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Chair: The Honourable Judy A. Sgro



Standing Committee on International Trade

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• (1300)

[English]

The Chair (Hon. Judy A. Sgro (Humber River—Black Creek, Lib.)): I call this meeting to order.

Welcome to meeting number 29 of the Standing Committee on International Trade. Today's meeting is taking place in a hybrid format, pursuant to the House order of June 23, 2022. Members are therefore attending in person in the room and remotely using the Zoom application.

I need to make a few comments for the benefit of witnesses and members.

Please wait until I recognize you by name before speaking. When speaking, please speak slowly and clearly. For those participating by video conference, click on the microphone icon to activate your mike and please mute yourself when you are not speaking.

With regard to interpretation, for those on Zoom, you have the choice at the bottom of your screen of floor, English or French. For those in the room, you can use the earpiece and select the desired channel.

As a reminder, all comments should be addressed through the chair.

For members in the room, if you wish to speak, please raise your hand. For members on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking order as best we can, and we appreciate your patience and understanding in this regard. Please also note that during the meeting, you are not permitted to take pictures in the room or screenshots on Zoom.

Should any technical challenges arise, please advise me. Please note that we may need to suspend for a few minutes, as we need to ensure that all members are able to participate fully.

Today, from AGT Food and Ingredients Inc., we have Murad Al-Katib, president and chief executive officer, by video conference. We also have Masoud Negad, chief operating officer for N. Tepperman Limited, and from Quorum Corporation, Mark Hemmes, president. Carmel Transport International Ltd. is unable to be with us today.

Welcome to you all. My apologies if my connection goes in and out.

We will start with opening remarks and then proceed with the rounds of questions.

Mr. Al-Katib, I invite you to make an opening statement of up to five minutes.

Mr. Murad Al-Katib (President and Chief Executive Officer, AGT Food and Ingredients Inc.): Good morning. Thank you for inviting me to participate.

Canada, with a specific focus on western Canada, has been blessed with a significant agricultural endowment, with some of the best and most productive agricultural lands in the world, making Canada a world leader in agricultural production and export. For decades, we've been known as the Canadian breadbasket or the breadbasket of the world. However, in recent years, we've been increasingly known as the first stop on the protein highway.

With food, fuel, feed and fertilizer, Canada has what the world needs and wants, and Canadian agriculture is on the front line, providing societal solutions to global challenges in protein, food security and renewable fuels. We'll be vital to the United Nations FAO mission to produce the same amount of food in the next 40 years as we have done in civilization for the past 10,000 years. To feed the growing middle class and a world population that will exceed 10 billion, we need to meet that target.

International trade is the lifeblood of the Canadian economy, making transportation, and specifically rail, ports and containers, the veins and arteries that allow everything to flow, providing goods to Canadian consumers, allowing Canadian companies to supply their products to markets around the world and creating economic benefits and jobs for all Canadians.

In the ag sector, we've always wrestled with transportation-related issues, specifically during cold Canadian winters. When you're landlocked 2,000 to 3,000 kilometres from port, you're dependent on rail and road infrastructure to get your products to market, and on the availability of containers to ship them in, while also staying competitive on costs in the marketplace.

In western Canada, we're dependent on containers to bring our retail goods from far-reaching origins around the world, and we use those empty containers to move our products—our agri-food output as well as other products and manufactured goods—to markets around the world. Rail, intermodal and containers are in high demand. We're urging governments, railways and all supply chain partners to be diligent in their planning to be ready for these opportunities.

At AGT, we're a large user of ocean containers. In fact, we are among the largest agriproduct container shippers in the whole world. We've navigated the system of containerized shipments for decades. However, this process is getting more and more difficult, with escalating costs, lack of access to container units and supply chain disruptions.

Without primary shipments of retail goods from origins around the world and the willingness of the steamship lines to allow their containers to stop in western Canada empty to be filled with ag products, Canada does not get access to empty cubes to refill our goods for shipment to our customers before that cycle begins again. Even when we do have access, the escalating costs may make using that container for shipment prohibitive to doing business without an ability to pass on increased costs, particularly in staple foods and commodities.

Part of the issue is supply and demand. It's a basic economic theory. Freight costs have risen extremely fast, with steamship lines reporting record profits throughout this period of COVID and now with the costs in Ukraine and supply chain disruptions. As an example, a container costing \$3,000 in 2019 is now costing over \$23,000 in certain lanes. Some of the largest global steamship lines have recently reported earnings that exceed their average earnings over the past years by multiples.

Far be it from me, as a free market economy participant, to criticize profitability. However, this does come at a cost for customers and consumers around the world. Part of it is the lack of oversight by governments in industrialized countries to establish a playing field for containers, steamship lines and customers that equals a competitive playing field.

In recent periods, the governments of the U.S., the U.K., Australia, New Zealand and Canada have begun discussions and inquiries into cartel behaviour, price-fixing and steamship line competitive behaviour. With no global regulatory body in this sector and with being thousands of kilometres from port, our federal government and governments around the world are very critical to ensuring that we have a level and competitive playing field.

While the global demand for protein is strong and growing, Canada is in a unique position to fill this gap, which has been magnified by the conflict in Ukraine, where, again, food insecurity is open and is going to be felt by up to 600 million people around the world.

The national trade corridors fund's availability of funds has really been helpful, and strong leadership to create a transportation policy framework to support trade has been critical and important in maintaining Canada's reputation as a reliable supplier.

• (1305)

As you may recall, I was involved with the David Emerson Transportation Act review a number of years ago. I was honoured to be a part of the Industry Strategy Council with Monique Leroux. We actually rekindled recommendations around long-term infrastructure planning in the trade space, in particular moving the windows from two- to four-year mandates of government to 10 to 50 years of actual trade infrastructure planning.

We have a generational opportunity in agriculture and for our country more broadly. Within this, containers are a key surge capacity for Canada's agricultural sector, augmenting the traditional rail and ships that carry our products.

I would be happy to take questions from committee members on rail, transportation and supply chain challenges.

Thank you, Madam Chair.

