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Chair

Mr. Scott Simms

Standing Committee on Fisheries and Oceans

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• (0845)

[English]

The Chair (Mr. Scott Simms (Coast of Bays—Central—Notre Dame, Lib.)): Good morning, everybody.

We have today, pursuant to Standing Order 108(2), a briefing on the detailed action plan of Freshwater Fish Marketing Corporation, in response to the spring 2017 reports of the Auditor General of Canada. As you know, we passed a motion some time ago, brought forward by Mr. Donnelly, to study this within a six-month period. Our six months are almost up. Therefore, here we are.

First of all, happy Halloween, everybody. I forgot to wear my costume this morning.

A voice: Or did you?

The Chair: Or did I? Well, someone said this morning that my jacket gives me the aura of being Austin Powers, so I'll take that as a compliment.

This morning's meeting has two parts. We are going to hear from the Auditor General's office and later from the Freshwater Fish Marketing Corporation. Then we have to get into some committee business regarding legislation coming up, which has passed second reading. That's Bill C-55.

In the meantime we have here this morning, for the next hour or so, Heather McManaman, who is a principal at the Office of the Auditor General; as well as the assistant auditor general, Mr. Clyde MacLellan, who I'm sure has gone through this procedure several times before.

Are both of you making presentations or just one for the opening?

That would be you, Mr. MacLellan. You have up to 10 minutes, sir.

Mr. Clyde MacLellan (Assistant Auditor General, Office of the Auditor General): Mr. Chair, thank you for this opportunity to present the results of our special examination of the Freshwater Fish Marketing Corporation. As you mentioned, joining me at the table is Heather McManaman, the principal who was responsible for the audit.

A special examination of a crown corporation is a type of performance audit. Specifically, a special examination determines whether a corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources

are managed economically and efficiently, and its operations are carried out effectively.

The Freshwater Fish Marketing Corporation was established in 1969 to market and trade, both inside and outside Canada, freshwater fish caught in western and northern Canada as well as the by-products of that fish. Our examination of the corporation covered the period from October 2015 to June 2016.

The corporation has faced many external challenges in recent years. These challenges included considerable risks associated with a complex and changing business environment. For example, the supply of whitefish increased at the same time that Canadian sanctions on Russia reduced the number of buyers for this fish. Also, the Province of Manitoba gave notice that it intended to withdraw from its agreement under the Freshwater Fish Marketing Act and therefore eliminate the corporation's exclusive right to purchase fish caught in the province.

[Translation]

Our special examination identified many significant deficiencies in the corporation. As a result of the pervasiveness of these significant deficiencies, we concluded that the corporation had not maintained its systems and practices in a manner that provided reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively. We refer to this type of conclusion as an adverse opinion, which is the strongest negative assessment that we can give in a special examination.

In several ways, we found that the board of directors and management failed to meet their responsibilities for oversight and management of the corporation.

Specifically, we found that the board did not ensure that the corporation's strategic plan was up to date and provided clear strategic direction to management. Furthermore, management had not provided and the board had not reviewed updated risks and risk-mitigation measures since 2014. Consequently, management did not have strategies in place to mitigate the significant events that affected the corporation. This greatly limited the corporation's ability to meet its objectives, make long-term commitments, and make timely decisions about its future.

We found that management disregarded key controls. For example, management created positions without job descriptions and filled them without competitive or merit-based processes. Also, management disregarded the corporation's procurement and purchasing policy when it purchased certain pieces of capital equipment without a proper business case analysis. Some of this equipment was never used in the corporation's plant because it did not meet its needs.

• (0850)

[English]

We also found that some plant workers had not taken compulsory health and safety training, and that a hazard prevention program was not finalized. If these health and safety issues are not addressed, they could lead to employee safety incidents and expose the corporation to significant losses.

Finally, we found that, despite the recommendations we made in our 2005 and 2010 special examinations, the corporation's targets and standards for yield, capacity, and labour efficiency still had not been reviewed. These findings matter, because yield is a key measure of efficiency and production performance.

The corporation agreed with all of our recommendations and indicated that it would act to address our concerns. However, because our work was completed in June 2016, I cannot comment on any measures that have been taken since then. The committee may wish to ask the corporation's officials to clarify what measures have been taken in response to our recommendations.

[Translation]

Mr. Chair, this concludes my opening remarks.

We would be pleased to answer any questions the committee may have.

Thank you.

[English]

The Chair: *Merci à vous*, Mr. MacLellan.

We'll now go to questions. I'm sure you know the format by now.

Mrs. Jordan, you have seven minutes, please.

Mrs. Bernadette Jordan (South Shore—St. Margarets, Lib.): Thank you, Mr. Chair.

Thank you to our witnesses for appearing this morning.

Just by way of putting it on the record, you stated that Manitoba is pulling out of the Freshwater Fish Marketing Act. Who is still involved? Who would still be left after they leave?

Mr. Clyde MacLellan: I'll ask Ms. McManaman to give you the specifics of who remains in the agreements.

Ms. Heather McManaman (Principal, Office of the Auditor General): If and when Manitoba withdraws from the act, the Northwest Territories and Alberta will remain. However, Alberta has closed its commercial fishery and has focused on the recreational fishery.

Mrs. Bernadette Jordan: Thank you.

In point number nine of your opening remarks, you say “the Board did not ensure that the Corporation's strategic plan was up to date”, and that it hasn't been reviewed since 2014. How often should the strategic plan have been updated?

Mr. Clyde MacLellan: It's our view that strategic planning is an annual exercise.

Mrs. Bernadette Jordan: You also stated in that point that there were no “strategies in place to mitigate...significant events that affected the Corporation.” Can you tell me what some of those significant events may have been?

• (0855)

Mr. Clyde MacLellan: In the report we provided, a conversation about, for example, Manitoba and the likelihood that it would exit from the program was one example of a type of risk that we felt should have been thought about and considered, in terms of mitigation strategies, and then reflected in the strategic plan if necessary.

Mrs. Bernadette Jordan: You went on to say that management “created positions without job descriptions and filled them without competitive or merit-based processes.” How did they fill them? Do you know? Is that a question you can answer?

Ms. Heather McManaman: The examples we refer to in our report were actions taken by the president in place at the time. He undertook his recruitment process, which we didn't feel was merit-based, and he appointed people to positions, or he assigned persons to a particular position but didn't have a job description for it, or set a salary that didn't go through the corporation's process. They have a process in place whereby they would set salaries based on the tasks and functions of a particular role.

Mrs. Bernadette Jordan: You went on to say that management “disregarded the Corporations's Procurement and Purchasing Policy.... Some...equipment was never used in the Corporation's plant because it did not meet its needs.” What happened to that equipment?

Ms. Heather McManaman: One piece of equipment was sold back to the vendor at a cost less than the purchase price. The two other pieces of equipment that we refer to were modified and subsequently able to be used in the plant. This was addressed outside of the period under audit; we're also the financial statement auditor of the corporation.

Mrs. Bernadette Jordan: I don't know if this is a question you want to answer or if it's something that you can answer. Basically, Alberta has now closed its commercial fishery. Manitoba is pulling out. All that's left is the Northwest Territories. Is there any reason you would continue on with this board?

Mr. Clyde MacLellan: That very much is a policy question, which we as an organization don't get into.

It's interesting that the question you ask—whether or not the corporation should be continuing—is actually a question that was asked of the Auditor General when the report was first tabled. His response, which is very similar to what I indicated, was that it's very much a policy decision of the government. Certainly we found that what we expected in terms of management of a crown corporation was absent during the examination.

