

STANDING COMMITTEE ON PUBLIC ACCOUNTS
May 15, 1985

Public Hearing: Saskatchewan Pork Producers Marketing Board

MR. CHAIRMAN: — . . . marketing board. I'm going to begin by introducing Garth Larson, the chairman . . . (inaudible interjection) . . . No, I was reading from the paper and not looking up. I'll ask Mr. Morris to introduce the officials that are with you then.

MR. MORRIS: — Well, there's just me. I have with me Terry Scott from the Department of Agriculture and Wes Mazer from the Department of Agriculture, as well. The reason for the piece of paper is: I was asked for a list of our senior officials. Perhaps I misunderstood . . .

MR. CHAIRMAN: — No, you didn't. I see this is the chairman of the board. The clerk customarily hands me a list of the officials. I just started reading at the top, not realizing that what I had, in fact, been given was the members of the board. No, there was no misunderstanding. I hadn't read the document properly.

I want to begin with a comment that we introduce everybody with, and that is, what is said before the committee is privileged in the sense that it can't be used for libel or slander action outside the committee. On the other hand, it is taken down verbatim and is thus readily available for use elsewhere by the media and so on.

Okay. With that, I'll open the session up for questions.

MR. KATZMAN: — I guess I'll start. Jim, as you noticed, the auditor once again has asked . . . financial management control is what we're concerned with on this committee. And he's indicated that there is a possible one person signing and so forth. And our concern, when we see that before the committee, we immediately say, oh, why can't you have a double system?

MR. MORRIS: — In the administration of the SHARP (Saskatchewan Hog Assured Returns Program) program, the office manager, who is also the accountant, has been the key individual that looks after most of the administration. The cheques do require two signatures. It doesn't say that here, but the cheques do require two signatures.

Nevertheless, for the sale of hogs, as well as for the administration of this program, the accountant is the key man that does the nuts and bolts. In discussing this with staff from the Provincial Auditor, it's one I think we both recognize that the board is a small operation. We have 11 staff members other than the three senior staff that are listed, myself, and Larry Walker, and Don Hrapchak, who's sales manager.

And so if there's anything that can be done on this, it's a matter of shifting some controls to somebody else. The reality of doing that is whoever we shift it to is responsible to the office manager. And so I don't know whether public accounts — or the Provincial Auditor, pardon me, has thought any more about what's the appropriate course of action. But I feel that the thought of hiring somebody else is just not one of them.

MR. KATZMAN: — Who's the second signature — Mr. Hrapchak?

MR. MORRIS: — All our cheques require two out of three. So there are three people authorized to sign, and every cheque requires two of them, myself, Larry Walker — who's our new accountant, by the way — and Don Hrapchak, sales manager.

The majority of the cheques are issued on a computerized accounting system, but there are some manual cheques that can be issued for adjustments and things like that when it's not worth starting up the computer, and those would require two manual, two handwritten signatures. It would not be possible for one person to get by that requirement on manual cheques.

MR. KATZMAN: — Are you saying the computer signs the cheques?

MR. MORRIS: — For the vast majority of cheques, yes. The payments that go to producers every quarter are computer signed.

MR. KATZMAN: — Okay. Let's not get into the deep issue of it, but I'll touch on my concern. Many years ago, when Intercon was paying this pork thing out, they had some problems, as you're aware of. Cheques went out that shouldn't have gone out. And I would assume that if you have a computer doing it again, you could still, if you were issuing them to producers, that could still happen.

MR. MORRIS: — Well, it would require somebody to create some false input in terms of hogs that had been marketed, and it would require the creation of a fictitious producer and fictitious hogs. So I guess, in theory, one person could do it, but that person would have to create the input, and I think it would be quite difficult to do.

MR. KATZMAN: — Are you suggesting that say, Don Hrapchak, in his position of sales manager, would be able to catch if we didn't have those hogs coming through the system?

MR. MORRIS: — . . . and I don't know whether Don would catch it, but it would take quite a skilful piece of work.

MR. KATZMAN: — Well you couldn't sell what you didn't have. That's where it should catch up.

MR. MORRIS: — Yes.

MR. KATZMAN: — Which is Don's side.

MR. MORRIS: — Yes.

MR. KATZMAN: — Is there any way, using one of the 11 other employees, to do something that would make it, rather than hiring a new body?

MR. MORRIS: — Well let me answer that by saying that, with the passing of my former accountant who died very suddenly, we had to run the most recent quarterly payments under SHARP without him. And it came to be obvious that he was doing some of the routine stuff, my former accountant, that really was unnecessary for him to do.

And so, I think the way to get at this is to shuffle some of the routine stuff out to someone else and leave the accountant in control of it. Just how we're going to do that, at this point, I'm not sure, but I think that's the proper way to go at it.

MR. KATZMAN: — That sounds like you would get the protection we're asking for.

MR. MORRIS: — Yes. I believe we would, yes.

MR. KATZMAN: — That's the major concern, Mr. Chairman. And if he and the other people will get something worked out along what you've just suggested, Jim, we can live with that.

MR. MORRIS: — Yes. I think this would get at the ability, if there is one, to create some fictitious hogs.

MR. CHAIRMAN: — I have a few questions arising out of your annual report, for which I thank you.

You have a very interesting table on page 11 of the annual report. It looks for all the world as if

hog production is a barometer of hard times. When prices for cereals, for grains, are low, or the markets are bad, production is up.

I notice '57 to '61 enjoyed rising production of hogs. That was a period, I think, not of low grain prices but of low sales. It fell to a low in '63, at which point in time, as I recall, Saskatchewan had the highest per capita income in Canada. And then along comes '69 to '73 — the low prices actually, not bad markets, but low prices — and it went out of sight. In the '70s with high grain prices, it falls again. Is there nothing we can do to introduce some stability into the market?

MR. MORRIS: — Well I think your observation is quite accurate because we find . . . (inaudible) . . . is increasing. And in talking to a lot of the younger people that are in, or raising hogs and haven't for some time, they say: well, look, I've got to do something for cash flow on my farm, and maybe I'm doing it in high-labour way of doing it, but nevertheless it's cash.

I guess over the years we have experimented in Saskatchewan stabilization as a means of doing what you suggest, and I think that has created some stability. But the power of the grain economy when it falls flat is pretty awesome.

And as far as I can see, I think the hog industry is always going to be subject to that kind of pressure. The grain economy is so powerful in Saskatchewan that I think the other industries around are going to be influenced by it. It's tough times.

MR. CHAIRMAN: — That, in fact, was what the board was set up for, wasn't it, to try to introduce some stability?

MR. MORRIS: — Yes, we were, and we were set up back in 1973, just coming out of that era of very high production, and the objective was to try and find some stable external markets. In those days the Japanese long-term contract market was the one that looked like it was the answer to all our needs.

And the chart very clearly shows what happened. We were successful in securing the markets at the time. In fact, then we weren't facing Danish competition. But, of course, producers turned to other things because there was better opportunities for them. And since then there have been periods of time, you can see on the chart, where production has jumped fairly dramatically and then fallen back. We've had to scramble for homes for the additional hogs. We're not saying it's impossible, but that's one of our long-term objectives. Has been, probably always will be.

MR. CHAIRMAN: — So your problem has not been securing markets, your problem has been securing a reliable source of production?

MR. MORRIS: — Well, yes, and price. For example, last year, 1984, production in Saskatchewan was up 25 per cent. We sold all the hogs. We developed new markets in the U.S. I wouldn't say that was easy, but nevertheless it was done. And there's more opportunity to be tapped down there if we had the production and if we can keep their protection of sentiments away from us. But as producers will tell you, 1984 was not a happy one, price-wise.

MR. CHAIRMAN: — In the year under review the only moneys you received from the provincial treasury, I gather, was \$53,000. Is that right? That would be approximate. I'm reading from *Public Accounts*.

MR. MORRIS: — Yes, I guess that would be right.

MR. CHAIRMAN: — Which, in a sense, defrays what? Administrative expenses, does it?

MR. MORRIS: — I presume that was the contribution for administering the SHARP program.

MR. CHAIRMAN: — Do I understand from your chart on page 15 that the hogs were actually being sold at a loss during much of this period? I may not be reading that . . . Have you got a copy of your annual report?

MR. MORRIS: — No, but I'm sharing with this lady here. Oh yes. You're referring to the relationship between prices and SHARP?

MR. CHAIRMAN: — Right.

MR. MORRIS: — Yes.

MR. CHAIRMAN: — So they were actually being sold at a \$12 loss, according to this thing.

MR. MORRIS: — That would be about right. I think from memory that's about right.

MR. CHAIRMAN: — I 'm sorry. I'm reading it wrong. It says the cost of production averaged between \$83 and \$87. The cost of production rose from \$83 at the beginning of the year to \$87 at the end of the year. What, I assume, they received is the support, floor price rose from \$76 to \$79, but in fact they continued to enjoy an almost constant loss of \$8 a hog. Is that right?

MR. MORRIS: — Yes. Not all. The cost of production there referred to is the one that's calculated for the SHARP program. Each producer would have their own, and some producers would probably have a higher cost than that, some lower. But costs did rise during the year and primarily because of feed — drought impact on the price of feed. And as you've summarized the results, yes, there was SHARP payments for four quarters of the year, and it does reflect the difficult times that producers experienced.

MR. CHAIRMAN: — If they had depended on the hog prices alone, they would have sustained losses of \$19 a hog. Is that the correct interpretation?

MR. MORRIS: — I guess that's right.

MR. CHAIRMAN: — SHARP reduced the loss. And that, I gather, does not come from the provincial treasury. You just simply run at a loss.

MR. MORRIS: — That's correct, yes.

MR. CHAIRMAN: — And hope to make it up in future years.

MR. MORRIS: — Yes.

MR. CHAIRMAN: — Why, in the face of such low prices, is the production rising?

MR. MORRIS: — Well, I think . . .

MR. CHAIRMAN: — Cash flow, is it?

MR. MORRIS: — Yes, partly. And partly when you consider the alternatives in agriculture, for some people it was the best one.

MR. CHAIRMAN: — They could lose less money on hogs than they are on . . . (inaudible) . . .

MR. MORRIS: — Yes. And you have to be sympathetic to a young producer, a young man who wants to enter farming. They have to either do that or leave agriculture, and to some of them hog production maybe is the best alternative.

A MEMBER: — Through section 91 of the income tax, that sometimes is the best.

MR. MORRIS: — Yes.

A MEMBER: — Because they get caught on section . . . (inaudible) . . . the pork prices, is that a temporary phenomena? Is it something that has plagued the industry for a lengthy period of time, or do you see it as a bubble that's because of the high feed grains?

MR. MORRIS: — Well I think markets are acting in a non-traditional fashion. You know, if you charted, I think the beef people would say the same thing. If you used history and tried to chart cycles — you've probably all heard market analysts talk about them — you would say that prices should be behaving differently right now than they are.

A MEMBER: — They should be rising?

