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Chair: Mr. Kody Blois



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• (1100)

[*Translation*]

The Chair (Mr. Kody Blois (Kings—Hants, Lib.)): This meeting is called to order.

Welcome to meeting number 26 of the Standing Committee on Agriculture and Agri-Food.

Dear colleagues, this is our last meeting before the House rises for the summer. I hope you had a good weekend in your ridings. I notice that there are a lot of community events happening right now. I want to thank you for your cooperative and constructive work, while bearing in mind the interests of our farmers.

I will start with a few reminders.

Today's meeting is taking place in a hybrid format, pursuant to the House Order of November 25, 2021. The proceedings will be made available via the House of Commons website. Just so you are aware, the webcast will always show the person speaking, rather than the entirety of the committee.

As usual, screenshots or taking photos of your screen is of course not permitted.

[*English*]

Again, colleagues, let's just make sure we're respecting the health and safety rules put forward by the Board of Internal Economy.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on Monday, May 30, 2022, the committee is commencing its study of the micro cultivation of cannabis and cultivation of hemp. Of course, we're going to be hearing about this as it plays into the regulatory process that Health Canada is conducting five years after the legislation was introduced.

I'd like to now welcome our witnesses to the first panel.

Joining us by video conference from the BC Craft Farmers Co-op, we have David Hurford, who serves as the secretary; from the Cannabis Council of Canada, George Smitherman, president and chief executive officer, and Jacqueline Menezes; and from Sweetgrass Cannabis, Timothy Deighton, director and owner.

Welcome.

Each of the organizations will have up to five minutes for opening remarks.

I'm going to start with Mr. Hurford, from the B.C. Craft Farmers Co-op.

You have five minutes.

Mr. David Hurford (Secretary, BC Craft Farmers Co-op): Thank you, Mr. Chair.

Thank you to the committee for the opportunity to speak to you on this important topic.

The BC Craft Farmers Co-op was established two years ago to help B.C.'s legendary craft cannabis farmers transition to the legal market and maintain our province's global brand for cannabis excellence. We operate under the co-operatives act of B.C., in the tradition of thousands of other agriculture co-ops across Canada.

Our B.C. cannabis farmers are truly a national asset. They are the best in the world at what they do, and they should be celebrated. Unfortunately, the federal government's micro-licensing regime is excluding thousands of them, not just in B.C. but across Canada. In the first three-plus years of legalization, barely 80 of B.C.'s craft farmers have completed Health Canada's micro-class regulation maze. By comparison, 6,000 medical farmers in B.C. are licensed with Health Canada. A cannabis policy reset is definitely required to realize the full potential of legalization in Canada and unleash B.C.'s craft cannabis community.

In April our organization hosted a summit in Kelowna with the Association of Canadian Cannabis Retailers. Over three days, about 400-plus leaders in the sector came together to hash out some of the challenges created by the federal regime, among other things. Today I'm honoured to present just a couple of the constructive policy proposals that were reviewed, voted on and prioritized by delegates during the summit. There are three of them, and I'll touch on them quickly.

First, the federal government should officially recognize across all legislation that cannabis is actually a legitimate and legal farm activity and product. Canada still does not define cannabis in this way. The B.C. government is planning to exclude structures for use in producing cannabis in the agricultural land reserve. This reality is keeping craft farmers from being eligible for most government assistance.

Second, we need to help these craft farmers transition into this new legal regime and create thousands of rural jobs across Canada. A thousand licensed farmers in B.C. have the potential to create three to four thousand jobs and hundreds of millions of dollars in new revenue for taxpayers over the next two to three years. These farmers and processors should be able to access capital, grants and small business loans that other agriculture sectors can access. We believe that with the new Pacific economic development agency, a craft cannabis partnership can be created with all the players involved to really grow the sector's capacity. We think there should be economic development grants for indigenous and local governments that want to expand craft cannabis.

Finally, the Cannabis Act needs a reset. It is up for review this year. It continues to rely heavily on the punitive and authoritarian approach that we saw during prohibition. This review does present an opportunity to reset. We believe an all-party House of Commons committee should be the one reviewing the act instead of Health Canada, as oversight is required. We also believe there are some small changes that the minister can make immediately to the act without any disruption in advance of the review, particularly related to the micro production caps, security pre-clearances and so on.

If significant improvements are not made over the coming year and Health Canada continues to approve licences at the current slow rate, summit delegates resolved that jurisdiction should be transferred to an agency mandated to support the industry and help it flourish. We have submitted all these proposals to the various ministers of health, innovation, agriculture and rural development.

To conclude, there's been a lot of speculation about why Canada's industry has not taken off since legalization three years ago and why the illicit market is still such a significant element. The reason is that cannabis legalization has deprived consumers of what they want. They want fresh, locally grown cannabis by farmers who respect the plant and are passionate about their craft. Canada's legalization task force anticipated the risk of excluding these micro farmers. Otherwise, the task force predicted the development of unhealthy monopolies and large conglomerates, and that's what we're experiencing now in our industry.

Our proposals are designed to be practical measures that can achieve win-win scenarios for consumers, small businesses, rural economies, agriculture industries and Canada's tourism sector as well. Working together, we can ensure that the legacy of cannabis legalization is not just that people are no longer arrested for possession of small amounts of cannabis. Instead, the legacy should be tens of thousands of Canadians who are proudly employed and making an honest living for their families doing something they love to do for the benefit of others.

Thank you, Mr. Chair.

• (1105)

The Chair: Thank you, Mr. Hurford. You're right on time.

We'll now turn to the Cannabis Council of Canada.

Mr. Smitherman, it's over to you for five minutes.

Mr. George Smitherman (President and Chief Executive Officer, Cannabis Council of Canada): Thank you very much, Mr. Chair.

Let me begin by saying what a privilege it is to appear before the committee today. I would like to say that the Cannabis Council of Canada would be well aligned on significant portions of the previous witness testimony, and thank you for that. As an industry that enjoys so many regulatory relations with Health Canada and CRA, we feel very at home amongst those who focus on Canada's growers.

Cannabis and cannabinoids are a value-added agricultural crop contributing billions to a sector that is rapidly leveraging research and technology to create innovative products for millions of adult Canadian consumers. Through the leadership of the government and parliamentarians, including so many of you, our products are trusted globally and we are quietly exporting millions in medicinal cannabis products to welcoming nations and patients. That global market for cannabis exports is rapidly expanding and is estimated to reach \$100 billion U.S. by 2030. At least 55 countries currently have or are considering purposeful cannabinoid regulations. Canada's remains the most consequential global cannabinoid legalization initiative, but first mover advantages are proving perishable.

Considering that there are more than 800 licences issued under the , Bill C-45, it's fair to say our licence-holders can be found in all of Canada's regions, and with more than 3,000 retail stores and a truly diverse ancillary services sector, our industry is everywhere, just like our consumers and our community. During our industry lobby day we met with parliamentarians and focused on five key asks where we need to see change if the fuller potential of the goals of legalization are going to be achieved. I want to draw your attention to the threat of the very sustainability of many licence-holders of all sizes posed by unsustainably high taxes, fees and markups that leave almost nobody cash-flow positive. Undercapitalized micros are the most vulnerable.

Just as a quick reminder, licence-holders—sometimes referred to as “LHs”, especially by Health Canada—come in various sizes of operations. Prior to the Cannabis Act, the medical cannabis regulations in place created a very high bar for facilities and operators, and were an important element that made the legalization of adult recreational cannabis possible following 2015. The regulatory model did not create avenues for historic or legacy producers to find their way into the new legal cannabis supply chain, and in response the micro category was introduced. The trade-off was simple: in exchange for a very small footprint, micro cultivators or throughput micro processors were born with watered down regulations in areas ranging from internal and external security, through to the requirements to have a quality assurance individual on staff.

Previously, it was presumed that the legacy grower with the micro licence would produce cannabis and sell it up the food chain to a larger scale licensed producer with brand and market reach. That marketplace, dominated by a few large players, has not emerged and the numerous micros, including C3 member HRVSTR, led by Ashley and Michael Athill, have fought for the direct-sale-through-distributor model to the provincial boards. In response, Health Canada recently shifted approaches and proactively provided sales licence status to all applicants, including micros, which implied an understanding that micros would be directly involved in sales to distributors, namely, to the provincial boards.

Here are some of the current challenges that micros are facing even beyond the overall burden of taxes, fees and distribution markups that fundamentally impair our ability to compete with the unregulated market.

The micro scale makes it difficult to generate enough revenue to support some of the services implied by a direct sales model. Our organization is on the record as favouring an increase in the footprint or processing volume of micros.

Quality assurance stands out as an area where our coordinated plan to build capacity through shared services and best-practices models should be developed with support from AAFC.

Financial services access, and especially very expensive requirements for boutique recall insurance from the provincial distributors, requires special attention.

- (1110)

The smallest players in a nascent agricultural sector need nurturing support, and a cannabis lens should be applied to current programs to ensure fairness. For instance, a micro cultivator with an outdoor grow would not enjoy the same protection from weather-related risks as adjacent crops, because cannabis is not on the list.