The Auditor General did recognize that Freshwater Fish was established in 1969, and since then there have been a number of changes in the environment in which it operates, the world in which we work. Certainly, it's reasonable to ask to consider all of that. Unfortunately, we can't provide any answer in respect to that.

Mrs. Bernadette Jordan: With the, I'm going to say, failing grade—you gave an adverse opinion, I believe is how you—

Mr. Clyde MacLellan: That's correct.

Mrs. Bernadette Jordan: I'm going to call it a failing grade.

Mr. Clyde MacLellan: That's fine.

Mrs. Bernadette Jordan: Was that the first time it happened with this organization? Is it the first audit they've had in which this has happened, or is this an ongoing issue?

Ms. Heather McManaman: We conducted a special examination in 2005, and it was not an adverse opinion. There were no significant deficiencies, although we did note a number of weaknesses. In 2010 we conducted another special examination. That was an adverse opinion. Then again in 2017, there was another adverse opinion.

We also found that some of the observations from 2005 and 2010 were similar to what we found again in 2017.

Mrs. Bernadette Jordan: In 2005 and 2010 you would have made recommendations. Were those recommendations acted on, or are these still the same problems, in this last report?

Mr. Clyde MacLellan: I think that over that period of time, progress had been made on some recommendations, but by the time we did the audit in 2017, progress had fallen back. I think on some there had not really been any substantive progress, and some of the things we found were new. We hadn't found them previously. It's very hard to characterize all in one simple response that nothing had been done from 2005 to 2017.

• (0900)

Mrs. Bernadette Jordan: Was it the same problem, though? Was it the same ongoing issue over those years, or were there new things every time?

Mr. Clyde MacLellan: No, some of them are recurring issues. For example, yield and measures of efficiency and productivity have been things for which there's been slow, if any, progress, and that has continued. Very clearly, we're comfortable saying that some of the issues we found with regard to hiring, purchases of equipment, and following of policies were all new. We had not encountered those types of issues in the past.

Ms. Heather McManaman: In 2010 we raised an issue with procurement, and we found that the corporation had in fact adopted and approved a procurement policy. It was generally followed, but we found instances where it was overridden.

Mrs. Bernadette Jordan: Was there a new management structure in that time frame? The chair of the board, you said, had just hired people.

Ms. Heather McManaman: President.

Mrs. Bernadette Jordan: President, sorry. Was he new since the 2010 procurement policy was put in place, or was he part of that?

Ms. Heather McManaman: He was new.

Mrs. Bernadette Jordan: Thank you.

The Chair: Mr. Doherty, you have seven minutes, please.

Mr. Todd Doherty (Cariboo—Prince George, CPC): Just to follow up on the last question Ms. Jordan asked, how long has the existing president and CEO been in place?

Mr. Clyde MacLellan: The existing interim CEO who's in today has been appointed since when, Heather?

Ms. Heather McManaman: The current interim president has been there since February or March 2017, I believe.

Mr. Clyde MacLellan: In terms of the question that has been asked previously, what's probably quite relevant is, where is the president who was in place at the time we were doing much of the work we're doing today?

Mr. Todd Doherty: Correct.

Mr. Clyde MacLellan: That president was dismissed, with cause, by the government, right around the time we completed the audit.

Mr. Todd Doherty: The Freshwater Fish Marketing Corporation is a crown corporation, and there's a certain amount of accountability that crown corporations have to the Government of Canada. Is that correct?

Mr. Clyde MacLellan: That is correct.

Mr. Todd Doherty: This corporation has, time and again, skirted its accountability to the Government of Canada.

Mr. Clyde MacLellan: They have failed to fulfill the responsibilities that have been outlined for them under the various laws and regulations, yes.

Mr. Todd Doherty: Okay. How many audits have you done where there have been this many deficiencies in a crown corporation?

Mr. Clyde MacLellan: I don't have a precise number for you, but for the purposes of the question you've asked, very few.

Mr. Todd Doherty: There seems to be a problem with the legislation, the Freshwater Fish Marketing Act, in that the president is also a member of the board. This goes to accountability. Is this a normal practice of a crown corporation?

Mr. Clyde MacLellan: There is other legislation governing other crown corporations that still have CEOs as members of their boards, so yes, in terms of governance practices more broadly, you are likely all aware that it has become an issue. It's often said that there should be separation between the CEO and the board for purposes of good governance. That practice isn't universally within the legislation of crown corporations, so this is not that unusual as it relates to crowns, but it creates certain problems.

Mr. Todd Doherty: Would you say it's an anomaly that you've had a corporation that has had a number of audits over successive periods where deficiencies have been found, yet little has been done in terms of the accountability?

Mr. Clyde MacLellan: It's certainly disturbing to see the lack of progress for that length of time. It would be incorrect of me, Mr. Chair, to characterize all other corporations as having responded and fixed every recommendation we have found, but the one we're talking about today is extremely disappointing.

• (0905)

Mr. Todd Doherty: When you have audited other crown corporations—and again, we'll just refer to the previous audits in 2005, 2010, and 2017, where you have repeatedly reported problems, yet nothing has been done—what recourse does your agency have when crown corporations do not follow your recommendations?

Mr. Clyde MacLellan: Essentially the recourse is to go in and audit it, and repeat.

Mr. Todd Doherty: Will it say stop again? Is that the thing?

Mr. Clyde MacLellan: Under our legislation, we have no ability to sanction, to place fines, or to terminate positions.

Mr. Todd Doherty: Okay.

Mr. Clyde MacLellan: We're an audit office, so essentially we go in and report what we find.

Mr. Todd Doherty: Your written brief today included the comment:

As a result of the pervasiveness of these significant deficiencies, [you] concluded that the Corporation had not maintained its systems and practices in a manner that provided reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

In any other industry or business, wouldn't that be serious grounds for legal action?

Mr. Clyde MacLellan: Certainly, I think it's fair to say that a negative opinion, whether it be in a case like this or in a financial audit—if you were to receive an opinion that your financial results were not fairly presented—would be seen very much as a serious consequence in the private sector.

Mr. Todd Doherty: What's the legal responsibility that this crown corporation has to the Government of Canada?

Mr. Clyde MacLellan: There are many responsibilities it has under each of the acts that administer it. It has to obviously follow the requirements of the Freshwater Fish Marketing Act. It has to follow the Financial Administration Act. There would be other pieces of legislation, including everything from health and safety—

Mr. Todd Doherty: Is it safe to say that it has put the Government of Canada in a potentially litigious area in terms of its health and safety record with its plant workers and the failure to do safety training and hazard prevention programs?

Mr. Clyde MacLellan: I'm not a lawyer, so I cannot comment on whether it would be in a litigious situation as a result of that. What I can tell you is that it has a responsibility to manage and protect its employees, and that what we identified in our report was that there was a risk to the corporation both in terms of incidents and accidents that could occur and the consequences those could have on the business. Therefore, yes, it was something that we felt needed to be fixed.

Mr. Todd Doherty: There were a number of serious deficiencies in terms of hiring practices. There was no accountability. There were long terms when positions on the board were vacant. The audits have pointed out serious deficiencies in the governance structure of the corporation. We talked about that. What can the government do to fix these deficiencies and ensure that the new board is free of conflicts of interest and that it properly manages its resources?

Mr. Clyde MacLellan: I think that's the basis behind many of the recommendations we made in the report. I think, first off, we encourage the corporation to work with the government to fill the vacant positions, very much with the idea that, if you start at the top and provide the right oversight and direction, you will get the improvements.

