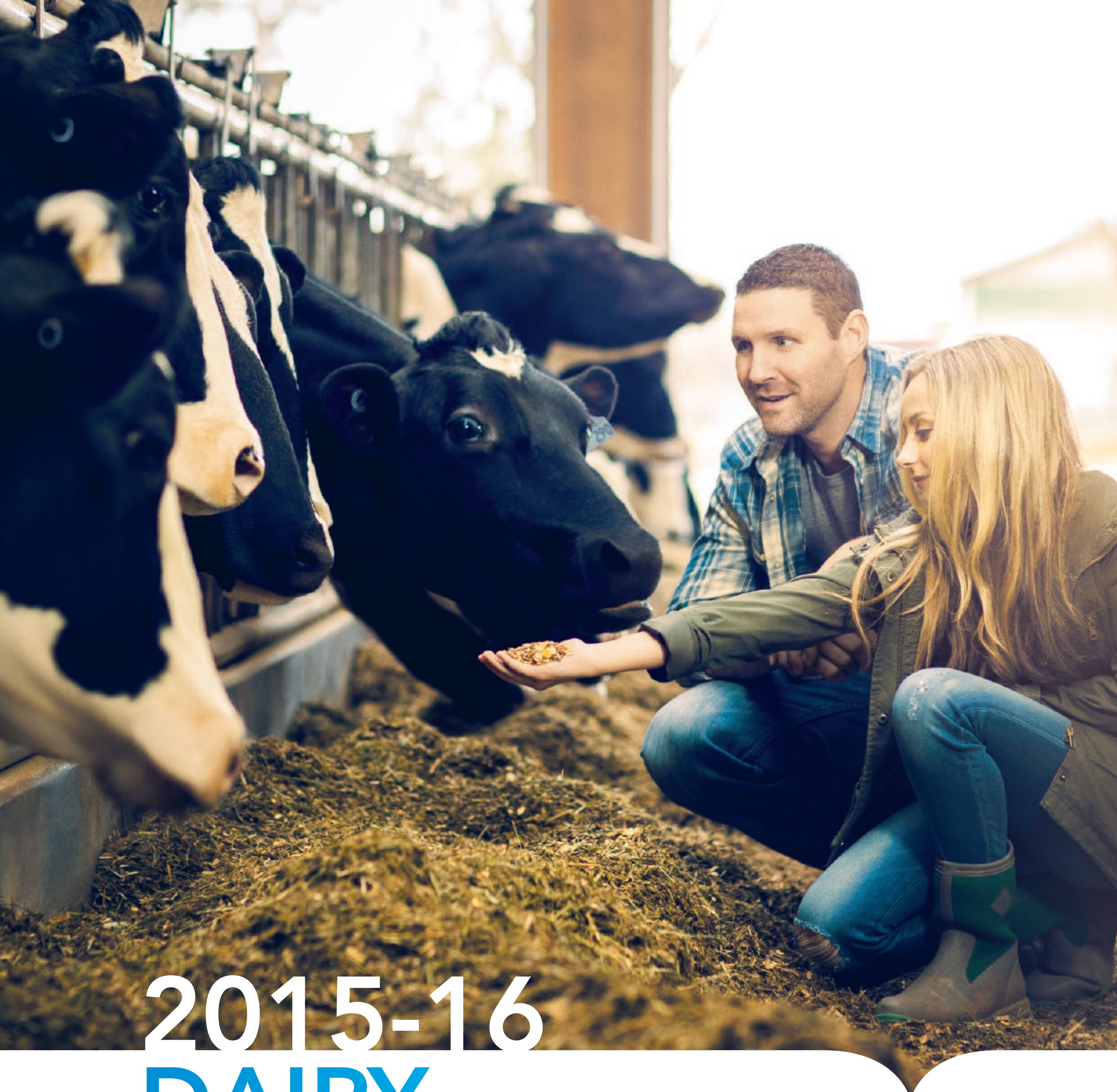


2015-16 DAIRY SECTOR ISSUES

Dairy Farmers of Canada

Congratulations!

On behalf of Canadian dairy farmers, we would like to congratulate you on your success in the recent Canadian elections. Running for office requires dedication and hard-work; we hope you will have as much success in your future endeavours as a Member of Parliament as you had in getting elected!

Throughout our country's history, Canadian dairy has been proud to be one of the bedrocks of our national economy. An-ever reliable beacon of stability, the Canadian dairy sector contributes hundreds of thousands of jobs, and billions in tax revenue, year-after-year; all of this while providing Canadians with some of the safest, highest quality milk on the planet. Unfortunately, it is also a sector that is often misunderstood, frequently misrepresented, and one that has been under a significant amount of political pressure recently. As dairy farmers, we take pride in our country – and strive to be active participants in our local communities. A vibrant Canadian dairy sector means more jobs, a stronger national economy, and a stable supply of the safe, high quality milk that Canadian consumers have come to expect.

Over the past several years, society has changed in that the food industry and consumers have placed an increasing emphasis on sustainability. For Dairy Farmers of Canada (DFC), sustainability means higher standards in terms of animal health and welfare, food quality and safety, the traceability of our products, and our environmental impact. This is why we have set up the proAction® initiative, which you will read more about in our section on proAction later in this document.

We have prepared this package as an introductory guide to our sector; where it's heading in the future, and how, as an MP, you might be able to help us achieve our goals. The goal of this document is to explain to new MP's the economic impact of our sector, how our supply management system works, and to illuminate some of the myths and realities around it. It also sheds light on several of our most critical issues, including: the potential impacts of the CETA and TPP trade agreements on the dairy sector, border control, nutrition, the modernisation of food labelling and many others.

We hope that by reading this document, you will come away with a strong understanding of how this important sector of our economy works, and how it might impact you and your constituents.

Again, congratulations and good luck in your future endeavors as a member of this 42nd Canadian parliament!

Dairy Farmers of Canada

Content

Section 1 Who We Are

Since 1934, Dairy Farmers of Canada has existed to act as the voice for the entire community of Canadian dairy farmers; promoting and defending their interests at both the national and international levels.

While our commitment to farmers has never faltered throughout the years, our mandate has evolved considerably. Since the 1960s, the primary role of DFC has been to advocate for policies that stabilize the market and bring fair returns to farmers – which has contributed to both the creation and constant renewal of the dairy supply management system. In 1994, Dairy Farmers of Canada merged with the Dairy Bureau of Canada – the national organization responsible for the generic promotion of Canadian dairy products. Today, DFC's scope of activity includes all policy, marketing, nutrition, government and stakeholder relations, and market and scientific research initiatives at the national level on behalf of Canada's dairy farmers. Our goal is to represent the farmers on each of Canada's 11,683 dairy farms, and to create viable conditions for the Canadian dairy sector that allow it to thrive and remain a cornerstone of Canada's rural communities for generations to come.

How Does Our Organization Work?

Dairy Farmers of Canada is a federation composed of each of Canada's provincial dairy associations. As such, our members are the dairy associations/marketing boards of the 10 provinces - not the farmers directly. The DFC board of directors is composed of 16 members, 14 of them named by their respective provincial associations. This includes three from each of Ontario and Quebec (who together produce 70% of Canada's milk and 62% of Canada's population) and one from each of the remaining 8 provinces. The remaining two members are the President of DFC, currently Wally Smith, who was recently re-elected to serve his third consecutive two-year term by the DFC general assembly; and a representative of the Canadian Dairy Network, representing the dairy cattle breeds in Canada. We are an association run for farmers by farmers - ¬all board members are required tobe active dairy farmers holding quota.