The Chair: Thank you very much, Mr. Al-Katib.

Mr. Negad, you have up to five minutes, please.

Mr. Masoud Negad (Chief Operating Officer, N. Tepperman Limited): Good day, Madam Chair and members of the committee. Thank you for the invitation to speak about our view on logistics issues with transportation containers as a comparison.

I represent N. Tepperman Limited, which has operated a chain of retail stores in six cities in southern Ontario for 97 years. We sell furniture, mattresses, appliances and electronics. Many of my comments are based on our business challenges. I have submitted a written brief, with references, that goes into more detail.

We are experiencing many challenges in the supply chain, specifically importing containers to Canada. Some are related to steamship lines. Others refer to inland challenges with delays, reduced planning ability and cartel-like pricing, leading to massive price increases for Canadian consumers. We are witnessing Canadian inland bottlenecks due to several factors: infrastructure and ownership interest in ports and rail that are not Canadian-focused, congestion at ocean container terminals, congestion at rail terminals at port and destination, lack of available resources and lack of available equipment.

In the first half of 2022, container volumes at the Port of Vancouver dropped 7%, but containers sat on the port's docks for six days, twice as long as 2019. Despite the drop in overall volume, Vancouver's performance and efficiency continue to fall, leading to longer wait times. Out of 370 ports around the globe, the Port of Vancouver is ranked 368th—the world's third-worst port.

Tepperman's ocean freight containers go to west coast Canadian ports and end up on rail. The world uses 40-foot containers to ship goods from overseas. Only half of CN and 10% of CP cars are designed for 40-foot containers, causing blockages and delays and leading to additional charges levied by rail companies. Cargo destined for the Toronto area is off-loaded at the Brampton rail terminal. We have seen unprecedented wait times of 10-plus hours this year in Brampton for drivers to pick up containers.

Another issue with inland terminals is the buildup of empty containers that need to be returned. In some cases, steamship lines have refused to offer freight pricing to Toronto due to the wait times involved with shipping empties back. Prepandemic, we had a fixed-price contract for ocean containers, but steamship lines have refused to honour our contract pricing since early 2020. Prepandemic, we were able to ship a full container from Asia to Canada for \$3,500. That increased to \$30,000 in early 2022, an increase of over 800%, while steamship lines reported record profits. The price-fixing of ocean freight increased costs exponentially, causing some of our furniture to double in price by early 2022.

Recently, due to extremely low demand, container costs started to drop. Last May, steamship lines tried to force us to sign a three-year contract at a rate of \$16,500 per container. Today we are seeing pricing at around \$7,500, but they are already talking about blank sailing. That is a practice of strategically removing some vessels and port calls from their posted schedules, forcing customers to buy into the few remaining ships at premium prices. As this behaviour continues to be unregulated, shippers and producers face the prospect of additional price increases in the future.

While one might assume that these issues are impacting Canada and the U.S. equally, this is not the case. Canadian importers often pay more. If demand suddenly spikes, we expect that steamship lines will immediately and aggressively increase their pricing. Although freight costs may not return to \$30,000 per container, we believe they could easily double.

In closing, Tepperman's is guided by the principles of being a good employer and providing great value to our customers. This international shipping crisis challenges those principles and threatens our continued operations. We hope our government can intervene to protect retail, wholesale and manufacturing sectors and ultimately Canadians across our nation.

Thank you for your time.

• (1310)

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

Mr. Hemmes, you have five minutes, please.

Mr. Mark Hemmes (President, Quorum Corporation): Thank you, Madam Chair and committee, for the invitation to attend today's meeting.

I'm Mark Hemmes, president of Quorum Corporation. Quorum has been responsible for monitoring Canada's prairie grain handling and transportation system on behalf of Transport Canada and Agriculture and Agri-Food Canada since June 2001. I've already provided a document to the committee. I don't plan on reading the whole thing, but there are some points that I would like to make.

First, the export of grain in containers has become an integral part of the logistics of the grain industry in Canada. As a proportion of the export movement, it has increased from 1.3 million tonnes in 2000 to over 5.5 million tonnes in 2021. This represents an increase in the total exports of grain, from 4% to over 10% today. That has allowed for an increase in the diversification of crops that producers grow and is a very lucrative business for the country. This came about through an increase in the availability of container capacity in the marketplace. Grain is typically moved in bulk, but the empty containers actually gave an opportunity to expand into niche markets, as Murad was explaining earlier.

In the last three years, from 2018 to 2021, an average of more than six million tonnes of special crops have been exported out of the country using containers. That's an important part of the sector. That sector has grown incredibly in the last 10 to 15 years and is almost wholly dependent on the use of containers to get into the markets its selling to.

What happened in the summer of 2020 with the pandemic hitting was that the container shipping lines significantly reduced the number of sailings, called blank sailings. By doing that, essentially what they left was a whole bunch of loaded containers on the docks in Vancouver and Prince Rupert, and to an extent in Montreal. As such, shippers had to pay an incredible amount of storage fees and demurrage, and the out-of-contract penalties that were associated with them. With the reduction of those incoming vessels, the empty container capacity and the vessel capacity for loaded movement were both significantly strained.

Container shipping lines then began to reduce requests for empty containers in North America for loading those export goods, ordering the railways and the container terminals to remove all the empty containers back to the origin countries, mostly in the Asia-Pacific area. The Port of Vancouver's average monthly total of loaded export containers dropped by 33% compared with the average in the same 12 months in 2019 and 2020, while the number of empties moved out increased by 96%.

This change had a significant impact on the export of grain in containers and the business volumes of the five transload operations in the Port of Vancouver. The total volume of grain in containers was reduced by half from April 2021 to May 2022. Some of that reduction was because of the reduced crop size, but most of it was because there were no containers available to move it.

The consequence of these issues compounds and reveals itself in the actions taken by the container shipping lines to expedite empty containers back to the line haul origins, as well as in the increased price they charged for the movement of containers through that period. As was just pointed out, while those container prices have dropped, it's not terribly significant when it comes to this movement.