The second thing, I think, that's most important is to encourage the government to work with the corporation on strategic planning and identifying certain key future directions for the organization. I think, very much, what the government can do is engage with the corporation, not just to fix what is currently here, but to have that ongoing dialogue, because it is an ever-changing business, and to facilitate how it exercises its responsibilities.

Mr. Todd Doherty: Thank you.

The Chair: Thank you, Mr. Doherty.

Mr. Donnelly, you have seven minutes, please.

Mr. Fin Donnelly (Port Moody—Coquitlam, NDP): Thank you, Mr. Chair.

Thank you to our witnesses for being here this morning. Thank you for your report. This report is quite damning. It is alarming to the government and obviously to this committee. Thanks for answering many of the questions I have. You've provided some insight.

I was going to start off by asking about how many reviews have ever come up with an adverse opinion from your audits. I think you answered and said very few, but is there a percentage that you could give us on that?

Mr. Clyde MacLellan: Unfortunately, I don't have a statistic that I can give you in terms of the number of reports, but I'll try to answer that if I can on a relative basis.

There are roughly 45 crown corporations that are subject to a special examination such as the one performed here. Those crown corporations are required to have an exam done once every 10 years. Over a 10-year period there might be 45, in total, that are done. Over the last 20 years, let's say, the period that I've been actively involved in this, that would mean 90 exams. This is not a precise number. I'm thinking that you need an order of magnitude. If you need a precise number, we can always provide that to you, but I think there is less than a handful, so, less than five have had an adverse opinion.

• (0910)

Ms. Heather McManaman: I can think of five.

Mr. Fin Donnelly: That's a pretty significant few that have had this kind of opinion.

Mr. Clyde MacLellan: That is correct.

Mr. Fin Donnelly: Your report today talks about essentially wasted money in purchasing equipment and putting workers at risk. I think you commented enough about the equipment that wasn't used.

You allude to worker safety. Could you talk a little more about what risks there are with potential worker safety?

Ms. Heather McManaman: You can appreciate these people work in a fish processing plant. There's a lot of activity. There are sharp tools, lots of equipment. It can be very busy, so there is a lot of risk. If the proper policies aren't in place, if staff don't have the proper training, if the proper equipment's not there, you're putting at risk the health and safety of the employees, which then can result in extra expenses to a corporation if there were to be accidents. So your workers' compensation costs could increase.

Mr. Fin Donnelly: Okay. The practices haven't been followed or put in place, that you've observed.

Ms. Heather McManaman: We found that in some cases mandatory health and safety training wasn't taken. If it's mandatory, we would expect 100% compliance and we did not find that.

We also found that a hazard prevention program was not fully in place. It hadn't been fully implemented and that's required under the Canada Labour Code. We obviously would have expected that to be in place, particularly given the nature of their operations.

Mr. Fin Donnelly: Right. Thank you.

Could you talk a little about local fish processing? This is the whole point of this board. Have they had any success with processing fish locally?

Mr. Clyde MacLellan: Notwithstanding all of the negative observations we had in terms of the processes and the lack of strategic direction updates and risk management, the corporation does continue to market the fish. They have had a number of profitable years. We raise in our report that you have to be careful that the profitability is influenced by a number of factors, including exchange rates. They are enabling the fishers to have a point of contact to purchase the fish. They are marketing that fish. They are returning money back to the fishers.

A bit of the concern for us in all of the issues around every internal process is that the goal under the act is to maximize the return to fishers. Anything that happens that diminishes the productivity that they could achieve—notwithstanding having sold—that puts additional costs, whether it's by non-compliance with certain policies, all have a potential risk of diminishing the return that could be provided to the fishers. What you would want to see is the corporation running as efficiently as it can, respecting all of the rules, and then maximizing that return.

I think the answer to your question is yes. It's not that they're not doing the core activity, but what we expect of a crown corporation is to respect, obviously, the rules, the laws, and good practices to optimize the return that is provided to the individual stakeholders.

Mr. Fin Donnelly: On that note, on the individual stakeholders, were you able to determine whether the profits were being distributed to as many local fishers as equitably possible?

• (0915)

Ms. Heather McManaman: The pricing system works like this. They set an initial price that they will pay fishers upon receipt of their catch, and that's established at the beginning of the fishing seasons. They would pay pound for pound, the price per pound. At the end of the fiscal year, they have a final payment to fishers and a retained earnings policy that is approved by the board. They use that policy to determine the final payment, distributing the profits, if you

will, to the fishers. That is based on sales to the corporation by each individual fisher or fishing co-op and profitability of those species. If your species were not profitable, you wouldn't get a final payment, but if you're selling walleye to the corporation and that species had a profitable year, then you would share in the final payment.

We do look at that annually as part of our financial statement audit and we didn't find any issues.

The Chair: Thank you, Mr. Donnelly.

Mr. Hardie, you have seven minutes.

Mr. Ken Hardie (Fleetwood—Port Kells, Lib.): Thank you, Mr. Chair.

Thank you, witnesses, for being here.

It looks like the board got bored. We have a situation where in 2005, you did an audit, and things seemed to be okay. Can you confirm that?

Mr. Clyde MacLellan: If I may correct that, there were weaknesses we identified, but the severity of the report was not the same as it was in 2010 and 2017.

Mr. Ken Hardie: Between 2005 and 2010, were there large-scale changes on the board of directors?

Ms. Heather McManaman: I wasn't involved with the corporation in 2005.

Mr. Clyde MacLellan: I can't recall whether there were huge changes between 2005 and 2010. There certainly was a significant turnover just before we started the audit in 2017 and throughout that period.

Mr. Ken Hardie: Similarly, have you tracked the turnover in management since 2005?

Ms. Heather McManaman: We have not.

Mr. Clyde MacLellan: No.

Mr. Ken Hardie: Perhaps the witnesses to come will help clarify some of this.

Is there an argument that the board breached its fiduciary duty to the corporation?

Mr. Clyde MacLellan: When you use those words, it very much brings in a legal context. Our report was not designed to answer the question the way you have posed it. In looking at the role the board was to play and the importance of oversight in exercising its role in terms of providing governance, we found, as you can see in the report, significant gaps and weaknesses.

Mr. Ken Hardie: You have a scenario where a president was let go with cause.

Mr. Clyde MacLellan: Yes.

Mr. Ken Hardie: At the same time, there were numerous vacancies on the board of directors. Without knowing all the details, I'm starting to feel a little bit sorry for the president, because it sounds like he was not given very good direction by the board, or the board simply didn't exercise the kind of oversight you would ordinarily expect people appointed to that position by the government to exercise.

Mr. Clyde MacLellan: The way I would characterize the various players in the whole process.... My summary would be very simple. There's a lot of blame, if you will, to go around in terms of the gaps at the board level, in terms of the oversight, and in terms of some of the actions of the president, which are outlined in the report, that didn't respect the policies of the organization. Then, of course, there was management itself in terms of its role in providing information to the board and its own due diligence on a number of actions.

One of the things that's critical for us in respect of the board is that you need the positions filled. Many times what we're finding in crown corporations is that there is either a long period during which those vacancies exist and are not filled on a timely basis, or people are asked to stay on, on a goodwill basis, even though their term has expired, without necessarily a guarantee. There are other issues in terms of legislation around the various relationships that exist.

What we're raising is that the government engage with the corporations to fill the positions on a timely basis so that you don't have gaps, and you have the strength and competency on the board to provide direction.

• (0920)

Mr. Ken Hardie: This is empirical more than anything, but we've noticed something of a trend. I'm going to ask if you've noticed the same thing in your various audits of crown corporations and other creatures of the federal government. Boards tend to be abdicating more and more power and responsibility to senior management.