MR. MORRIS: — Yes. And actually '85 should have been an excellent year, using history, and in looking at production levels. But there are some non-traditional things at work. One, of course, is the U.S. countervail, which is very non-traditional. But there are some other non-traditional things, maybe some dietary changes in consumers where they're unfortunately shifting a little bit away from red meats. There is, on the North American scale, there is a lot of poultry on the market, and there has been — I don't know right now — but there has been a lot of beef in the U.S., and so they're in a lot of these non-traditional things at work which make predicting prices very risky.

MR. CHAIRMAN: — I have one question before I recognize the member from Rosthern. I always thought I knew what a stag was. I thought it was the European word for a buck. But I see in your chart up there sows/stags, and I assume that you're not marketing venison there. What is that?

MR. MORRIS: — No, a stag is a boar that has been — his career has been terminated, shall we say.

MR. CHAIRMAN: — I never heard the phrase used before. My father raised hogs. I never heard that used before — never crossed it.

MR. KATZMAN: — Just a supplementary on what Mr. . . . (inaudible) . . . was saying. Basically every time a source — example, a government interference, a government program or anything comes into the market — on the long scale is when you see that abortion on the prices or something, pretty well, isn't it?

MR. MORRIS: — Generally I would say you're correct, but Saskatchewan is such a small player that I wouldn't say that an action of the Saskatchewan government directly translates to it. But, for example, but you're correct . . . Well, look at the intervention in the province of Quebec to encourage a hog industry to develop in Quebec. Quebec in 10 years has gone from 1 million hogs to 5. Well that's had a fairly direct impact on prices that we all receive in Canada.

MR. CHAIRMAN: — What has the Quebec government done?

MR. MORRIS: — Well the Quebec government, back in the '70s, set about a conscious decision to create a hog industry in Quebec. In the early '70s back . . . We were talking before in the early 70s when Saskatchewan production really climbed. A lot of that pork went to Quebec, and the eastern part of Canada was deficit in pork meat, and a lot of that product went to Quebec, and most of the western packers were big in the business of slaughtering hogs here and shipping the meat into eastern Canada.

Well Quebec looked at the need to do something in rural Quebec. Dairy was supply managed,

and it was obvious that that was not an expanding industry. And they were looking for something to create employment in rural Quebec — you know, much the same objectives that we've all talked about in Saskatchewan — that would be desirable.

And so they set about to subsidize construction of hog barns and give very attractive loans and subsidize the development of the packing industry. And as a result, their hog industry grew very rapidly from, as I said, about 1 million-something in the early 70s to over, close to 5 million when the development peaked in the early 1980s. And so therefore the market for pork meat for western Canada disappeared. In fact, Quebec is probably the biggest exporter of pork in Canada now.

MR. CHAIRMAN: — But you say the basic problem is not markets, but prices, in the sense that . . . I suppose it's all, in a sense, one problem, in that we've got too many hogs and the price of it is depressed. But is it a world-wide price? Do you get the same price in Japan and France, I guess, as you do in Omaha?

MR. MORRIS: — Well generally speaking, yes, although Japan has a wall around Japan, and hog prices in Japan are twice what they are here. And Japanese agricultural policy encourages an increase in production there, even though they could buy the hogs here for half the price, and they do it on imported grain. I guess there's a lot of press these days on the European Economic Community. Europe has become a substantial exporter of pork meat, mostly from Denmark and Holland, but a substantial exporter. Their prices are higher inside Europe than they are in North America.

So there is a world market for pork meat, but unfortunately I think just us and the U.S. play at that game, and a lot of the other major areas are using export subsidies or tariff walls to create an island unto themselves. And as an exporter, we don't have an awful lot . . . You know, we can land some product there, but it's very much on their terms.

MR. CHAIRMAN: — In effect, only North America is . . . If you've got Japan and Europe, that about cleans up, does it not? I suppose there's Australia and so on, but it pretty well cleans up the industrialized world.

MR. MORRIS: — Pretty much, yes. There are some . . . That's not a 100 per cent correct statement, but by and large it is. Canada is the third largest supplier to Japan, but our share has been static at best, and shrinking, probably more accurately. We're losing it through subsidized Danish product.

MR. CHAIRMAN: — Interesting. Can you give us the equivalent prices a Danish farmer or Japanese farmer . . . This is obviously not in the year under review; I'm just curious. Can you give us, even in a ballpark figure, the equivalent price that a Japanese farmer or a Danish farmer might get for a hog? Like ours, I gather, in Saskatchewan in October to December they got \$79.64, by your annual report. What would the . . .

MR. MORRIS: — That's probably the SHARP price, I think.

MR. CHAIRMAN: — That's the SHARP price, that's right.

MR. MORRIS: — Yes. The market price in October-December would have been . . .

MR. CHAIRMAN: — \$68.54.

MR. MORRIS: — Yes.

MR. CHAIRMAN: — What would the Danish or the Japanese farmer get?

MR. MORRIS: — Roughly comparable. Last time I worked out, Danes would have been about 88 cents, and Japan would have been about \$1.21. The Japanese one was 600 yen per kilogram on a skin carcass — if any of you are handy with a calculator.

MR. CHAIRMAN: — Does the member from Prince Albert have a question?

MR. MEAGHER: — What's this SHARP you're referring to?

MR. MORRIS: — Oh, SHARP is the Saskatchewan Hog Assured Returns Program. It's a program of price insurance that, if you join as a producer, you pay a premium of 4 per cent of gross. And then when the price falls below the calculated floor, you get a payment to bring you up to that floor price.

MR. KATZMAN: — What's the deficit?

MR. MORRIS: — 13.4 million, roughly. And so that reflects a period of time where . . . Oh yes, and I should have said the 4 per cent premium is matched by a 4 per cent contribution from the provincial government. And over the long haul both of those premiums are supposed to carry the program. But, as Ralph said, we're 13.4 million behind, that reflects the poor times . . .

MR. MEAGHER: — Is this 4 per cent a subsidy to the producer, or to the plan?

MR. MORRIS: — Well it goes to the plan, in the first instance. But there's a separate set of books kept, so it goes through to the producer.

MR. MEAGHER: — So this is in addition to the grant we made reference to a moment ago here of 50,000.

MR. MORRIS: — Yes, the 50-some thousand was the reimbursement. That's for the computer time, and staff, and the postage, and all that stuff for keeping the records and making the payments.

MR. MEAGHER: — Do you have a figure for the year under review of the total cost to the treasury of the province for the subsidy?

MR. MORRIS: — Yes. Okay, for the year under review — which is March 31st, 1984, right, I think, yes — producers contributed \$1.981 million to the program. That was the producer contribution. Government of Saskatchewan contributed \$1.98 million, a matching amount. And let's see now . . .

MR. KATZMAN: — You don't have the input from the . . . (inaudible) . . .

MR. MORRIS: — No. And then in the year under review, the program — let's see now, the program started out 3.5 million in debt and ended the year 7.78 million in debt.

MR. KATZMAN: — Numbers again?

MR. MORRIS: — Started the year 3.5 million in debt and ended the year, 7.79 for round figures, in debt. So it fell behind by the amount of \$4.25 million.

MR. KATZMAN: — Which had to come out of the government's treasury?

MR. MORRIS: — Yes.

MR. CHAIRMAN: — Eventually. It hasn't yet, but eventually it's got to or it has?

MR. MORRIS: — Well it did, in that the Department of Agriculture makes us an interest bearing loan. The interest becomes a charge against the fund, and we paid \$538,000 worth of interest that year.

The hope is that the good times will come back, and we'll retire that debt when the good times come. But as I said, it's obvious that markets are behaving in a non-traditional fashion.

MR. CHAIRMAN: — What interest rate is being charged?

MR. MORRIS: — I think the most recent one is 11.5. It has been 12, and 12 and a bit. For the year under review, I couldn't answer.

MR. KATZMAN: — There's a formula which was developed years ago under the NDP government that we still live with.

MR. CHAIRMAN: — Those were in the good times, Ralph.

MR. MULLER: — If we keep running into the problem of hogs crossing the border into the U.S., and they keep putting a higher amount or charging more every year, as the SHARP program (Saskatchewan Hog Assured Returns Program) pays more to the producers, will not that margin increase, and it will finally break the SHARP program, in effect?

MR. MORRIS: — Well the implication is to all the other stabilization programs in Canada, as well, that maybe for the benefit of the rest of the members, if we can't shake off this duty, countervailing duty, that we face going into the U.S., it'll be confirmed on June 10 by the Department of Commerce, and it's subject, every year thereafter, to an annual review. And so, if the stabilization programs pick up the shortfall, next year the duty will go up by a comparable amount, and so you're quite correct that it's . . . Well it's difficult to see the end result.

MR. MULLER: — The deficit will grow larger and larger in the SHARP program, and the duty will grow larger and larger.

MR. MORRIS: — Yes, and all the other provincial programs . . .

MR. MULLER: — Same with beef and anything else.

MR. MORRIS: — Yes.

MR. MEAGHER: — Is there any ceiling set on the amount of debt that this program can incur that the liability is the provincial government's.

MR. MORRIS: — Not really in terms of amounts. There was a ceiling placed by cabinet on the loan at, I believe, \$15 million. Now I don't think that relates to the year under review, but I think there is a ceiling on a loan into the program, of 15 million, which is going to have to be lifted if we are to make a payment to producers in the second quarter.

The other control on deficit, though, is that in the formula, as soon as levies hit 4.5 per cent, there is to be a review of the program. And the way that levies get triggered up is in relation to what producers contribute to the program in relation to the cost of servicing the debt in the program. It got triggered at 4 per cent, April 1st. My guess is that it's triggered at 4.5 sometime this fall.

But we've been asked, and we are doing a review with the provincial government at this point on the program because it's obvious where we're going. And so I think that's really the control on the debt of the program, rather than saying it shall be this amount of money.

MR. MEAGHER: — You did suggest that this ceiling may have to be raised this year. Then how

would that affect it? Is it a requirement of some legislative . . .

MR. MORRIS: — I believe it's a decision of cabinet.

MR. MULLER: — On page 15 of the year under review, are 81.27 per cent of the hogs killed in Saskatchewan?

MR. MORRIS: — I guess if that's what we report, yes.

MR. MULLER: — Well I was just . . . for clarification.

MR. MORRIS: — Oh yes. That's right. Yes, 81.2 per cent of the hogs were killed in Saskatchewan. Currently it's a bit higher.

MR. MULLER: — And some of those hogs naturally are shipped to the United States and other markets.

MR. MORRIS: — Oh, yes.

MR. MULLER: — The cost of crossing the border is less on dressed hogs than it is on live?

MR. MORRIS: — That's right. And the other big advantage we have in Saskatchewan, in terms of product going to the sun belt in the U.S. — California and down — there's a lot of produce coming this way. And so you can get reefer trucks for 4 cents a pound to land you into Los Angeles, which is . . . First of all you're shipping fewer pounds, as you suggest. But secondly, they're back-haul rates. So it's quite an efficient way . . . It's much more efficient to move that way than it would be to truck the hogs live to Los Angeles, for example.

MR. MULLER: — And it's far better for the packing plant industry in Saskatchewan to have the hogs slaughtered here.