Canada has little in the way of real-time or historical data on this. This makes it very difficult to analyze and assess the movement of containers, except through the data supplied by port authorities on a voluntary basis. In the grain industry, both the Canada Transportation Act and the Canada Grain Act offer legislative and regulatory solutions for the collection, analysis and assessment of data on the bulk movement of grain. However, there is little in the container movement.

• (1315)

This applies to all other commodities as well, other than grain. To provide a detailed assessment of the impact these shortfalls have on capacity, data at a level that is equivalent to what is provided for the bulk movement of grain is absolutely essential.

In closing, I would point out that Canada grows some of the best and most desired grain in the world, but must contend with barriers and risks no other competitor nation must. We have a longer length of haul to port, extreme geographic impediments in the form of the mountain range, climatic conditions that can vary from -40°C to 40°C through the year and ocean distances that are some of the longest to our buyers. As such, just staying even with our competitors on a global basis is dependent on us having the world's most efficient transportation and logistical system in the delivery of our products.

The fact that we've not been as efficient as we need to be and have experienced a continued number of supply chain breakdowns has damaged our reputation as a reliable supplier. Canada's position in the global grain marketplace depends on us getting a lot better.

Thanks for the opportunity. I look forward to any questions you may have.

• (1320)

The Chair: Thank you very much, Mr. Hemmes. We appreciate your contribution while we study the trade implications of transporting goods in railway corridors.

We'll move on to the members now.

Mr. Hoback, you have six minutes.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Madam Chair.

Thank you, witnesses, for being here on a Friday afternoon, or a Friday morning, depending on where you are.

Where do I start? It seems like in my years as a politician here in Ottawa, we've been fighting with railways to get movement of product to market every year or every second year. It seems like they're always front and centre in our targets.

I'll start with this. Because this is a trade committee, are there things we should be doing as a trade committee in our trade negotiations and in our agreements, whether it's at the WTO or, let's say, on the multilateral side, that address the steamship lines, their monopoly and their level of service and that put in some guarantees for shippers?

I think I'll start with you, Murad, and then I'll go to Masoud afterwards.

Mr. Murad Al-Katib: I would say that competition regulation should probably not be done by a multilateral agency. However, the overall collaboration we're seeing between the U.S., the U.K., Canada, New Zealand and Australia is an interesting approach.

The one thing we have to recognize is the steamship lines are international companies, operating in international waters and calling at our local ports. There is definitely a need for a bit more oversight to ensure that accessibility, pricing and behaviour don't become completely out of balance.

I think that urging our competition authorities to collaborate is probably a very important step.

Mr. Randy Hoback: Go ahead, Masoud.

Mr. Masoud Negad: Thank you, Madam Chair.

I would say the issue we face is potentially twofold.

One is that steamship lines, in their behaviour, as another person and I referenced, use cartel-like pricing. In terms of what jurisdictions the government would have in putting restrictions around that, it would be great if there were things that could be done.

The other part of this is that the supply chain system in Canada is broken, as Mark referenced. Potentially, that's where the government can also have a significant influence to improve the supply chain. With reference to other ports, other ports are not efficient. Part of the reason we get higher pricing than the U.S. is that these shipping lines get stuck when they come to a Canadian port. They have a much better transition of unloading and reloading their ships if they go to the U.S.

I looked at a price list yesterday. By the time the a container gets delivered to our door, coming through Vancouver, it is around \$7,500. If we look at one in Seattle, which is not very far from Vancouver, coming from Shanghai—in both cases, they're coming from Shanghai—it is \$2,015. How do you compare \$2,015 with close to \$7,000? That's because the steamship lines would prefer to go to the U.S. than to Canada. Part of it is volume and the other part of it is all the backlogs we have.

In terms of backlogs, I think we have lots of opportunity to improve those with—

Mr. Randy Hoback: That raises a million questions, then. What has the U.S. done? Is it the modernization of their ports? Is it the functionality of their ports? Is it the bureaucracy? Or is there legislation that has allowed them to expedite products through their ports? What's the difference between the two?

Mr. Masoud Negad: The first one would be the volume and the ability to receive a lot of products quickly and efficiently.

We can look at the age of other key ports. They were built somewhere between 1972 and 2008. When you look at a port that was built in 1972 and see the size of the ships and how many containers they used to carry, the maximum size at the time was 2,500 containers. Today, the maximum size is 25,000. Our ports haven't been updated quickly enough.

There are plans for some of these ports to be upgraded from when they were originally planned, but not quickly enough to receive these ships that are completely differently sized. The efficiency would be a component of that.

• (1325)

Mr. Randy Hoback: Wouldn't it be up to the Vancouver port authority to put in process the upgrades and the updates? Or is this something where the federal government should be stepping in and footing part of or most of the bill?

Mr. Masoud Negad: I believe that government support would help, because all of these private sectors are driven by ROI for their shareholders. Ultimately, they will invest in what they believe they're guaranteed to get back.

If we want to solve a Canadian problem, influence from the government could help us, whether it's for subsidies or support in other ways, but helping them plan to really get rid of the problem in Canada—

Mr. Randy Hoback: I'm sorry. We're tight for time. I don't mean to cut you off.

Mr. Hemmes, when it comes to moving products through the ports, is it a port issue, or is it actually the railways not getting and delivering the product to the port on time? Where's the actual problem? Where is the bottleneck?

Mr. Mark Hemmes: I think it's all of the above. I think given what happened through the pandemic and then coming out of it, there was a sudden surge of traffic. There was a surge in demand, if you will, for traffic to move through all of the west coast ports.

The railways have a fixed number of railcars. They don't plan on a lot of surge capacity, and I would go back to the earlier point that

I think this whole situation has really pointed to how fragile the whole supply chain is, the whole container supply chain.

Yes, you can point to the railways, because when you have so many containers piled up on the docks at the ports, it's really up to the railways to get those containers off the docks. The challenge that the container terminals had is that you can bring your ship up to the dock and try to unload it, but if there's no room on the dock to put down any more containers, they're stuck.