Mr. Clyde MacLellan: I'm not sure I would share that characterization. There is an important line to be drawn between oversight and management. There is always a challenge for boards to ensure that they're not running the business, yet they're challenging the decisions of management. That's a unique role and position to occupy, and you need the right kind of competencies and strengths to be able to do that, with the assurance that you can, while not taking over.

I would characterize it a little differently. I'm not concerned that they're trying to abdicate and are just holding their positions without doing anything, but if you weaken a number of people who are on a board to the point that it's very difficult to establish committees and have quorum, all the responsibility lands on a very few, and it becomes overwhelming. To what you are observing, you may, in many cases, see a situation in which a board has vacancies, or individuals who are uncertain of their future, which leaves a very small number to handle the whole thing, and it's just too much for them.

Mr. Ken Hardie: How many vacancies were on the board when you did your audit?

Ms. Heather McManaman: I believe....

Mr. Ken Hardie: How big is the board?

Ms. Heather McManaman: The board is the chair, the president, plus four others, and representatives from each participating province, so nine.

Mr. Ken Hardie: How many vacancies did we have?

Ms. Heather McManaman: Four.

Mr. Clyde MacLellan: Yes.

Mr. Ken Hardie: That's almost half.

You mentioned that there are representatives from each of the participating provinces, so that will obviously go down if Manitoba pulls out.

Are there other nominating entities that put names forward to the government for positions on the board?

Ms. Heather McManaman: No, it would be only the participating provinces and territories.

Mr. Ken Hardie: Then the rest is entirely up to the government of the day.

Ms. Heather McManaman: That's correct.

Mr. Ken Hardie: Maybe the next panellist can answer this.

You talked about positions created within the management structure, but there were also a number of management vacancies that appeared to be in key positions. How long were those positions open?

Ms. Heather McManaman: The position of vice-president of sales and marketing was vacant since, I think, May 2015. I'm not sure, but it may have subsequently been filled. That could be a question for the corporation.

Some of the others were for shorter periods of time. During the period under audit there was a resignation, and prior to the commencement of our audit, there were a couple of resignations that hadn't been filled.

Mr. Ken Hardie: And the—

The Chair: Thank you.

Sorry, Mr. Hardie, I have to cut it off there.

Mr. Miller, for five minutes, please.

No, sorry. It's Mr. Arnold

Mr. Mel Arnold (North Okanagan—Shuswap, CPC): Thank you, Mr. Chair. If I have time, I'll pass my remaining time to Mr. Miller.

Thank you, witnesses, for being here today.

I'll get directly to my questions, and hopefully we can get through them all with short answers as well.

As auditors, were you able to access all records you felt necessary for your audit?

Mr. Clyde MacLellan: Yes.

Mr. Mel Arnold: Okay, great.

Much of the alternative or—what was the term you used—negative report, adverse opinion, referred to the management decisions and policies that were in place. Were other factors considered in the audit, such as market conditions, supply of product, labour market situations?

● (0925)

Mr. Clyde MacLellan: If I understand your question correctly, in coming to the conclusion we weigh all of the evidence we have and also the context in which the organization is operating to determine whether the opinion should be positive, or have some qualifications, or be negative. We took all of that under advisement in coming to the conclusion.

Did we look at marketing...more broad policy issues that are outside the management of the corporation? The answer to that is no. This is a performance audit focused on the management practices to deliver the existing mandate. If you're asking whether we looked at the ecosystem of Lake Winnipeg, no. We didn't go anywhere beyond those particular types of issues. We only look at management practices.

Mr. Mel Arnold: Were the effects of those situations and the workload on the board considered as part of the audit?

Mr. Clyde MacLellan: So....

Mr. Mel Arnold: If there were outside factors that were making it difficult for the board to function or make decisions, were those considered in the audit?

Mr. Clyde MacLellan: We would take into consideration certain extraneous factors. We make reference to those. For example, the Canadian dollar is something we would consider, issues like that. We would consider sanctions that had been placed, in terms of the whitefish. But we would also be very clear that even if it's tough and the environment is tough, we still expect there to be compliance with best practice.

Mr. Mel Arnold: Thank you.

Who determines the timing of an audit or a secondary audit, now that we've seen this one with the adverse opinion?

Mr. Clyde MacLellan: Essentially, under the current legislation an audit must be once every 10 years. That's legislated. It can be done earlier at our discretion, if we wish, or at the discretion of the secretary of the Treasury Board, or the minister.

Ms. Heather McManaman: Or the minister.

Mr. Clyde MacLellan: Or the minister.

Mr. Mel Arnold: Thank you.

Can you clarify the situation if Manitoba withdraws? From what I've read, the fish harvesters would still have the option of marketing through the freshwater fisheries organization, or they could sell to private processors.

Ms. Heather McManaman: Correct.

Mr. Mel Arnold: Can you clarify how that may work for the harvesters?

Ms. Heather McManaman: If Manitoba withdraws from its participation, then it would be an open market for the fishers. The fishers could sell to whomever they choose. The private sector or the corporation could purchase. The corporation would no longer be obligated to purchase all of the catch, so they could pick and choose how much, which species, which size, and so on, which is what they do with Saskatchewan.

Saskatchewan withdrew in 2012 from the act. They sell under contract to the corporation, and the same could happen.

Mr. Mel Arnold: As part of your audit, would you look at how that may affect harvesters in remote locations, or is that up to the board to decide and you to decide how the board would handle that?

Mr. Clyde MacLellan: As part of our audit we would not look into the future implication of that. That would be the responsibility of management in terms of executing their responsibilities, and also the government at large to consider the broader macroeconomic impacts.

Mr. Mel Arnold: Do I have any remaining time to pass on?

The Chair: About 30 seconds.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): That doesn't give me a lot.

Mr. Mel Arnold: No.

The Chair: Mr. Miller, go ahead.

Mr. Larry Miller: You have four provinces, unless I missed one, three provinces and a territory. Was Ontario ever part of this?

Ms. Heather McManaman: A portion of northern Ontario was part of the act, but they withdrew in 2011.

Mr. Larry Miller: They withdrew in 2011.

My final question, and I'll be brief, is whether the thing is really viable. It appears that the only one left is the Northwest Territories, the Arctic.

Mr. Clyde MacLellan: If Manitoba withdraws, there would be the one territory remaining. The question of whether that is viable is something we can't answer.

Mr. Larry Miller: Thank you.

The Chair: Thank you very much.

Just for clarification on the Northwest Territories, but you say Alberta is officially a member; it's just that they do not prosecute a commercial fishery.

● (0930)

Ms. Heather McManaman: That's correct.

The Chair: Right.

Thank you very much, Mr. MacLellan and Ms. McManaman.

We're going to break for a few minutes, folks.

Thank you.

● (0930)

(Pause)

● (0930)

The Chair: I welcome everyone back to the second part of our study on the Freshwater Fish Marketing Corporation, in response to the spring 2017 reports of the Auditor General of Canada.

Joining us right now, from the Freshwater Fish Marketing Corporation, we have the chairperson, and as the expression goes, someone who is no stranger to this committee, David Bevan. Also, we have the interim president, Stan Lazar.

Gentlemen, we thank you for taking the time and travelling to be with us this morning.

You have an opening statement. Do both of you want to make a statement, or just one of you?

Mr. David Bevan (Chairperson, Board of Directors, Freshwater Fish Marketing Corporation): Just myself.

The Chair: Just you, Mr. Bevan.

Mr. David Bevan: That's correct.

The Chair: It's good to see you again, sir.

Mr. David Bevan: Thank you, Mr. Chair, and thank you for the opportunity to respond to the special examination of the Office of the Auditor General.