MR. MORRIS: — Oh, yes. In fact in the year under review we got into a major program with a U.S. packer of ours. And we've stopped shipping near so many hogs live south because we're having them killed here and on a long-term relationship with a meat distribution company in the U.S. That's worked out well for everybody — for the producers, and for Intercon, primarily, and for the Saskatchewan trucker that's hauling the meat.

MR. MULLER: — I'm glad to see it's that high. I would hope that it would go higher.

MR. MORRIS: — Yes. I think if things go the way they are, at the end of '85 we should show even higher than that.

MR. MULLER: — I'm glad to see you going in that direction.

MR. MORRIS: — And it's also a little more secure in these days of uncertain political action in the U.S. The meat is not near so visible and we can point to the two-way trade as beneficial to both parties.

MR. CHAIRMAN: — Just one other comment and that is another question: is U.S. tariff related to all imported hogs or just hogs coming from Canada — this little dust-up that's currently going on?

MR. MORRIS: — The little dust-up relates to Canada. It's specific to Canada. The pork meat coming from Europe comes dressed. And I believe there's a countervail — if it's not yet launched, it will be — against Danish product. And really they're the two sources. As far as I understand there's very little, if anything, comes in from Mexico. In fact there is some trade in

meat the other way, out of the southern U.S. And really there's nowhere else that live hogs could come from.

MR. CHAIRMAN: — The American action — I say this not wishing to encourage the continuation of the tariff — but given the world market as you've described, that the American action is easier to understand now. It isn't as capricious as it appeared to be at first blush.

MR. MORRIS: — Well it depends. I suppose, if they're actual believers in free trade and competition, I think we can compete with them. And if they're not actual believers in there, then yes, their action is predictable.

MR. MULLER: — What impact is the antibiotic problem we're having now with the American-Canadian trade?

MR. MORRIS: — Well the Governor of South Dakota seized on the chloramphenicol issue as an excuse, to use an obscure law that relates to health and welfare, to deny Canadian livestock access to South Dakota plants — and that's beef and hogs. So it's provided a convenient excuse. My guess is that it won't last too long, because I understand that the State Department is extremely unhappy.

But nevertheless, it does bring before the consumers the question of drug residues in meat, which is a general concern. And it's unfortunate, because it comes at a time when there is a certain segment of consumers that are maybe not viewing meat as favourably, as essential to their diet as they once did. And so I think that's probably the more longer-term damaging issue.

The interesting thing about chloramphenicol itself is that chloramphenicol is sort of a third level kind of drug. It's not that commonly used, but it is used. But it's also used in human medicine on both sides of the border. And here we have a meat being denied access to the U.S., using the idea that it might be harmful, that there might be a minute trace of chloramphenicol in meat, and yet it's still used for human medicine. So it's somewhat illogical.

MR. MULLER: — Is there many hogs turned down because of antibiotics picked up in the carcasses? I know, like, I'm a beef producer, and there's so many days you have to hold an animal before slaughter after the use of certain antibiotics.

MR. MORRIS: — Yes, withdraw. Yes.

MR. MULLER: — I was wondering, is there any carcasses come in that have antibiotics in them that are turned down?

MR. MORRIS: — No, not very many. There is a routine antibiotic or drug residue testing program that goes on in Canada. As far as I know, there's never been any in Saskatchewan where chloramphenicol has been detected.

There has been about two cases where sulfamethazine, which is another drug which is used for scours and that sort of thing, has been detected, but it's very uncommon. And as far as I know, there's never been meat . . . There may have been one load of hams that was detected going into the U.S. with some sulfamethazine in it, but that's all. The detection of it is very rare.

MR. MULLER: — Thank you.

MR. ENGEL: — I have a supplement on that. You were suggesting that South Dakota embargo, or whatever they want to call it, is short-lived.

MR. MORRIS: — Well I'm hoping.

MR. ENGEL: — Is there any connection with that and what was announced either last night or this morning that Iowa and Nebraska are joining them?

MR. MORRIS: — Yes. I haven't heard that. I know that the Governor of South Dakota was inviting the other states to use the same excuse, shall we say, but I hadn't heard that they'd followed suit. But yes, it would be a direct . . .

MR. ENGEL: — That's basically why I'm late this morning, but that's been announced. So I was wondering just what evidence that you had that that would be short-lived. Or is that just hope?

MR. MORRIS: — Well it was hope primarily. I'd heard yesterday that the U.S. government was very unhappy with this governor getting the bit in his teeth and charging off as if on his own. I was hopeful that that kind of pressure would cause him to back down.

Now I don't understand the U.S. political system well enough to know if that will be the case or not. The other reason I would say that is that chloramphenicol has been under discussion between the Canadian and U.S. governments for some months.

The feeling in Canada — and it's a recommendation that's been given to the federal government — is that if it becomes a trade irritant, ban it. It's not essential. There's lots of other drugs that can be used in place of chloramphenicol. So if it's a trade irritant, ban it and it won't harm anybody.

MR. ENGEL: — If that particular drug were banned, then the trade barrier that they're putting up around their states would be ineffective?

MR. MORRIS: — That's right.

MR. ENGEL: — It's based strictly on the use of that drug, is it?

MR. MORRIS: — Yes, that's right. Now I guess I'm cynical enough to say that given the political will, they could probably find something else if they looked. But I guess the game is: you have to keep batting these things down as they come along.

MR. ENGEL: — Does Saskatchewan have control, as far as you know, as if those bans can be made provincially, or would that have to be a federal . . .

MR. MORRIS: — I would guess it's federal, because I know Health and Welfare have been the group that have been studying it. I suppose we . . . No. I'm pretty sure it's federal.

MR. ENGEL: — The only other specific question I have with relation to that: that base and market — South Dakota, Iowa, Nebraska, in through there — what percentage of Saskatchewan's exports go to that particular area versus the west coast or . . .

MR. MORRIS: — That table in our annual report, virtually all of them would have gone . . . All of the live hog exports would have gone to that region.

MR. ENGEL: — What page is that on?

MR. MORRIS: — Fifteen.

MR. CHAIRMAN: — Is that an estimation of . . . (inaudible) . . .

MR. MORRIS: — Yes, live ones, to 87,846 hogs. The reason for that is . . .

MR. ENGEL: — Those are all going south-east rather than south-west?

MR. MORRIS: — Yes, or straight south. Because you see there's . . .

MR. ENGEL: — I expected most of ours would go to the west coast.

MR. MORRIS: — Well meat, yes. But, you see, there are no slaughtering plants over there for hogs. The last one was in Seattle of any consequence, and we sold to it regular, but it closed in early '84.

MR. ENGEL: — So all that goes to the California market and Washington market, Washington state, are slaughtered?

MR. MORRIS: — Is dressed, now.

MR. ENGEL: — Dressed hogs?

MR. MORRIS: — Yes. In early '84 the last major killer of hogs in Seattle, or in Washington, closed because there are no hogs there. So they found it more economic in that case to buy the meat from us rather than to continue to take the live hogs and pay the shrink on them.

The reason the livestock goes south is not so much that that's maybe the logical end-point of the meat, but that's where there are major packers. And the two major ones for hogs in South Dakota are at Huron and at Sioux Falls.

MR. ENGEL: — This embargo that's on in the States now affects live meat as well as dressed?

MR. MORRIS: — Yes. The embargo in South Dakota . . .

MR. ENGEL: — No, I meant the U.S. . . .

MR. MORRIS: — Or the duty . . .

MR. ENGEL: — The duty you're talking about, that 5.9 cents.

MR. MORRIS: — Yes, 5.3 cents on dressed pork and 3 point something on live hogs. So that affects anything crossing the border anywhere in the U.S. The action of the Governor of South Dakota affects hogs, beef, and sheep — or the meat from them — into or through South Dakota.

MR. ENGEL: — So that's virtually over and above . . .

MR. MORRIS: — Yes.

MR. ENGEL: — Where the price ban was just a penalty, this one is just a closing of the doors.

MR. MORRIS: — Yes. That's right.

MR. ENGEL: — And you are saying they are controlling the major slaughter houses.

MR. MORRIS: — In South Dakota. South Dakota's not the only state. We have a very good relationship with a plant in North Dakota, so we can continue to sell to them; they're not affected. And we sell into Iowa sometimes, so they're not affected. But it does make . . .

MR. ENGEL: — Well Iowa is the one that joined it this morning.

MR. MORRIS: — Oh, yes. Okay, so then . . .

MR. ENGEL: — Iowa and Nebraska.

MR. MORRIS: — Nebraska for us wouldn't matter. There could be cattle going into Nebraska, cows maybe, I don't know. But Nebraska wouldn't matter. Iowa would some.

MR. MEAGHER: — Mr. Chairman, I just want to expand a little bit about on your comments, Mr. Chairman, and your response with respect to the free trade thing: that you made the suggestion that if they were believers in free trade, this seems to fly in the face of that philosophy. But I notice that you didn't comment on the argument that I've heard, that they make, that this isn't quite the same thing. When their producers aren't subsidized by government and ours are — and when I see the numbers that you've advanced here this morning, there's a fairly substantial government subsidy here that doesn't exist there — and then therefore it's not free trade in their interpretation. And I'd like you to comment on that.

MR. MORRIS: — Well they have a point in that argument, but you see, the systems are different. In the U.S., for example, if I was going out to buy barley to feed my hogs, I can go to a grain producer and I can buy barley at, say, 1.85 U.S. a bushel, or some of the prices I've heard. And that producer can turn around and get a payment under the grain program — the grain producer. So the support for the producers in the U.S. is different than it is in Canada, and unfortunately for us it's less visible, but nevertheless it's there.

Another example is the U.S. government buys lots of meat every year for school lunch programs. Who's getting subsidized? You know, is that a subsidy to the school children, or is that a subsidy to the producer, or the packing industry?

Unfortunately, stabilization is very up front, very visible. Nobody makes any bones about the public input into it. It's well documented in audited reports, and that sort of thing.

So the U.S. producers do have a point, and I think particularly they have a point in eastern Canada, in Quebec where their production has gone in a non-traditional matter. But they're not entirely clean themselves.

MR. KATZMAN: — If we were to take our same programs and subsidize the feed, subsidize the barns, subsidize all those things, subsidize labour, but put nothing into the subsidize per hog, and bury it, then we wouldn't have the problem we're having with the States now. There's a difference in the two systems. We put ours up front, and they bury theirs in the other end. Therefore we can't use that as an argument.

MR. MULLER: — . . . (inaudible) . . .

MR. MORRIS: — And one of the long-term implications may well be that if we lose this case on pork — that's my thought anyway — if we lose the case on pork, stabilization becomes countervailable, we're going to have to forget about stabilization as a public policy tool and we're going to have to go the other way.

MR. MEAGHER: — I'm not following your argument, but I think it's drawing a fairly long bow when you suggest that the government buying pork on the market for school lunches, is a form of subsidy. If they're buying it on the market, you're drawing a pretty long bow there.

MR. MULLER: — When they're subsidizing the feed grain to the hog producer in the United States, that's a straight out and out subsidy because his costs are lower to produce. If the hog producer here has to pay 2.50 a bushel for their barley and the hog producer in the United States only pays \$1.85 there's a direct subsidy to the production of pork.