The main raison d'être of each provincial marketing board is to be the sole regulated buyer of the milk from dairy farms in Canada, negotiate its sales conditions, (including implementing quality and sustainability standards, which are developed together under the umbrella of DFC), and direct it to processing plants, based on the demand of processors. Along with the responsibility of marketing milk, the various provincial associations are also involved in communications, marketing and research activities. Most also deliver innovative education programs in schools, helping to foster awareness of both agriculture and the dairy sector within the Canadian population. Working hand in hand, DFC and the ten provincial associations represent the interests of producers, and create the environment needed to operate sustainable dairy farms that produce high quality milk, within the supply managed system.

OUR GOAL IS TO REPRESENT THE FARMERS ON EACH OF CANADA'S 11,683 DAIRY FARMS...

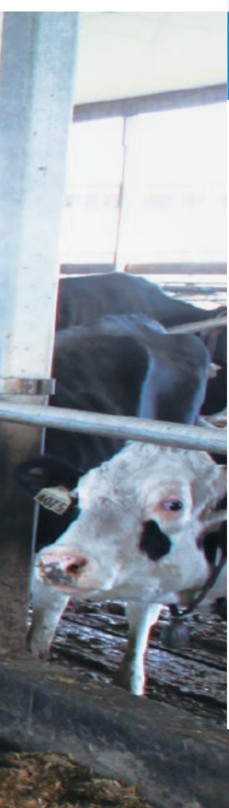
Section 2 Economic Impact of the Dairy Sector

Based on farm cash receipts, milk production is the third most important agricultural sector in Canada, and one of the top two agricultural sectors in 7 out of 10 Canadian provinces.

Nationwide, the dairy sector sustains approximately 215,000 full-time equivalent jobs, and contributes roughly $18.9B a year to the country's GDP as well as $3.6B in taxes at federal, provincial and regional levels. In addition, dairy farmers do not receive any direct payment from government to produce milk - all revenue from milk sales is generated from the marketplace. Those numbers are comparable or superior to some of the other well-established and recognized sectors of our economy, such as the forestry sector ($19.9B in contribution to GDP) or the aerospace industry ($13.1B in contribution to GDP).

Whether locally, at the provincial level, or on a national scale, a vibrant dairy sector means more jobs, improved access to rural infrastructure, and a stronger economy that all Canadians benefit from.

One of the **top two** agricultural sectors in **7/10 provinces.**



CANADIAN DAIRY: AN ENGINE FOR JOBS

11,683 FARMS + **465** PLANTS

$8.1B TO GDP + **$10.8B** TO GDP = **$18.9B** to Canada's GDP

112,500 JOBS + **102,500** JOBS = **215,000** Canadian jobs

Figure 1.1 Source: EcoRessources, 2013 data

Section 3 What is Supply Management?

As you probably know, the dairy farming sector in Canada operates under what is known as supply management. The objectives of Canada's dairy supply management are:

- Ensuring farmers receive a fair return, derived completely from the marketplace, on their capital and labor costs
- Providing processors with a stable supply of milk, so that they can properly plan their production year after year
- Providing consumers with a consistent supply of milk and milk products of the highest and safest quality, at a fair price

The system achieves these objectives by enabling Canadian dairy farmers to act collectively to negotiate prices and adjust milk production to meet consumer demand. In so doing, supply management ensures Canadian prices remain relatively stable and less subject to the volatility of the global market.

Historical Perspective

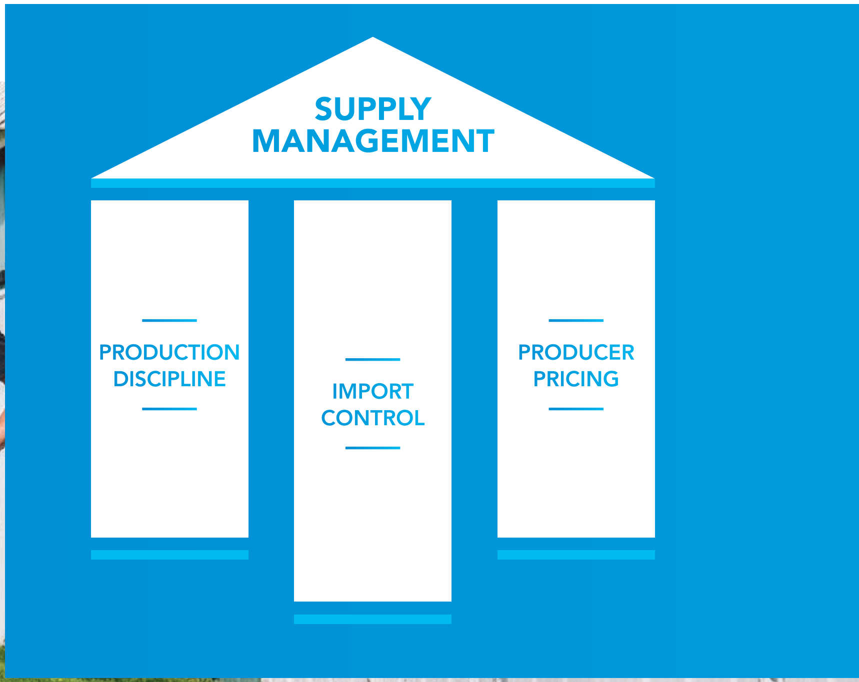
The government of Canada put in place a supply management system in the early 1970s in an effort to reduce the surplus in production that had become common in the 1950s and 1960s, and ensure a fair return for farmers. Canadian dairy was the first commodity to operate under supply management, a system that egg and poultry producers would later adopt. For the dairy sector, the supply management system is administered by the Canadian Dairy Commission (CDC). Each year, the Canadian Milk Supply Management Committee is responsible for assessing the national demand for milk products and to set the national target for production accordingly.

How Does Supply Management Work?

The basic idea behind supply management is simple, and is similar to what producers in every sector do. The goal is to manage production so that supply is in balance with demand, and that the farm gate price enables farmers to cover the costs of milk production, including a fair return on labor and capital. In other words, we only produce as much milk as is required by the Canadian marketplace – while limiting surpluses that would otherwise end up on the world market at dumping prices. Imagine supply management as a roof that rests on three equally important pillars: producer pricing, production discipline, and import control. If any of those three pillars become unstable, then the roof (the entire system) risks collapsing. Please see below for an explanation of how each of these pillars work:

1. Producer Pricing: To ensure price stability for farmers, the milk price received by dairy farmers takes into account both the costs of production, including capital and labor costs, and the overall conditions of the Canadian economy. Without supply management, the Canadian government would have to provide a substantial level of subsidization – which is common in non-supply managed jurisdictions, to help farmers survive the increased price volatility observed in the free-market environment.

It is also important to note that the CDC and provincial milk marketing boards **do not set the retail price**, and neither do the farmers[1]. The price that consumers pays at the grocery store is set by the retailers themselves, and always has been. In our supply management system,



only the price at the farm gate is fixed. While it may have a small impact on the final price, the farm gate price represents only a fraction of what the consumers end up paying at the store.