As they noted, we have accepted the recommendations, indeed. Many of the recommendations and observations were being reported by the board members to the Government of Canada at the time of the audit and before the audit was completed. We have implemented almost all the recommendations for which we have full authority to do so. We are still working on the recommendation to have all the policies of the board communicated to the employees of the corporation, and that should be done by December. We are working with the Government of Canada on those recommendations for which they have the authority to implement and we don't.

We have a risk committee in place. We have a new board member who is the chairperson of that committee, and I have written to the Government of Canada requesting that the Government of Canada appoint board members to fill the vacancies that still remain on the board.

The audit took place at a very difficult time for the corporation. Before the audit started, many board members had been communicating to the Government of Canada that they had concerns with the operation of the corporation. The Auditor General confirmed many of the points raised by the board members. The Government of Canada took action as a result of those contacts with board members, and in March 2016 removed the president at the time, and, as noted, he was dismissed with cause later in 2016.

Also, the government appointed three new members, me as the chairperson, and two others, one of whom was John Wood, a former president. He acted as an interim president pending his decision to remove himself from that position in February 2017, and Stan has been serving as interim president since then.

We certainly had quite a challenge when we took on the responsibility, myself as chair and John as the interim president. There were a number of things that had to be corrected, as noted in the special exam. I'd like to spend a few minutes on the slide deck that was sent to you, if I may.

As noted by the Auditor General, Freshwater Fish was formed in 1969. Many of the conditions that existed then persist to this day. We are the buyer, processor, and marketer of approximately 15 million kilograms of fish that come from Manitoba, Saskatchewan, and the Northwest Territories, and we still have one fisher in Ontario. We buy from 1,600 fishers, 80% of whom are from isolated northern communities, and they are mostly indigenous. We operate a supply chain that moves products into those communities to aid with the

fishery, and then moves the fish back out and on to markets. Our sales have averaged \$73.5 million over the last three years. We have 250 full-time and 150 part-time employees.

I'll just skip to the Freshwater Fish Marketing Corporation Auditor General's 2010 special exam recommendations. A retained earnings and debt management policy needed to be implemented, and they were. An audit committee was established, led by a board member with professional credentials, and that was in place. An integrated risk management plan was developed and approved by the board. Until the time of the audit, that had been maintained. The board profile was changed so that we had less representation and more professional people on the board. Contracting and procuring policies were strengthened.

The most recent audit, as noted, took place between October 2015 and June 2016. As noted, the president at that time failed to follow many of the policies and procedures that were implemented between 2010 and the time of the audit. The chairperson of the board, whose term was supposed to go into late 2016, resigned. Under the Freshwater Fish Marketing Act, when there's no chairperson, the president becomes both the president and the chair. I think you can appreciate that this is not ideal governance, to say the least. Board members had no alternative but to directly communicate with the Government of Canada. The Government of Canada took action by removing the president and putting in place new board members.

● (0935)

Again, the point is that the government did take action, however, that action did not result in an immediate turnaround. We had a huge whitefish inventory and that was our biggest risk when we took over. We had to re-establish proper human resources because we didn't have all the skill sets we needed to get on with the management of the corporation.

The next slide gives you an idea of where we spend money to procure fish and where we sell the fish.

The next slide is on key performance indicators. The year after the audit, our profits were up to \$7.6 million, before our final payment. Our retained earnings are up to \$15 million, which is higher than our long-term debt. Our long-term debt is \$12.5 million. So we have more than enough to cover our long-term debt. We increased our gross sales, improved on cost per kilogram for processing, and we maintained fish volumes.

For this fiscal year our profits, after tax but before any final payments to fishers, are up to \$4.3 million for the first quarter, as compared to \$2 million for the previous year and compared to \$1.5 million in the plan. Our performance is strong because of sales volume, strong revenue, competitive market pricing, and control of expenses. We're on track to achieve the goals that are in our corporate plan for 2017 to 2022.

The next slide shows that when we saw the change in the policy regarding retained earnings and debt, the retained earnings did indeed climb to a point where we now are now at our target of 20% of gross sales.

The biggest risk we face right now is the Manitoba withdrawal, which is likely to happen by the end of the year. That's going to raise operating, governance, and logistical concerns because, as noted, it is 80% of our supply. The Government of Canada has conducted consultations to determine what the future of the corporation would be and it will share that with all of us once it has reached a final determination.

Last year, we told the Government of Canada that in light of what Manitoba was announcing, we would operate in a free market and we would maintain the value of the corporation's assets and resources. We would also secure a supply of fish so that we could utilize the processing capacity that exists in Winnipeg and meet our commitments to international markets while maintaining revenues. We're achieving that through entering into long-term contracts as we did in Saskatchewan, with Manitoba fish. The vast majority of those fishers in Manitoba have agreed to sign contracts with us. If you sign a contract with us as a Manitoba fisherman, we'll buy all your fish and we'll provide services like ice and totes. We will help with the administration of things like employment insurance. If you don't, then we will buy fish from people who don't sign contracts, provided that fish is profitable for the corporation.

In summary, the exam took place in a rather remarkable period.

One interesting question to the Auditor General would have been: have you ever done a special exam on a crown corporation when the corporation had removed its president and was in the process of dismissing with cause, and where those symptoms were caused by those situations? Is that something unique? I don't know the answer to that.

We've acted on the recommendations of the OAG for which we have authority and we're working with the Government of Canada. As noted, we still have vacancies. We have five board members out of nine. I definitely agree that the more people around the table, the better the quality of the decision. I hope that some of those vacancies will be filled quickly.

• (0940)

Recent performance indicates that things are back on track. That, by the way, is audited by the Office of the Auditor General. Last year's profits of \$7.4 million, etc., that's audited. That's not us saying we're on track. It's evidence that that is the case.

Thank you very much.

The Chair: Thank you, Mr. Bevan.

Ms. Jordan, you have seven minutes, please.

Mrs. Bernadette Jordan: Thank you, Mr. Chair.

Thank you to the witnesses for being here.

I have a number of questions. You had an audit in 2005 that said you had weaknesses. In 2010, you had an adverse opinion. In 2017, you had another adverse opinion.

By your testimony, you make it sound like the president who is no longer with the corporation may have been the reason for a lot of your things. Was he the president in 2005 and 2010 as well?

Mr. David Bevan: No, I believe that was John Wood.

Mr. Stan Lazar (Interim President, Freshwater Fish Marketing Corporation): In 2010, it was John Wood. In 2005, it would have been a gentleman named Bob Hand.

Mrs. Bernadette Jordan: If you've had ongoing problems since 2005, that would mean, then, that you can't really point to one person as the problem.

Mr. David Bevan: That's correct. What we did in 2010 was implement procedures to address the recommendations, as noted by the Auditor General, but those fell by the wayside before the time of the audit.

Mrs. Bernadette Jordan: This marketing board has been in place since 1969. From what I've read, it doesn't seem to have moved with the times. I guess that's the biggest concern. It's not addressing the changes that are happening in fisheries.

Would that be a fair statement?

• (0945)

Mr. David Bevan: I think that we have adapted to the absence of Saskatchewan; 95% of their fish are selling through us. It looks like most of the fishermen in Manitoba are as well.

We've looked at new products, such as caviar. We've found a way to move whitefish more effectively. We've adapted to opportunities in the market. We've had to, obviously, shift some of our market from places like Russia, but we are adapting and changing the product mix.

Mrs. Bernadette Jordan: You said that even with Manitoba pulling out of the agreement, the fishers are still signing contracts to market with you. Is that correct? Is that what your statement was?