That's how they ended up backing up all of the vessels in Vancouver and where that frustration came from, but the same problem was occurring down in L.A. and Long Beach, to a far greater degree. At one point in time earlier this year, there were as many as 90 container vessels at anchor waiting to be unloaded.

Mr. Randy Hoback: When we have a situation—

The Chair: I'm sorry, Mr. Hoback.

Mr. Randy Hoback: That's no problem.

The Chair: We'll move on to Mr. Sheehan for six minutes.

Mr. Terry Sheehan (Sault Ste. Marie, Lib.): Thank you very much, Madam Chair. I truly appreciate the opportunity to ask some questions.

For our witnesses, as you're aware, we're studying opportunities in the Indo-Pacific. We had a group of soybean representatives here, and that triggered a line of questioning that I had from one of my constituents, who is a broker dealing with soybeans. It was about container shortages.

MP Masse has been after this for a long time, and so has our chair, Judy, so thank you for coming and presenting, because we want to figure out how we might make some recommendations to immediately improve the situation. We also have to take a look at long-term logistics.

My questions are for Mark, one of our witnesses. I'll start with him, and perhaps the other witnesses may wish to chime in.

It seems to me that there's a multitude of issues out there, and they've been identified by all our speakers. One of the issues that we haven't delved into too much and that I'd like you to speak about is the labour shortage.

We understand the shortage of containers themselves, the monopolies that certain countries are creating and the cartel and what-not, but it seems to me that there is a labour shortage. It can be in the trucking industry. This particular broker mentioned to me that recently there has been a shortage of truckers, and that begins the process of the problem, with the rail companies and the shipping companies as well. He also shared the opinion of one of our speakers about shipping companies making record-breaking profits.

I'll start with the question about labour shortages. What does it look like for you and are you experiencing that as well? Do you see that as an issue?

• (1330)

Mr. Mark Hemmes: Yes, there is an issue. Truckers have had a long-standing issue trying to hire people in the industry. They have a big bubble that's starting to get to the age of retirement. They're in a challenging time.

On the other hand, what happened with railways—and one in particular—was that when the pandemic hit and the volumes decreased, and then again with the smaller crop last year, they laid off a lot of people. When you lay off people who are at the younger end of the spectrum, they will go out and find another job, and it's not as if you can call them back.

Both CN and CP have been working through the summer trying to increase their workforce. Of course, you can start the training, but it takes four to six months before you can get a person out on the ground. I was at CN's training facility just a couple of weeks ago and it is full. They have multiple classes running, trying to replace some of the people they need to fill those jobs, but they're challenged. It's no different from anybody else in the industry right now. It's very difficult to find people who will come to work.

After speaking to some of the transloaders on the west coast, I know they're having the same issue. They had to lay off a lot of people last year, but now that they're trying to get back into business, they're having a difficult time getting people to come to work. Of course, Vancouver is not a favourable economy to get blue-collar workers, who aren't making the kind of money that you need for living in Vancouver.

All of those things have an impact on trying to fill a lot of those labour positions in the industry.

I'm sure, Murad, you've probably had a similar situation in Saskatchewan.

Mr. Murad Al-Katib: I think we should look at all of the issues that play out on top of each other. There's one thing we have to be very clear on, Terry. We have to ensure that we have the infrastructure that suits the business model of the steamship lines too.

For instance, in Regina, we at AGT spent \$35 million of our own capital in a partnership with CN Rail to build an inland container terminal to stop the empty containers that were flowing from Chicago and Toronto to Vancouver. We stop them in Melville, Saskatchewan, bring them to Regina, fill them with grain and ship them back. That infrastructure didn't exist. What we try to do with that is minimize the dwell times that containers sit here empty.

While we're talking about the steamship lines and cartel behaviour, which I mentioned, we have to recognize it's an international market. We have to get the containers in and out as quickly as possible to ensure that steamship lines want to bring their business to Canada.

With all due respect to our witness Mr. Negad, I don't know if I agree that Vancouver and Prince Rupert are less efficient. The problems at Long Beach, as Mark mentioned, have been far worse. I think the problem here is we just don't have enough sailings. The

steamship lines have cut our service. There's not enough supply, which is why they can charge so much more.

In the U.S., there's a competitive market. Everybody has to go there. They've chosen not to come to Canada, and for containers that are coming here, they're charging three times the amount. That's our problem. It's a simple, fundamental supply and demand problem. Hopefully that's going to switch back.

I believe the efficiency of Vancouver and Prince Rupert is going to bring more containers into Canada over the next periods.

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

We'll move on to Monsieur Savard-Tremblay, please.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay (Saint-Hyacinthe—Bagot, BQ): Thank you, Madam Chair.

Thank you to the witnesses, and good afternoon to my fellow members.

I'm not sure who should answer this question, so I urge anyone who wants to answer to go ahead and do so.

As a member for Quebec, I obviously want to focus on the consequences for Quebec, specifically the port of Montreal, the second-largest in Canada.

It's a fact that port congestion and import container dwell times in the Vancouver and Prince Rupert ports forced CN to establish relief container yards in Toronto and Montreal.

I'd like someone to speak to that in more detail, especially the potential repercussions.

• (1335)

[*English*]

Mr. Mark Hemmes: I have to answer in English. My apologies.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Don't worry. We have interpretation services.

[*English*]

Mr. Mark Hemmes: It's interesting. I can only speak from the grain industry perspective for Montreal, but whereas we saw these huge decreases in the amount of export traffic through Vancouver and Prince Rupert, we stayed pretty much even through the Port of Montreal. That effect of having to rush empties out through the west coast wasn't nearly as severe in the Port of Montreal.

That said, as Masoud pointed out earlier, a lot of the traffic that's going into eastern Canada, especially from Asia-Pacific nations, does flow through the west coast. From that perspective, I know that a lot of warehouse space in Montreal and Toronto has now been taken up with goods, as people are now buying product far, far further into the future to satisfy future demand than they would have previously. That has caused increases in costs related to transportation and inventory.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: Great. Thank you.

Do you feel comfortable commenting on the relief container yards in Toronto and Montreal?