2. Production Discipline: To make sure that the supply of Canadian milk equals the demand from consumers, each farm in Canada owns quota (market share) that allows it to produce a certain amount of milk. Depending on consumer demand, the amount that a quota allows you to produce can increase or decrease; upward and downward quota adjustments are made on an as-required basis. This is an efficient way to avoid overproduction, and to ensure a fair and stable return for farmers. The relative security that this affords Canadian farmers enables them to innovate, and encourages them to invest funds in the future of their farms that they might have otherwise have had to hold in reserve as protection against market volatility.

3. Import Control: In Canada, imports are controlled using tariff rate quotas, or TRQs (for more information on how TRQs work, see figure 2.1). They allow a predetermined quantity of dairy products to be imported at preferential tariff rates (generally duty free), while maintaining control over how much is imported. The over-quota tariffs are set at levels that allow Canadian farmers to receive a price reflecting the cost to produce milk in a northern environment. Without any controls on what we import, it is impossible to ensure that supply actually equals demand; a lack of import controls will inevitably lead to overproduction and instability within the system.

When the three pillars of supply management are functioning as intended, it enables the dairy sector to weather any economic storms, and remain sustainable and self-sufficient. For farmers, supply management provides income security and stability on the Canadian market, in contrast to the highly unstable global market. This allows them to be profitable and continue to produce high quality Canadian milk, without any direct subsidy from government – unlike in other global jurisdictions. Supply management enables Canadian farmers to invest in their farms, their communities and the future of our economy. It creates a system where farmers can adopt a long-term perspective, and healthy practices that are both good for the environment and for the wellbeing of their animals.

Without supply management, due to the volatility of the global market, the comparatively high costs of production in Canada (due to a colder climate), and the perishable nature of their products, many Canadian family farmers would simply go out of business. This would hurt Canadian communities, Canadian consumers, Canadian farmers, and the Canadian economy.

[1] In both Quebec and Nova Scotia, the price of fluid milk is regulated by the respective provincial governments

How are Imports of Dairy Products Controlled in Canada?

Since 1995, following Canada's signature of the World Trade Organization's Agreement on Agriculture, imports on dairy products have been controlled using tariff rate quotas (TRQs). In the words of the Department of Foreign Affairs, Trade and Development of Canada, for dairy products, imports are subject to low "within access commitment" rates of duty up to a predetermined limit (i.e. until the import access quantity has been reached), while imports over this limit are subject to significantly higher "over access commitment" rates of duty." **(For further information regarding import control please see Appendix C, p.30 of this booklet).** For example, when we say that CETA granted an additional access of 16,000 tonnes of fine cheese to the European Union, this means that an additional 16,000 tonnes of cheese will be able to be imported at the lower rate of duty under a TRQ, and any quantity over that would be subject to the higher rate of duty. This cheese will no longer be produced in Canada, and will result in perpetual lost revenue for Canadian farmers.
(For further information regarding international trade, please see Section 5, p.12 of this booklet).

Figure 2.1

Section 4 Myths vs Realities

Supply management is good for both producers and consumers of dairy products in Canada. Unfortunately, there are is a lot of misinformation out there about our unique system. In the following pages, we will debunk the three biggest myths about the Canadian dairy sector. For additional information, we invite you to take a look at our section on the most frequently asked questions about the dairy sector, located at the end of this booklet in Appendix B.

Myth 1 Milk is More Expensive in Canada Than Elsewhere

In Canada, retail prices for milk are in line with those in other jurisdictions (Figure 3.1). A Nielson study showed that during 2014, consumers paid an average of $1.47/ litre for fresh milk in Canada, as compared with $1.83 in New Zealand, $1.81 in France, $1.15 in the U.S, $1.19 in Germany, and $2.35 in China.

In fact, a more recent Nielson study ending on May 30th, 2015 also showed that, when comparing apples to apples, which means hormone free (rBST free) milk in the US against Canadian milk (where rBST is illegal), Canadian milk costs only $1.48/ litre versus $1.63/litre for a similar product in the U.S. Additionally, two other things to keep in mind: With respect to prices in the U.S, as anyone who has ever done any cross-border shopping knows, most products are slightly more expensive in Canada than they are in the US. In fact, many reports have suggested that the average product is more expensive in Canada than it is in the U.S (as much as 27% more expensive in 2011); it should therefore come as no surprise that milk is slightly more expensive here in Canada. More importantly, countries without supply management typically heavily subsidize their dairy industries; this comes straight out of the pockets of taxpayers, and essentially forces taxpayers from those countries to pay twice for their milk.

Furthermore, it is unlikely that the price of milk would go down if we eliminated supply management in Canada. Farmers are not responsible for the retail price of milk – the price consumers pay in the store has always been set by retailers – and the truth is, the farmer's share of that price is typically relatively small. For example, in 2014, the average price of a 250ml glass of milk in a Canadian restaurant was $2.50. The farmer's share of that price was only $0.23, or 9%. The fact is, in countries where milk production isn't regulated (ie supply management doesn't exist), such as New Zealand, the United Kingdom and Australia, there has been a notable discrepancy between farm gate prices and retail prices. In many cases, prices have actually gone up for consumers, while revenue for farmers has gone down.