Mr. David Bevan: That's correct.

Mrs. Bernadette Jordan: Why is Manitoba pulling out, then?

Mr. David Bevan: That's the decision for them.

Mrs. Bernadette Jordan: What's the reason that they gave you? Are they just saying, they're done?

Mr. David Bevan: They didn't talk to us about that. There was no consultation with us.

I think they were looking at moving to an open market. That would appear to be the rationale. Having said that and looking at the demographics of the people who are selling to us, I'd say that not a lot are going to have access to alternatives in the short term.

Mrs. Bernadette Jordan: All that will be left within the board specifically will be the Northwest Territories.

Mr. David Bevan: That's correct. In the Northwest Territories, we still have an obligation to buy everything that was offered to us, and they have an obligation to sell everything. Everywhere else, that is a choice that the fishermen have to make on their own.

Mrs. Bernadette Jordan: The thing that I just heard from the Office of the Auditor General that I can't believe is that you haven't had a vice-president of sales and marketing since 2015. How can a marketing board not have a VP of marketing?

Mr. David Bevan: We have a VP now. We hired one.

Mrs. Bernadette Jordan: But you went for two years, or a year and a half, without one.

Mr. David Bevan: We had a gap, yes. As noted by the Office of the Auditor General, normal human resources policies weren't being followed. The policies that were in place were not followed. There was a determination by the management that they could sell the fish on their own, and that was not the case.

When I was appointed in late February 2016, the biggest problem we had was too much inventory. It wasn't being properly managed.

Mrs. Bernadette Jordan: Here's my other question, and I'm going to paraphrase a bit. I hope I have this right; I wrote it down as fast as I could. The Auditor General's office, which we just spoke to—and you would have heard the testimony—said that they can think of five adverse opinions that they've given in the roughly 90 reviews that they did. Two of those would be yours. Two would be for this organization.

Mr. David Bevan: That's correct. In 2010 there was work done to correct the issues. I think the track record on retained earnings, for example, would indicate that it was being acted upon, but the issues were not being properly followed; the procedures were not followed during the time of the special examination in 2015-16.

That's why the government took corrective action.

Mrs. Bernadette Jordan: I'm pretty sure I know the answer to this, but do you really think there's still a place for you in the market today with what we've heard since 2005 with regard to the way this board been managed and run? Manitoba is now pulling out; Saskatchewan is out; one left in Ontario.... All that's left is the Northwest Territories. Do you still feel that in 2017 a board that was started in 1969 and that did not move with the times still has a reason for existence?

Mr. David Bevan: There's a reason why all the fishermen are signing contracts, and that's because the Freshwater Fish Marketing Corporation is their point of contact with the world markets. That's not going to change with the withdrawal of the Province of Manitoba from the Freshwater Fish Marketing Act.

However, that's a question for the Government of Canada. They have done the consultations. They are looking at a way forward. Our obligation as a board is to keep the assets owned by the Canadian public valuable, to maintain their value. Also, we have the obligation, whether or not people are in the Freshwater Fish Marketing Act to maximize the returns to fishers. That's our *raison d'être* in the short term, but the longer term is for the Government of Canada to determine. We have told them that we would maintain the asset values of the corporation pending their decision.

• (0950)

Mrs. Bernadette Jordan: How am I doing for time?

The Chair: You have 30 seconds.

Mrs. Bernadette Jordan: Thank you.

The Chair: Thank you, Ms. Jordan.

Mr. Doherty, please, for seven minutes.

Mr. Todd Doherty: Thank you, Mr. Chair.

How long have each of you been with the corporation?

Mr. David Bevan: I've been with the corporation since late February 2016. However, in my previous roles as associate deputy minister of fisheries and before that, as assistant deputy minister, the Freshwater Fish Marketing Corporation was my file for a number of years.

Mr. Stan Lazar: I've been with the corporation since 2008.

Mr. Todd Doherty: Okay, we have 2008 and 2016. In your opinion, why is there a delay in appointing board members?

Mr. David Bevan: That's a question that you would have to ask the Government of Canada.

Mr. Todd Doherty: Okay. We'll leave that to the Government of Canada.

Your largest source for your product is Manitoba. Is that correct?

Mr. David Bevan: That's correct.

Mr. Todd Doherty: It's about 83% of your source and revenues. Is that correct?

Mr. David Bevan: Yes, it's in that range.

Mr. Todd Doherty: Your testimony to Ms. Jordan was that although you're signing other contracts, Northwest Territories would really be your only target market and source on record.

Mr. David Bevan: They would be the only place.... It's only 2% of our purchases. That's the only place where we would have a legal obligation to purchase the fish and the fishermen would have a legal obligation to sell it to the Freshwater Fish Marketing Corporation. Everywhere else is going to be open market.

Mr. Todd Doherty: You have been around since 1969 and your testimony today is that there are fishers who are still signing on with you. We've seen this before with other groups. You are the only game in town. There is some fear, I guess, for some of these fishers who do not have or do not appear to have the means to be able to market their own product. They are signing on out of fear of the unknown.

Mr. David Bevan: They make their own determination. I don't know if that's a motivator or whether they think the corporation could do better by them.

Mr. Todd Doherty: Okay.

Is your largest source of product from Lake Winnipeg?

Mr. David Bevan: Yes.

Mr. Todd Doherty: I read your testimony before the Standing Committee on Public Accounts, where our colleague Mr. Sopuck mentioned that Lake Winnipeg is indeed your largest source. How much do you work with DFO to determine fish sustainability?

Mr. David Bevan: DFO doesn't manage Lake Winnipeg. It's the Province of Manitoba.

Mr. Todd Doherty: Well, the Province of Manitoba.

Mr. David Bevan: I'll turn to Stan for that.

Mr. Stan Lazar: We've worked with water stewardship and the Province of Manitoba, but at the end of the day—

Mr. Todd Doherty: What's your long-term plan for that source of fish, given the fragile system there? The fishery has collapsed previously.

Mr. Stan Lazar: Our plan is to continue to purchase the fish that the market demands.

With regard to the Freshwater Fish Marketing Corporation, our mandate is to purchase, process, and market the fish from our mandated area. The Government of Manitoba, working in conjunction with us, provides the quotas and the species that we're allowed to market.

Mr. Todd Doherty: If the fishery is in a fragile state or has been previously, what is your long-term plan for that source of product?

Mr. Stan Lazar: As I said two weeks ago at the public accounts committee, we are looking at alternatives for some of our other species. I talked about things like carp. We've done a really good job of marketing carp. We have 12 other species that we manage, and we are developing new products and markets for those species.

Mr. Todd Doherty: It's safe to say today that your primary source is walleye from Lake Winnipeg.

Mr. Stan Lazar: That's correct.

Mr. Todd Doherty: Right.

Mr. Stan Lazar: Well, as far as value, as far as volume are concerned, it's not.

Mr. Todd Doherty: If that fishery collapsed, you would have no other source at this point for that.

Mr. Stan Lazar: I think you're right. The whole fishery is at risk to the corporation's mandate.

Mr. Todd Doherty: Again, I'm looking at your numbers, and I think I'm going to follow up on Ms. Jordan's question.

We've seen since 1969, and indeed 2005, 2010, 2015, and 2017, some serious deficiencies. You are now losing a whole host of your guaranteed source.

There are some challenging times ahead for this corporation. Is that correct?

• (0955)

Mr. David Bevan: That is correct.

That's why we have informed the Government of Canada exactly what kind of steps we're going to take to maintain the value, maintain our fish supply, pending a decision on the long-term future of the corporation.