[English]

Mr. Mark Hemmes: I think just about every city in Canada as well as the United States has had to make room for empty containers, because there isn't the capacity to move them in or, for that matter, bring in product that's loaded. They're just trying to get the cycle back into a synchronous move.

I think part of the biggest problem in the supply chain today was the pandemic and then what happened after that. The entire supply chain lost the balanced cycle of equipment between origin and destination. That's what we're suffering through right now. I think it's going to take another couple of years to bring it back into balance. Those emergency storage areas will probably have to continue to be in place for at least another year and a half, or maybe two years. That's my understanding from the people I talk to in the business.

Mr. Murad Al-Katib: I would add that in our case, if we hadn't had the Port of Montreal, we would have been in big trouble. We took containers that were destined to go back west, reversed course and took them east. On the export side, we serviced Europe, North Africa and the Middle East from Montreal. We saw a dramatic shift in our volume from, let's say, 60% west coast export to probably 60% Montreal export.

Again, part of the strategy that we need to employ as a country is to use all of our ports. Vancouver, Prince Rupert, Montreal and Halifax are going to be very important on the container side.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: Thank you for that information.

To deal with these issues, CN implemented shuttle fees and reduced the number of rail storage free days. For example, for CN Valleyfield, the fee is \$500. The shuttle fees vary.

Does that impact your sectors?

[English]

Mr. Murad Al-Katib: Ancillary charges are massive parts of our cost base. With the disruption in the supply chain and pricing variability, all of those ancillary charges also went up dramatically. The ancillary charges are now at a point where sometimes they're as much as what we used to pay for containers. It's quite an alarming additional cost.

The Chair: Thank you very much.

We'll move on to Mr. Masse, please.

Mr. Brian Masse (Windsor West, NDP): Thank you, Madam Chair.

Thank you to the witnesses for presenting here today, and thank you to the committee for looking into this.

I did a short inventory of some of the challenges. The first time I ran into this was when I first toured the Port of Vancouver because of the removal of detector dogs. They would bring out a CBSA officer with a dog and clear a ship in three hours. They were getting rid of that, and it would sometimes take three days to get a ship done by hand without a dog.

We've heard testimony that there are issues with shipping containers. There are issues for the rail system itself. We also have a lack of infrastructure. We have a lack of competition, it appears, or at least a competitive spirit. We have a shortage of labour. I mean, it feels like we're trying to straighten out a plate of spaghetti. There are so many things that are taking place. How do we find a vehicle to get this taken more seriously?

We had in the past a white paper on rail. It actually led to a lot of condemnation of CP and CN, because they were described by some as having a culture of fear and intimidation in the workforce. That led to some changes. However, I'm wondering whether or not we need some other type of route to combine some of these things, especially given the testimony we've had about international behaviour and the data that's missing.

I'd like to ask all the witnesses for their input on this. Do you have any practical solutions for this committee going forward? We want to make some recommendations, as Mr. Sheehan has identified, and I'm looking to see if we can scope that down.

Maybe I'll start with Mr. Negad, my friend from Windsor. I'll give preference to the local.

● (1340)

Mr. Masoud Negad: I agree that when we look at the supply chain, as was already pointed out, it's never one component. It's not just the port or significant impact by rail. Whether it's their equipment or it's labour—and those things have already been pointed out as well—everything that's happening, as in our case in Brampton, is multiplied by challenges with labour. Drayage companies have to wait for a container for over 10 hours to pick up a can, and that's just too extended a time. A lot of people are even getting out of the drayage business because it just doesn't pay.

As was suggested, it makes sense to perhaps start with a whiteboard, look at all of these challenges and then ask what is practical. Take each one of them, look at the root cause and get to the base of it. Is labour the biggest issue? Are the physical cans the bigger issue? Is the space the bigger issue? Is the port the biggest issue? Is it all of the above? Perhaps that's the long-term strategy for Canada: What's most important, where do we start and how do we take this in pieces and deal with it?

Mr. Brian Masse: Thank you.

Go ahead, Mr. Al-Katib.

Mr. Murad Al-Katib: Mr. Masse, I would say that very key, in my mind, is an analysis of the infrastructure gap we have. Again, land and apron space at the ports are at a great premium. We need to ensure that we have infrastructure inland to handle containers and intermodal.

As Mr. Hemmes mentioned, the percentage of containerization in the grains sector has risen from 4% to 10%. We expect that this will go to millions of additional tonnes. We need the infrastructure plan to be, as I say, a long-term solution. We need to better plan our port infrastructure and our railway connectivity to inland locations. Railways today are still going through the middle of our cities. These are all inefficient. Long-term solutions need to be implemented to ensure that we have a modern trade infrastructure.

As we look at inland ports, we need to have apron space available. We need them to be efficient in and out so we can minimize waiting times for pickups, drop-offs and refills, and then can get those containers back on. If we don't do that, at some point we won't be efficient and the steamship lines will never stop here.

Mr. Brian Masse: Before I go to you, Mr. Hemmes, I'll quickly give credit to Allan Rock, the industry minister back in 2002-03. We did the same with the auto sector. We created a red light for the worst things, a caution light for things that were up in the air and then a green light for good stuff. It was almost like an entire inventory of the problems across the board, from building a car to selling a car. Perhaps that might be a way to go. That was Mr. Rock's initiative, for which he deserves credit.

Go ahead, Mr. Hemmes, and I know I'm out of time.

Mr. Mark Hemmes: Very quickly, I agree with what Murad had to say.

I would also point to the fact that in just the last couple of days, the supply chain task force released their report. If you haven't read it, I would encourage you to read it, because they were pretty broad in what they looked at, and I think a lot of the ideas they put forward in there would address a lot of the process-type issues.

The infrastructure side of it is absolutely a part of it, and I don't think we've looked at things closely enough to point to where we should start, as right now we're still almost in a panic mode and we're trying to fix everything at the same time. I think you have to go back to this point of where you start with something like this, and if you fix one thing, it's going to be a case of whack-a-mole, to be quite frank.