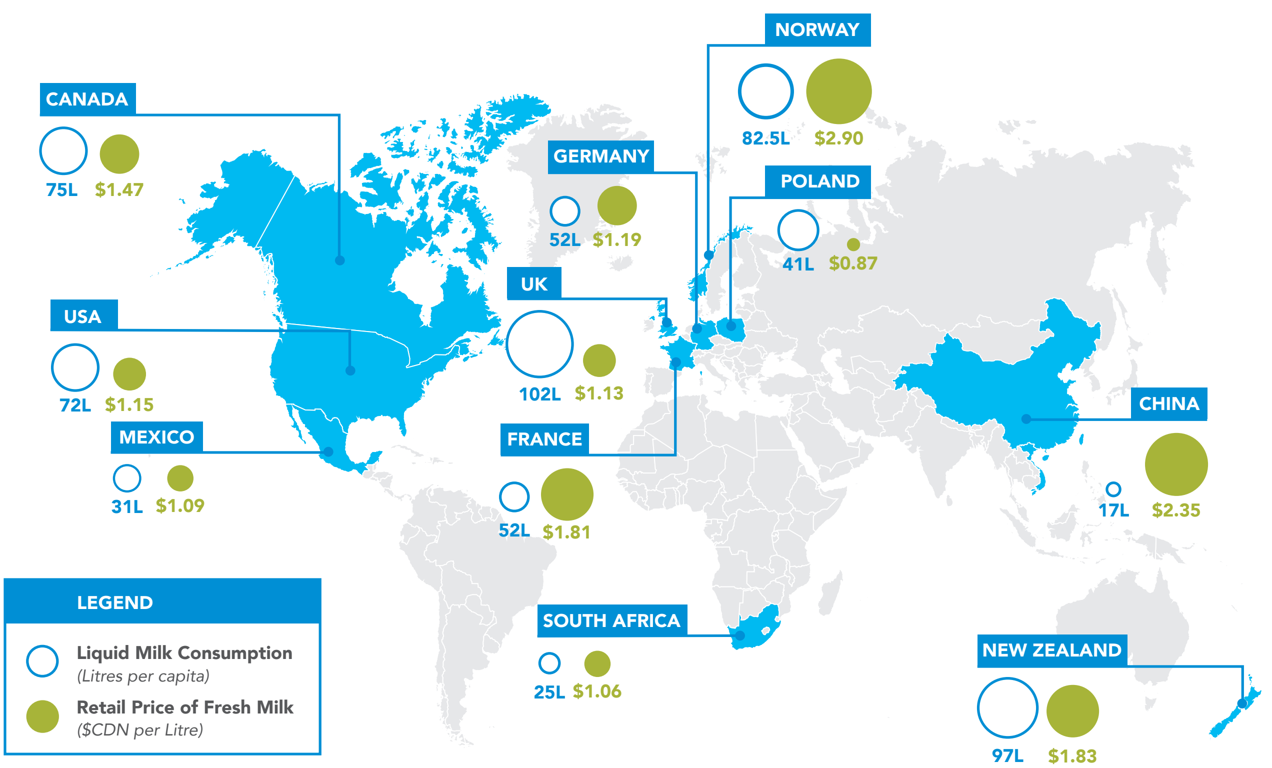


Figure 3.1

Myth 2 The Canadian Dairy Sector is Closed to International Trade

An estimated 8% to 10% (some estimates suggest it may even be as high as 15%) of the Canadian dairy market is already open to imports. Just last year, Canada imported more than $900 million in dairy products. In fact, we have imported at least $500 million in dairy products each year for the past ten years. This does not take into account the additional 1.5 to 2% of market access for European cheese that Canada granted in the Comprehensive European Trade Agreement (CETA) deal, or the additional 3.25% of market access (according to initial government estimates) that Canada agreed to during the recently concluded *Trans* Pacific Partnership (TPP) negotiations. In regards to the TPP specifically, although DFC will continue evaluating the agreement as more information becomes available, depending on the composition of the products entering the Canadian market, we expect that the impact accruing from the concessions will be higher than the initial government estimate, and will amount to somewhere between 3.4%-4%. The bottom line is that Canadian imports of dairy products are already substantial, and will rise significantly over the next few years. To say that we're a closed market is simply not true.

Myth 3 Supply Management Discourages Young Farmers and Undermines Innovation and Investment

Actually, it is because of the relative security afforded by supply management that many young farmers enter into the dairy sector and are able to invest in their farms – not in spite of it. Supply management gives the Canadian dairy sector the stability it requires to pour millions of dollars a year into research and development. As a sector, and as individual farmers, it is always in our best interest to stay on the cutting edge of innovation. In fact, since 1971, the average herd size in Canada has increased by 321% and the average shipments per farm has increased by 855%. Today, the Canadian dairy sector is known as a world leader in yield per cow, dairy genetics, and dairy genetic material trades. Furthermore, DFC's annual research budget totals approximately $2 million, and the value of research investments leveraged from DFC funding in 2014 to drive innovation in the Canadian dairy sector was $6.6 million. This funding is directed annually to address farmers' priorities for research in milk production, human nutrition and health. Our proAction initiative, discussed later in this document, is the most recent proof of our commitment to innovation.

CANADIAN DAIRY TRADE IMBALANCE, 2005 – 2014
(in millions of current dollars)

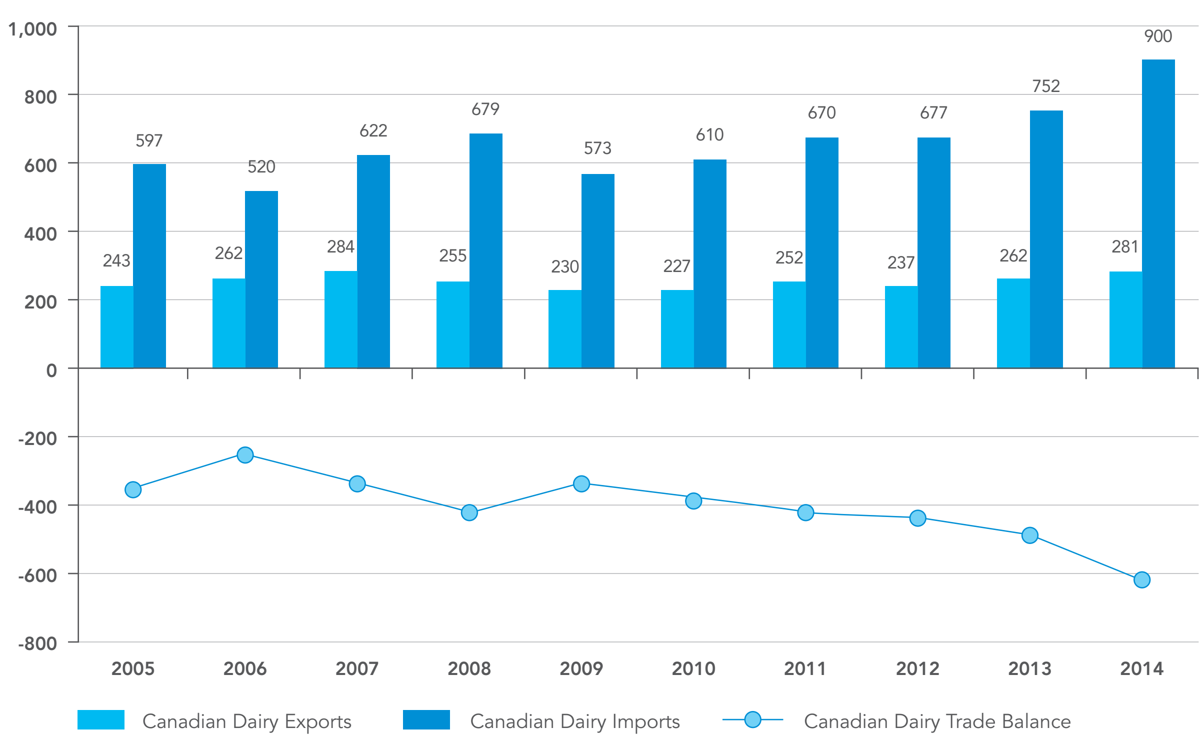


Figure 3.2

Section 5 The Transpacific Partnership (TPP) and the Canadian Dairy Sector

What is the Impact of the TPP Agreement on the Canadian Dairy Sector?

According to the initial government estimate, the sum of access granted to the dairy sector in order to secure this trade deal for Canada amounts to 3.25% of Canada's 2016 milk production. As previously noted however, although DFC will continue evaluating the full impact of the agreement as more information becomes available, depending on the composition of the products entering the Canadian market, we expect that the impact accruing from the concessions will be higher than the initial government estimate, and will amount to somewhere between 3.4%-4%.

The milk displaced by this agreement will never be produced in Canada, and will result in perpetual lost revenue of between $190-$246 million/year for our farmers, and for the Canadian economy. Furthermore, these numbers do not take into account the impact of the 1.5% to 2% of access that Canada granted to the European Union in 2014 during the negotiations for the Comprehensive Economic and Trade Agreement (CETA). This agreement, which has yet to be ratified by all participating countries, would allow the EU to ship an additional 16,000 tonnes of fine cheese, and an additional 1,700 tonnes of industrial cheese into Canada. The cheese access granted under CETA amounts to the government giving away between $110—150 million (at the processing level) in cheese sales annually.

