graydon, I'd like to direct these questions to both of you.

Both of your organizations represent companies of a variety of sizes and strengths. Some are very large multinationals with a lot of market power of their own; others are small to medium-sized industries that are located in just one province or a region of a province.

Minister Champagne and Minister MacAulay both acknowledged that there was a need for greater competition and innovation in your sectors as well.

Mr. Graydon, I take your point. I think you said in your opening statement that in the last 15 years there has been a doubling of costs just to put items on store shelves. I have that comment in mind that it's become increasingly expensive for companies that you repre-

sent just to get their items listed, and then you have ministers asking for greater competition. Of course, some companies are better able to absorb the costs that retailers have put on them, while for others it's much more difficult.

We've heard repeated reference to this power imbalance. What have the challenges been in your sector in terms of encouraging greater competition, when, as you've mentioned, there are all these barriers to your companies' just getting items listed on store shelves?

**Mr. Michael Graydon:** It has been very difficult, actually, to stimulate competition.

The small to medium-sized enterprises in this country, which represent a large majority of the manufacturing facilities, are having a really difficult time. As my colleague indicated, just the issues in regard to financing are very difficult. It is very difficult for them to capitalize their business or to take advantage of the opportunity for efficiencies through automation. It's been a challenge.

Larger manufacturers are working very hard to try to streamline and make investments. Unfortunately, what's happening is that a lot of the manufacturing capacity, even of the global players, is transitioning to the United States. In this country we're starting to see plants close.

We, as an industry, represent 350,000 workers. I think that number will decrease quite significantly over the next few years.

• (1715)

**Ms. Kristina Farrell:** I'm happy to add to that.

Many of our small and medium-sized companies are battling the costs of ingredients, packaging materials, pallets, transportation and labour. Having to deal with all of this before the next supply chain disruption hits makes it difficult for them to even look at things such as innovation or investing in automation or technology to make themselves more efficient and competitive.

**Mr. Alistair MacGregor:** Thank you.

Mr. Graydon, I don't want to belabour the point. I think you've made it quite clear. You were able to say out loud what Mr. Medline was unable to say, which is that it was Loblaw and Walmart. I think it's unfortunate that those two companies seem to have thrown a wrench into the works.

Before their apparent opposition to the process, is it correct to say that we seemed to be on a path towards a voluntary code, but that now you believe that the only way forward, in order to make it fair for all players, is for the government, in conjunction with the provinces, to use its legislative authority to make this mandatory, with clear rules for everyone?

**Mr. Michael Graydon:** Yes, I think that's the only path forward.

We looked at the request from Loblaw with regard to changes, and they would have virtually neutered the code and rendered it ineffective. I think we, as an organization—by which I mean the working group from the code committee—provided some very concrete responses to them.

It was a negotiated process. Everybody around the table made compromises. To expect everybody to make further compromises at the eleventh hour for these two organizations was really unfortunate.

**Mr. Alistair MacGregor:** Yes, it's a bit of a disappointment.

Ms. Farrell, in your opening remarks you made mention of something that I don't think we talk about very much as a cause of food price inflation, and that is climate change.

We depend on a lot of our fresh produce coming from the United States, particularly the state of California. They've certainly had their problems with droughts and with extreme weather events, as have many parts of Canada.

I've been on this committee now for six years. We have repeatedly heard farmers, our primary producers, talking about how they are on the front lines of climate change and how in a matter of minutes, let alone hours, they can see an entire crop wiped out by an extreme event.

Can you talk a little bit about that? How often are you hearing from primary producers that extreme weather events have led them to not be able to supply enough or to have to increase their costs?

**Ms. Kristina Farrell:** We're very cognizant of the impact of climate change on our primary producers, and food and beverage manufacturers were the largest consumers of those products. I will note that we've made it clear that we want to be partners with government as we begin to look at this. Every time there is a climate event, whether it be floods in B.C. or fires in Alberta, we see the impact across our food supply chains. We recognize that this is something we need to take seriously, and we need to work across the food supply chain to come up with some of those solutions.