• (1345)

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

Mr. Lewis, you have five minutes.

Mr. Chris Lewis (Essex, CPC): Thank you, Madam Chair, and thank you to all the witnesses.

Unfortunately, this is kind of a gloomy Friday, so to speak, with regard to some of the testimony. Although it's fantastic, true testimony, it's gloomy, quite frankly.

We heard that just a few years ago a container used to cost \$3,000 to ship, and that at the peak it was \$23,000 to ship a container. There is one taxpayer and one final end-user, and it is each and every Canadian. I don't know if it's price gouging. I don't know what it is, but it seems pretty wild. It's no wonder that Canadians can't make ends meet.

The discussion is not about just building more containers. That's not going to solve the problem. This is very much a shipping issue, and I understand it from that aspect.

I'm fortunate to have visited ADM, a shipping company specifically for grain, right in the Windsor-Essex area. The majority of their shipments of grain go to the United States, which is, of course, our greatest trading partner. I've met with them. They sit right next to the Windsor Port Authority, and I've visited them as well. I understand the whole rail side of things. Ironically, as I've said a million times, if you can find it in Canada, you'll find it in Essex.

I want to speak very quickly to Mr. Sheehan.

I really appreciate you bringing up the labour aspect of this, sir. As the shadow minister for labour, I have been in direct contact with a lot of the unions on both the east and west coasts. I do realize that hours differ from coast to coast with regard to how many hours they can work compared to how many hours they can have off.

Mr. Hemmes, you mentioned that the third-worst port in the world is Vancouver. I'm going to say that's the bad news. Actually, no, I would have to say that's the good news, because we also have the Toronto airport, which was deemed the worst airport in the world. I think it's now number two. Perhaps the Vancouver port isn't as bad as we think it is.

Mr. Negad, could you tell me what we can do going forward? If we had a magic wand today, what would be the answer? What's the immediate answer to relieve some of this pain?

Mr. Masoud Negad: I think we have sort of answered that. I think the suggestion of looking at the infrastructure is definitely a good one. There is also the whole supply chain system, which has been suggested as a way to look at what's happening with the rails and what opportunities, if any, we have with labour at this point.

I think getting more involved as a government is the best thing we can do, not just sitting back and letting the private sector drive this wherever it may go. Canada needs help. The supply chain systems need a lot of help and support. Getting involved, doing the proper studies and addressing key opportunities would be the way to start.

• (1350)

Mr. Chris Lewis: Thank you, Mr. Negad.

Mr. Hemmes, let's think a bit outside the box. What can Canada do with other countries so that we are the leader and not the follower? I'm trying to think big and global. Is there a way that we can be the shipping corridor so that we're not relying on the United States or Asia? We can be the destination. Do you have any thoughts on that, sir?

Mr. Mark Hemmes: I would hearken back to the comment about the Port of Vancouver being the third-worst port. I don't think we have that bad a system right now, especially on the port side. It was a victim—I hate to use that word—of the circumstances of the time. It was probably, in fact, a very efficient port, but because of the backlog, the pandemic and all the things that happened, the whole west coast of North America was inundated with containers in a fashion that we've never seen or experienced before.

I would also point to Murad's suggestion that we have to become more reliant on moving the containers out of the ports faster than we do today. That's an effort of coordination with the railways. I think that could be a point of focus. Get those containers away from the port as soon as you possibly can.

Some of the success seen at the Port of Los Angeles, for example, is from doing that. Burlington Northern recently announced that they're going to build a huge facility in Barstow, California, that does exactly that. They're going to take the containers directly off the ships and run them out to Barstow. That's where they're going to make up their trains, rather than doing it like we do in Canada, which is essentially making up the trains right on the container terminal stock. That is probably one of the biggest drawbacks that we have right now.

If you could start taking those containers away—

The Chair: I'm sorry, Mr. Lewis. Your time is up.

Mr. Chris Lewis: Thank you, Chair.

The Chair: We'll move on to Mr. Virani, please, for five minutes.

Mr. Arif Virani (Parkdale—High Park, Lib.): Thank you very much, Madam Chair.

I'm curious to hear the end of that answer, Mr. Hemmes. I'll say to you that I was quite taken by some of the earlier testimony. I

think it was Mr. Al-Katib who said something to the effect that it was so congested on the west coast that they were diverting more of their exports east, toward Halifax and Montreal.

Mr. Hemmes, can you finish your point about the change in the location where you're loading up the train and how that change is working in and around the Los Angeles area? How might that apply on Canada's west coast?

It's over to you, Mr. Hemmes.

Mr. Mark Hemmes: I would point out that right now, they are probably crating the trains in Los Angeles and Long Beach very close to the dock. However, what Burlington Northern is planning to do—they've announced this, and I think they will do it and it will be in place in the next two years—is take them far away from the dock to what equates to an inland terminal, much the same as what Murad has created in the city of Regina.

We don't do that a lot here in Canada. There's an inland port just outside of Kamloops, B.C. There is the one that Murad has in Regina. They're trying to do the same thing in Winnipeg, but we don't really do that in Canada. I think it comes down to a total rethink of how we manage our supply chain and the logistics within the country.

A lot of that is going to require the railways to get on board with this idea. A lot of it is going to require investment.

Mr. Arif Virani: If I could, I'll build on that, because I think it was Mr. Negad who first gave us that statistic about the ranking of the Port of Vancouver. How much of that ranking is informed by the length of time it takes to off-load the containers from the ships in the Port of Vancouver?

Maybe Mr. Negad or Mr. Hemmes could try to answer that. Thanks.

Mr. Mark Hemmes: The report he's referring to was done by the World Bank and it was published in January and February. It had a timeline of what was going on in 2021. That's why I say that it's not exactly fair to judge the longer-term efficiency of those ports based on what happened in 2021, because they were going through the pandemic. The ranking has to do with the amount of time that ships are in harbour and how long containers, both loaded and empty, dwell sitting on the dock and how fast they're processing the vessels through the port.