Finally, Mr. Chair, achieving the objective of eliminating the illicit market includes the need for the integration of legacy growers into a sustainable environment that includes support for BIPOC communities that have historically borne the greatest price for cannabis legalization.

Thank you for the time. I appreciate the opportunity.

The Chair: Thank you, Mr. Smitherman.

We'll now turn to Sweetgrass Cannabis.

Mr. Deighton, it's over to you.

Mr. Timothy Deighton (Director and Owner, Sweetgrass Cannabis): Thank you very much for having me.

My name is Timothy Deighton. I'm representing the micro cultivators of B.C. and Canada, and I want to give a little bit of scope on what I have been through and some of the process.

I'm the director of Sweetgrass. I live in Ymir, British Columbia. Our town has about 450 people.

My previous experience dealing with Industry Canada was running and operating a small aircraft charter with five airplanes from private charter to fire patrol for the government.

Sweetgrass Cannabis is a certified organic cultivation and processing company. We started in 2018. We started with one cultivation facility, and we have recently added a second. We have 15 employees. From the beginning, we've been hiring local contractors and local employees, trying to help benefit rural B.C. and our community.

We produce and sell dried flower. We are selling in British Columbia and Manitoba. It's packaged in-house through Sweetgrass Cannabis. We also sell business to business to a company in Nova Scotia, which provides cannabis to all of Atlantic Canada. Right now we're also exporting to Australia. As well, we've been working on a deal with Israel. Recently, we completed our medical sales platform. We've started working with the veterans of Canada as well as a variety of other medical patients.

I want to touch on a few of the issues and challenges we've had as a micro cultivator.

One of them is that even though Health Canada has been really helpful in trying to work with us in establishing this new industry, they just do not have the experience or the knowledge of working with plants. That's become an issue moving forward in an agricultural sector.

One of the major issues we had was that we became one of the first micro cultivators to get a federal sales licence. This process took 11 months for us. In that process, the 11 months, we were losing up to \$50,000 to \$75,000 a month waiting for Health Canada to go through our application. I think this was based on their lack of experience and knowledge in the agricultural sector.

Another issue we've had is the huge cost of becoming a micro cultivator. It's almost made it impossible for the legacy people to be transitioning to—what do we call it?—the white market. Part of it is that the security requirements for our buildings are so grossly overpriced. There's more money in a winery. There's more money in product at a winery than there is at a micro cultivation facility. The cost was \$100,000 for us to do our two micro facilities. That's a huge roadblock for all future micro cultivators.

As well, what Health Canada has required is that the building has to be completed before we even apply. This is just a deterrent that makes it impossible for the small grower to move forward towards legalization.

Another major roadblock for us as a small company moving forward is our marketing and our packaging requirements. Right now, if we sell business to business, the business that we're selling to is not even able to put our logo on the packaging. For us to be developing our company and our brand moving forward as a small business, it's almost impossible to be recognized throughout Canada unless we have this federal sales licence. Since we are one of the first, it's been beneficial, but we're only in B.C. and Manitoba compared with Atlantic Canada, where we'd like to be growing as a company.

One other major issue that I'd like to bring up is the canopy size for a micro cultivator. In terms of the canopy size, we are restricted to a certain limit, but the production limits they give us are not even achievable with the size of the canopy that we've been given. We need to address this to allow us to grow at the proper canopy size for the proper amount of production. It's just not in alignment.

What I would like for Sweetgrass is to have a reasonable business environment that allows us to help our rural community grow and flourish in Ymir, British Columbia, and throughout Canada.

• (1115)

Thank you.

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

We'll turn to our question period now. I'll start with the Conservatives for six minutes.

Mr. Epp, it's over to you.

Mr. Dave Epp (Chatham-Kent—Leamington, CPC): Thank you, Mr. Chair.

Thank you to the witnesses for your excellent testimony.

I want to make a statement before I begin questioning. Given the experience of my local community and other areas, please don't perceive the questions I'm asking as opposition to the 2015 legalization of marijuana. However, there have been a number of downsides for a number of communities, as have been mentioned here, particularly on the medical side. I want to make that statement up front.

To begin, can I ask for a definition of what a micro licence is, versus a medical licence? I understand the stacking and those issues, but could I have a definition? I believe the last speaker was referring to concerns around that.

• (1120)

Mr. Timothy Deighton: The difference between a micro cultivator and a medical cultivator is the federal licence. The licence allows you to sell medically. There's no difference in growing for medical or recreational. It's the sale of it.

We have a federal sales/medical licence through Health Canada.

Mr. Dave Epp: There are no size restrictions on your operation.

Mr. Timothy Deighton: Yes, my size restriction is based on the canopy. If you look down on the plant canopy, in micro cultivation, we're limited to 200 square metres. It's about 2100 square feet of actual plant size. The building can be bigger, but the plant canopy is limited to that size.

For expanding and growing, every time you want to have another facility, you have to go through the entire application process again.

Mr. Dave Epp: One of the issues on the medical side is the Health Canada regulations around the conversion of a growing plant to prescriptions. I recognize, being in agriculture myself, that it's going to vary from cultivar to cultivar, but what would be an average yield in grams from a marijuana plant or from a square metre perspective?

Mr. Timothy Deighton: I don't know the square metre. I know the square foot. On average, it is....because it depends on your style of growing. You can either have large plants or small plants, depending on the style of growing.

I'd say that on average you'd have, per plant, in the style that we're doing it, about 60 to 90 grams per plant. That's in a micro setting, growing for medical or recreational.

Mr. Dave Epp: Health Canada uses 28 grams per plant, whereas OPP expert testimony uses 84 grams.

Would you state for the record that the OPP estimate is probably closer to a growing reality?

Mr. Timothy Deighton: Yes. For an experienced, quality grower, I think that would be more reasonable.

Mr. Dave Epp: Thank you.

One of the concerns from the legalization is that neither of the two stated objectives—the reduction of organized crime and the reduction of the black market—has occurred. We've heard testimony to that effect. Locally, we've had some input suppliers testify to us that they were being paid in large sums of cash.

To advance the interests of the micro industry, would you consider—and I am going to ask all three representatives—all payments in and out of the industry being tracked or done through a payment mechanism that's trackable?

Mr. George Smitherman: I'm happy to answer that question.

I'm also happy to offer—if it's appropriate—to Mr. Epp that I believe some of your questions pertain to the personal grow model that Health Canada allows as a separate licensing regime for individuals who have paperwork from a medical practitioner. We've taken issue with that, because sometimes those medical practitioners are issuing notes which call for a very significant number of plants that is well in excess of the number that Mr. Deighton would be allowed to grow, I believe, within his limitation of footprint.

Mr. Deighton has spoken about a medical licence from Health Canada within the Cannabis Act, but prior to that and continuing through, Health Canada also grants a grower's personal grow exemption. Some of the scale of that is very challenging to us in various parts of the country, and it was probably a focus of the OPP report that you've referenced, sir.

I hope that intervention might be helpful to the committee.

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

I believe the maximum prescription is 244 plants. If Health Canada uses a conversion rate of 28 grams versus a far more street accurate rate of 84 grams, or as we've heard from testimony 60 to 80 grams, one can imagine how much excess cannabis is available for a market that is not legal. That's exactly the kind of information that I'm trying to get on the record here.

I'll go back to Mr. Deighton. What kind of regulations would you like to see, so that this industry is not tainted with the very same poor reputation that the other regulatory regimes have acquired?

• (1125)

The Chair: You're on mute, Mr. Deighton. You have 30 seconds after you get off mute before we have to move on to the next question.

Mr. Timothy Deighton: I'm sorry about that.

I would like the regulations relaxed for cultivation, so that we can move forward in the same way as the wine industry as far as marketing and distribution go along those lines. I think that would be the biggest help for a small producer.

The Chair: Thank you, Mr. Epp.

Thank you, Mr. Deighton.

There is one other thing that I was reminded of by the clerk. To our witnesses, if you're not speaking, please mute yourself between when you're being asked questions. That helps for interpretation and feedback.

Mr. Weiler, from British Columbia, you're going to have six minutes.

I'd like to recognize that Mr. Morrissey is sitting in on the committee, as well.

Welcome to you both.

Mr. Weiler, you have six minutes.

Mr. Patrick Weiler (West Vancouver—Sunshine Coast—Sea to Sky Country, Lib.): Thank you very much, Mr. Chair. It's a pleasure to be joining the committee today.

Thank you to the witnesses for the excellent testimony already.

I want to start by asking a question of the BC Craft Farmers Co-op. In terms of your policy proposals, you mentioned that one of the big barriers was the federal government not recognizing cannabis as legitimate farm activity, so it's not eligible for assistance.

I was hoping you could explain to this committee how that could change. How could that be recognized as legitimate farm activity, and what would the impact of that be?

Mr. David Hurford: I think Mr. Smitherman touched on it a bit, as well, in his presentation in terms of really looking at our lens across federal rules—particularly in the agriculture department, grant programs at Industry Canada and regional economic development agencies—to recognize what it really is.

This is farming, and this is highly skilled farming as Tim, I think, has pointed out. He's one of the best in the business. We have thousands of them here in regenerative farming, giving back to the soil. There are different agriculture techniques in play.