After the TPP negotiations were concluded on October 5, 2015, in order to ensure no negative impact for Canadian dairy farmers as a combined result of CETA and the TPP, the government of Canada announced multiple mitigation measures and a $4.3B compensation package. This includes:

- **Income Guarantee Program** (for all industries under supply management): $2.4 billion. This is a guaranteed amount of money to accrue back to farmers based on a set amount per unit of production.
- **Quota Value Guarantee Program** (for all industries under supply management) – $1.5 billion. This program doesn't guarantee that producers will receive a payment, but works as an insurance program against any decrease in the value of quotas due to the agreement. While a better understanding of how the program will operate is required, **Canadian dairy farmers are doubtful that this program will yield any payments.** Consideration should be given to an alternative usage of these funds.
- **Processor Modernization Program** – $450 million. A support program to increase competitiveness through capital investments and technical and management capacity. Considering the negotiations between dairy farmers and dairy processors on an ingredient strategy, priority should be given to investment into facilities that produce milk ingredients.
- **Market Development Initiative** (for all industries under supply management) – $15 million over 5 years. Funding added to the AgriMarketing Program to assist supply-managed groups in promoting and marketing their top-quality products.

Although DFC's assessment of the impact of the TPP agreement will evolve as more details of the agreement become available, our initial assessment is that the market access granted by the agreement could have a more significant impact on the Canadian dairy sector than initially suggested – the compensation package may need to be adjusted in order to ensure no negative impact on Canadian dairy farmers as a result of this deal. We look forward to working with the government on this issue.

Mitigation measures and a compensation package are essential to ensure that our sector remains stable, and continues to generate substantial benefits for Canadian rural economies. However, this package also includes several standalone initiatives we believe are critically important:

1. Fulfilling the government's commitment to compensate dairy farmers and small cheese makers to diminish the negative impacts of CETA.
2. Preventing improperly classified milk-protein imports by having the Canadian Border Services Agency enforce existing border regulations the way they are intended to be enforced; and, having the Canadian Food Inspection Agency rigorously enforce regulated compositional standards for cheese.
3. Closing tariff circumventing loopholes that occur as a result of the use of Canada's duty deferral program, instead of the Import for Re-Export Program (IREP).

All three of these issues are highly important to dairy farmers in ridings across the country; regardless of whether or not the TPP agreement is ultimately accepted and ratified by the new parliament, these three initiatives are crucial for our sector, and should still be enacted. **For a more detailed breakdown on these issues see Appendix C at the end of this booklet.**

ENSURE TPP = NO NEGATIVE IMPACT FOR CANADIAN DAIRY FARMERS

THE GOVERNMENT OF CANADA ANNOUNCED MULTIPLE MITIGATION MEASURES AND A $4.3B COMPENSATION PACKAGE.

Section 6 The proAction® Initiative

Sustainability has never been more important to Canadians, which is why Dairy Farmers of Canada has set up the proAction initiative. The proAction initiative aims to provide an efficient and co-ordinated national framework for dairy farmers to continue their business leadership in producing the safest, highest quality milk on the planet. Under proAction, Canadian dairy farmers take the initiative to set, adhere to, and constantly improve what are already among the world's best practices for on-farm sustainability. DFC is in continuous discussions with its membership to ensure that this program is constantly evolving to meet industry best practices. Although proAction can admittedly add considerably to a farmer's workload; ultimately, Canadian dairy farmers understand the importance of going the extra mile to ensure consumer confidence.

The proAction initiative, composed of six modules, began with the launch of the Canadian Quality Milk program in 1997, and will be completed in 2023 when 100% of Canadian dairy farms are expected to have obtained certification for all modules. The six modules will set national standards for **milk quality, food safety, animal care, livestock traceability, biosecurity and the environment.** The modules are as follows:

proAction®

proAction
INITIATIVE
6 MODULES

The six modules will set national standards for **milk quality, food safety, animal care, livestock traceability, biosecurity and the environment.**

1. **Milk Quality:** Canadian dairy farmers strictly adhere to regulated milk quality criteria every day to assess farm milk quality. To maintain our good reputation, it is important for Canadian milk quality standards to continue to remain high.

2. **Food Safety:** The Canadian Quality Milk (CQM) program is designed to help prevent, monitor and reduce food safety risks on farms such as milk contamination. Under CQM, farmers provide proof over time to on-farm validators that they continue to meet program requirements.

3. **Animal Care:** Treating our animals well, and providing excellent care is one of the highest priorities of the Canadian dairy sector. Under proAction, farmers will be expected to adhere to a leading animal welfare assessment program, based on the requirements outlined in the *Code of Practice for the Care and Handling of Dairy Cattle*. The Code has been distributed to every dairy farmer in Canada, and its soundness was tested on farms in 2013, and again in 2014 – on farm training has now begun.

4. **Livestock Traceability:** Currently, milk is traceable from farm to plate across Canada. All cattle have been systematically tagged since federal regulations came into force in 2001. The ability to trace our animals and their whereabouts is key to maintaining consumer confidence in our sector.

5. **Biosecurity:** Dairy Farmers of Canada worked with the Canadian Food Inspection Agency (CFIA) to develop the *National Standard – Biosecurity for Canadian Dairy Farms,* published in 2013. The key to biosecurity is prevention, but if an animal disease is found on farm, farmers will work closely with veterinarians to control it and mitigate risks so it does not leave the farm.

6. **Environment:** The dairy sector strives to improve efficiencies, and embrace innovation to reduce its environmental impact. Investments are made to reduce energy use, to improve nutrient, land, and water management, to adapt to climate variability, to enhance biodiversity, to increase resilience, and to reduce waste. The environment module of proAction is based on provincial Environmental Farm Plans, and addresses four priority areas: manure storage, manure and nutrient management, water management, and chemical use and storage.

Creating a framework for action and innovation in all those areas, the proAction initiative will enable farmers to collectively demonstrate responsible stewardship of their animals and the environment in sustainably producing high-quality, safe and nutritious food for their consumers. As mentioned, the implementation of the proAction initiative is an ongoing process, and the different programs are all currently at different stages of development. However, we are proud to report the success we have had so far in implementing the proAction initiative. Right now, in Canada:

- 95% of all dairy farms have been inspected in the past 2 years
- 100% of all on-farm milk tanks and milk trucks are sampled for milk quality
- 97% of farms are currently registered on the CQM (food safety) program
- All milk is sampled at the farm to allow industry to trace back any potential issue that may arise after milk leaves the farm
- 70% of dairy farms have an environmental farm plan, with an action plan developed to improve specific environmental conditions on the farm
- The production of 1 kg of Canadian milk takes only 20 litres of water, and results in only 1 kg of carbon dioxide emitted; this is comparable to or less than the water and carbon footprints of milk produced in other milk-producing countries

WE ARE PROUD TO REPORT THE SUCESS WE HAVE HAD SO FAR IN IMPLEMENTING THE proAction INITIAVE.