When confronted with the situation they were in during the last part of the pandemic and the postpandemic period in 2021, it seems only reasonable that they would end up in that situation because they are the four or five ports that exist on the west coast of North America, and almost all of the traffic flowing into North America is going to flow through those two ports out of the Asia-Pacific countries. That's how they ended up in that situation.

As I said, it's a real statistic, a real measurement. I don't think it's fair to judge their efficiency based on that isolated period of time.

• (1355)

Mr. Arif Virani: Mr. Negad, do you want to add to that?

Mr. Masoud Negad: No, other than to ask what the future could bring, because as we've talked about in other comments, there's still an opportunity for infrastructure. Whether Vancouver ends up being the third-worst port or not, the point is that there is an opportunity for us to review this to see where the Government of Canada wants to be involved in terms of adding to infrastructure.

Mr. Murad Al-Katib: Could I add one thing? If the containers don't come into Canada, we don't have a chance to use them on the way back out. The more efficient we get in our ports.... We need the U.S. volume of consumer goods to drive the availability of containers in Canada. Our population is too small and our productive output is too big.

This is the incentive. If we get efficient, then we draw the U.S. volume into Vancouver and, going by rail, into the Midwest, and then we get the containers on the way back. That's the advantage for Canada.

Mr. Masoud Negad: If I may add—

The Chair: Do so quickly.

Go ahead, sir.

Mr. Masoud Negad: If I may add, today those steamship lines don't want to come to Canada because, whatever the reasons are, we're taking too long to turn their ships around. We won't be able to achieve the goal that Murad is after unless we have more efficient processes in place.

The Chair: Thank you very much.

We'll move on to Monsieur Savard-Tremblay for two and a half minutes.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Thank you, Madam Chair.

I'd like to hear the witnesses' thoughts on the local situation. I'll explain.

According to a Reuters article that came out in June 2020, the world can expect port congestion and high shipping rates to persist into 2023. From your perspectives, should we expect the same in Canada? In other words, do you think that rates will stay the same or even increase and that port congestion will persist?

[*English*]

Mr. Murad Al-Katib: I could give a perspective to start. I want to make this gloomy Friday afternoon a little lighter.

As I look out my window to our container terminal, I note that I haven't seen this many containers in Regina in the last two years. Equipment supply is loosening and our steamship line rates for the periods of November, December and January are declining quite rapidly.

We are seeing a global slowdown related to inflation, and the slowdown in global demand is starting to show its benefits. I'm a

believer that by mid-2023 we will be getting back closer to the rates we saw in the period of 2019-20.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Thank you.

Mr. Al-Katib, earlier you said it was necessary to revisit the strategic importance of ports, so I'd like you to elaborate on that, please.

[*English*]

Mr. Murad Al-Katib: The bottom line is that the productive capacity of Canada is growing in every sector, whether it's the resource sector or the manufacturing and value-added sectors. Containerization is needed. Our agriculture sector, as an example, is not based on bulk vessels any longer. That's a commodity business. The future of Canada is feeding the middle-class income growth in Asia and in emerging markets around the world. That requires containers for value-added product. We need port infrastructure to be planned and we need it to be connected.

The Chair: Thank you very much.

We'll move on to Mr. Masse for two and a half minutes.

Mr. Brian Masse: Thank you, Madam Chair.

I want to follow up on the port infrastructure challenges we have had. I think it was Mr. Hemmes who mentioned the lack of data that's available.

Is that something we can get from regulation through the Canada Marine Act, which the ports operate under? The ports have politically appointed boards and they are connected to the Canada Marine Act. Is that something we can do through regulations? If you don't know, I can follow up and find out myself. I'm just curious.

• (1400)

Mr. Mark Hemmes: I'm certainly not a person who could answer a question on creating legislation, but because those stipulations already exist in the Canada Transportation Act and the Canada Grain Act, I can't see a reason why you couldn't extend them to containers as well, whether it's through the Transportation Act, the Grain Act or the Marine Act.

There are stipulations in the Marine Act that I'm aware of that call for information and data, but it's not necessarily to the same degree of disaggregation that would be required for any usable analytics or measures. That's what we need. We need more visibility in how containers move from origin to destination, what port they flow through and the rate and speed at which they move.

Right now, we're wholly dependent on the data that's processed and provided by the port authorities, and they do that on a voluntary basis for the most part.

Mr. Brian Masse: I can assume there are probably no standards on comparables.

Really quickly, Mr. Negad, does most of your information come from your own private research or is it from government resources? I'm curious, because you have done a lot of work here.

Mr. Masoud Negad: It's information from our third party logistics providers and research that's available to all of us. The full brief that I've submitted has all the sources.

The Chair: Thank you very much.

We'll move on to Mr. Aboultaif for five minutes.

Mr. Ziad Aboultaif (Edmonton Manning, CPC): Thank you, Chair.

It's good to see you. It's been a while since I've been on this committee.

I've been in international business all my life and what I see in the shipping market is unbelievable. It is hard to understand and hard to comprehend. Truly, it's beyond many people to be able to clearly understand or explain what's going on.

What comes to mind, based on the conversations and the observations that we've had today from the witnesses, is that the problem is on three levels. It's the government, the transportation industry and the business industry.

The question to Mark is, how do we sit down in front of each other, face to face, and say we have a problem? If a container goes to the west coast but to the United States, it will cost three or four times less than if it comes to Canada. Thus, we have a problem. Let's face the truth.

What are we doing wrong in this country that we cannot solve this problem and bring goods into Canada or ship goods out of Canada in the most efficient way, compared with other economies?

Mr. Mark Hemmes: I can't speak to the rate issue, but I know that rates have been fluctuating and are coming down now, from what I'm told by the shippers I speak to.

I think the biggest difference is probably in the level of competition. You have so many more ports with much more capacity in the United States, plus a population that is 10 times greater than that of Canada. As Murad alluded to earlier, in Canada we don't have the same demographic composition as in the United States. Because the majority of the traffic coming into Canada is consumer goods, they are always going to prefer going through the U.S. route if that route is shorter.