The land that we're growing on here in British Columbia is sacred land. Indigenous farmers have incredible techniques and a history of growing plants for medicinal purposes. We think it's as simple as putting that lens across all of the federal programs and legislation that is there. We're suggesting provincial governments do it as well.

Also, state the obvious. We had a lot of people who were surprised when this policy resolution came to the summit and said, "You mean cannabis isn't realized as a farming activity now?" Agri-tourism, in terms of cannabis, has a place, especially for craft farmers with farm gate sales. There are a lot of tourists who are very interested in agri-tourism, and cannabis fits very well into that box.

I think it's a matter of looking at the federal programs and legislation that exist now and taking the stigma out of cannabis. It has been stigmatized for so long, with the prohibition. It's very unfair. Start to look at cannabis in a different way and as a really cool agriculture commodity.

It's attracting a lot of young people to farming. We talked to a lot of agriculture producers in other sectors. When they see our conference with a whole bunch of young people getting into agriculture, their eyes are opened to the fact that the cannabis and hemp industries can attract younger people into this business, because it is what it is. It's really farming.

Mr. Patrick Weiler: Thank you for that.

Moving on, one of the big challenges we've had over the last five years since legalization is that the black market's still there. It still has a huge market share. One of the challenges that has been raised already is the low limits of micro production, which make it difficult for the business case to work for a lot of small producers.

Through you, Mr. Chair, to Mr. Hurford, could you explain what level of production is allowed in micro productions right now? What do you see as being a reasonable increase of that level, such that it would make it more attractive and more feasible for a lot of the craft producers to get into the legal market?

Mr. David Hurford: The figure right now is arbitrary. It's, as Tim described: It's very small, or about half the neutral zone of a hockey rink, and it's very difficult to make a profit. What we've suggested previously to the government is that this should at least be doubled to 4,200 square feet, which would be the full neutral zone of a hockey rink—still very small and, from a municipal government's point of view, not that treacherous. The figure is arbitrary. Health Canada has told us that they just picked this number essentially out of a hat. It's very unfair.

We suggested 4,200 square feet as a doubling, but, frankly, it could go higher to 5,000, and maybe even 10,000 square feet. We have a lot of standard producers who are in that field who identify much more with craft growers than they do with the larger ones, so that would be a good place to start.

This is a very easy thing for the minister to change. They could literally do it in an afternoon and, with a stroke of the pen, dramatically increase the productivity and profitability of a number of farmers across the country without creating a lot of headaches for local governments with zoning, etc.

• (1130)

Mr. Patrick Weiler: Thank you for that.

The next question I'd like to ask is of the Cannabis Council.

One of the issues you raised in your opening was the challenges of taxes, fees and markups. I am hoping you could maybe speak a little bit more to this, particularly on the impact of the excise tax and how that, in practice, has been much higher than it would be perceived to be on the bottom line for a lot of the cannabis producers.

Mr. George Smitherman: Mr. Chair, I'd like my colleague, Jackie Menezes, to answer that question.

We had a recent EY report that she could refer to the committee. Also, Mr. Weiler is her member of Parliament, so it seems very fitting.

Go ahead, Jackie.

Ms. Jacqueline Menezes (Advocacy Consultant, Cannabis Council of Canada): Patrick, could you ask the question again? Sorry.

Mr. Patrick Weiler: Absolutely. I was just asking about the impact of the excise tax and how, in practice, it's had a much larger impact to the bottom line of cannabis producers than was originally foreseen by Health Canada.

Ms. Jacqueline Menezes: Thank you, Patrick.

It has had a massive effect on people, on licensed producers particularly, because they now pay up to 40%, I believe—correct, George?—in excise tax. It was supposed to be a one-to-one excise tax and, with the lowering of the price of cannabis at the retail sector, the excise tax has gone up, so licensed producers now see less

of their profits. They're shrinking, and this is having a devastating effect on the—

The Chair: Unfortunately we're going to have to leave it at that.

Thank you, Ms. Menezes.

Thank you, Mr. Weiler. I gave a few extra seconds so we could get that on the record.

[*Translation*]

Mr. Perron, you now have the floor for six minutes. Go ahead.

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

Thank you to the witnesses with us today.

My first question is for Mr. Deighton.

Mr. Deighton, you expressed the opinion that Health Canada does not have either the necessary experience or knowledge to regulate this sector. Yet this product is often used for therapeutic purposes. So there is a connection and a particular interest.

In Quebec, distribution is not the same as in your province. In Quebec, it is controlled by the Quebec government.

Earlier, you mentioned the personal grow exemption for therapeutic use. What I see is the opposite of overregulation. Actually, a number of municipalities in Quebec say that the permits are handed out quite quickly, without consideration for the immediate environment and where the plants are grown.

Do you have any comments on that?

[*English*]

Mr. David Hurford: My sincere apologies; the translation was not working in my headset, so I'm not sure where the question went.

Mr. George Smitherman: I could offer—

The Chair: I'm going to stop the clock just quickly.

For our witnesses, my apologies that this wasn't clear. There is an ability to toggle between English and French, so perhaps that might not have been what happened in your case, Mr. Hurford.

Mr. Smitherman, I'll turn to you.

Mr. George Smitherman: Thank you.

With respect to the reference to B.C. and then the SQDC, one of the realities that we face is the Canadian patchwork. As the provinces and territories have had various approaches to distribution, this has created a lot of very unique models and some very significant challenges for licensed producers. They're often shipping their products to multiple jurisdictions.

On the second point, I would have to say that we as an industry have echoed concerns raised by many provinces and territories with respect to what might be described as the “porous nature” of the personal grow. We have often felt that the number of plants involved was out of character with the good intentions of the program.

There are many comments and criticisms on the record related to that program. Health Canada did some modest tweaking last year, but we think there is area for more improvement in tightening that program to its perfect intentions.

Thank you.

• (1135)

[*Translation*]

Mr. Yves Perron: You said the program has to be tightened up.

Mr. Deighton, I hope you have access to interpretation.

I was referring to the problems experienced by a number of municipalities in Quebec with regard to the regulation of dwellings located in the heart of urban communities. I am not questioning the legalization of cannabis or its use for medical or personal purposes, but the environment needs to be considered.

In some cases, the odour coming from fans was blown into school yards. In other cases, neighbours complained of being inconvenienced by the odour, but the municipalities' hands were tied. They were told that the individuals had permits, and even the police could not do anything. So I think there is a loophole and I would like some information about that.

Do you have the same problem?

Small growing operations and micro-cultivation are in a sector where there is agricultural production, so those inconveniences do not occur. Can you reassure me about that?

[*English*]

Mr. Timothy Deighton: I think a reasonable situation for that is what we do in our regional district. They can have a smell aspect to the regional laws of what is allowable. It's very easy to contain that as far as the production of cannabis goes in maintaining the smells. They are probably improperly ventilating and filtering the smells. A solution would be through the regional district.

I also wanted to slide in what David said about the canopy size and what it should be expanded to. I think that whole thing should be scrapped and it should be made a production limit. It has nothing to do with how big a plant you have or anything. It's what you produce. It would be much easier for everyone to adhere to a certain production limit and be able to tax it.

That is a major thing I think should change to just production limits.

[*Translation*]

Mr. Yves Perron: Thank you.

I will come back to regulation on my next turn.

The legalization of cannabis was intended in particular to eliminate the black market for cannabis. That seems to have worked rea-

sonably well, and it seems there are a lot of black market transactions. Several of you have said it is impossible for illegal producers to transition to the legal market.

What are the difficulties?

[*English*]

Mr. Timothy Deighton: The main obstacles are the cost of transitioning and the lack of support in helping these people transition to the legal market. Unless you have vast business experience, you can't be a farmer and transition.

They have set it up in such a way that it is impossible for a farmer to be just a farmer. You have to be a full-time businessman and know policy, as well, which makes it almost impossible.

[*Translation*]

The Chair: Thank you, Mr. Deighton.

Thank you, Mr. Perron.

Mr. MacGregor has the floor for six minutes.

[*English*]

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

Again, thank you to all of our witnesses for joining us today.

One of the reasons I wanted to have this meeting at the Standing Committee on Agriculture and Agri-Food is that this committee focuses on the challenges that farmers experience in growing. It is a high-risk environment right across the field.

We are very familiar with the frustrations with Health Canada. That is not only from the committee membership, but also from many of the witnesses. Farming is a sector that runs into Health Canada regulations on a daily basis. I think at this committee, you will find a much more sympathetic view to the challenges you experience in the growing aspect.

Mr. Hurford, I would like to start with you. It's really to continue your interaction with Mr. Weiler on the programs that are available through Agriculture and Agri-Food Canada.

You mentioned in your letter to the minister that you wanted official recognition across all federal programs that cannabis is a legitimate farming activity. You also wanted to see that craft cannabis farmers and processors have access to the capital, grants and small business loans available to other agricultural sectors.

Can you clarify for the committee, when you look at the business risk management suite of programs, the federal Crown corporation and Farm Credit Canada, is it currently true that craft farmers don't have access to those, like other agricultural activities do?