Section 7 Labelling

We live in the age of information, and consumers have never been more interested to know what goes in to the food they eat. Although there is a lot of information contained on a food label, this information is not always clear and accurate – or easy to find and read. Furthermore, the list of ingredients on a product label currently only states what the ingredients are; the proportions of ingredients are not listed. This makes it difficult for a consumer to properly compare products, and assess which one best meets their nutritional needs, or desired quality profile.

Canadian dairy farmers know that Canadian consumers care about what goes in to their food. To help consumers with this, we think that the Quantitative Unit Identification (QUID) system for food labels, which identifies the percentage of each ingredient that a food contains, is the best labelling method. This would allow consumers to compare products based on the quality of their ingredients, and avoids deceptive claims on food labels.

Although QUID has yet to be used in Canada, it is already being used in other jurisdictions, including the European Union.

As dairy farmers, we are proud of the products we make, and of their authenticity. Therefore, in support of Canadian consumers, **we ask that the government of Canada require Quantitative Unit Identification (QUID) on all food labels.**

Nutrition Labelling

DFC has submitted comments on the Canada Gazette 1 (CG1) (Vol. 149, No. 24) proposal for Regulations Amending the Food and Drug Regulations — *Nutrition Labelling, Other Labelling Provisions and Food Colours,* published June 13, 2015 and on the related fact sheets. Please find below the 3 main issues that DFC has raised in regard to milk products (documents can be provided on demand).

CANADIAN DAIRY FARMERS KNOW THAT CANADIAN CONSUMERS CARE ABOUT WHAT GOES IN TO THEIR FOOD.

DFC Recommendations:

1

The Daily Value (DV) for sugars should be abandoned, and other options should be considered to address the excess added/free sugars intake. Health Canada is proposing that the Nutrition Facts table (NFt) include a percent daily value (% DV) of 100g for sugars to allow consumers to assess food products on the basis of their sugar content, without differentiating between the natural sugar present in food and added sugar. The declaration of a % DV for total sugars will inappropriately highlight the natural sugar content of milk products and mislead consumers into thinking that they should avoid them. For example, a 250 mL serving of plain milk would be labelled as providing 11% to 13% DV (depending on fat content) and 175g serving of flavored yogurt would be labelled as providing 19% to 25% DV, while 15% of DV will be qualified as "a lot" of a given nutrient.

2

DFC supports the decision to abandon the mandatory declaration of the % DV for *trans* fat. DFC also suggests that Health Canada takes a step further and no longer requires the labelling of TFA in food products for which the fat originates exclusively from ruminant meats or dairy products. (see *trans* fat with the nutrition section for arguments)

3

The conditions for making "excellent source" claims should be revised for calcium, in the context of higher DVs for certain nutrients to support consumer education on key sources of these nutrients. DFC believes that DVs should be set while keeping in mind nutrient content claims, in order to provide consistent support to the objective of nutrition labelling, which is to help consumers make healthier food choices and reduce potentially confusing information on food labels. With the revision of nutrition labelling, several micronutrients have seen their DV significantly increased, including calcium and iron, which are two micronutrients with a mandatory declaration on the NFt. Health Canada has identified these two micronutrients as being of public health concern because of their inadequate intakes by Canadians.

Section 8 Nutrition

Dairy Farmers of Canada believe, as scientific research has proven repeatedly, that a daily consumption of dairy products is an important part of a healthy diet. In Canada, *two out of three adults do not consume the minimum number of servings* of milk products recommended in Canada's food guide (2-3 servings daily, depending on age). This problem is especially acute for individuals over 71 years old, as more than 80% of individuals within this age group do not consume their recommended serving. The lack of milk consumption is also problematic for teenage girls, as only 17% of woman between the age of 10 and 16 consume enough milk products.

Milk products are an important portion of a healthy lifestyle and a nutritious diet. They contain up to 16 nutrients and several studies have shown that they may contribute to reducing the risk of certain diseases or conditions, such as obesity, type 2 diabetes, hypertension, osteoporosis and colorectal cancer. At DFC, we believe that it is important that people know the facts, which is why we have a team of registered dietitians that provide factual, up-to-date, science-based information on a wide range of nutrition subjects, primarily related to milk products. Our dieticians strive to separate fact from fiction - dispelling the myths about milk products, and enumerating their known benefits – as well as putting in place innovative programs to promote healthy eating habits.

ELEMENTARY SCHOOL MILK PROGRAM

Elementary School Milk Program

Having a balanced and nutritious diet is important at any age; but, it is especially important for young children, who are at a crucial stage of physical growth and who are acquiring drinking and eating habits that will follow them for the rest of their lives. Currently, 63% of Canadian children between the ages of 4 and 9 meet their daily recommendations for milk consumption; although this is not a bad number, at such a crucial stage in a child's development, it is not ideal. Unfortunately, as children grow older, the number gets worse - only 39% of boys and 17% of girls aged between 10 and 16 meet their daily recommendations for milk consumption.

It is important to make efforts to ensure that all our children can enjoy the benefits that comes from consuming their daily recommended serving of milk products. This is why Dairy Farmers of Canada have been proud to support elementary school milk programs throughout Canada, making fresh, cold milk available at schools everywhere in Canada, and making sure that kids have the nutrition and energy they need to concentrate and perform their best. For example, in Ontario, our Elementary School Milk Program is celebrating its 26th year of existence. More than 70% of elementary schools have registered for the program. By offering many different tools to schools, milk coordinators and other volunteers, the program makes fresh milk available to more than 1 million students every day in the province. Additional programs also exist in other provinces. For example, in Nova Scotia, the program is funded in collaboratively by the dairy sector and the Nova Scotia Department of Agriculture, and allows children to buy a 250 mL-carton of nutritious, fresh, cold milk at school every day, for as little as $0.40. In New Brunswick, the program is funded in part by the dairy sector and allows children to buy a 250 mL-carton for as little as $0.45. These are only a few examples of some of the things Dairy Farmers of Canada are doing to increase elementary school aged children's daily milk consumption, and to make sure that they develop healthy drinking and eating habits when it is the most important.

Sodium

In the Minister of Health's mandate letter, the government has stated its commitment to bring in tougher regulations to reduce salt in processed foods.

DFC recognizes the importance of reducing Canadians' sodium intake when it comes to public health, and would like to collaborate with the new government on this issue. However, it is important to recognize that salt (sodium chloride) is a key ingredient in ensuring the safety of several foods, such as cheese, and that there are significant technological challenges, knowledge gaps, and food safety considerations that need to be addressed when reducing salt in these foods.

MILK PRODUCTS ARE AN IMPORTANT PORTION OF A HEALTHY LIFESTYLE AND A NUTRITIOUS DIET.

Background:

- DFC has been supportive of Health Canada's sodium reduction plan, and the sodium targets that they published in June 2012, and is actively participating in sodium reduction efforts in Canada.

- DFC has funded a major two-year study to provide critical scientific data to help define achievable yet safe reductions in the sodium content of Canadian cheese.

- More than just for taste, salt is used in the cheese making process to serve many functional properties; enzymatic and microbial control, humidity control, texture and to ensure food safety.