Where Canadian ports and Canadian railways have been able to compete is by moving into some of those primary markets faster and more efficiently than their U.S. competitor railways can. That's what has been key to the growth in Vancouver and Prince Rupert, in particular.

I think what we have to do is get back to the basics of competition and get those ports back to being more efficient and more inductive for shipping lines to want to move through those areas.

• (1405)

Mr. Ziad Aboultaif: What's stopping Canadian companies—importers—from using U.S. companies, and bringing the product to the U.S. to then truck it to Canada? That would cause Canadian ports to lose business.

Based on what I'm hearing, that's really the direct result of how prices in Canada are unaffordable and so high. We're not talking about 10%, 15% or 20%. We're talking about a difference of 100%, 200% or 300%.

If we're going to continue on this path, we can see the situation worsening by the day, because if I'm an importer, I would rather bring product to Seattle and then maybe truck it to Canada instead of bringing it to Vancouver and paying three times more.

Mr. Murad Al-Katib: In our business, going to the U.S. would cost us more, even with the higher rates. It's not an option to do that. It would cost us more to off-load trucks than it would to continue to go through Canada.

One thing Mark said is that we always have a tendency to beat up on the railways. In this case, the railway service into the Midwest has actually been faster than U.S. railway performance. We need to just continue to tune our chain.

Mr. Ziad Aboultaif: I can understand that the pandemic is definitely a big cause of what happened, but now we're out of it, and we don't seem to be going back as fast as we should, so we are losing an industry.

Again, if I'm going to look at the three factors—government, the transportation industry and businesses—which one is more responsible and which one should make the first move to solve this problem?

The Chair: Whoever chooses to answer the question, please give a brief answer.

Mr. Mark Hemmes: I think you have to go to the shipping lines.

Mr. Murad Al-Katib: I think you have to go to infrastructure.

The Chair: Okay. Thank you very much. Those were two fast answers.

We'll move on to Mr. Miao for five minutes, please.

Mr. Wilson Miao (Richmond Centre, Lib.): Thank you, Madam Chair.

Thank you to all the witnesses for participating in this study today.

There's no doubt that there is an effect on our supply chain across the nation due to the number of containers. I'm wondering if anyone can share with me how many containers your businesses use annually. Do you have a better idea of how many containers are needed?

Maybe Mr. Al-Katib can answer first.

Mr. Murad Al-Katib: We are one of the largest container users in the country. Our Canadian business ships in the range of 25,000 to 35,000 containers per year. Again, that's probably among the largest 10 users in the whole country.

From our perspective, though, we've had to recreate our supply chains. The equivalent of likely another 20,000 containers has now been diverted to bulk vessels via the Port of Vancouver for bulk loading because containers aren't available. Our volume would be more in the range of 50,000, but we're only doing 30,000.

Mr. Mark Hemmes: I did a quick calculation. It's about 346,000 TEUs a year for grain alone.

Mr. Wilson Miao: Thank you.

Does Mr. Negad want to share that information as well?

Mr. Masoud Negad: Sure. We're a family-owned business. We're a very small regional chain, and we do less than 1,000 containers a year, but it's the pricing impact that is significant for us.

I should also clarify, as I know I made a comment that was based on data from yesterday, that there's not always much of a difference between the Port of Seattle and the Port of Vancouver. When we did a study in February, it was a 30% difference. The U.S. was 30% cheaper than Canada. However, what's happening is that because the U.S. ports have more scheduled ships and volumes have dropped, they have all these ships already destined to go there, so they're putting on a fire sale, getting many more than what Canada would get. I wanted to clarify that.

• (1410)

Mr. Wilson Miao: Thank you very much for sharing that.

I had a chance to speak to the Vancouver port authority a couple of months ago. I understand that they are also doing some expansion on the west coast, one expansion being the Roberts Bank Terminal 2.

I'm not too sure if I'm correct with the following information, but the Prince Rupert terminal doesn't have 40-foot container capacity, so most of those bigger containers are coming in through the Vancouver port and are off-loaded through the west coast to other parts of Canada.

With the container limitation—and most of the time the containers are coming into Canada—do any of your businesses see empty containers being shipped out right away after being off-loaded because of how containers are in demand globally?

Maybe Mr. Al-Katib can start.

Mr. Murad Al-Katib: I can start.

I believe your understanding of the 40-foot situation in Prince Rupert is not correct. Prince Rupert can handle 40-foot containers, but we did see a very significant increase in the number of empty

containers that were being shipped back, not only directly from the port but also from inland locations. They were empty and were not stopping. Part of that was driven very much by the rates they were getting out of Asia. The containers were moved back empty, as they were getting \$30,000 a container to come back, so from that perspective, they decided they wouldn't let them stay here.

We're seeing that ease now. Business is getting tougher for the steamship lines to get, and now they're taking all the volume they can get again, which is going to be good news for Canada.

Mr. Wilson Miao: Thank you.

Go ahead, Mr. Negad.

Mr. Masoud Negad: In our case, actually, the return of containers in Brampton is causing a problem because there is congestion. As I mentioned earlier, there is congestion in Brampton at the yards. They've added yards, and it's causing a big problem. The drayage companies can't unload their empties fast enough, so they have to sit until they are able to drop off their empties.

For us there's been a big problem with empties as well. They are not going back fast enough.

Mr. Wilson Miao: Thank you.

Go ahead, Mr. Hemmes.

The Chair: Be brief, sir.

Mr. Mark Hemmes: I would refer him to figure 3 in the document I presented. It gives you the numbers on how much empty container movement there was out of the Port of Vancouver.

Mr. Wilson Miao: Thank you.

The Chair: Thank you very much.

We've completed two rounds of questioning. Does the committee wish to do another round, or do any committee members have some critical questions they would like to ask the witnesses?

Mr. Randy Hoback: I think we're good, Chair.

The Chair: Everybody is good. Okay. Thank you very much.

Thank you very much to the witnesses. That was very valuable information that we'll take forward in looking for some solutions the committee might recommend.

We will go in camera. I will suspend for, hopefully, two minutes only, and we can deal with committee business following that.

[Proceedings continue in camera]

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