• (1140)

Mr. David Hurford: That's largely correct. It's really a patchwork across the country. There doesn't seem to be a lot of consistency to it, but generally, the answer is no when our members go in. There have been some exceptions. Community Futures, for example, has done some good work in British Columbia as well.

We're also looking, of course, at regional economic development agencies in addition to Agriculture Canada. For example, in British Columbia, we've just created a Pacific economic development agency that's focused squarely on growth sectors of the economy.

We think it isn't just the agriculture programs, but I think you could pretty well go through the full suite of agriculture programs and nine times out of 10, you're going to see cannabis as ineligible, particularly for the credit programs. Late-stage applicants can't even get bank accounts at this stage. Even for licence-holders, it's amazing to me how their banks are charging them huge amounts of money if they're even able to get an account. Insurance is whole different discussion; we have some farmers who are giving up their house insurance to be able to get the insurance for their small farm. All the cards are stacked against these farmers; the system appears to be built to fail. Even when Tim gets through the process, there are a whole bunch of challenges waiting for him. For example, we haven't talked about the CRA and other things like that.

It really is these kinds of grants, these kinds of... Even economic development grants from municipalities and from indigenous governments have downloaded a significant amount of costs as well. There's no incentive, really, for municipalities to jump on board and say they want a whole bunch of craft cannabis farmers there; it's just cost and work for them as well. We think even in a case like Lytton, where the town needs to be rebuilt, there are incredible opportunities there to rebuild it around agriculture, and the agriculture we're talking about is cannabis.

I think nine times out of 10, the answer to the question on existing agriculture programs applying to small farmers is no.

Mr. Alistair MacGregor: Sorry to interrupt, Mr. Hurford. That's perfect. I have a few other questions for some of other witnesses, but we do want to get those points drilled down for our committee to make recommendations on.

Mr. Deighton, I'd like to turn to you. You took the time to explain that Sweetgrass has gone through the trouble to become a certified organic company, so congrats on that. I know for the craft industry as a whole, whatever sector you're in, for instance if you look at craft breweries, they're often taking the time to tell a story about how their business came into being, the extra love and quality that they put into the product they make, the extra steps they go to make sure their environment and growing practices are in harmony with the environment. I'm assuming from what you told us that the labelling requirements are so strict your company is not able to really tell that story on the product that it sells. Can you expand a little bit more on that?

Mr. Timothy Deighton: Yes, a huge issue we're having is telling the story of our growing practices, for example. We're in live soil and are using mountain water. There's the care that our team puts into it, and none of this can be shared, even in a picture on the label. This is a big thing that needs to change. We have a beautiful company video that we've been flagged for recently because while we were describing a day in the life of one of our employees, there was an animal in the video and we were flagged for that. Then there are other companies that are able to skirt the laws around it and have inappropriate material in their videos, but because they're a brand, they're able to do that. Yes, these are things that I'd like to have the same as the wine industry does, and we'd be able to use local artists to do our packaging and tell the story. Everything you said there is so correct and what is needed for the craft industry to actually be able to be appreciated and so forth.

• (1145)

Mr. Alistair MacGregor: Thanks, in the last 15 seconds, that's also on the certification, right? You're not allowed to tell whether you've been certified organic or if you're employing regenerative farming methods either, right? Quickly on that, please.

Mr. Timothy Deighton: No, that is not correct. We are able to say that we are certified organic, but that is an issue as well with organic cannabis because we are not recognized as an organic product by the Canadian government and its independent regulatory certifications.

The Chair: Thank you, Mr. Deighton and Mr. MacGregor.

Mr. Barlow for five minutes.

Mr. John Barlow (Foothills, CPC): Thank you very much, Mr. Chair.

I want to pick up on the questions to Ms. Menezes. I don't know if she had a chance to complete her answer. I certainly appreciate it when my Liberal colleague, Mr. Weiler, brings up the concerns with the excise tax, which the Liberal members have been identifying as a problem, since we've been discussing this since the excise tax was increased.

Ms. Menezes, the excise tax is indexed to inflation. I'm curious if your industry has done any analysis of this. Obviously, this is impacting and impeding your industry's ability to grow as it already stands, but next year, when we see inflation at 6% to 8%, or maybe 9%, and when this is set in the fall, have you done any analysis of what the excise tax could possibly be when you see it doubled, if not maybe tripled, from what you're used to?

Ms. Jacqueline Menezes: We have recently done a study, thanks to Deloitte, and we will look at the inflationary impacts.

I'm going to throw it to George to see if there are any other further impacts beyond what Deloitte mentioned.

Mr. George Smitherman: Chair, two different studies have been out there in the cannabis space recently, with Deloitte showing that the sector contributes \$45 billion in GDP. More recently, we put out the first phase of an EY study that shows that the governmental collective appetite for taxes is coming in at the 25% to 40% range. Tax on cannabis was characterized first as at 10%, \$1 in \$10, but the floor has fallen out on the \$10, and it's \$3.50 or whatever, but the tax ratio has only grown as we've seen price de-escalation.

Cannabis, especially the dry flower, becomes like a commodity. The commodity was projected to be \$10 per gram, with \$1 of that as tax. We now have a commodity that's often \$3.50 per gram, and the tax is still \$1, so the proportionate aspect is out of control.

The inflationary piece that you mentioned, Mr. Member of Parliament, I need to check on, because I'm not sure it applies to us in the same way that it does to beer and other excises, but I may be wrong. You'll forgive me for taking a moment to go back and get my facts straight. I'll send information along to all members of the committee related to the EY report that focused in a lot on this overall tax bite, which is making it very difficult for all sizes of growers.

Mr. John Barlow: Certainly, I'd give you that opportunity to go back and find that out. I don't want to make an assumption, but I would assume that you're being treated the same as wine, spirits and beer.

Ms. Menezes, you have a Liberal member of Parliament, and I would certainly go back to Mr. Weiler and say, "Your government needs to change it tack on the excise tax and listen to Conservatives on this issue."

Voices: Oh, oh!

Mr. John Barlow: It's a team effort here; it's a team effort.

In showing that it's a team effort, I'm going to relinquish the rest of my time to Mr. MacGregor.

Mr. Alistair MacGregor: Thank you, Chair. How much time do I have?

The Chair: You have a minute and a half.

Mr. Alistair MacGregor: Thank you, Mr. Barlow, for that.

Mr. Hurford, maybe I'll turn to you. We had a great submission from the Kootenay Cannabis Economic Development Council. In one of their sections, they were talking about the microbial limits placed on cannabis and the fact that the product needs to be irradiated to get rid of it. Often when small craft farmers are growing, especially with regenerative methods, that soil biology is incredibly important to producing a top-quality product. Can you maybe tell us about those stringent requirements and how maybe they're placing an added burden on the craft cannabis industry?

• (1150)

Mr. David Hurford: Absolutely, and I congratulate the Kootenay council for their excellent work. Tim may be able to give you a better technical answer on this.

I think the broader scope, particularly around the issues of microbes, is that the laws have really been brought in without a lot of engagement and consultation with the experts. This is a good exam-

ple, I think, where we have a "made in Ottawa" policy that really doesn't reflect what's going on, and it has some unintended consequences for the sector.

I hope this will be a key point that we can delve into as we review the Cannabis Act, because it really does prohibit a lot of the practices that we want to see, such as regenerative farming in traditional soils and giving back to the earth instead of taking away from it. We pioneer that in British Columbia, and we're very proud of it.

I think this is one of those examples of where a lack of engagement and a lack of consultation with experts really has created some unintended consequences.

I might defer to Tim a little bit more on the details on that question—

The Chair: We're at time, Mr. Hurford.

Thank you, Mr. MacGregor.

I'm going to turn to Mr. Drouin now for up to five minutes.

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

I want to thank the witnesses who took the time to appear before us.

I also want to thank my colleague Mr. MacGregor for putting this motion forward. I think it's an issue that we normally wouldn't have discussed here at the agriculture committee, but there is a sense that cannabis is a crop and that it should be treated as such.

My question is an open question, but maybe I'll go to the council first and Mr. Smitherman.

Can you talk to me about the growth and economics of this sector? Are analysts saying that there will be important growth over the next one, two, three, four or five years? What are the biggest impediments from government regulations that could impede that growth?

Mr. George Smitherman: I would say there is still a pattern of growth that's possible, but we're seriously at risk of stymying that growth if we don't take means to address a combination of three things that lead up to a very entrenched illicit market still having a good go at things.

We have this tax issue that I have put on the table, the combination of taxes and fees. The provinces are big beneficiaries of these resources, of course, if we're forthright about it, but the burden of those collectively, as the EY report shows, is very challenging to sustain.

Second, there are a lot of regulations, which nobody is surprised by, but now we know that a lot of the assumptions behind the regulations are just plain wrong, and the statutory review looks like a very slow process to get the change that a lot of people need more immediately, so I'll just put a circle around that.

What we're really concerned about, Mr. Drouin, is that we would see a situation where we stop growing and we get locked into what we would think is approximately a fifty-fifty situation between the legacy markets and the regulated marketplace.