Mr. Todd Doherty: Have you asked for funding from the government?

Mr. David Bevan: No, we don't need the funding at the current time. We're making a profit. We have retained earnings, and our debt load is less than our retained earnings.

We've not asked that over the course of the history of the corporation, which has been making money to one extent or the other, with a few minor glitches along the way. We aren't living off appropriations.

Mr. Todd Doherty: With the signing of the Canada-European trade agreement, that would open up more of a market. It is the largest fish importer market in the world. That would open up a greater market for your independent fishers. Is that correct?

Mr. David Bevan: That's correct. It is going to provide us with an alternative. Obviously, as you can see from the pie chart, we're highly reliant on domestic and North American markets right now, but free trade with Europe will provide us with more alternatives.

Mr. Todd Doherty: What risk mitigation strategies have you put in place for when Manitoba pulls out? It is my understanding that they're at third reading.

Mr. David Bevan: That's correct. I don't know the exact date, but it's imminent. They were aiming for December of this year.

The risk mitigation was to sign contracts with the suppliers to maintain the sales volume. That's going quite well.

Mr. Todd Doherty: Can you table with this committee, either today or at a later date, what your risk mitigation strategy is for that?

Mr. David Bevan: I don't know about today, but we can certainly table that with the committee.

Mr. Todd Doherty: Thank you.

The Chair: Thank you, Mr. Doherty.

The document should be in both official languages, please, if possible.

Now, Mr. Donnelly, for seven minutes.

Mr. Fin Donnelly: Thank you, Mr. Chair.

Thank you, witnesses, for being here today and providing your testimony.

The Auditor General's report has identified significant deficiencies. In fact, it concluded with an adverse opinion, and we've been talking about that.

Given that they've identified these deficiencies, and you referenced this in your report, can you expand on how you've addressed some of those serious concerns on strategic planning; on management controls, so job descriptions, equipment purchasing; and on worker safety issues?

Mr. David Bevan: Certainly. Job descriptions and HR practices were in place but not followed, and it's the same on the purchasing of equipment. Any purchase is supposed to come to the board for consideration. That did not take place, but it is taking place at this time.

Perhaps you're all aware that we don't get to hire the president, nor do we get to discipline or dismiss the president. That's the Government of Canada. It's the same thing with board members. We don't have direct influence. We have implemented a new risk framework that will be provided to the committee. We have looked at our strategic plan and our corporate plan.

In the context of strategic direction, obviously we're going to be a taker on that one from the Government of Canada. Clearly the consideration is, should a crown corporation in an open market persist? It did, for example, when Air Canada was functioning in that context because it had a commitment to make sure the routes to more isolated communities were maintained. That's what we're going to be doing after the Manitoba legislation.

I think you'll see, when you take a look at all the documentation... The corporate plan, once it's tabled in Parliament will be available to you as well. You'll see our long-term proposals. In the risk profile you'll see what was done to manage risks.

• (1000)

Mr. Fin Donnelly: You covered strategic planning, management controls. What about worker safety?

Mr. David Bevan: Worker safety is part of the recommendations we're still working on until the end of this year. That's where all the procedures are going to be communicated to our employees.

Stan, do you have more to add on that?

Mr. Stan Lazar: Yes, that's right. In our detailed action plan we list the policies and procedures we need to work on. Today was our commitment to have all of those done. I can report that they are done. The communication with employees is going to take place over the next two months. We'll have those done by the end of this calendar year.

Mr. Fin Donnelly: Okay, so essentially you're coming to our standing committee today to report, to say, "Yes, we recognize the deficiencies outlined by the Auditor General. We recognize this scathing report. In the last year or so since then, we've turned it around. We feel it's a profitable situation. This is a positive situation moving forward." You're characterizing this that the government should continue to invest in and work with this crown corporation. Is that a fair characterization?

Mr. David Bevan: Again, that's their decision. We indicated to the government that we would do our best to maintain the value in the corporation, to maintain our obligation and meet our obligation to fishers to maximize the value of return to them. That's what we said we would do, pending their decision as to what way they want to go moving forward, but that is entirely up to them.

Mr. Stan Lazar: Can I add to that?

Mr. Fin Donnelly: Sure.

Mr. Stan Lazar: What we came here to demonstrate is that, as we said, we have addressed the deficiencies that the Auditor General addressed to Freshwater Fish, those we have full control of. I don't

think we can sit here and say we're going to have a full board in two weeks or in two months, because those decisions are with the Government of Canada. The board and management are here to demonstrate that, based on what the Auditor General has told us, we are addressing those specific recommendations.

Mr. Fin Donnelly: To finish in two minutes, in following up on Ms. Jordan's comment, you're recommending to continue with what we would look at as a broken model but you fixed it, as opposed to modernizing and maybe looking at different models. Would you say that this business model, moving forward, is working now?

Mr. David Bevan: It's working at this moment under these conditions. We're going to be in an open market going forward, and the question is, what's the best model under those circumstances? Even with Air Canada, it didn't last indefinitely. They were privatized over the course of a few years after things had changed. It's up to the government to decide. Our duty to government and taxpayers is to maintain the value, pending that conclusion. We'll live with whatever is determined by the Government of Canada.

We are going to have some challenges going forward if people cherry-pick value and impact on the profitability. We would hope a decision would be made as to what they're going to do while we still have a good fiscal situation, where we have high retained earnings and are making money. That's when they need to determine what they want to do going forward, while we're still in a solid position. The longer the delay, the more risk will be accruing to the corporation as a result of open market competition.

Mr. Fin Donnelly: Thank you, Mr. Chair.

The Chair: Now we go to Mr. Finnigan for seven minutes, please.

Mr. Pat Finnigan (Miramichi—Grand Lake, Lib.): Thank you, Mr. Chair.

Thank you, Mr. Lazar and Mr. Bevan, for being here today.

I just want to clear up something. The board vacancies haven't happened just recently. I think we've heard the Auditor General say that there were vacancies in May 2015. How long has this been a problem?

Mr. David Bevan: It has been a problem for some time. There were three of us appointed in late February 2016, but even with that, there were still outstanding vacancies. Since that time, two of those appointees have resigned, and we've had one person come on board. It's a persistent problem.

• (1005)

Mr. Pat Finnigan: It has been an ongoing problem for some years, not just for this government.

Mr. David Bevan: Yes.

Mr. Pat Finnigan: Being a businessperson myself—not with fish, but at the end of the day it doesn't really matter—I don't know of many organizations that could have survived an adverse report like that and still shown a profit. It's amazing that it has. Do you think that the complacency of the people on the board, just looking at the file numbers, may have had something to do with this?

I can tell you that, if this were a private corporation and you saw the lack of policies or implementation of the strategic plan, that wouldn't have happened. If the stakeholders on the board had some gain to be had from the profit, I don't think that would have happened.

Could you comment on that?

Mr. David Bevan: Clearly, as a crown corporation, it has fixed remuneration for board members. It's not quite a volunteer program, but almost, in terms of the remuneration. During this audit, board members were not sitting on their laurels. They were actually working very hard to bring to the attention of the government the nature of the problems that were identified in the audit and to get the government to take action, which they did.

The board members were being active, writing to the Government of Canada saying, "Here is what's going on. Will you please address these issues?" Again, they did. It's just incredible timing that the audit took place exactly at that time. There was a real problem, and we did not have maximum performance.

Mr. Pat Finnigan: Would you say that perhaps the model is not right, then? If this had been a private corporation or a co-operative, or a model that could have had a turnaround much faster, would you say that this could have been avoided and the performance would have been better?