**Mr. Alistair MacGregor:** Is there anything you want to add, Mr. Graydon?

**Mr. Michael Graydon:** Yes, it's challenging. We are now looking at a 38% price increase in orange juice for next year. It's basically because of challenges within the crop, both in Florida and Brazil. There's a blight going through South America that is wiping it out. That's climate-driven, and it is a challenge. We continue to be impacted, because those are significant. We don't grow oranges here, so it is a challenge. I think our mimosas will probably have a little less orange juice at next new year's celebration.

**The Vice-Chair (Mr. John Barlow):** Thanks, Mr. Graydon.

I'm now going to pause for a minute to make sure everybody has a chance to vote. We'll just take a minute from our witnesses....

• (1720)

Now we'll go back to our last two rounds of question.

We have Mr. Epp for five minutes, please.

**Mr. Dave Epp:** Thank you, Mr. Chair, and thank you to all the witnesses for being here.

I'm going to pick up on a comment from Mr. Drouin from across the table. I'm a proud Conservative and I believe the market is the best way to transfer goods and services. However, the market only works when there's a balance of power, and that's, I think, at the heart of what we're dealing with here.

The code of conduct has come up from all the witnesses on both panels here today. Let's go back. This is not actually inventing the wheel, because as has been brought up in testimony, other parts of the world have gone down this road.

Can you comment on the history just in general, and the history of the Australian model and the U.K. and Irish models? They did not start where they are right now. Why?

I'll start with you, Mr. Graydon.

**Mr. Michael Graydon:** Fourteen years ago, when the U.K. code was implemented, it was a voluntary code as well, and it lasted two years. Unfortunately, the large retailers in that market did not participate and comply with the code, which forced government to regulate it.

In Australia, they pretty much learned from the U.K. experiences and implemented a regulated code right from the start. They are two very different codes. The U.K. code is very principle-based, which is something that we've aligned to. The Australian code is very much prescriptive. It reads almost like regulation in that aspect of it.

Both have been very effective in regard to achieving the results and the principles that they had originally intended to try to solve.

**Mr. Dave Epp:** My understanding is that the Australian code, though, is still a voluntary code. Is that correct or not?

**Mr. Michael Graydon:** No. It is voluntary inasmuch as once you sign on, you must live and abide by it. There are only two retailers in the marketplace, so those two retailers do currently participate. We've structured the Canadian code as a voluntary code in the same way. Once you're in, you must live and abide by the code.

**Mr. Dave Epp:** Ms. Farrell, I just want to make a small correction. In your opening testimony you mentioned canned vegetables. It's canned and also frozen vegetables, because I've supplied both to your members.

How many of your members are big enough to stand up and say no to one of the big retailers and not suffer dramatically?

**Ms. Kristina Farrell:** There are not many of them. The majority are small and medium-sized retailers. That's the makeup of our companies.

I will note that from the beginning we have been pretty clear that we wanted the code to be mandatory and enforceable, recognizing that most of our companies are small and medium-sized and don't have the ability to stand up to the big retail companies.

**Mr. Dave Epp:** The code deals with the distribution of shocks and the distribution of costs; and the challenge before the committee and the government is actually to reduce grocery costs.

I look at what's come up in testimony today. I think I heard correctly that we have \$8 billion for front-of-package labelling. We have \$5 billion that is internal to fines within the system. I haven't heard a number yet on what the carbon tax is adding, but I think that will be coming out shortly. I also haven't heard a number of what the potential cost, besides food spoilage, would be for the P2 arrangements.

Can anybody comment on an estimated number for the cost to the system just on the P2?

Mr. Graydon, can you comment?

**Mr. Michael Graydon:** No, I can't. One of the things to remember, Mr. Epp, is that we're concerned about fresh fruit and vegetables that are coming to retail. Manufacturers who also buy that product at certain times of the year to supplement their processing will have no availability of those products as well, so there will be significant cost implications, but I don't have a number for you today.