MR. CHAIRMAN: — Order, order. This is going to be a horrifying mess for *Hansard*.

MR. KATZMAN: — It basically, Paul, as Jim says, if we had to, because of the 5.2 cents and the 3

point something cents, drop our subsidy program, we could bottom load it as Mr. Muller says, and we would not be nailed by the States. But top load, like we show it now, is what they're nailing us on. And an American producer gets a subsidy from the federal government — sorry, the grain producer does. That's what's tough to show.

MR. ENGEL: — Have you any records to indicate how much pork is coming into Canada? Is the situation as bad as it is with beef?

MR. MORRIS: — Yes, I do have records, but not with me.

A MEMBER: — Percentage-wise.

MR. MORRIS: — In the case of Canada versus the U.S. — this isn't quite the same way you asked it — there's about 1 pound coming in for every 10 we export. I think though you're maybe wanting to know about Europe.

MR. ENGEL: — Yes, the total picture would make a big difference.

MR. MORRIS: — Yes. Early this year there were massive imports of pork from Europe, same as in beef, under the benefit of a pretty generous export subsidy. And so, for example, I could go a block up the street from my office in Saskatoon and buy Danish back ribs, oh, a dollar or a dollar and a half a pound cheaper than what they could be cut off Canadian hogs for.

Now that has been tempered somewhat. We threatened to launch countervail against the Danes and they dropped their export subsidy somewhat. But I think the statistics show there is still a pretty healthy movement of fresh frozen pork from Europe.

MR. ENGEL: — You wouldn't have a number, you wouldn't have a rough number saying that this many are coming in from the European markets? What about some of the other markets?

MR. MORRIS: — In a percentage. Well the two important ones are the U.S. and Denmark, or Europe. And Europe, I think, is the biggest single supplier of pork meat to Canada this year. But in terms of a percentage, Ralph, would you have a rough idea?

MR. KATZMAN: — It's not as much as we export.

MR. MORRIS: — No, Canada is a net exporter of pork meat. We might import what, 2 or 3 cent of our requirements? That would be a strict guess.

MR. KATZMAN: — Our beef and our hogs equalled each other out. That's about five years ago.

MR. MORRIS: — The place to look . . . There's some pretty good statistics that are very up-to-date in the Canada Livestock and Meat Trade Report. It's published weekly by the federal Department of Agriculture. And it breaks imports and exports out by major groups, like Europe, or in the case of beef, Australia, and the U.S.

MR. CHAIRMAN: — Any further questions on this?

Yes, we wish to thank the witnesses for coming and assisting with our deliberations. Thank you very much, gentlemen.

MR. KATZMAN: — I would say that the members of the committee are very enlightened for other reasons than what you said up on your report.

Public Hearing — Prairie Agricultural Machinery Institute

MR. CHAIRMAN: — I wish to begin by welcoming Lorne Smith, director of the Prairie Agricultural Machinery Institute. I gather you're here running a one-man band this morning. You have nobody else with you.

MR. SMITH: — That's right.

MR. CHAIRMAN: — Okay. I begin most of these sessions with a comment to witnesses that what is said before the committee is privileged, in the sense that it can't be used as libel and slander outside the committee. On the other hand, it is taken down verbatim and is readily available for use elsewhere.

So with that, I'll open the matter up for questions from Mr. Engel, I think. You were the lead-off critic on this, I think, Allen.

MR. ENGEL: — Good morning. Basically, we had some concerns in the committee with your relationship with Alberta operation and their accounting procedure. What page is that on, Mr. Chairman?

MR. SMITH: — It's mentioned in the auditor's report.

MR. ENGEL: — Yes. And we are wondering if that's because of the kind of relationship Alberta has in their matching operation of PAMI, or is it because the way you run a subsidiary office there? Are you . . . Is Alberta's office . . . The first question I'd have, I suppose, is: is Alberta's office being audited by the Alberta auditor?

MR. SMITH: — No. The entire institute books are audited by the Saskatchewan Provincial Auditor because the institute is formed under a Saskatchewan Act.

MR. ENGEL: — What is your answer, then, to the auditor's question as to the work that Alberta does, and how that's billed out, and the lack of control you have from your office in Humboldt?

MR. SMITH: — Okay. First of all, all those stations were treated, have been treated the same — in Alberta, Manitoba, and Saskatchewan.

Now in all the contract work, we have copies . . . or prior to the auditor's report, copies of all the contracts are forwarded to head office. Monthly progress of all contracts is sent to head office on these sheets, so I monitor them monthly.

And also I get a copy of the final report that goes to the client, comes to me. And a quarterly report of all fee for service contracts is reviewed by the counsel. And, lastly, payment has been forwarded to head office . . . is forwarded to head office for recording in the ledger.

Now, following the auditor's report last year, we proposed to strengthen them, in that all invoices would be sent to head office at the same time as they were sent to the client. And that has been followed since then. The auditors were just there last week, and they said everything appears to be in order.

MR. ENGEL: — Your new system is working satisfactorily, so they have proper control? I think the problem was that . . .

MR. SMITH: — Yes. As a matter of fact, that was put in prior to the end of the 1984 fiscal year, prior to the final audit, as a matter of fact.

MR. ENGEL: — Before that, when Alberta would do it, do you . . . Backing up a little bit on that, do you do work on a custom basis for manufacturers, or do you do selective testing that you would do even if the manufacturer isn't requesting it?

MR. SMITH: — Okay. The work that's referred to here in the contract work is development work mainly for manufacturers on a fee-for-service basis. We also do evaluation work on various machines, and the report is published and goes to our subscribers who are mainly farmers — about 15,000 farmers in the three western provinces. So there is two different aspects there.

MR. ENGEL: — Setting this problem that the auditor has aside — and we'll maybe refer to them later on to see if they're satisfied with that. But if you say the auditors are, then I accept that.

But how do you decide that you're going to do a test on a new production machine? Which one do you decide to do? Is it one that is selling, or the one that is popular, or one that isn't popular? How do you pick and choose and decide which machine you decide to do a report and evaluation on?

MR. SMITH: — Okay, several criteria. We've established a priority list of machinery that we've categorized as a priority A, B, or C. Now the A priority is things that farmers tell us are critical to their operation, like seeding equipment, harvesting equipment — that sort of stuff — tillage equipment. Priority B is disc equipment and perhaps some haying equipment that has a lesser effect on the critical operation. Priority C is sort of everything else which we don't really look at.

A MEMBER: — Grain loading.

MR. SMITH: — Yes, or we do it very seldom.

The other thing is new technology; for instance, if air seeders come on the market. We always get a lot of questions from farmers about this new type of technology, so we use that as part of a criteria for selection of a machine. The cost and the effect on the farm operation — those sorts of things, as well as input from the three departments of agriculture.

So all those things are sort of combined to try and come up with a . . .

MR. ENGEL: — When you're testing a machine, do you determine whether this is going to increase the farmers' productivity? Like, do you take into account the cost factor in a farming operation?

Let's say I'm seeding with discers, and there's talk about a new air seeder discer operation type thing on the market. I'm not sure if we've tested one yet or not, but it seems to me I looked at one at Mexibition and Agribition. And would you test that machine to determine whether that's going to enhance my operation by being more cost efficient, or do you just determine if the thing works?

MR. SMITH: — We don't do economic studies or economic analysis. We do determine work rates, capacities, times to unload or load or clean, all of those sorts of things. And hopefully the farmer or the people in the Department of Agriculture, if they wish to do an economic analysis on it, they can use those numbers to do it.

MR. ENGEL: — You would put into that number, though. Let's say you're doing an air seeder, that if you're going to seed with an air seeder versus a drill, that you're going to replace those shovels every 2,000 acres, and that's going to cost you so much money, or . . .

MR. SMITH: — No, we don't put those prices in. No. The wear rates?

MR. ENGEL: — The wear rates and so on.

MR. SMITH: — We've done separate studies on wear rates, you know, because there's so many different — like shovels, there's 100 of them on the market, different hardnesses, and that sort of

thing. So that may not affect, if it happens to be a John Deere cultivator, whatever shovel he puts on there may or not be John Deere's.

MR. ENGEL: — I've personally found your reports very interesting and enlightening and enjoy watching the new ones that come on the market. The trouble is that farming, as close to cost as it is now, you hate to look at a new machine because you could be tempted to spend money that you're not making.

MR. SMITH: — Well, that's right when it comes to . . .

MR. ENGEL: — Until the farmers have further questions prepared to ask, I think it's . . .

MR. CHAIRMAN: — I wasn't sure I understood what resolution you felt had been put into effect with respect to the comments made by the Provincial Auditor. I'm not sure I . . . I didn't follow that. Do you think you resolved the problem?

MR. SMITH: — Yes.

MR. CHAIRMAN: — How?

MR. SMITH: — Okay. As was in the reply to the memorandum on internal control of weaknesses back about a year ago, the present method — and you have to understand this was written one year ago — the present method of control that copies of all contracts are forwarded to head office, that is the contracts from all stations. Monthly progress of all contracts are also forwarded to head office on this status sheet that . . . A quarterly report of all fee-for-service contracts is reviewed by the council, and payment is forwarded to . . .

MR. CHAIRMAN: — By which council? How do you mean by council?

MR. SMITH: — The governing council of the Prairie Agricultural Machinery Institute. And payment is forwarded to head office for recording in the ledger and is deposited in the Prairie Agricultural Machinery Institute fund.

Now following that, copies of all invoices are forwarded to head office at the time of invoicing to be recorded in the ledger and insure that revenue is recorded in the correct accounting period. That was one of the concerns of the auditor that it may have . . . something that was gone over year-end would have been incorrectly gone from one year into the next.

And so, as I mentioned earlier, the auditor just completed his review the last week for this 1984-85 fiscal year, and he's . . .

MR. CHAIRMAN: — Okay. The income . . . I'm sorry. I should have recognized the member from Rosthern before. You had your hand up first. Yes, go ahead.

MR. KATZMAN: — Can we hear from the Provincial Auditor?

MR. LUTZ: — Mr. Erickson will respond.

MR. ERICKSON: — The field work of the audit has been completed, but I haven't had a chance myself to look at the files. So the tentative, I guess, evaluation is that improvements have been made, but I can't really comment on it until I've seen the file.

MR. CHAIRMAN: — You're not in a position to make a final comment yet.

MR. ERICKSON: — If this has been done, I think it will solve the problem. I can say that.

MR. KRAUS: — I would just say that, too, that they've moved quite a piece from what the original concern was by the auditor. I mean, I think at one point here the invoices weren't even coming to head office before the moneys were collected, so that they wouldn't necessarily have been in the same position as they are now. But the number of steps they say they've put in, sound like it's gone quite a ways towards resolving the problem. I'd be surprised if it wasn't acceptable.

MR. CHAIRMAN: — Well on the road to resolution.

MR. WEIMAN: — I was just noticing at the beginning of your report, you indicate that the Prairie Agricultural Machinery Institute is in place, basically "to improve the design and aid in the selection of agricultural machinery in the prairie provinces."