Our argument—and this is the work that we're doing in the second stage of our study—will be to show all governments that if we take steps together, we can grow the pie, and we can get more of the sales under a regulated framework, which provides certainty for a certain number of public health objectives and really important economic objectives for individuals, for communities and for government.

We're a little concerned that the growth potential that's there as we bring on more of those legacy consumers is being stymied by a series of constraints and that a few years hence we might look back and ask where we went wrong and why we have only gotten halfway there.

Mr. David Hurford: Those are good points. I would add that the restrictive micro-class regulations are really the gift that keeps giving to the illicit market. What we're seeing is consumers are really voting with their feet. They don't have the product they want on the store shelves. They don't have fresh, locally grown cannabis available in their local legal store.

With only 80 farmers approved in B.C. in the first four years of legalization, it's almost impossible to find that product anywhere. As long as we continue to restrict access to the market, to the expert farmers—and we're talking about thousands of B.C. farmers being needed to meet a local supply, as consumers want to buy local—to meet the national demand for B.C. bud and the growing global market for B.C. cannabis.... Other countries are coming on board, and B.C. has an incredible reputation. As I said, it is an asset for our country that we have the best cannabis farmers in the world here in B.C. and across Canada.

There are great craft farmers across the country. As long as the government continues to restrict access to these expert farmers, and as long as they continue to deprive consumers of what they really want—fresh, locally grown cannabis—I fear that the current dynamic is just going to continue and that we're going to start losing these farmers. We're already seeing farmers who fought long and hard to get a micro licence just walk away from it, which is very sad.

There are thousands and thousands of jobs at stake in rural communities. We see rural communities suffering with layoffs in forestry and fisheries, and large producers are laying people off in rural communities. Here we have a whole network of expert farmers who are just waiting to join the market, give consumers what they want and create—

• (1155)

Mr. Francis Drouin: Mr. Hurford, is the impediment to growth and micro licensing because operations such as yours or the ones you know in B.C. want to grow and can't expand, or is it that startups are not able to access these licences because there is either too much upfront cost to get going, or they submit an application, and they don't hear back from Health Canada for months and months and months?

Mr. David Hurford: It's all of the above, and the stigma that still exists—

The Chair: Mr. Hurford, we're going to leave it at that because that's perfect timing.

[*Translation*]

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

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

My question is for Mr. Deighton.

You said that Health Canada does not have the necessary knowledge and expertise to regulate this industry and that it takes too long. This is obviously not the only instance of things taking a long time.

In your opinion, what would constitute effective regulations? Who could regulate cannabis cultivation for medical purposes?

[*English*]

Mr. Timothy Deighton: Medical cannabis and recreational cannabis are all in one. You're just selling from the recreational market to the medical market, so it's just making it available. It goes back to allowing quality craft product being available to the medical market and ways of making licensing easier and faster, and just more support. One of the key things I said was that you're not even allowed to apply for a micro cultivation license until you have your building almost completely finished. There is no other industry in the world that would have that requirement, and it deters every cultivator from even moving forward, because you're having to put up a million dollars before you even know you can get a licence.

That is one of the major roadblocks to anyone moving forward. That is a hard stop for a lot of people wanting to transition.

[*Translation*]

Mr. Yves Perron: Essentially, the difficulties stem from the fact that the system really favours larger companies over smaller ones, which might have specialized or organic products, and so forth. I think that has been clearly established.

How can we facilitate this development without creating the difficulties I mentioned earlier for nearby regions?

You seem to be saying that your regional and local regulations take precedence over production permits. That does not seem to be the case in Quebec though.

Would it be possible to follow the example of British Columbia, if that would not cause problems for you?

[*English*]

Mr. Timothy Deighton: I'm not quite understanding what your question is.

Mr. David Hurford: I can help there a little bit.

The Chair: Okay. Thank you.

Mr. Hurford, just 20 seconds if you could.

Mr. David Hurford: We are working very closely with the Quebec association on exactly that, namely, the ways that we can share experiences and learn from each other. I think there are definitely models that we can work off of together.

Through innovation on issues like smell and odour, prohibition has really held back innovations in those areas. We believe there is lots of technology that can address some of those very legitimate concerns that municipalities have as well.

The answer to that question is yes.

The Chair: Thank you, Mr. Hurford.

Thank you, Mr. Perron.

Mr. MacGregor, over to you to finish up.

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

On this whole issue of trying to get the legacy growers to come into the licit market, it has been a story of challenges. We know that in many small towns in B.C. during tough times, cannabis sales are what have kept many of those towns going. If we do want to have that success, I want to drill down on this issue of the constraints that currently exist to outdoor micro licences.

Mr. Hurford, there have been proposals to not have it really based on canopy size but on the volume harvested. There have been further proposals that the licensing system should be graduated so that, first of all, a company can start with the smallest one. If they can become quite successful and they see that the demand is outpacing what they're able to supply, they can graduate to a bigger licence.

Can you maybe fill in the blanks for us and provide a little more detail on the specifics you'd like to see on those proposals just so that our committee can make as accurate a recommendation as possible?

• (1200)

Mr. David Hurford: I'll be brief.

I don't disagree with what Tim said earlier on the measurement, but given how difficult it is to move Health Canada—they're stuck on square feet—we felt it was just easier to continue down that road, but I think the Cannabis Act review should help that. We know it should be larger, and we know doubling the current size is very doable.

The last thing I would say is that I would really start with the medical farmers. We have 35,000 licensed medical farmers in this country who have been producing medical cannabis with some challenges along the way, as we've heard. We should start with them. These are expert farmers. None of them have really been approached in any systemic way to say, would you like to transition?

The BC Centre for Disease Control tested the cannabis coming from these medical farmers and found that 15% to 20% of all of the cannabis they're producing could pass the testing regime right now. I would start in a systemic way with really looking at all of those medical farmers who are in the system, who have done their checks, and the municipal government knows they're there, and to start looking at systemically transitioning them into the legal marketplace, or recognizing that these are expert growers and then working our way up from there. Then we could maybe provide a little more flexibility on the top end of the micro category for people to grow.

The Chair: Thank you, Mr. Hurford.

Thank you, Mr. MacGregor.

Colleagues, that brings us to the end of our first panel. I'd like to thank the witnesses on your behalf for sharing their important testimony here today.

Thank you.

Colleagues, we're going to take a two-minute break. We do have a next panel. For those who are participating online, the clerk is going to send a virtual link because for the last 10 minutes we're going to reserve some time for some feedback based on the elements you might want to see in the letter. We're not going to have a drafting stage, but it will be instructive to our analysts.

For those participating online, watch for that link.

We'll see you in two minutes and we'll get started.

• (1200)

(Pause)

• (1205)

The Chair: We have three different witnesses scheduled here .

From Blue Sky Hemp Ventures, we have Devin Dubois, who serves as the vice-president, corporate affairs, and counsel.

From Canadian Hemp Trade Alliance, we have Ted Haney, president and chief executive officer. We're going to work with Mr. Haney to see if we can get his microphone issues resolved. We also have Keith Jones, who serves as the board chair.

We did extend an invite to Agropod, but Ian Bourassa has not shown up yet, so perhaps he will join at some point, but we've been unable to get him.

We have five minutes for opening statements. We're going to start with Mr. Dubois.

It's over to you for five minutes, my friend.

Mr. Devin Dubois (Vice-President, Corporate Affairs and Counsel, Blue Sky Hemp Ventures): Thank you, Mr. Chair. Thank you for hosting us today.

My name is Devin Dubois. I am vice-president and one of the founders of Blue Sky Hemp Ventures. We are, I would say, a primary hemp processor. We make food products from seed, and we also make cannabis products from hemp flour in a licensed cannabis processing facility. We are perhaps the only company that straddles the bridge between industrial hemp processing for food and the cannabis market by making extract.

The important thing that we would like to highlight here today is that Canada's approach to regulating hemp must acknowledge that hemp is different from cannabis and that hemp presents a potentially higher economic value to Canada because of that difference.

Hemp is a broad-acre, rotational oilseed akin to flax, sunflower or canola, with the added benefits of supplying industrial and nutraceutical inputs, all in a sustainable, carbon-negative fashion, making it potentially the highest value broad-acre crop in Canada. It is not the same as cannabis grown for recreational or medicinal value.

The other important element to understand is that the Canadian Prairies are strangely well suited to hemp production, as land values and current production alternatives to hemp, other oilseeds in broad-acre production like canola, flax and sunflower.... Hemp is economically and agronomically competitive with those crops, given the right circumstances.

We have an immediate advantage over other global regions, including the U.S., in terms of experienced production capacity, agronomic knowledge, production economics and immediate processing capacity. However, this advantage will quickly dissolve unless Canada takes action to remove impediments to the growth of hemp cultivation. It's now a federally legalized production crop in the U.S., so we will see mounting pressure from the United States in how they develop processing, infrastructure and production.

The other thing I'll leave in my introduction is the real reasons that we need to think about fostering the growth of industrial hemp production. One of the first ones is that our growers are equipped and capable of simply adding this crop in rotation in place of other oilseeds like canola and flax. This is really just another broad-acre crop in rotation that has some unique attributes that potentially make it much higher value.