**Mr. Dave Epp:** I will ask that question of Mr. Sands.

Would that then impact the food security aspects in the rural and remote areas of this country?

**Mr. Gary Sands:** It will, very much so. It will just compound the challenges we're already facing.

I just want to emphasize that in addition to the cost—the CPMA has told us the cost would increase by 30%—I think the real paramount concern should be that these products won't be getting to these rural and remote communities. They'll just be cut off. That's the issue. It just won't be feasible in terms of cost.

**Mr. Dave Epp:** Specifically on the regulations around labelling, when I go to the grocery store here in Ottawa, I use a QR code to park my car. Why is that not feasible for health and food safety and other regulations on our food products? Why wouldn't that work, Mr. Graydon?

• (1725)

**Mr. Michael Graydon:** I think it would work. I think that is our recommendation to government.

This is 2023. You're right: You park your car, you go to a restaurant and you get your menu. I think the penetration of smart phones within the Canadian population is significant enough that a majority of people have access.

It also provides timeliness. We can change the data relevant to a QR code in days instead of asking for a four-year transition period on packaging to be able to protect against writing off inventories of packaging.

**The Vice-Chair (Mr. John Barlow):** Thank you, Mr. Graydon. Thank you, Mr. Epp. It was a good effort, though, to try to get one more in.

Mr. Louis, you have five minutes. I understand you're going to share your time. I will leave that up to you.

**Mr. Tim Louis:** Yes, thank you, Chair. I'll be splitting my time with Ms. Taylor Roy.

I want to thank all the witnesses.

I will direct my questions to Mr. Sands, the vice-president of the Canadian Federation of Independent Grocers.

You mentioned that there were 6,900 stores across Canada with a symbiotic relationship with a community. It makes me think of Pym's grocery store in my community, which is a landmark in Wellesley, so I appreciate your advocacy for independent grocers to all three levels of government.

We've talked and will continue to talk about the grocery code of conduct and how it will have to be signed on to by both the federal government and provincial governments.

My question is in a few parts.

How important is this grocery code of conduct in helping level the playing field for independent grocers and to ensure fairness to compete against the size and power of the major grocery chains?

How important is it for co-operation with all the provinces and territories?

Third, how important is it for the two of the five large grocery chains that are opposing the grocery code of conduct—Loblaw and Walmart—to get on board?

**Mr. Gary Sands:** One thing I say to my members who, to be honest, have asked if this code will really make a difference in keeping us on that playing field.... I don't like to use the term “level playing field”, to be honest with you, because in the industry, that horse has galloped out of the barn. We're very consolidated. Our advocacy is just trying to keep us there on the playing field.

For our members who have questioned whether this code will actually make a difference, I actually point to the opposition of Loblaw and Walmart as being precisely why it will make a difference. If it wasn't going to make a difference for them, then why are those two chains so opposed to seeing that code come into place?

This will make a significant change in our access to fair and reliable supply for all Canadians. I think that should be a paramount concern of every government across Canada. I just hope that this committee and other governments will use whatever levers they can to get those two chains to sign on, because there will be a growing call for regulatory intervention if there's not.

I think we're on life support right now. I just hope we can resuscitate the patient.

**Mr. Tim Louis:** Keep fighting. I thank you.

We've heard that the U.K. has a grocery code of conduct in place. We heard words about price stability, predictability, variety, packaging and innovation. All of these things have been improved.

I thank you for that. I'm going to hand my time over to Ms. Taylor Roy.

**Ms. Leah Taylor Roy:** Thank you, Mr. Chair, and our witnesses as well.

There are a number of small independent grocers in my riding, and they add greatly to the community. They often provide different kinds of foods. They're really essential. They are grocers like Madani's, Greco's, Mellat, Frank's Organics and T&T. There are a whole bunch of different grocers here. I'm very concerned about their survival.