I can understand what you're talking about in so far as the selection and use of agricultural machinery. But I'd like to talk a bit about the "improve the design." It implies to me that there was faulty design in some of the machinery that goes out to the agricultural community. Is that correct?

MR. SMITH: — That's putting it mildly. There are some problems, and that's . . . Of course, what this contract work is all about: manufacturers, say for example, may have a problem with the trip mechanism on a cultivator. They go as far as they can and try to solve it themselves.

And those that have recognized our capabilities in this area are now contracting us to assist them in solving those problems before they get . . . before the problem gets out into the field.

This is what our aim is, is to not, you know, find a problem with a machine after there's been 3 or 400 or 500 or 1,000 marketed. Find it before it goes onto the field. And that's part of the improved design.

MR. WEIMAN: — It seems to me, by what you were saying, is that the manufacturer has an easy out to abrogate their responsibilities for proper farm machinery. All they do is they turn around and say, well I think we have this problem or there is this problem, we'll contract it out to you, and you take a look at it for us. Or is that too harsh of a statement?

MR. SMITH: — Well if he wants to hire us to assist in these problems, whether we're certain . . . That's what we're there for. That's what we were set up for. I'm not sure I follow your . . .

MR. WEIMAN: — Well I guess what I'm getting at is, I think if I bought myself a car — GM, a Chrysler, whatever — and there was something faulty in it, and it was reported back to the federal government, and if there were enough common faults like this across this country, you better believe that those cars would be recalled. The responsibility would lie right on the doorstep of the manufacturer.

And I'm wondering whether we have that same kind of clout, or would they have that same type of apparatus in so far as farm machinery is concerned? I guess what I'm really saying . . . I don't want to sound unkind, because I don't like putting anybody out of a job, but I'm wondering why the manufacturer isn't totally responsible for any problems in the machinery that he is selling to the farming community.

MR. SMITH: — Well of course we have no authority in that area. That falls under the Agricultural Implements Board which in fact I believe, if there is a farmer unhappy with a machine, within a certain length of time, I believe he has the right to demand either the manufacturer fix it or get his money back. I'm not 100 per cent sure of that.

MR. CHAIRMAN: — Liability imposed upon manufacturers of agricultural machinery is more stringent than almost anything else except perhaps food products. I will vouch for that.

MR. MORIN: — Mr. Muller has a comment to help clarify this for you.

MR. MULLER: — Well certainly the responsibility of the agricultural manufacturers is quite great, and we have lots of ways that we can get back to the companies, and it's a very competitive market. And the one reason they use PAMI, especially I think with a lot of their harvesting equipment, is they put a machine out in your field, and you test it, and you make some recommendations to them, and they'll come out with a change up on that model or something to improve it. It is a very good program as far as I'm concerned.

We can take your book and read it and see which combine or which machine performs the best under the same conditions. It's a very educational thing, or very helpful thing for farmers to read the recommendations.

MR. CHAIRMAN: — You've been getting complaints from the farmers in your riding, have you?

MR. WEIMAN: — No. The farmers in my constituency are just totally pleased with everything I've been doing.

MR. CHAIRMAN: — The only ones in your constituency, which are, I might add.

MR. WEIMAN: — I would put on record that all the things they're pleased about.

MR. CHAIRMAN: — I think the member from Prince Albert is long overdue here. He's been patiently waiting.

MR. MEAGHER: — Mr. Chairman, just to follow along a little bit on this, and I have no problem with this concept at all, but would it be true to say that some of the manufacturers' designs would not necessarily be adapted to western Canadian prairie farming and that the unique problems that are faced on the western Canadian prairies may not apply for a piece of equipment, for instance, that's designed for Iowa and eastern Canada and other market areas, and that this institute would have an opportunity to rectify design deficiencies that aren't necessarily design deficiencies per se, but don't apply to this part of the continent.

MR. SMITH: — That's certainly true, as you refer to harvesting equipment, because basically all combines are designed to work in corn. That's their first purpose is to work in corn. It just so happens they work in grain, you know, some better than others. So with respect to harvesting equipment, definitely, we have found that the manufacturers that operate out of the U.S. are not even well versed in setting their own combine in wind-row conditions, which is unique to western Canada, really.

MR. MEAGHER: — Well, that was my point.

MR. CHAIRMAN: — Any other questions.

MR. WEIMAN: — There would be the consumer report of Ralph Nader of the department . . .

MR. CHAIRMAN: — . . . Ralph Nader, over here. Ralph go ahead.

MR. KATZMAN: — I am totally confused for a lack of a better . . . What in the picture — whether Mr. Lutz has signed your annual report — what is that piece of machinery? Third from the back or so.

MR. SMITH: — That is . . . Okay. In doing shank testing, manufacturers want to know how, say, a new shank-trip mechanism will stand up compared to, say, one that they had before or one of their more common manufacturers. So this apparatus is designed to give the shank many

thousands of trips, in other words, put 10 years work on it in a matter of a few hours. So that's what it is.

MR. KATZMAN: — It's a testing machine, it's not any machine that somebody's put on the market.

MR. ENGEL: — In other words, it's a rock pile.

MR. LUTZ: — Mr. Katzman, if I may, please. I would not like you people to infer that I have certified as to the adequacy of this machine just because it appears on my page.

MR. ENGEL: — I suppose the suggestion I could make, you could number your pages for edification next time.

MR. KATZMAN: — One more comment, if I may. I don't know about some of the other rural members that are on the committee, but for years I've had the PAMI reports in my office, and I hope I keep getting them because I find the farmers come in and use them. It totally befuddles me how come they know I've got them, but they come in and go through them. So I hope we continue to get them.

MR. CHAIRMAN: — I just have one question. The revenue from fees for service seems to gyrate wildly. In '82 it was 67,000, with up to 152,000 in '83, and then it fell back to 114,000 in '84. What's going on there?

MR. SMITH: — It's the economy. We have no way of predicting nor controlling the fee for service. It's whatever happens . . .

MR. CHAIRMAN: — That's when people come to you and ask you to assist them. You get a fee when a manufacturer comes to you and says, would you test this and give us your comments? Is that right?

MR. SMITH: — No. That evaluation program is strictly sponsored by the taxpayer. The fee for service is contract development work where the manufacturer's got a problem; he says, here, help us with it. So it can go up and down. As a matter of fact, this year it's up much higher again — up over 200,000, I believe.

MR. CHAIRMAN: — Oh is that right? It just gyrates. It is not a very steady . . .

MR. SMITH: — Very difficult to predict it. And we can't really refuse it when a manufacturer says, help — and they always wait until the last minute, or it seems that way — and we want it right now.

MR. CHAIRMAN: — All incomes are down. Investment income — I assume that has to do with falling interest rates, does it? Or do you know?

MR. SMITH: — Two reasons. One is falling interest rates; the other is falling amount of money we have to invest, because of our fund is being reduced.

MR. CHAIRMAN: — All right. As a conscious policy, I gather then, is it?

MR. SMITH: — Yes. The governments have requested that we reduce the fund to a base level that we require to operate through the first three months of the year prior to our grants coming, which is a level of about \$450,000.

MR. CHAIRMAN: — The subscription income is also down by 9,000-odd dollars, almost exactly \$9,000. Is that because there are fewer subscriptions to your magazine?

MR. SMITH: — Okay. We've got a one-year subscription, and a five-year subscription. Now this is prior to my time, but back in I think it was about '81 or something like that somebody decided that all reports should be published in metric only. As a consequence, we lost several thousand subscribers. So that five-year thing is sort of still washing through the system, and, as a matter of fact, we are going back up now in subscriptions. We're getting farmers saying, oh, you quit doing that; okay, I'll take one.

MR. ENGEL: — There was no way of telling what you were testing there.

MR. SMITH: — Well, farmers said . . . I went through . . . After I got here, I reviewed some of the history. And farmers said, look, if you're going to publish it in metric, you might as well close the place down, because they couldn't use it.

MR. WEIMAN: — You haven't considered centre-folds to pick up the subscription at all, eh? John Deere tractor . . . Sure.

MR. CHAIRMAN: — Yes, and hire the member from Saskatoon Fairview to sit on the back of that machine.

MR. ENGEL: — The testing you do on a contract basis, like your fees for service, how do you determine what it costs to develop, well, let's say a cultivator trip mechanism.

MR. SMITH: — We charge them time and material.

MR. CHAIRMAN: — What is your . . . (inaudible) . . . charge?

MR. SMITH: — Our rates are \$250 a day for an engineer, which basically covers our salaries and benefits and that sort of thing. So it's about half a normal consultant's rate.

MR. ENGEL: — They still are getting a better deal by doing it . . .

MR. SMITH: — Yes, the manufacturers are quite happy with it.

MR. CHAIRMAN: — Any further questions of this witness?

MR. ENGEL: — We're happy.

MR. CHAIRMAN: — I want to thank you very much for courtesy in attending. We appreciate your attending, and we look forward to seeing you again. You certainly didn't miss . . . The Prairie Agricultural Machinery Institute is certainly not a new, a new . . .

Saskatchewan Sheep and Wool Marketing Commission

MR. CHAIRMAN: — Okay, you can bring on the sheep — bring on the sheep for slaughter. Did I say that? No, it must have been . . .

Okay. I will welcome to the committee, Jim Koal, manager. The other two individuals were introduced earlier with the Pork Producers Marketing Board.

The standard comment that I make to everyone is that what is said before the committee is privileged, in the sense it can't be used in libel and slander action outside the committee. On the other hand, it's taken down verbatim and is readily available for use elsewhere.

I just was handed the financial statement. Do you people file an annual report as a matter of practice?

MR. KOAL: — Yes, we do.

MR. CHAIRMAN: — Has it been filed yet?

MR. KOAL: — No, we just got the financial statement back just this week. So we haven't had time to do that.

MR. CHAIRMAN: — Well, that means to say as a matter of . . . Let me say then that your annual report is overdue. It is not overdue? Oh, I'm told they've got another four days to file it, so I am wrong. I'm sorry. Their financial statement has not been entered in the file.

MR. KATZMAN: — We can't table a document in this committee.

MR. CHAIRMAN: — Available for use of the members, but not being tabled.

Okay. I shall open the committee up for questions.

MR. KATZMAN: — Mr. Chairman, on page 45 of the blue book, we show you people get a \$50,000 grant from the government for administration. Is that correct?

MR. KOAL: — For the year '84, no, it isn't.

MR. KATZMAN: — For the year . . .

A MEMBER: — '83.

MR. KATZMAN: — '83.

MR. KOAL: — That was correct.

MR. KATZMAN: — We are doing the year '83, I believe.

MR. KOAL: — Are you? Okay.

MR. CHAIRMAN: — The year under review, I should perhaps have told you, is April 1, 1983 to March 31, 1984.

MR. KOAL: — Okay. I didn't know that.

I have a complaint to register, if I may, on behalf of my chairman. He's a full-time farmer. He's out seeding. He was very disappointed of the short notice to appear before this body. He'd very much like to have been part of this session, and I wasn't really informed that it was for that period. But no problem. I'll do my best to respond.

