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Terence Corcoran: New bread price-fixing allegations turn esteemed reputations to toast

Statistics Canada data show that between 2001 and 2016, the consumer price index for bread jumped from 100 to 189



My first reaction on reading the Canadian Competition Bureau's allegations against The Great Canadian Bread Cartel was feeling sympathy for Mexican bread giant Grupo Bimbo. Little did Bimbo know that when it bought its way into the Canadian bread market in 2014, it was sliding into what the new allegations suggest was the bosom of the cozy collaborating empires of Canada's leading families of food, Canadian business hall of famers: the Westons and the McCains.

Whatever the actual legal merits of the bread-price cartel scandal, there is no doubt the story told by the Competition Bureau will be marked today and long remembered as a giant smudge across the face of Canada's old-line corporate establishment.

When Bimbo bought Canada Bread Ltd. for \$1.8 billion in 2014, it bought into that establishment. The bureau alleges that Canada

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From 2001 to 2014, during which the bureau alleges the price of bread in Canada was constantly manipulated, the owner of Canada Breads was Maple Leaf Foods Inc., part of the corporate food empire controlled by the McCain family.

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There is nothing to suggest the McCains were aware of the backroom activity taking place within their company before they sold it. Nor is there any suggestion that the Weston family was aware that their bakery conglomerate, Weston Bakeries, was — in the words of the information document — colluding with Canada Bread to “fix, maintain, increase or control the wholesale and retail price” of fresh bread across the country.

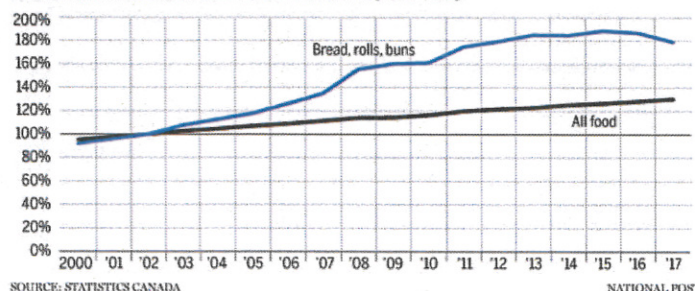
The bureau's claims are based on somewhat limited but also somewhat convincing evidence from emails and a few unnamed participants who say they witnessed the price-fixing system.

Combined, Canada Bread and Weston Bakeries control almost 80 per cent of the Canadian bread market. Through 15 years of collaboration, the two companies tied up retail giants — including Metro, Sobey's, Giant Tiger and the Westons' own grocery chain, Loblaw — in annual rituals of price collusion. According to the bureau's allegations, “Canada Bread was the pricing leader and Weston Bakeries was a follower.”

BREAD INFLATION RISES ABOVE ALL

From 2003 on the increase in the price of bread has outpaced food

CONSUMER PRICE INDEX ANNUAL IN PER CENT (2002 = 100)



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Bakeries failed to announce a price increase on plain white bread, a Canada Bread executive "made it clear ... that he was unhappy with Weston Bakeries."

Cartel cases are notoriously difficult legal tangles that rarely make it to court. Some free-market economists claim that cartel behaviour may exist but cannot persist for long as the pressures of competition will lead to their demise. But as Adam Smith famously said: "People of the same trade seldom meet together, even for merriment or diversion, but the conversation ends in a conspiracy against the public."

In the bread cartel, as the bureau tells it, the two bread makers met together by email and other means to agree "on their respective wholesale prices for the sale and supply" of bread. Then each supplier "met individually with their respective retail customers to obtain their acceptance of the fixed price."

This "conspiracy against the public" (as Smith described the result) was allegedly given a more collective name by the bread makers. The process was referred to in the industry as the "socialization" of a price increase, giving new meaning to the language of socialism. What this collective socialism meant, apparently, is that the bread makers would meet with reps of the big food retailers to make sure they "all accepted the price increase" and that the price increase would be maintained across all the retailing sector. No wonder Weston-controlled Loblaw Companies moved last month to pre-empt the fallout from the bread scandal by offering \$25 gift cards as contrition for its role in all of this.

The dollar cost to consumers through 15 years of price collusion would be in the billions. Statistics Canada data show that between 2001 and 2016, the consumer price index for bread jumped from 100 to 189 — an increase that outpaces the rise in the index of all foods, which rose only to 140 over the same period. Indeed, the rise in price of bread exceeds that of all other general indices in the Statistics Canada consumer-price database.

Perhaps it is significant that the bread-price index dropped in 2016 and 2017 to 179 — its first decline in 17 years could be a sign that the Competition Bureau investigation launched in 2016 succeeded in at least one respect. The cartel is dead. But will the image of Canada's leading food companies survive?



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