- While technological challenges and food safety considerations to reducing sodium in cheese may exist, it is important to note that **the vast majority of cheeses already fall below the 2016 maximum sodium targets set for the various cheese categories.**

- Despite its sodium content, several studies have consistently shown that cheese does not have an unfavorable impact on blood pressure.

Although DFC recognizes the importance of reducing Canadians' sodium intake as outlined in the mandate letter, we are concerned at the potential methodology that may be used to achieve this goal. Namely, that this may lead the government to re-introduce Bill C-460. This Bill proposed that the label of any prepackaged food that exceeds the sodium levels set by Health Canada carries a warning claim suggesting that the product increases the risk of hypertension, heart attacks and strokes due to its high sodium content. It also proposes that the Daily Value for sodium in the Nutrition Facts Table on food packages be reduced from the current 2,400 mg/day to 1,500 mg.

DFC has several issues with this Bill, including:

- Health Canada's sodium strategy has established maximum limits set for 2016 (phase 3). In phases 1 and 2, Health Canada determined Sales Weighted Averages (SWAs) limits only, while phase 3 contains both SWAs and maximum limits. SWAs imply that not all foods within a given category are required to meet the sodium limit set for that category. The SWAs are meant to target the products that have the biggest share of the market in order to effectively reduce the sodium intake of Canadians. It would therefore be inappropriate to use a SWA for individual foods and request that a company puts a warning label on its products exceeding that SWA limit.

- Some foods may exceed the maximum sodium target established by Health Canada and still provide less than 10% of the daily value for sodium fixed for the purposes of nutrition labeling. This is the case for food such as bread, cheddar cheese, peanut butter and breakfast cereals. This makes food quite acceptable from a nutritional point of view, because Health Canada considers that a food contains a lot of a nutrients when it provides at least 15% of the daily value per serving. Conversely, sodium-rich foods may not exceed the maximum sodium targets, but still contain large amounts of sodium far beyond 15% of the daily value per serving. For example, with a maximum target sodium, chips would contribute 18%, soy sauce 27%, and bread crumbs 42% of the daily value. Despite their high sodium content, they **would not** have to carry a warning on their label.

- Imported foods, such as imported cheese, are not targeted by this strategy – they would not be required to reduce their sodium content or carry a warning on their label. This might mislead consumers into thinking that imported cheeses are preferable to their Canadian versions - or push them towards imported cheeses to find the taste that they are looking for. In both scenarios, the Canadian cheese industry risks being set back significantly.

- Scientific evidence indicates that reducing sodium intakes to 1,500 mg/day may lead to inadequate intakes of various nutrients. At this level, the consumption of various nutritious foods that contain sodium, including cheese, needs to be greatly reduced. As a result, the requirement for many nutrients may not be met. Furthermore, the Institute of Medicine (IoM) has released a report titled "Sodium Intake in Populations: Assessment of Evidence" which supports recommendations to lower sodium intake, but does not support reduction in sodium intake below 2,300 mg per day. In addition, effective in January 2014, Hypertension Canada also revised their recommended limit of sodium intake from 1,500 mg/day to 2,000 mg/day.

THIS MIGHT MISLEAD CONSUMERS INTO THINKING THAT IMPORTED CHEESES ARE PREFERABLE TO THEIR CANADIAN VERSIONS ...

Added Sugars

In the Minister of Health's mandate letter, the government has stated its commitment to improve food labels to give more information on added sugars.

In DFC's opinion, it is important that efforts on sugar and/or added sugars (including on food labels) should focus on foods of poor nutritional value such as soft drinks and other nutrient-poor sugar-sweetened beverages, candies and desserts. In terms of the sugar issue, foods with higher nutritional value such as milk products, whole grain cereals and fruits - even the sweetened varieties - are not the main issue, and should therefore not be the focus of attention. The American Heart Association has the following information on its website: *"Are all sugars bad? No, but added sugars add calories and zero nutrients to food. Adding a limited amount of sugars to foods that provide important nutrients—such as whole-grain cereal, flavoured milk or yogurt—to improve their taste, especially for children, is a better use of added sugars than nutrient-poor, highly sweetened foods."* This is an important point that should be part of the government's messaging when it comes to the topic of sugars.

Moreover, encouraging Canadians to consume less total or added sugars, without considering the true impact of foods on health risks, sends the wrong message that certain foods, such as sweetened yogurts and chocolate milk, increase the risk of health problems and disease - when in fact they do not. Consequently, this could lead to Canadians limiting their consumption of milk products, and fruits and vegetables, despite the fact that these foods are nutritious and play an important role in providing shortfall nutrients. This would only result in further exacerbating their existing under-consumption. DFC therefore strongly feels that a distinction should be made between nutrient-poor and nutrient-rich foods withrespect to sugar content.

It is also extremely important that no undue emphasis be placed on the natural sugar content of nutritious foods such as milk products and fruit and that the sugar naturally present in these foods not be highlighted in any communication or initiative (e.g. nutrition labelling).

For additional info, please refer to the DFC submission on nutrition labelling. (It can be provided on demand).

... sends the **wrong message** that certain foods, such as sweetened yogurts and chocolate milk, increase the risk of health problems and disease – when in fact **they do not.**

Trans Fats

In the Minister of Health's mandate letter, the government has stated its commitment to bring in tougher regulations to eliminate *trans* fats.

The Situation in the U.S:

The Food and Drug Administration (FDA) has made a final determination that there is no longer a consensus among qualified experts that partially hydrogenated oils (PHOs), which are the primary dietary source of industrially-produced *trans* fatty acids (IP-TFA), are generally recognized as safe (GRAS) for any use in human food. This action responds, in part, to citizen petitions, and the final determinations were based on available scientific evidence and the findings of expert scientific panels establishing the health risks associated with the consumption of *trans* fat. The FDA has set a compliance period of 3 years.

DFC's Position:

As is the case in the U.S, industrially produced *trans* fat, and not *trans* fat in general, should be the target of the government's actions and communications on this issue. **It is important that the government understands the distinction between industrially produced and naturally occurring *trans* fat:**

- The scientific evidence is clear that the natural *trans* fat found in dairy products and the meat of ruminant animals does not adversely affect cardiovascular health at customary dietary levels, and that the current low intakes of natural *trans* fat are not a public health concern. Thus, experts and organizations around the world, such as Dietitians of Canada and the Canadian *Trans* Fat Task Force group have focused on the need to reduce industrially produced *trans* fat (IP-TFA), not natural *trans* fat. Efforts should therefore focus on industrial *trans* fat in processed foods.
- Unlike food manufacturers who can modify the formulation of their products to remove industrial *trans* fat, it should be noted that dairy farmers cannot remove naturally occurring *trans* fat from dairy products. The same is true of meats of ruminant animals.
- The multi-faceted approach undertaken to reduce *trans* fat in Canadian foods has been successful. According to Health Canada, *trans* fat intakes have drastically declined in Canada. Canadian consumption of *trans* fat has fallen 60 per cent since 2009. Moreover, a recent study from University of Toronto showed that 97 per cent of packaged food products met voluntary targets for *trans* fat in 2011, up from 75 per cent in 2009. In that context, a focus on IP-TFA as opposed to all *trans* fats in communications and other initiatives such as food labelling is crucial. Without focusing solely on IP-TFA in communications and other initiatives such as food labelling, consumers could be inappropriately led to believe that foods such as lean beef and milk products are major sources of *trans* fat - and that they should limit or avoid these foods.
- Not distinguishing naturally-occurring *trans* fat from industrial *trans* fat may also result in a worsening of the existing under-consumption of milk products. Nutrient-rich milk products are good sources of high quality protein as well as many other valuable nutrients, such as calcium, potassium, vitamin D and B vitamins.
- The evidence indicates that naturally-occurring *trans*-fat in amounts typically consumed do not pose any health risks. Furthermore, emerging scientific evidence suggests a potential beneficial impact of ruminant *trans* fatty acids on several health outcomes.