MR. KATZMAN: — I think I should note from the committee's side, I think your chairman should be notified that the abuse that he gave the legislative staff was not appreciated either, when he phoned saying that they weren't prepared to come before this committee, even though we present you people with \$50,000.

I think he was totally out of line. And I'm almost prepared to suggest from your comments, and the comments I've just made, that maybe we should delay this one for a week or two till the chairman . . . time can be arranged for both he to appear with you, if that is what you were indicating by your comments, Jim.

MR. KOAL: — As I suggested, I'm prepared to respond to the questions. But just the point he did

make, I didn't realize what his response was. He tried to get through a number of times and couldn't, and I don't know what he did or didn't say.

MR. KATZMAN: — I would prefer not to put on the record what was said, but it was very abusive to the staff of the Legislative Assembly office — not to a political party, but to the Legislative Assembly office.

MR. CHAIRMAN: — I would ask you to communicate to your chairman a few comments about the nature of the work of the committee. It's a committee of the legislature. We are pursuing the public's business. We do so with whatever courtesies we can to the witnesses, but we cannot always arrange the schedule of this committee around one person's timetable. We can't always arrange it around the timetable of individual members. Sometimes an auditor would be present. We can't always arrange a schedule around the timetable of an individual person.

Even if all of that were not true, and we could have and didn't, none of that excuses what I understand took place between that individual and the staff. If you want to abuse someone, call up and abuse me. But there's no point in doing it to the staff.

MR. KOAL: — Who are you?

MR. CHAIRMAN: — I am the chairman of the committee, Ned Shillington, the member for Regina Centre.

MR. KOAL: — Okay.

MR. CHAIRMAN: — If he wants to abuse somebody, my number is 565-7398.

MR. KOAL: — Okay. It would be foolish for me to start apologizing because I don't even know what he said. From my job, I'm very prepared to, and I will do my best to respond to the questions that may be posed.

MR. ENGEL: — One question I have, Mr. Chairman: is this the first time the Sheep and Wool Marketing Commission have been called before this committee?

MR. KATZMAN: — I believe, to my knowledge, it is.

MR. ENGEL: — Because it's the first time since I can remember. I was just wondering if it had been called before. That might explain some of the problems.

How long has Mr. Donald been chairman of the committee, if you know that?

MR. KOAL: — Yes. Two years. He was on the commission. He's been on the commission for as long as I've been there.

MR. ENGEL: — How many sheep producers would you have altogether that belong to . . . I guess I could find that here.

MR. KOAL: — That belong to the commission?

MR. ENGEL: — Yes. All the sheep and lambs that are marketed in Saskatchewan have to be marketed through this commission?

A MEMBER: — No.

MR. ENGEL: — This is a voluntary organization?

MR. KOAL: — Yes, it is.

MR. ENGEL: — And how many producers have you got that are enrolled at the present time?

MR. KOAL: — Okay. When you speak of enrolled, we've just moved into registering producers, which I would identify as an enrolment program. We just started that recently. And the reason for the delay there is that we were waiting for some form of stabilization. With this already started under the previous government and didn't happen, there were suggestions that we'd get a plan. And then the next thing that happened, as you know, is the tripartite negotiations. So then again we waited. And that really hasn't got very far either, to our understanding.

So since the last audit was done, I've started action to start registering people, and that is in the process of being done right now. I would suggest probably we're talking maybe 300 producers.

MR. ENGEL: — Out of roughly how many would there be? How many producers would there be in Saskatchewan? Just a rough guess.

MR. KOAL: — Oh my goodness. Close to 1,000.

MR. ENGEL: — So it's about a third of them are enrolled even under this voluntary system?

MR. KOAL: — Let's say, that are utilizing the system directly, directly through the market.

MR. ENGEL: — And is the problem that the auditor saw here that the check-off and the levy that you were collecting wasn't necessarily one that could be traced to ensure that it was collected or it wasn't collected?

MR. KOAL: — I'm sorry.

MR. ENGEL: — If you look at page 34 of the auditor's report — have you this report with you?

MR. KOAL: — No, not with me.

MR. ENGEL: — Have we a copy that . . .

MR. CHAIRMAN: — A copy of the auditor's report.

A MEMBER: — I'll give him a copy.

MR. ENGEL: — Thank you. In the middle of page 34, Saskatchewan Sheep and Wool Marketing Commission, the auditor refers to:

. . . requires every livestock dealer, processor and sheep association to be liable to the Commission for the collection, remittance and accounting for sheep and lamb check-off fees. The Commission, however, does not have a system to ensure compliance with (this marketing order), and therefore cannot ensure that check-off fees are collected by all livestock dealers . . .

To do this, do you feel that you'd have to have all the producers enrolled to make this work? Or what is your explanation of that?

MR. KOAL: — Yes and no. First off, we don't know who all the producers are. That's the number one problem. We have no way of getting a handle on who all the producers are in the province.

The closest, I would say, we've come to that was . . . The government did pay out to the producers a subsidy, a full year ago now, of \$8 and \$10 on feeder lambs and slaughter lambs.

And therefore there was some record coming in of producers applying for those. And you know, that was a hand-out to them, so they were obviously identifying themselves for a change.

MR. ENGEL: — Sorry for interrupting you, but were they getting this cheque through you, or directly from agriculture?

MR. KOAL: — No, it came directly from agriculture.

MR. ENGEL: — Did you get any copies of it?

MR. KOAL: — No.

MR. ENGEL: — You weren't getting a record of that financial transaction?

MR. KOAL: — No, that was the wish on our part. And for reasons of protecting these people's own business, we couldn't access that. That was our hope because, truly, since I've been there now for five years, this has been an ongoing — I would identify that — that this has been an ongoing concern, and that there's just no way of getting a handle on these producers.

There are a number of things, if I may, that we are trying to do to help alleviate this problem. There are places that we can get information from.

At one time the livestock manifests being filled out by producers, that are supposed to be under the animal industry branch — the brands inspectors check these — these were being garbaged by the inspectors in some cases, not filled out by producers in some cases. And we've gone to that branch, and they are co-operating with us in enforcing that regulation. And now I'm getting that information back — this just started late in '84 — and I'll be cross-referencing with the information on check-off I'm receiving out of some of these small auction marts.

But the other thing that I am doing too, just moving into with the help of Ag Canada, is accessing the information to the small processors. There's approximately 14 federal-provincial facilities that are killing lambs, small numbers of lambs, maybe, but at least we will be able to access that. And then the next move: all dealers are supposed to be licensed in this province to market livestock. That's my understanding of the regulation. And that isn't necessarily happening.

And what we have happening is, there's a number . . . well, a couple sizeable producers that are selling lambs, feeder lambs. We know they are. We have no idea of how many animals. And to license each of these becomes a bit difficult. And the concern I have, if I set up a licensing program, I can go after somebody and advise them that they're going to have to purchase a licence to deal in Saskatchewan.

The problem I really come up against right now is, if I know of one, that's fine, but it certainly puts an unfair system into place if others come in that aren't licensed. And by licensing, that would make them liable to submit to check-off.

And I've been advised there are a couple producers, feeder buyers out of southern Alberta and central Alberta, out of Calgary, that have bought a good number of lambs out of Saskatchewan in the past, and I'm hopeful still will in the future, that have already advised me that they will co-operate without any licensing program or anything, and advised the processor, the major processor in western Canada being Lambco, that the check-off must come to Sask Sheep and Wool. So that's what I've done to this point to try and . . .

MR. ENGEL: — The other possibility exists, though, that some sheep from close to the border, Walsh area for example, could find their way through a Maple Creek market and consequently get that \$8 and \$10 in grants.

MR. KOAL: — Okay, but that's not an ongoing program. That is a one-time only.

MR. ENGEL: — That was a one-time shot, eh?

MR. KOAL: — Yes. We'd sure like it, but that's not the way it is.

MR. ENGEL: — The average selling cost per head in '83 was \$5.62. This . . . Were you acting as a marketing agency and that's the cost you incurred on the 15,000 head you marketed?

MR. KOAL: — That's right.

MR. ENGEL: — That's how that number is determined.

MR. KOAL: — That's right.

MR. ENGEL: — When you're saying that about 300 were actively involved in selling through you, do you mean that it's about a three . . . The sheep and wool business is about 3 million; you're about a third. You have about a third of the producers enrolled or about a third of the production?

MR. KOAL: — That actually utilize our service for direct marketing.

MR. ENGEL: — Is that about a third of the production or a third of the producers? Is it that close the same with . . . (inaudible) . . .

MR. KOAL: — A third of the production because . . .

MR. ENGEL: — So if I estimate that the average sales in Saskatchewan would be about \$3 million a year, instead of close to a million you had in your . . .

MR. KOAL: — Somewhere in that, yes. The interesting part is, although, like there's a couple of things that are constraining factors but have reasons for probably not changing at this present time.

For the marketing system, I believe the commission was set up 10 years ago because most of the lambs left the province. There weren't processors in the province that were seriously looking at processing lambs. So the commission was established to co-ordinate the marketing of lambs, and that's what it is doing today.

To start killing lambs in this province, we'd be up against a situation where there's an inconsistent supply. And this truly is a major problem to the major packer at present, being Lambco at Innisfail.

I've changed the movement of lamb somewhat — encouraged and got Canada Packers from Winnipeg to kill more lambs. So our lambs are moving steadily, like weekly. Producers phone in; they can move their lambs weekly.

In the past what was happening, I would let them backlog and wait till I had a load of approximately 300 to 400 to go to Lambco. And again that has changed from history where it was going down east. As I came into the system most of the lambs were going to Ontario. Mortality losses and cost of freight made that impractical.

MR. CHAIRMAN: — I owe this committee an apology. The lead-off critic on this was Ralph Katzman, the member from Rosthern. I should have recognized him first and did not. So I really owe the committee an apology. I will somewhat belatedly recognize the member from Rosthern, then the member from Shellbrook.

MR. KATZMAN: — I think the only issue left, and the one that I would like to touch on, is the bill of lading which is the requirement in Saskatchewan that everybody must fill out. Even if I'm hauling my horse from one horse show to another horse show, I have to fill a bill of lading or I will be penalized.

I would suggest that anybody, therefore, hauling sheep anywhere in the province has the same law upon him. By that law and that bill of lading which also has the check-off legislation tied to it, you would know who is or who isn't doing what. Am I incorrect in that statement?

MR. KOAL: — No, you'd be right. We've made some changes in our check-off recently so that this would fit that program better.

MR. KATZMAN: — Now the people have the right in the beef industry to check off. Everybody must pay in and can get reimbursed. I assume that is the same . . . (inaudible interjection) . . . In your system, there is no reimbursements. It's automatically checked off.

Let me ask: your sale that you have at Vanscoy each year. Do you have a check-off? Do all the animals sold there pay the check-off?

MR. KOAL: — Yes.

MR. KATZMAN: — Do all the animals, as far as you know, say, at the auction mart or Saskatoon yards pay the check-off?