Mr. David Bevan: There could have been a quicker.... Under the model we operate in, we do not hire, nor can we dismiss, a president. We can't appoint board members, etc. We are constrained by the legal framework that we work within. It takes more time to bring the problem to the government, and then to get the government to come back with a solution.

It takes more time than it would if we had a situation where equipment is bought without due process and people are let go and hired without due process. There would have been action much more quickly in the private sector, because they have the authority to do so.

Mr. Pat Finnigan: I'm sure that back in 1969, when that was put in place, it was probably a good thing to have such a corporation, when it was able to find markets for all those fish and to concentrate the efforts and everything. It's had successful years.

Would you say that maybe today another model would...one that, again, can turn around a bit faster and maybe not depend on appointments from the current government?

Mr. David Bevan: I think there are alternatives. If you were to privatize it, the difficulty there would be access to the market for those northern indigenous communities. If there are other potential models that could be considered by the government.... Again, it is not my position to tell the government what to do in terms of policy. Our job is to keep the wheels on and keep the money coming into the corporation and out to the fishermen. That's what the job is, in the

short term, and hopefully we'll be told what the longer term is in due process.

Mr. Pat Finnigan: Slowly we're seeing some of the controls that the company once had starting to be eroded. We're seeing that—I have a comment here—the Government of the Northwest Territories has expressed interest in negotiating "an agreement with the Fresh Water Fish Marketing Corporation to access markets outside...NWT [and] seek federal funding to build a new...processing plant in Hay River".

How is that building going to affect your operation? That's directly competing with what you're doing now.

• (1010)

Mr. David Bevan: They are about 2% of our supply.

Mr. Pat Finnigan: It's not a huge.... Okay.

How many Manitoba fishers have signed contracts so far, and how much fish does it presently guarantee?

Mr. David Bevan: It's about 80%.

Mr. Stan Lazar: About 80% of Manitoba fishers have signed contracts as of today.

Mr. Pat Finnigan: That's even though they're going to step out of the—

Mr. Stan Lazar: Yes.

Mr. David Bevan: That's similar to the case in Saskatchewan.

Mr. Pat Finnigan: What are their alternatives? Where can they go if they are not processing through your plants and not selling to you?

Mr. David Bevan: I have to confess that in most of the communities we buy from, there is nobody on the wharf trying to push us out of the way.

There is a potential if you have access to roads and if there are potential buyers, or depending on your species mix, you might be able to sell privately. There are people from Ontario and from the United States who might be prepared to move in and take some of that product.

The difficulty for the fishermen, though, is that if you land more than one species, if you're looking at a species mix and you want to sell whitefish and you want to sell carp or whatever, you're probably not going to have a lot of alternative buyers for those products.

Mr. Pat Finnigan: If you're outside the corporation, you won't share the profits anymore?

Mr. David Bevan: No.

Mr. Pat Finnigan: I understand that right now the profits would be shared according to how much business you do with the corporation.

Mr. David Bevan: That's correct, but if you're not signing a contract, that's not going to be part of the remuneration for your fish.

Mr. Pat Finnigan: You're still king of the hill, I guess you could say, in that area for the freshwater market.

Mr. David Bevan: At the moment, we are.

Mr. Pat Finnigan: Thank you.

The Chair: Thank you, Mr. Finnigan.

Mr. Miller and Mr. Arnold, you're sharing your time. I'll give you two and a half minutes each. Do you want me to do it that way?

Mr. Mel Arnold: I'll try to finish up in less than two and a half minutes.

The Chair: Mr. Arnold, go ahead.

Mr. Mel Arnold: Thank you, Mr. Chair.

Is part of the marketing corporation's agenda to assist remote harvesters?

Mr. David Bevan: That's absolutely correct, yes.

Mr. Mel Arnold: Okay, thank you.

Who eventually benefits from the retained earnings, not just the profits that are paid to the harvesters?

Mr. David Bevan: It's just good business practice. The retained earnings are there to deal with economic shocks or the need to reinvest in equipment, etc., and we have done a lot of reinvestment over the period of 2010 to 2017, millions of dollars' worth—maybe \$13 million.

Mr. Mel Arnold: Do they stay within the corporation, which is a government entity?

Mr. David Bevan: That's correct. The decision was made, in response to the 2010 audit, that we should have retained earnings equivalent to about 20% of our gross sales.

Mr. Mel Arnold: Thank you.

Does the Freshwater Fish Marketing Corporation compete with private enterprise that may want to get into fish marketing?

Mr. David Bevan: We do in Saskatchewan, and we will in Manitoba.

Mr. Mel Arnold: Thank you.

I'll pass the rest of my time to Mr. Miller.

The Chair: Mr. Miller.

Mr. Larry Miller: Thank you very much.

Thank you, gentlemen, for being here.

Over my time in Ottawa since 2004 I've heard a number of times from Manitoba MPs who have heard from commercial fishermen in or near their ridings their dissatisfaction with the freshwater marketing board.

I want to try to tie in my question, if applicable, with your opinion on what the wheat board was. At the time the criticism of a lot of Manitoba and other western farmers was that there was too much bureaucracy, if I can use that word, within the wheat board, and that at the end of the day for the people producing the wheat or barley or whatever the product was, their share of that product was diminishing constantly.

Could the same thing be said about the freshwater marketing board in that ultimately there has to be a reason why Manitoba fishermen want to pull out? In your opinion, is that the reason, that they don't feel they're getting as big a bang for their buck?

Mr. David Bevan: There are some who feel that way. There is some expense to being a crown corporation. You have the need to provide all the plans. You have the need to adhere to ATIP and all of the other policies of the Government of Canada, and that's not free. It comes at an expense.

That being said, the choice of 80% of the fishermen in Manitoba, thus far, is to stay with the corporation. There are those who have always looked at the returns of fishers and said, "Look, they have gross sales of \$73.5 million and I'm only getting this, and I should be able to do better."

I understand that, because when it was a monopoly, that was the only show in town and they would judge very harshly on any expenditures. Now that the reality of choice is coming, they've made their choices and many have chosen to stay with us.

● (1015)

Mr. Larry Miller: I think I have enough time for my last question.

I think you mentioned, in your words, that Manitoba pulling out is "imminent". The problems have obviously been there for some time, and we won't go through them again, but if the government had dealt with some of these problems sooner, in your opinion would Manitoba maybe have decided to stay in this?

Mr. David Bevan: The audit took place while Manitoba had already decided to withdraw. They ran in the election with that as part of their promise. They took the decision and made it public last year before the publication of the audit. No, I think what really drove them was the desire to have a choice.

Mr. Larry Miller: Okay.

Going forward, then, in general, can the corporation survive based on freedom of choice? You just indicated that 80% of the fishers in Manitoba are still going to sell through...and obviously that number could change from year to year.

Mr. David Bevan: Yes.

Mr. Larry Miller: Can you survive based on that uncertainty, if I can use that word?

Mr. David Bevan: Certainly.

It's a different kind of environment that we're working in and that has changed our behaviour as well. We have been a little more flexible than buying fish and moving prices up and down in order—

Mr. Larry Miller: Is it change for the better?

Mr. David Bevan: I think so.

If you're asking in the long term, there are going to be challenges. If somebody wants to invest money in a fish plant in the south, they may be able to siphon off profitable fish.

Mr. Larry Miller: Okay.

Thank you very much.

The Chair: Thank you to our guests, Mr. Bevan and Mr. Lazar, from the Freshwater Fish Marketing Corporation. We appreciate your time.

Colleagues, we'll break for two or three minutes and we'll get back to some committee business in camera.

That draws this part of the meeting to a conclusion.

[Proceedings continue in camera]

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