

CANADIAN DAIRY: CONTRIBUTING TO A STRONG AND STABLE ECONOMY

Dairy is a strong and stable job sustainer and contributor to Canada's economic prosperity.

- Dairy GDP contribution grew from \$15.2B in 2009 to \$16.2B in 2011.
- Over the same period, jobs in the Canadian dairy sector increased from 215,104 to 218,330.
- Out of 2.1 million jobs in Canadian agriculture, dairy supports 10.4%.
- Canadian dairy industry annually contributes more than \$3B in local, provincial and federal taxes.

Dairy is one of the top two agriculture sectors in 7/10 Canadian provinces.

- Dairy production is British Columbia's top agriculture industry, accounting for 20% of all farm cash receipts in the province.
- In Ontario, dairy produced approximately 2,563,000,000 litres of milk in the last year, which would fill 1,025 Olympic-size swimming pools.
- In 2013, Quebec dairy production and processing sectors provided 83,000 jobs, and 29% of the province's agriculture sector's revenues.
- More than half of the farm sector revenues in Nova Scotia come from supply management sectors – dairy alone accounts for 28%.



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DFC UPDATE FEBRUARY 2014

Dairy Farmers of Canada



SUPPLY MANAGEMENT IS A PROVEN POLICY THAT SUPPORTS A STRONG, STABLE AND SELF-RELIANT DAIRY SECTOR. THAT'S THE CANADIAN DAIRY ADVANTAGE.



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SUPPLY MANAGEMENT WORKS FOR CANADIANS

It builds communities

Farmers spend money locally, re-investing in their farm's operations and supporting local suppliers and businesses in communities across Canada.

It is fair and transparent to all partners

In 2013, the Canadian Dairy Commission introduced a new milk class for mozzarella cheese to be used on fresh pizzas to lower costs for restaurants that prepare and cook pizzas on site and help grow sales of cheese. The farmers' share of the cheese on a medium \$14.83 pizza is \$0.65.

It allows tariff-free imported products

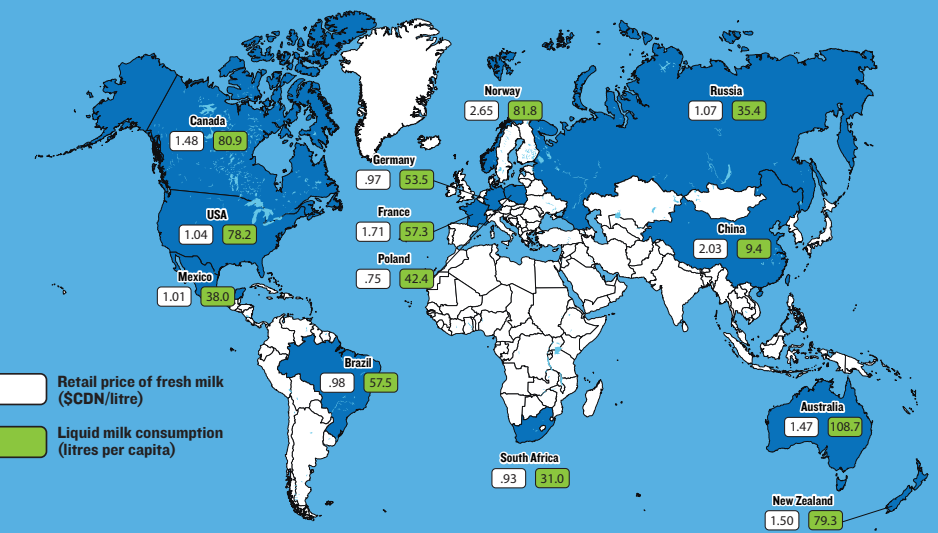
About 6-8% of Canada's dairy consumption is supplied by imported products coming in tariff-free, which makes Canada more open than the US or EU.