MR. KOAL: — Okay. Very few are sold at the Saskatoon yards, but the auction mart, yes. The problem — you know, and I can understand why the auction marts feel this way — in many cases, they're only auctioning maybe three animals a month even, you know, such a small number. So they hardly feel it's worth the effort.

But to comply with the regulation here, I've asked them to do so, and what I've done is suggested to them that they could hold back, say, maybe, for three months until there's something worth sending, and there are more and more of them, Ralph, that are submitting.

MR. KATZMAN: — Okay. That was the point of the auditor. Being a former livestock dealer and being a farmer, I know how the system works, and my concern is that I read between the lines to say that you believe you have satisfied the Provincial Auditor's comments, not totally, but you believe in '84 you've started the system, and hopefully this year you'll have the system in place that will pretty well catch everybody. Some of them may only pay every three months, you're suggesting, and working with your packing houses in Saskatchewan and across the line you're hoping to have it in place.

MR. KOAL: — I will have a hard time ever getting it completely in place, mainly because the volume of the lambs are not killed — or that's not maybe fair. A good percentage of the lambs may go outside the commission, so we still can't identify that. They may sell them through their own methods, but I'll tell you what we're in the middle of right now.

MR. KATZMAN: — That doesn't matter. Hold it. That doesn't matter. If I haul one of my beef to Edmonton and sell it there, they have to, by law, take the check-off and send it back to Saskatchewan.

MR. KOAL: — I'm sorry. Up till now they didn't have to, because what we didn't have in place, Ralph, was the interprovincial legislation. That is in Ottawa right now.

MR. KATZMAN: — With cattle they do.

MR. KOAL: — Do they?

MR. KATZMAN: — In cattle, they do. Are you saying, in sheep, they don't?

MR. KOAL: — They didn't, Ralph. We're right in the process. It has to go through Ottawa, and then it'll come back to natural products here, and we'll get that back in here.

MR. SCOTT: — That's being looked after for sheep at the current time, as part of resolving this problem that we're dealing with, so a person will be able to collect check-off on animals that are marketed across provincial boundaries.

MR. KATZMAN: — So that in a few months or whatever it takes, they will have the same protection as the beef man has and should be able to solve the problems.

MR. SCOTT: — That's right. The commission will have the authority to require an Alberta buyer to submit the check-off back to . . .

MR. KATZMAN: — And if he is authorized by us and he hasn't forwarded it, he has to take it out of his own pocket if he didn't take it off the producer.

MR. SCOTT: — Yes. I think the thing is on this, it's not that difficult to set up a mechanism to do it, where I think Jim's problem is in enforcing it, trying to go about policing it when they're operating with a staff of two people. And on a fairly restricted budget — \$100,000 doesn't go very far to run a commission.

MR. MULLER: — Well Ralph asked most of the questions I was going to ask and it clarified a lot of things. But one thing, you mentioned licensed dealers. I don't need a licence to buy feeder animals. I can buy feeder animals any time I want. And there's no restriction on that.

MR. KOAL: — That's right. I know. And that's part of our problem. You can be doing that and we can't access that transaction.

MR. MULLER: — Like I can buy feeder cattle and fill my feedlot, or I can buy feeder lambs, or I can buy feeder hogs. And there's no restriction for me to have a licence.

MR. KOAL: — The way we would hope to catch that is when you go to sell them, finally.

MR. MULLER: — I have to sell them. If I'm finishing them, they go through a packing plant or some licensed dealer at that time. So they are caught.

MR. KOAL: — The legislation that we are trying to acquire currently could help us in that respect, because those animals will have to be slaughtered somewhere in that country.

MR. MULLER: — You're not trying to license private sales?

MR. KOAL: — No, no.

MR. MULLER: — Like, I would certainly be totally against that. If I can't go out and buy feeder cattle, I would take exception to that.

MR. WEIMAN: — I'm just trying to understand, before marketing order 22/83, does the 83 mean 1983?

MR. CHAIRMAN: — Gentlemen. To whom does that question . . . What were you looking at?

MR. WEIMAN: — To Mr. Koal.

MR. CHAIRMAN: — You looked at the . . . (inaudible) . . .

MR. WEIMAN: — Yes, because the conflict seems to be the non-compliance with the collection of the fees as per marketing order 22/83. Does that mean that marketing order came into effect in 1983?

MR. KOAL: — Yes, it does, yes.

MR. WEIMAN: — Very briefly, what was the system before this marketing order came into effect?

MR. KOAL: — I can't really recollect. I can't recollect . . .

MR. WEIMAN: — Hit and miss? The honour system?

MR. SCOTT: — I can probably clarify that one for you. The collection system itself is no different. Are you referring to order 23/84?

MR. WEIMAN: — No, I'm referring to marketing order 22/83, that has to do with the collection of fees, the check-off fees.

MR. SCOTT: — That particular order wouldn't change the amount of the check-off on lower valued sheep and lamb. It had nothing to do with the actual system of collection.

MR. WEIMAN: — So that the actual system was there for the last 10 years.

MR. SCOTT: — The legal authorities have been the same for the last 10 years since the commission came . . . (inaudible) . . .

MR. WEIMAN: — I don't want to put words in your mouth but the problem with the collection of the check-off fees has been with us right from day one with the institution of the commission?

MR. KOAL: — Yes, I would say it has.

MR. WEIMAN: — What prompted it to come forward now, Mr. Lutz, where it didn't come forward 10 years ago, or eight years ago, or six years ago? If there was that . . .

MR. LUTZ: — Mr. Chairman, I believe this is a repeater. I don't think this is the first time we've talked about it, is it?

MR. CHAIRMAN: — I think we were told that at the previous meeting that that's one of the reasons why these people were called, was because it wasn't a new problem.

MR. LUTZ: — And I . . .

MR. WEIMAN: — I misunderstood because we were talking also. This is the first time he appeared before us. I'm sorry. Go ahead, Mr. Lutz.

MR. CHAIRMAN: — No, I'm at fault here, butting in. Go ahead, Mr. Lutz.

MR. LUTZ: — In addition thereto, had I not reported it before the existence of this marketing order — number 22 in the 1983-84 year — would be sufficient to cause this to happen because this order required things to be collected, and there was no mechanism in place to collect it.

MR. WEIMAN: — Mr. Koal, going through your statement, you have listed here that the total

number of sheep and lambs marketed, 15,572. Is that the total number that you are aware of?

MR. KOAL: — In exact numbers, yes. They're the ones that actually came through the commission.

MR. WEIMAN: — So therefore these 15,000, the fee would have been collected for those 15,000?

MR. KOAL: — Yes.

MR. WEIMAN: — Could you ascertain a guess of how many are not collected?

MR. KOAL: — A little better than twice that . . . No, I'm sorry. The figure should at least be double.

MR. WEIMAN: — So there's about another 15,000 out there that you just don't have a handle on?

MR. KOAL: — I should point out that the industry, you know, that I'm involved with, the price fluctuation is pretty great. Producers very often . . . A good percentage of the producers market farm gate. The returns have definitely proved to be much better at that level. And those producers have not necessarily . . . A good percentage of them don't pay check-off.

MR. SCOTT: — And, incidentally, aren't required to.

MR. WEIMAN: — But you'd still give a guesstimate to it to about another 15,000, roughly?

MR. SCOTT: — I would say that would be overestimating how many should be paying check-off that aren't, because the farm gate sales represent what percentage is total, probably 40 per cent, then. So that's 40 per cent of the industry that isn't required to pay check-off in the first place. So you're not looking at that large a number, I don't think, that are not paying it that legally are required to.

MR. ENGEL: — Could I have a supplement on that?

MR. WEIMAN: — As soon as I'm finished.

MR. ENGEL: — Don't move off the farm gate subject.

MR. WEIMAN: — We'll come back to that one, I guarantee you. Regarding the check-off fees, the revenue . . .

MR. ENGEL: — . . . jumping all over the place.

MR. WEIMAN: — No, I'm not. I'm still questioning. The revenue accrued through the check-off fees for these 15,000 lambs and sheep on your statement says \$24,000 — \$24,970. So we're talking about a possible loss of a 2:1 ratio, or less than a 2:1 ratio, of about \$20,000 in lost fees not collected. Would that be fair?

MR. KOAL: — As Terry pointed out, probably not quite that high, but certainly it would represent a difference there. The figure was \$1 a head, by the way, and when you compare that to our marketings that would help you . . .

MR. WEIMAN: — Oh, \$1 a head.

MR. KOAL: — So that tells you right off that there were some submissions that obviously we

weren't directly involved in marketing.

MR. WEIMAN: — Well, I'm wondering, then. Okay. If it's \$1 a head and we're talking in terms of, okay, \$15,000, just use that for an example. Is the non-compliance by the dealer, processors, sheep association . . . Can it mean more than turning . . . What's the word I'm looking for? Not so much that they're non-complying illegally, but other than the thought that it perhaps is just a nuisance for the dollar. You know, why go through all this paperwork for \$1?

MR. KOAL: — I know, and I did identify that earlier when I spoke of some of these auction marts. There are a few larger producers that are selling a fair number of animals, maybe, as feeder lambs that are in a one-shot or maybe a two-sale occasion. And those are the ones that, you know, would make a significant difference.

MR. WEIMAN: — Because I'm wondering, you know, you sometimes say, well, fill out all of these forms and all of that for \$1 a head. I'm wondering whether there's some type of fee that could be collected either at the packing house or at the dealer or whatever, just a set fee — a blanket fee — and then allow these people to get their reimbursement from the producer.

MR. KOAL: — Well that's what we'll be moving into with an interprovincial approval on the marketing order, because as they move out of the province, if they're going to a processor, then we can access that check-off in one lump sum payment.

The processor can deduct it or submit it on behalf of maybe 15 producers and then it becomes much more practical.

MR. WEIMAN: — Just have a blanket fee because we're not talking really great dollars here, are we?

MR. KOAL: — Well that certainly becomes a question when you look at check-off. You know, are you getting enough to warrant it?

Certainly it becomes a concern when the commission looks at maybe changing it, especially raising it. You know, like, you're creating more animosity than really what it warrants.

MR. WEIMAN: — Well that's the point I was trying to get at. For the amount of work that you have to do and try to police it for \$1 a head, it would seem to me that there would be a simpler, easier way, just to collect a straight blanket fee and be done with it at that rate.

MR. KOAL: — I think if we can get to the packers and in some cases . . . Well, the area that we're really losing on is on the feeder lambs. But fortunately . . . I think the one item that concerns me is: there are a number of lambs, especially in the past, that are moved across the border — U.S. border, and they're going to packers beyond where we can control that. We can control within the country, but we certainly can't go beyond that border. The action is, you know, the returns . . . I have marked it across the line to, well, in this case, Sioux Falls again, South Dakota, and that's a very accessible market to us.

But if there's other producers at that side of the province that are going down that way, we probably have no way of chasing that back.

MR. WEIMAN: — I assured my colleague that we would talk and ask about farm gate. It's all yours, Mr. Engel.

MR. ENGEL: — Thank you, Duane. Mr. Chairman, why I was going to interrupt Duane when he was talking about the farm gate sales: is it against the law in Saskatchewan for an abattoir to come out to the farm and buy sheep that he's going to slaughter and sell to the local cafés or whatever?