Number two, when the industrial hemp stalk is harvested and sequestered for industrial products, it pulls enormous volumes of CO₂, in the vein of two to six tonnes per acre of production. This is real carbon sequestration; it's not a fictional or paper accounting of carbon. This is a real carbon sink, potentially, if we can get that stalk into industrial products.

The other thing is that hemp is really the first potentially significant multi-use, broad-acre crop. That is, we can generate food and ingredients from seed, industrial products from stalk, and nutraceutical compounds from flower all from the same acre. This is very possible, and it's really what our business is based on.

Finally, growth in hemp production drives value-added processing, as the high volume and low-value stalk requires primary processing relatively close to production. It doesn't work in any other economic fashion, so where there is a large supply of hemp is where you will find value-added primary processing in all three sectors.

There are some things we'd like to raise today about the impediments to growth in hemp production. Number one, in order to be economically competitive with other crops, hemp must be a multi-purpose crop in the current situation. That is, we need to derive different value chains from both the seed, the stalk and potentially the flower as well. When growers are looking to place crops, they need revenue at a certain level, and that revenue has to be above \$500 per acre—probably more like \$600 or \$700 acre—to displace other crops.

That said, for single-purpose use, especially for single-purpose fibre use, the fibre industry cannot afford to pay that. This has to be a multi-purpose crop, and there's certainly opportunity to do that.

• (1210)

Also, unlike every other oilseed or grain in Canada, hemp by-products—including benign portions like seed—are not permitted for use in the commercial feed market. This is an extreme economic disadvantage for hemp growers and processors. Every other grain and oilseed industry has an outlet in the commercial feed market for by-products and off-spec products. This may be the single biggest factor currently impeding hemp production and hemp processing. Part of that is because hemp foods from seed generally remain in a niche market, so the market demand is growing, but it's taking time, and without an avenue to feed the by-products into the animal market—

• (1215)

The Chair: Mr. Dubois, could you just wrap up in 10 or 15 seconds? That would be great. I gave you a little bit of extra time.

Over to you.

Mr. Devin Dubois: The last thing is just to understand that, although hemp crosses into the cannabis market, that's a very complicated transition and we need our government partners to think about hemp as something different from cannabis so that we get the right regulatory regime to support the industry.

The Chair: Thank you very much.

Mr. Haney, I believe we've resolved your microphone issues. Fingers crossed.

We go over to you and Mr. Jones. You guys can decide how you'd like to split your five minutes.

Over to you.

Mr. Keith Jones (Board Chair, Canadian Hemp Trade Alliance): Thank you very much, Mr. Chair, and thank you to the committee for hearing from us today.

Our organization has been involved as the Canadian national organization for the Canadian hemp industry. The Canadian Hemp Trade Alliance was established in 2003 to advance the industry. We have over 240 members from all 10 provinces and one of the two territories right across the country. We represent over 240 members, spanning the entire value chain, from producers right through to processors and companies that are making hemp products in the food industry.

I'm involved with a hemp farm in Alberta and have been board chair for the last five years at Canadian Hemp Trade Alliance.

Since the passage of the Cannabis Act, Health Canada has, unfortunately, significantly harmed the Canadian hemp industry through inattention, neglect and wholly inappropriate regulatory interpretation. This has directly contributed to the significant loss of hemp acreage in Canada, from 118,000 acres in 2017 to 60,000 acres in 2021, and likely even less this year. Health Canada's regulatory oversight has significantly undermined Canada's position as the global leader in hemp for food.

Today we are asking the committee to engage an emergency study on the current regulatory oversight of hemp under the Cannabis Act and the industrial hemp regulations. The results of that study, we believe, will support our request to move the responsibility for the hemp file from Health Canada, which doesn't understand it, to Agriculture and Agri-Food Canada, which does understand it.

Our industry grew significantly from 1998, when the production and processing of hemp was legalized in Canada, right through to 2017. The Cannabis Act came into force in 2018.

In 2017, our industry generated more than \$180 million in sales, exported \$97 million in value-added products, supported over 1,000 jobs, provided \$9 million in federal and provincial corporate taxes and contributed approximately \$370 million to the Canadian economy.

As Mr. Dubois testified, in addition to being an excellent source of plant oils and proteins, hemp is a tremendous contributor to carbon sequestration and low-emission agricultural production. Competitors in the U.S., Europe, Australia, China and other countries are awakening to the potential of hemp and are amending their regulatory regimes to enable this important crop.

The passing of the Cannabis Act and the industrial hemp regulations was intended to consolidate all hemp-related regulation, delineate between hemp and high-THC cannabis, streamline regulatory processes and remove certain restrictions. Unfortunately, this hasn't happened. Our industry has been damaged since Health Canada began regulating it under the new Cannabis Act.

The entire industry is concerned about the regulatory implementation. It's less concerned about the Cannabis Act itself and the industrial hemp regulations themselves, although there are definitely opportunities for improvement. It's more about the interpretation of those regulations and how Health Canada has actually regulated hemp. Despite hemp seed and hemp stalks being exempted from the Cannabis Act under schedule 2, Health Canada has continued to regulate all hemp and provide advice to any people in the industry interested in using hemp, as it is a controlled substance that requires a cannabis type of handling.

CHTA concurs with Mr. Dubois' testimony that it is time for a review of the regulatory environment and an amendment to the regulatory practices, which are damaging the industry.

I will turn it over to Mr. Haney to share some specific examples. CHTA has a great deal of evidence to provide in this regard.

• (1220)

The Chair: We have about one minute left for testimony.

Mr. Ted Haney (President and Chief Executive Officer, Canadian Hemp Trade Alliance): Thank you very much. Hopefully my mike issues have been addressed.

To summarize the high points, there have been a number of areas in which Health Canada's administration has caused damage. The high points really are that the line between industrial hemp and THC has become less clear in many ways and therefore things have not been delineated. In particular, Health Canada has created interpretation barriers that hinder and block value-added processing of hemp in Canada, and as a result of that, investment in food, feed, fibre and fractions processing has been lower and in some cases has moved outside Canada.

Regulated processes guiding hemp breeding and cultivar registration have become more complex and less transparent, which has resulted in less innovation and higher risk. Health Canada's regulatory interpretation regarding non-THC cannabinoids in hemp products is inconsistent with both the Cannabis Act and industrial hemp regulations. This has introduced risk and uncertainty, which in turn has reduced seeded acres and investments in value-added processing.

Health Canada's regulatory management has really—

The Chair: Mr. Haney, I apologize, but we're going to have to leave it at that. I know my colleagues are itching to ask questions of our other witnesses as well.

Mr. Ted Haney: Thank you.

The Chair: With that, we're going to get started.

I think Mr. Shields is sitting in. You have six minutes.

Now colleagues, just to be clear, we need to make a little bit of time at the end to provide some instructions to the analyst. My intention is that the first round will be six minutes for each party and then two minutes for the Conservatives, two minutes for the Liberals and then just one minute for the Bloc and NDP. That way we can get two rounds.

Mr. Shields, please go ahead for six minutes.

Mr. Martin Shields (Bow River, CPC): Thank you to the witnesses for the information you've presented today. I've been dealing with health ministers on this one for a number of years, and they all agree it should be transferred, but nothing happens. Recently I spoke to the industry minister, justice minister and the environment minister. They all thought it had been transferred. They can't believe it's still in Health Canada.

So we have a challenge in the sense of getting it out of Health. It has to get out of Health Canada.

You referred to the report, Mr. Jones. Would you please submit that report to the committee immediately so we have it as part of our study? You have excellent information in that report. I reviewed it again this morning.

You mentioned the international market, but you also mentioned the decrease. Could you go back and talk about why there's a decrease in acreage? This is a phenomenal crop. The witnesses have explained the tremendous value of it, but could you go back and tell us, from your organization, why this decrease in crop acreage has happened?

Mr. Keith Jones: Thank you very much, Mr. Shields.

We found that with the uncertainty around the interpretation of the regulation, farmers are finding it too risky to seed hemp and to plant hemp. CHTA has collected numerous examples of how food processors have approached Health Canada with regard to including hemp protein or hemp oil in their food formulations and have been told by Health Canada that in order to do so and to comply with the requirements for CBD, the food processors need to register under the Cannabis Act as licensed processors.

Well, they aren't intending to get into the cannabis business. They're planning to use the exempted parts of the plant—the hemp grain and the hemp stock—for their processes, but Health Canada has advised them they'd need to get licences to be part of the Cannabis Act.

Because of that risk, processors have shut down. Processors are not expanding their businesses. Other food companies are not looking at adding hemp protein, which is a fantastic protein, or hemp oil, which is a sensational functional oil, into their formulations, and as a result, we've seen our acreage drop by half and continue to drop.

Mr. Martin Shields: Recently there was a federal grant announced for the Vegreville area to deal with the fibre and to build other products with it. So it seems hypocritical that we have a federal grant coming into a community to develop it, and yet the health restrictions are lessening that.

This is where other countries are going, right? They've figured out that there's fibre here; there are all sorts of plants, yet we're going in the wrong direction.