Retail prices are comparable worldwide

As shown below, the price consumers pay for a litre of milk in Canada is similar to that in New Zealand and Australia, and many parts of the US and the EU.

Canadians spend 10.4% of their disposable income on food, and less than 1.2% of that is on dairy. By February 7, 2014, Canadians had earned enough money to pay for food for the year, making Canada one of the countries with the most affordable food in the world.

Comparing retail prices around the world:
culture's influence on milk consumption



Source: AC Nielsen; The World Dairy Situation in 2012; International dairy federation; DFC compilation



DEFENDING SUPPLY MANAGEMENT:

RULES-BASED TRADE AND BORDER POLICIES

Comprehensive Economic and Trade Agreement (CETA)

On October 18, 2013, the Government of Canada and the European Union reached an agreement-in-principle on CETA. This will have concrete and serious long-term impacts.

CETA ESTIMATED IMPACT ON CANADIAN DAIRY:

- 1.6% - 2.2% of Canada's milk production;
- \$110 M - \$150 M loss in farm income;
- 4% of the Canadian cheese market;
- \$300 million in cheese sales annually.

DFC is committed to working with the government to find constructive solutions to mitigate the negative impact of the CETA deal for dairy farmers and cheese makers.

The Canadian government must seek to extend the implementation period to the longest possible (10 years as agreed for sugar), to minimize the impact on our dairy industry.

Government also needs to work as a partner with the sector to maintain strong consumer confidence in Canada's dairy products.

Negotiating Trade Deals that Respect Canadian Interests

DFC continues to closely monitor trade talks and opposes any proposals that could negatively affect the supply management system, which is crucial to maintaining the prosperity and viability of the Canadian dairy industry.

Respecting Negotiated Commitments and Obligations

Canada's predictable, effective and enforced tariff system is centered by the principle of rules-based trade. It must continue to respect other government-wide policies, such as government implementation and administration of supply management and its three pillars.

Government leadership is needed to ensure that government agencies, namely the Canada Border Services Agency and the Canadian Food Inspection Agency, continue to fulfill their legislative and regulatory responsibilities to meet Canada's international obligations. This includes respecting domestic policies, such as supply management, in their duties at the border.

THE CANADIAN DAIRY ADVANTAGE:

STRONG, STABLE, RELIABLE

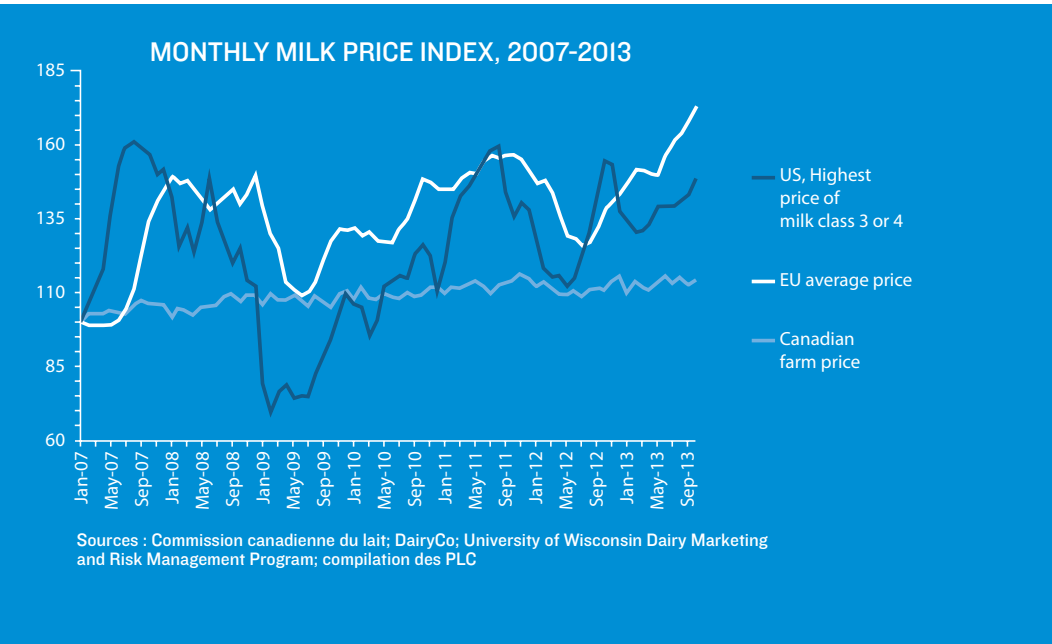
Dairy is one of the most volatile markets in the world. Canada is fortunate to have a strong, stable and reliable dairy sector, as a result of our dynamic supply management system.