MR. KOAL: — To the cafés, yes. They have to have an inspected product, and in many cases the abattoirs aren't a federally-provincially inspected product.

A MEMBER: — But that's the only product?

MR. KOAL: — I would say yes, that's the only case.

MR. ENGEL: — So these abattoirs that are set up around the province that are able to slaughter and market lambs, they're breaking the law when they sell to our cities here for local consumption?

MR. KOAL: — No, no, only if it goes to the retail counters, and through the retail counters. It can go around it, no problem, but they can't put it in the counter and sell it.

MR. ENGEL: — But they can sell to the hotels and big cafés or chain restaurants, or whatever?

MR. KOAL: — An uninspected product, they can't.

MR. SCOTT: — What's happening with a lot of it is that the abattoirs are custom slaughtering the product and it's being sold directly from the producer to the consumer himself, and that's perfectly legal.

MR. ENGEL: — The consumer meaning me putting it in the deep-freeze?

MR. SCOTT: — Not the hotels, not the retail stores — you putting it in your deep-freeze.

MR. ENGEL: — Well wouldn't you guess that in Saskatchewan's market alone, you know, the million people eating lambs here, that the bulk of that lamb would be marketed through the restaurant business, either hotels or the restaurants here?

MR. SCOTT: — I would suggest not. I would suggest that the major marketing source is the farm meat sales direct to consumers. I think it represents close to 40 per cent.

MR. ENGEL: — That's the 40 per cent that's sold locally. Now where I think as much of that is eaten — I'm just going by my own — my wife and I go out to eat lamb a lot but we never buy, do it ourselves, or seldom. I'll say seldom instead of never. And I just thought that I'm typical. But maybe I'm not.

A MEMBER: — No you're not.

MR. ENGEL: — Maybe you cook it yourself. But whereas we buy half a beef and pork and stuff like this on a regular basis, we don't lamb necessarily because there are just certain parts of a lamb you like to eat. So it's easier to get that in a restaurant, eh? Is there any way . . . Does the commission get involved in advertising and promoting?

MR. KOAL: — With our limited budget, yes, we do our best. I would advise you that very recently I feel we accomplished something worthy. There's a marketing body, Chef-Redi Meats in Saskatoon, that now is bringing lamb in from Lambco.

We've tried. Ever since I've been there I've been working on a system whereby we can get lamb back into the province. And that seems like it should be relatively simple. And the packer, being Lambco in this case, says, you know, no problem. But still to get it happening has been a major problem.

So just recently this company, who generally is an HR&I (hotel, restaurant, institute) trade

organization, but it will deal with retail trade, is agreeing to bring fresh lamb into Saskatoon first, and then hopefully Regina. I'll work on a program here. We'll start with the two major cities and we will start making lamb a lot more available. Because the main argument that the retailer has said, I just can't get it. That was only a partial truth. You know, if they really wished to, they could do it. And we've worked a long time to try and accomplish this.

Finally, there is a body that is in place. And one of the major retails is becoming very serious. SuperValu, in this case, a while ago, agreed to work with us. We went and did in-store demonstrations. I heard one of the most pleasant comments I've ever heard in the five years I've spent with the commission. The retailers say they are now having a problem selling New Zealand lamb. Well that was a beautiful thing to hear. And that was due to the fact that we went in and demonstrated the product, talked about how they could utilize all the cuts. And the point you made there about you only want certain cuts, well that's pathetic. That's what pushes the price up — because people don't know how to utilize the rest of the cuts, nor does the retailer know how to merchandise them, so they're throwing away a good percentage of the product, so in order to recoup their losses up goes the price. So that's one of the major problems that we do have.

We are going to be asking for more funds to do more promoting. Now that we finally have product we can say that we can finally get their product in here because, most truly, a good percentage of the lamb was sold at farm gate because you wanted the lamb, you couldn't get it, or if you could get it, well, if you've looked at the price of legs in the counter, that would sure discourage you from buying it — like, \$35, \$40 for a lamb leg.

MR. ENGEL: — One more supplement. How many lambs do you have to run through a processing plant to make it worthwhile to do it in Saskatchewan? How big a market would you say that that needs a stable market to have these processed right here rather than ship them all either to Winnipeg or B.C? Can you answer that?

MR. KOAL: — If I may relate, that's a definite concern amongst a number of producers currently. I spent a number of years working for one of the retail chains. Then I worked in the packing house industry as a federal employee, a government grader, and now I'm directly involved in this. And I have some understanding what the problems there are.

The major problem being incurred by Lambco who is the major lamb processor in Canada for sure — that's their main business — they can't get enough lamb to keep the plant going efficiently. They've never been at maximum production.

MR. ENGEL: — How many did they build for? I mean, how many can they slaughter?

MR. KOAL: — They're around 200,000 currently, and they're still under. And the major problem is there's such a long period in the year where they can't get lamb. You know, it's truly a problem. This country only produces about 22 per cent of our consumption. Our consumption is only 1.9 pounds per person.

What is interesting with some of the promotional work that here we started in Saskatchewan a number of years ago with the in-store demos, Alberta operates with about \$150,000 grant. And basically all they do, their commission is, promote. That's their main objective.

And they've gone with our program, and they've increased consumption to around 6 pounds per capita. And the U.S. has done the same thing — while we're seeing the other red meats falling.

Interestingly enough, people are developing a taste for lamb, making it more accessible in the market-place, and educating retailers on how to merchandise. The product has increased in consumption immensely.

MR. ENGEL: — Have you some freezer technology in place that would prolong the storage life of lamb? How is that doing?

MR. KOAL: — Well what happened and is happening in some cases some of the retailers bring in the carcass because they still believe they can merchandise it well and turn a better dollar that way. Lambco has moved very recently into a better system of cryovacing their product so they can sell portions. And this is very desirable to a lot of retailers. Where they had a problem merchandising cuts, now they don't even have to bring those cuts in. That's an added cost — admittedly, though, so that we have some problem there.

You know, it's going to take some major changes and educational programs to get consumption up. The type of lamb that we're marketing now is not an economic product to process for a processor because you're talking about a 50-lb. carcass. And it takes a fair amount of time. You can probably do two lambs, from my memory at Intercon specifically. I remember when they quit killing lambs. I was an inspector then, and the problem was, you have this wee little carcass, and it takes you, you know, you can kill maybe two lambs in the time it takes you to dress out a beef.

And the return you have on those two products is just not comparable, so you can see the deterrent.

MR. ENGEL: — 100 lbs. versus 700, you know.

MR. KOAL: — It's pathetic.

MR. MULLER: — Well, I just have a few comments here. I don't really feel that you should be able to access to check-off on feeder lambs because you end up getting the check-off twice on the same lamb.

MR. KOAL: — Only if we do get it at the other end. As I said, some lambs move across the line. A few years ago, a great percentage of them did.

MR. MULLER: — That's up to the finisher of those lambs. He has the right to market that lamb wherever he gets the best price. And that's his decision.

MR. KOAL: — Yes.

MR. MULLER: — Abattoirs, also, they can be inspected. They can get inspectors to come out and inspect their meats. And I know the abattoir in my area does that, and they do sell their own killed meat over the counter, because they have inspectors that . . . So abattoirs do have that available to them if they want to. So the small abattoirs can get inspectors.

MR. ENGEL: — I thought so because I think our local abattoir at Assiniboia does do processing for the restaurants and hotels around, so he must have an inspector drop in periodically . . .

MR. MULLER: — The abattoir in my area is hooked up with the meat market, and they market the product right through their counter, and they buy it direct from farm gate.

MR. KOAL: — I guess I would identify a problem. I don't know where that thought's going except that if we talk about processing all the lambs in Saskatchewan in that method, I see a major problem. That's fine for the ones that identify . . . (inaudible) . . . purchase. But what do you do with a guy that has 100 lambs to market?

These guys only want to process or have markets maybe for five or 10 lambs, and that's really where the problem is in moving in that direction. And yes, you're right. They can get inspection

and grading, be it. You know what's happened — at least they've dropped down on the cost recovery thing. It was going to be \$1 per head on lambs. They've dropped it to nine, thank goodness.

But anyway, that cost in some facilities doesn't warrant, as far as a return, to change over to a federally-provincially inspected facility. It is a rather costly . . .

MR. MULLER: — Certainly, but that's up to the abattoir himself. If he wants to have that product available to his customers, he can pay for the inspection and have it there.

MR. KOAL: — That's right.

MR. MULLER: — And I'll agree with you that anybody that I've talked to likes the Canadian lamb far better than the New Zealand lamb, and I buy mine at the farm gate, and put it in my deep-freeze, and I do have lamb. But I still have a little problem with the check-off on feeders.

MR. ENGEL: — I just have one quick question, one quick question.

On the beef moving across the border, is there no way to get sheep, beef, anything, like, as far as the check-off is concerned? Is there no way of getting the border crossings to police and implement this check-off? You know, a truck load of lambs pull up at the customs house. Why couldn't the border do that check-off if they'd be given that federal authority, seeing it's being implemented national?

MR. KOAL: — I think you're talking, you know, a concern of two national governments. You know, we have no problem provincial-federal. But I'm not sure, Terry. That would become rather involved.

MR. SCOTT: — Yes. I think the problem here relates to crossing provincial boundaries. The Saskatchewan commission doesn't have the authority to go to an Alberta buyer and say . . .

MR. ENGEL: — Oh. When you talk border, I thought you were talking U.S.

MR. SCOTT: — Interprovincial borders.

A MEMBER: — Well that shouldn't be a problem.

MR. CHAIRMAN: — Okay. The time is nigh. Gentlemen, thank you very much, gentlemen, for attending. I would say to the members of the committee, tomorrow Finance has slipped the noose. They're off somewhere.

We have Saskatchewan Forest Products, the member from Shellbrook-Torch River. Our ever-energetic Clerk will remind Mr. Morin of the Department of Highways. I'm going to call forest products at 9, Department of Highways on 15-minute stand-by — but to be here at 10 o'clock in any event, whether they're called or not — with the Department of Revenue and Financial Services on stand-by. We're going around the second time in terms of the lead-off critic. Does anyone want to get their second one in on Revenue and Financial Services?

MR. KOAL: — I'd like to say something, if I may, before I'm finished.

MR. CHAIRMAN: — Yes. Please do.

MR. KOAL: — Thank you very much for the opportunity of appearing before you. And I'm sorry the way it had to start. He just asked me to express that. I am pleased to be able to come here and identify and answer to your questions.

MR. CHAIRMAN: — Good. Thanks for coming.

MR. KOAL: — Thank you for your time.

MR. CHAIRMAN: — Okay. I will take Revenue and Financial Services, since there are no heavy bidders for the honour. And that will about conclude the morning. We will, I assume, start on Wednesday then with Finance again, hopefully.

MR. JAMES: — I think probably not until the 29th unless we specifically request . . .

MR. CHAIRMAN: — We'll subpoena them and bring them here in chains for Wednesday. No, we won't, actually.

We are adjourned.

The committee adjourned at 11:05 a.m.