I'm hearing this opposition to the grocery code of conduct now, when I thought we were making progress on it. I know it's a voluntary arrangement and there's been a working group. What are your suggestions to actually get a grocery code of conduct implemented, then, if there is this kind of opposition right now?

Mr. Graydon, maybe you could start.

**Mr. Michael Graydon:** I just think it's going to require government intervention, which is unfortunate. We were working down a pathway of a unique model of collaboration within the industry that demonstrated our abilities to come together and find a workable solution to bring economic certainty to our industry. Unfortunately, the competitive challenges for Walmart and Loblaws are such they don't want to yield any power whatsoever, either with the supplier community or even potentially levelling the playing field with their own competitors.

It is similar to the U.K. When the code was originally discussed in the U.K., the large retailers were against it. If you ask them today in the U.K., they will tell you it was the best thing that ever happened. It's natural to find resistance to yielding power, but it is unfortunate that we're going to have to go down the same path as the U.K. and find a regulatory solution.

• (1730)

**Ms. Leah Taylor Roy:** Thank you. I appreciate that.

I just have one other question. Bill C-56 will increase competition or is asking the Competition Bureau to look at that. Do you think that those changes or having an increase in the power of the Competition Bureau will also help independent grocers?

**Mr. Michael Graydon:** I'm not sure that it's going to help the independent grocers, and I'm not even sure as it's currently structured that it's going to make that much difference in this consolidated grocery market. I think something very specific to the code is required in the legislation to yield authority to something like the Competition Bureau to give it oversight over a code of conduct. That's a similar sort of environment that exists in the U.K., where a branch of government has overall responsibility for it.

**The Vice-Chair (Mr. John Barlow):** Thanks, Mr. Graydon, and thanks, Ms. Taylor Roy.

Thank you to the witnesses.

I have one question as a result of what Mr. Louis was raising, and Mr. Epp.

Certainly there's concern over whether the grocery code of conduct is going to survive; as somebody said, it's on life support. What would have more impact if our long-term goal is to address the price inflation or the increasing cost of food—a three-month price freeze on the retailers or more government regulations and policy? I'm thinking of labelling and the plastics here. What would have more of an impact?

**Mr. Michael Graydon:** At the end of the day, regulation and policy are always going to yield an effect. Short-term price freezes are just that: They're short term. A freeze puts economic uncertainty into the manufacturing community, and at some point in time they're either going to go out of business or they're going to find a way to try to recoup those costs. The more that we can yield to some of the regulatory issues....

We're not concerned about front-of-pack labelling; it's how it's being executed. The principle of informing consumers so that they can make informed decisions on what they purchase is fine, but use current technology.

At the same time, I think regulation and a code of conduct are required, and how this particular code can be implemented effectively across Canada needs to be brought into the discussion.

**The Vice-Chair (Mr. John Barlow):** Ms. Farrell, would you comment?

**Ms. Kristina Farrell:** I would agree. I would just add that the price freezes just mean that our manufacturers have to absorb those costs. They aren't able to request price increases.

Really, as I said and as Michael Graydon said, making the code mandatory would have the biggest impact in the medium to short term.

**The Vice-Chair (Mr. John Barlow):** Mr. Sands, do you have a comment?

**Mr. Gary Sands:** The only thing I want to add is that I want to impress upon everyone that because this doesn't fall under one single government's jurisdiction, what we're looking at when we talk about regulation is the possibility of having a fragmented regulatory checkerboard system in Canada if all provinces don't sign on. That's a bit of a concern for us.

I'm not disputing what Mr. Graydon is saying, which is that we may have to do down the regulatory path, but it should be something that we try to avoid, if possible, by having a single uniform code. Again, having a patchwork of codes in different provinces is something that we're all concerned about.

**The Vice-Chair (Mr. John Barlow):** Thanks, Mr. Sands.

Thanks to our witnesses. We will now suspend for a few minutes as we prepare to go in camera.

*[Proceedings continue in camera]*







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