• (1225)

Mr. Keith Jones: Yes, that's a tremendous point. There is significant interest in hemp fibre, and because hemp fibre is part of hemp straw, which is exempted from the act, the processors have moved with more confidence on hemp fibre because it's not connected to a food product.

Ted, you had a comment.

Mr. Ted Haney: Yes.

The dual approach of Health Canada, which was to implement a completely unjustified interpretation of zero tolerance for any non-THC cannabinoid in any hemp process product, really put an end to hemp entering the natural health products and veterinary health products sector completely and has absolutely put additional risk in the highly value-added processes or programs in hemp fibre, as well as hemp foods from seed and stock. Because Health Canada has basically treated the whole plant as cannabis, the ability to use hemp roots to extract bioactives and/or to infuse the product for even topical lotions has been completely voided.

We have a major issue with Health Canada treating hemp as cannabis, which is the opposite of what the intentions of the Cannabis Act and the industrial hemp regulations were in the first place.

Mr. Martin Shields: Our closest trading partner is the U.S. Years ago at a PNWER convention, the Americans were there asking questions about the Canadian hemp industry. There was little interest at that time, but since then, the interest in hemp has exploded in the States. We are now falling behind, in the reverse of five years ago. They're our biggest trading partner. How are we going to compete with the U.S. in our hemp industry if this continues?

Mr. Ted Haney: I think it begins with implementing the Cannabis Act and the industrial hemp regulations as they are written and, more importantly, as Parliament intended them to be implemented. That will be a great start.

There are amendments to both that will be helpful to more fully open our industry while protecting human health and the environment, but just implementing those two documents as intended will be of great assistance.

Mr. Martin Shields: Mr. Dubois...?

Or am I out of time?

The Chair: You have 15 seconds.

Mr. Devin Dubois: I would just echo what has been said and have everyone understand that the market is here for the taking. We export much of our food product ingredients—our non-cannabinoid product—to the U.S. We're currently in that exporter market, but that could change if we're not careful.

The Chair: Thank you.

Mr. Turnbull, we'll go over to you for six minutes.

Mr. Ryan Turnbull (Whitby, Lib.): Thank you.

It's great to have such knowledgeable witnesses with us today. Thanks to all of you for your testimony. I found it really interesting and informative.

Let me just zero in on a couple of questions that I had.

In the opening remarks, it was mentioned that hemp has such a great economic potential because it's a multi-use crop, and it sounds like that potential is being under-realized at the moment. If this industry grew to its full potential, what would be the economic potential that you would see in the future? Do you have any sense of what size it would be?

Maybe I'll frame that for Mr. Jones and Mr. Haney for now.

Mr. Ted Haney: Sure.

For our industry, assuming the Cannabis Act and the industrial hemp regulations are appropriately implemented, I believe that we will move from our current 60,000 acres to 229,000 acres, with farm grade sales of \$340 million, a billion dollars of industry sales, a half a billion dollars in exports and almost 5,000 jobs, contributing \$2 billion to the Canadian economy.

That's the prize for industry, for Canadian agriculture and the Canadian economy, just by implementing the Cannabis Act and industrial hemp regulations as written and as intended by Parliament.

● (1230)

Mr. Ryan Turnbull: Thank you very much.

I'll go to another question related to "real carbon sequestration", to cite the words used. I found it really interesting just the potential of hemp production's sequestering more carbon. How does that compare with a comparable crop?

You mentioned flaxseed, for example. I'm not sure if that would be the most comparable one, but do you have any sort of comparator that you could give us to help us understand the potential for carbon sequestration?

Maybe I'll ask Mr. Jones.

Mr. Keith Jones: Certainly. The Canadian Hemp Trade Alliance has established a sustainability subcommittee that is doing detailed life-cycle analysis and assessment to provide specific data and evidence in this regard.

The reason that hemp is so attractive in its sequestration potential is because of its nature as a multi-use crop and, in particular, the utilization of fibre in materials, such as building materials and construction materials, and environmental enhancement products, such as environmental remediation mats, non-woven mats, etc. The hemp plant itself does a great job of pulling carbon dioxide out of the atmosphere, but the uses of hemp tie up that carbon that's in the stalk for many years.

I'm not sure if the other two witnesses would care to add to that.

Mr. Devin Dubois: It's just that point. The distinction between this crop and others is not only that this is a fast-growing crop and a large plant, which generates a large quantity of biomass, but that we're retaining that biomass, like Mr. Jones said, in industrial products. Right now, if you're talking about—

Mr. Ryan Turnbull: Thank you. I appreciate that. I'm going to try to squeeze one more question in.

From the testimony given so far, it seems that the industrial hemp regulations could be improved, but it seems to be the interpretation of those regulations that has gone awry.

Is that, in your opinion, a result of Health Canada not completely understanding the business of agriculture? I'm sure that happens from time to time.

Mr. Ted Haney: The simple answer is yes.

Mr. Ryan Turnbull: Thank you.

Can you pinpoint what interpretations of regulations you want to see changed? You've already mentioned some of them, but I'll give

you an opportunity in an open question to identify any others that you haven't had the opportunity to mention yet.

Mr. Ted Haney: We will be submitting a more extensive document following our testimony, but there are a number of things.

Number one, confirm that the only hemp processing activity requiring Cannabis Act licensing and controls is the extraction of concentrated or isolated cannabinoids from hemp chaff or hemp extraction biomass. Confirm that the only regulatory maximum concentration for cannabinoids within the definition of hemp or processed hemp is 0.3% THC in the flowering head of the leaves of the hemp plant and 10 parts per million of THC in hemp foods. There are no other maximum concentrations for the low-risk, non-intoxicating, non-addictive and non-THC cannabinoids.

Number two, we need to confirm that the processing, import, export and wholesale sale of hemp products and processed hemp products are not subject to Cannabis Act regulation or control, even if extraction technologies are used. This is an example where Health Canada hears "extraction" and thinks extraction of isolated cannabinoids from flowers, but we extract purified cellulose from stalks. We extract individual fatty acids and amino acids from seed. We extract bioactives—

[*Translation*]

The Chair: Mr. Haney, I am sorry, but the member's time is up.

Thank you very much, Mr. Turnbull.

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

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

Thank you to the witnesses for being with us today.

I wish to point out that Mr. Bourassa, from Agropod, has apparently had technical issues. If we cannot invite him to the next meeting, I would ask him to submit his comments in writing to the committee.

Mr. Dubois and Mr. Haney, I am very interested in what you said about carbon capture. You discussed this with Mr. Turnbull.

How does hemp compare to other plants in terms of carbon capture? Can you give us a comparison?

● (1235)

[*English*]

Mr. Devin Dubois: I'll take a first try at this, and Mr. Jones or Mr. Haney can follow-up.

The distinction is that hemp will sequester when it's growing and use and pull as much or more carbon in most circumstances than pretty much any other broad-acre field crop currently grown in western Canada. It depends on geography, variety, and agronomic practices.

I'm not sure that's necessarily true when it comes to comparing soy and corn, but the true distinction is that with none of those other crops.... The bulk of the biomass just disappears. It's part of the harvesting process. That biomass is processed out the back of the combine. It goes back onto the field, and it's tilled, or just left and it decomposes.

The distinction here is that somewhere in the neighbourhood of 80% to 85% of that biomass of the hemp plant is being taken and sequestered. It's going into food products for seed, but the bulk of it goes into industrial products, like building materials, hemperete and synthetic boards. It goes into those non-woven applications, like Mr. Jones talked about. The huge distinction, and this is no small thing, is that we are actually removing that huge volume of high-carbon biomass from the field and putting it into durable products that last decades in many cases. That's the huge distinction.

Mr. Ted Haney: In addition to that, the hemp root is a very significant structure, including taproots and branch roots, which also sequester carbon in soil at a higher rate than other crops that don't have such an extensive root structure. Again, harvesting for fibre results in long-term sequestration through industrial use.

Mr. Keith Jones: Finally, from a plant perspective itself, as a farmer, you get a biomass yield, a tonnage biomass yield, because the hemp plant can grow three to four metres tall for hemp applications in fibre, so the sheer biomass yield is sequestering far more carbon than a flax plant, wheat crop or a pea crop.

[Translation]

Mr. Yves Perron: Thank you very much for your joint answer, which was very complete and detailed.

Mr. Haney, if I understand correctly, in the case of large crops, hemp can also be included in crop rotation. It also helps enrich the soil.

Can you tell us about that briefly?

[English]

Mr. Ted Haney: Absolutely, we have done work, and over the next five years we plan to do additional agronomic research to understand more detail about hemp in rotation. Because hemp is genetically very unique from other crop types in Canada, it has the ability to break pest cycles. It has the ability to break weed cycles, and because of its inherent structure, including the remaining stalk after harvest and the root structure, it does have the ability to contribute to soil health, reduce compaction, and increase soil moisture and nutrient holding capacity.

That, in turn, leads to cleaner ground water and less nutrient leaching. Yes, hemp has a very significant ability to contribute to soil health and environmental health in a mixed rotation environment.

[Translation]

Mr. Yves Perron: Thank you very much, Mr. Haney.

I will continue with you.