This stability and predictability empowers farmers to reinvest in their farm operations and continued research to spur innovation, increase efficiencies and to grow the marketplace. It also generates economic prosperity and jobs in Canadian communities.

The volatility of the US and EU farm milk prices contrasts heavily with Canada's stable prices. That stability and predictability ensures that dairy

farmers receive their returns from the marketplace, without relying on government support.

In their latest *Dairy Report 2013, the International Farm Comparison Network* highlighted that only 12% of the world's milk production in 2012 was produced at a cost equal or lower than the world price. Most exports of dairy products are sold below the cost of production from industries benefitting from government subsidies (e.g. US and EU). These subsidies, direct or decoupled, play an important role in the market volatility observed.



LEADING THE WAY FOR SUSTAINABLE DAIRY FARMING

Growth in the Canadian cheese sector over the last decade is a source of pride for dairy farmers and is a result of their hard work, strategic promotion efforts and significant financial investments.

Investments in research are transferred to improved on-farm practices, market improvement, product innovation, and breakthroughs in nutrition, which all help make the world a healthier place.

Over 80% of dairy farms are now certified for on-farm food safety. Dairy farmers work with veterinarians, cow nutritionists and other experts to enhance animal care and health. They adopt research results related to good feeding strategies, animal comfort improvement and environment protection.

Through proAction, Canadian dairy farmers collectively demonstrate responsible stewardship of their animals and the environment, sustainably producing high-quality, safe and nutritious food for consumers.

CARING: Treating animals well and providing excellent care makes sense in the dairy industry.

RESPONSIBLE: Building trust with Canadians is important for dairy farmers. This is why we invest in the ability to trace back milk and meat, and to protect and improve our cows' health.

STEWARD: Farmers live on the farm, eat products from their farm and invest to keep the next generation farming. Sustainable development is a key priority.

QUALITY: Canadian dairy farmers are committed to producing high-quality milk. All milk is tested to assess safety and quality.

PUTTING CANADIAN DAIRY FIRST

1. Support DFC's mitigation proposal regarding CETA to minimize the impact on farmers' income and disruptions to the supply of the Canadian dairy marketplace.

- a. Longest possible implementation period of 10 years applied to cheese imports;
- b. Long term recurring investment fund for dairy marketing, research and technological development for further growth in the domestic cheese market;
- c. Additional quotas conceded to Europe be assigned and managed so that the impact on Canadian farmers and cheese makers is mitigated;
- d. Subject the use of modifiers (e.g. "style," "like") with Canadian standards of identity in a manner similar to the concessions given to the EU with GIs.

2. Commit to defending supply management and the three pillars in all international trade negotiations and forums. This means:

- a. Dairy cannot accept any further increase in market access or reduction in other over-quota tariffs in order to continue to serve the domestic market;
- b. No negative impact on farmers' income.

3. Ensure effective border enforcement and auditing by CBSA and CFIA that is consistent with government policy in support of supply management.

- a. Align with US policy and regulations on with respect to the standing of domestic industry in requesting and challenging tariff classification decisions;
- b. Follow the US model by developing a set of clear guidelines on tariff application to components of assembled ingredients.

4. Support dairy farmers' led initiatives for sustainable dairy farming.