As to regulations, the problem now is not with the existing regulations, but rather that they are misinterpreted. Health Canada considers hemp as cannabis. So no changes are needed to the regula-

tions; rather it is simply a question of applying them properly. You also said that Agriculture and Agri-Food Canada, and not Health Canada, should supervise hemp growing.

Is that correct?

• (1240)

[English]

Mr. Ted Haney: We do have 10 recommendations to guide interpretation within the current Cannabis Act and industrial hemp regulations, but we also have 10 additional recommendations for amendments to the Cannabis Act and industrial hemp regulations, primarily to clarify the issues that are currently misinterpreted.

[Translation]

Mr. Yves Perron: Thank you very much.

The Chair: Thank you, Mr. Perron.

I will now give the floor to Mr. MacGregor for six minutes.

[English]

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

Thank you to our witnesses.

I'm really glad you are before the Standing Committee on Agriculture and Agri-Food, because, as you can see from the nature of the questions, you have a more sympathetic ear here. We're very used to hearing the perspective of growers and producers, and about the challenges they face.

You've already informed us a lot about the incredible environmental potential that exists, like carbon sequestration and so on. However, I want to go a bit further, because I understand hemp is quite a hardy plant. It was already said that it's very useful in breaking pest cycles, but can you tell us how it compares to other crops? What are its input requirements? Is it pretty good at trying to manage the nutrients it needs? Are there many pests in Canada that affect it?

Could you inform the committee a bit more about that?

Mr. Ted Haney: The plant itself is a very efficient plant. We don't have a significant load of either pest or disease pressure on hemp, at this point. We do have some, including sclerotinia, which affects many other crops. Some of the major diseases that affect other crops simply aren't present in hemp, primarily because it's genetically unique and very different.

We continue to seek additional minor-use registration of crop protection products, both biological and manufactured, to address those primarily disease pressure issues that are present. Overall, it is a plant that is very efficient. It does have high nitrogen needs, because it grows significant levels of biomass, but, that said, it utilizes it efficiently.

Mr. Alistair MacGregor: My riding is on Vancouver Island, so, historically, our main industry has been forestry. Our forestry industry has suffered over the years. Of course, we have pulp and paper plants, which have a very symbiotic relationship with our sawmills. The sawmills provide the fibre feedstock necessary for pulp and paper to thrive. However, in recent years, some of our sawmills have shut down. That supply of fibre has been endangered.

You talked about how your growers are right across Canada. I'm wondering, in the fibre market, whether you look at forestry-dependent communities and some of the new and innovative opportunities that exist for hemp growers to fill in a niche market, while existing symbiotically with traditional forestry. Can you talk about some of the opportunities that exist in communities like mine, out in British Columbia?

Mr. Ted Haney: Sure. In our last round of Canadian hemp strategy workshops, players from Vancouver Island indicated they would like to enter the hemp production cycle, on Crown lands currently under forestry permit, as a cover crop directly after harvest. This would contribute to soil health and provide a short-term revenue stream prior to replanting and moving back into tree production.

That would be one example of how the two can work together. Again, hemp provides a great cover-crop opportunity in all soil classes, including those in northern Vancouver Island, particularly, which are under long-term forestry....

• (1245)

Mr. Alistair MacGregor: That's really exciting to hear. I'd like to learn a bit more about that.

Finally, we've established that management needs to transition away from Health Canada. We've heard mention of Industry Canada, but, of course, you know our committee's main mandate is to look after Agriculture and Agri-Food Canada. Is there anything you've missed talking about today that you would like our committee to specifically focus on, with respect to Agriculture and Agri-Food Canada?

Mr. Devin Dubois: There is certainly one that comes to mind for me, which is inclusion of all hemp products, but hemp by-products, and especially benign products like seed and its by-products in the commercial feed market.

This is a CFIA impediment currently. It's a CFIA regulation, so this is not a cannabis issue as much as it is those feed regulations.

The suggestion coming from us, as a processor, is that perhaps your committee and the CFIA could consider offering an immediate exemption for seed and seed by-products at a minimum, or maybe even including stock by-products—things that we know are benign and are currently in the human food market—until we do whatever is required to finish that CFIA inclusion.

This is an extreme impediment to the legitimate industry right now and to having more seed processors, which gives rise to the possibility for private processing. Without someone to take seed, there is no economic case for anyone to grow this for fibre, so we need that opportunity.

The Chair: Thank you, Mr. Dubois.

Thank you, Mr. MacGregor.

Colleagues, we have just two minutes for Mr. Barlow. If we could keep it tight, then we'll go two minutes, one minute and one minute. Thanks.

Mr. John Barlow: Thanks, Mr. Chair.

I'll be very quick. I have just three questions and I'll ask them at the same time and leave them open for a response, as I think our committee did a great job hitting on the main issues.

First, what is the reasoning, or has Health Canada given you any responses from your communications, for why they are not willing to relinquish hemp from their jurisdiction to Agriculture Canada?

Second, what is the percentage of CBD or THC in hemp compared with regular cannabis?

Third, what is the technology for genome editing of hemp to remove the THC and CBD completely? Maybe that's a bit of help with Health Canada.

Mr. Ted Haney: To answer the first question, there has been no detailed or reasonable feedback on it. We do hear that the machinery of government is difficult to amend, so that's just the way of telling you that there is a high wall, so don't bother looking at it.

In particular, all producer-facing activities—licensing of producers and processors, permitting of exports and imports, data collection, and notifications of cultivation and data reporting—should most definitely move to Agriculture Canada, which has a culture and resources to be able to work with farmers, with producers and agricultural processors within an agriculture industry, which is what we are.

With respect to cannabinoid content, we're limited on all foods at 10 parts per million THC. All of our seed-based food products are less than that. All products from stocks are far less than that, and there are no cannabinoids whatsoever in roots, yet Health Canada still tries to interpret the regulations as if they are high THC.

With respect to the non-THC cannabinoids, none of them are intoxicating, none of them are habituating, none of them are addicting, and they've been studied extensively by the UN Expert Committee on Drug Dependence and they're well tolerated and don't represent any risk to human health.

The Chair: Thank you, Mr. Haney. We'll have to leave it at that.

Thank you, Mr. Barlow.

Mrs. Valdez, you have two minutes.

Mrs. Rechie Valdez (Mississauga—Streetsville, Lib.): Thank you to the witnesses for joining us today.

If any of the witnesses could submit to this committee any reports or detailed numbers about carbon sequestration, it would be very much appreciated.

I have a quick question for Mr. Dubois.

In your opening remarks you mentioned how Canada is competing with the U.S. in this space. What would be the lost opportunities for Canada if we do not remove the impediments to this industry?

Mr. Devin Dubois: The biggest thing to understand, again, is that there is no economic case for shipping the industrial product stream—where the stalk material coming off the field is very high volume and currently relatively low valued—any particular distance. The value-added processing needs to occur close to the source of production, and the source of production right now is really governed by the ability to use and market seed and seed by-products.

That's what the U.S. has in its hands now. Growers everywhere, federally, now are able to produce industrial hemp seed in large volumes. Our concern is that capital is mobilizing to both address seed processing markets and the accompanying fibre markets in the U.S. Accordingly, we need to scale up our ability and to pave the way for easy production and access and processing and exporting of seed and seed by-products to foster all of that value-added processing chain here close to home.

That's the competition. If the large-scale seed processing takes hold on the south side of the 49th parallel, then the fibre processing will go there too and we'll be competing with a behemoth ourselves.

• (1250)

Mr. Keith Jones: In 2017, Canada had four times more seeded acres than the U.S. Today, the U.S. is slightly ahead of Canada in seeded acres of hemp.

The Chair: Thank you, Mr. Jones.

Thank you, Mrs. Valdez.

[*Translation*]

Mr. Perron, you have a minute, so thirty seconds to ask a question and thirty seconds for the answer.

Mr. Yves Perron: Thank you for those details, Mr. Chair.

My question is for all the witnesses.

For my part, I think it comes down to two main recommendations. The first is that Agriculture and Agri-Food Canada should be responsible for regulating hemp cultivation. The second is that we have to start by applying the existing regulations correctly.

You submitted recommendations for amendments. Is there anything else essential to be developed or added to the list before we complete our study?

[*English*]

Mr. Ted Haney: Number one, I believe, is to move all of the producer-facing regulatory activities to Agriculture Canada. Number two is to seek appropriate interpretation of the Cannabis Act and industrial hemp regulations to make them consistent with the act, the regulations and the will of Parliament, which we do not believe are being respected at this time.

That, I think, will require a special study.

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

Thank you very much, Mr. Perron.

Colleagues, that brings us to the end of the second panel. For those who are online—I think it's just Mrs. Valdez and perhaps a couple of others—could you transition quickly to the in camera portion of the meeting. We're going to provide some feedback to our analysts.

To our witnesses, thank you very much for being here today.

Colleagues, bear with us. We'll have a little bit of time to provide feedback.

The other thing I would like to say is simply to thank our interpreters for all of their work, especially as we break here until September.

Colleagues, switch over and then we'll provide some feedback to the analysts.

[*Proceedings continue in camera*]

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