Canadian consumption of ***trans* fat** has fallen

60%

SINCE 2009

Marketing to Children

In the Minister of Health's mandate letter, the government has stated its commitment to introduce new restrictions on the commercial marketing of unhealthy food and beverages to children, similar to those now in place in Quebec.

DFC recognizes the importance of policy efforts aimed at reducing childhood obesity; however, such policy efforts should be evidence-based, and should not lead to unintended consequences such as limiting the intake of nutrient rich foods and jeopardising the intake of important nutrients. DFC is concerned about such unintended consequences, given that the definition of unhealthy food and beverages could include nutritious foods such as cheese and flavored yogurt. Therefore, DFC wishes to be part of the discussions on this important and complex issue.

DFC RECOGNIZES THE IMPORTANCE OF POLICY EFFORTS AIMED AT REDUCING CHILDHOOD OBESITY ...

Vitamin D Fortification

The mandatory fortification of milk with vitamin D has been a long standing important public health strategy to reduce the prevalence of vitamin D inadequacy amongst the Canadian population. It has been proposed in Canada Gazette[1] that the Daily Value (DV) for vitamin D be revised based on the most recent Dietary Reference Intake (DRI). Thus, the DV would increase from 200 IU to 800 IU. In order to ensure that Canadians can meet the new recommendations, Health Canada (HC) is looking at ways to increase vitamin D in the food supply.

It is important to adjust the vitamin D fortification of milk to the revised DV so that Canadians will be able to continue to depend on the milk they consume to reach the same share of their vitamin D needs. Moreover, over the past 20 years, the consumption rate of milk products has changed - the consumption of milk has declined, while cheese and yogurt have become more widely consumed. A revision of the current Canadian vitamin D fortification to increase the level of fortification mandatorily required in milk, and extend the fortification on a voluntary basis to yogurt and cheese, would be consistent with Canada's Food Guide recommendations for Milk and Alternatives.

DFC Requests:

a) Adjust the mandatory vitamin D fortification in milk to the new DV of 800 IU so that Canadians can continue to depend on milk for their vitamin D needs and;

b) Extend this fortification to yogurt and cheese on a voluntary basis.

Conclusion

As an elected official, the Canadian electorate and government stakeholders look to you for guidance and assistance in both championing and crafting policies with the potential to make a huge positive impact on our lives. In reading this information booklet, we hope that you have come away with a better understanding of Canada's dairy sector – our history, our challenges, and the things that make us a unique and dynamic part of Canada's economy and rural fabric. We look forward to collaborating and working closely with you to ensure a stable and thriving supply managed Canadian dairy sector for generations to come.

DFC staff will be contacting your office in the near future to set a meeting. In the meantime, don't hesitate to contact our Executive Director, Caroline Emond, should you have any questions. We look forward to meeting with you and your staff, and discussing these issues in greater detail.

Respectfully,

Dairy Farmers of Canada

Appendix

Appendix A Environics Survey Results – Your Opinion Matters to Us!

During the summer of 2015, Dairy Farmers of Canada conducted a survey to measure the opinions of Canadians on our sector and the many issues it faces. The survey was conducted by Environics, by phone, on a sample of 1,707 Canadians. The results were statistically weighted to ensure the age and gender composition of the sample reflected that of the population according to the 2011 Census. The margin of error is plus or minus 2.4 percentage points (at the 95% confidence level).

WE ARE PROUD TO REPORT THAT A VERY LARGE MAJORITY OF CANADIANS SUPPORT OUR SECTOR, RECOGNIZE THE QUALITY OF OUR PRODUCTS AND OUR IMPACT ON COMMUNITIES, AND THE NEED TO HAVE FRESH CANADIAN MILK AVAILABLE ON THE MARKET.

HERE ARE A FEW OF THE MAJOR FINDINGS OF OUR INQUIRY:

Overall impressions of the Canadian dairy sector

85% Of Canadians believe that it is **important for government to protect** our dairy sector in all free trade agreements

90% Of Canadians believe that buying Canadian milk has **a positive effect on the whole community**, not just farmers.

86% Of Canadians believe that Canada's milk industry is **stable and reliable**

Importance of Canadian milk for Canadian consumers

91% Of Canadians say it is important that the milk they use is **produced in Canada**

70% Of Canadians say they would prefer slightly more expensive **Canadian milk** to cheaper foreign milk products

FAQs

Appendix B Dairy Sector FAQs

Q Would opening our borders to foreign products give us access to cheaper milk products without any other significant consequences?

A No. As previously discussed, prices are similar between Canada and other jurisdictions, and historical empirical evidence does not support the claim that opening our borders and deregulating our sector would lead to lower prices for consumers. However, more important than the question of price is the question of what the consequences of opening our borders might be for Canadian consumers.

It is important to understand that the Canadian dairy sector, on our own initiative, is unparalleled in the quality and safety standards that are rigorously set and adhered to by all our farmers under our proAction and Canadian Quality Milk programs. You already know and trust the safety and quality of Canadian dairy – it is difficult to say what goes in to foreign products that do not adhere to the same standards.

Furthermore, our Canadian family farmers care deeply about the safety and quality of life of all of our animals. Under proAction, all Canadian farms must adhere to the Code of Practice for the Care and Handling of Dairy Cattle which is recognized by animal defense groups as the best, and most proactive set of standards for animal care in the world. We simply can't be sure that the same rigorous standards are being applied in foreign jurisdictions.

Q Is Canada the only country with protected sectors? Is supply management a barrier to international trade?

A Not at all. All countries have sensitive sectors they wish to protect. The United States, for example, has a long history of restrictive import protection in the sugar and dairy industries; Japan has a long history of heavy protectionism in the rice sector; and New Zealand has always vigorously defended its pharmaceutical program. Furthermore, Supply management has never prevented Canada from entering into an international trade deal. Since 1994, Canada has negotiated 13 trade agreements with 53 countries while maintaining supply management[2].

Q Is it possible for newcomers to enter the market under the current system?

A Yes. Every province in Canada has a new entrant program to facilitate entry into the industry – and a number have made improvements to their programs, based on feedback from participants. Right now, the new entrant programs either loan or allocate quota to new farmers, which enables them to benefit from the income of selling extra milk, without paying for that additional quota. In fact, more young farmers are entering into the dairy sector because of the predictability and stability offered by supply management, not in spite of it.

Q Would the ability to export create additional economic opportunity for Canadian dairy farmers by allowing them to sell in growing global food markets?

A Not really. Export markets can often be unpredictable, and as a result, do not always offer a stable income. Unlike dairy farmers in other global jurisdictions which are often heavily subsidized, Canadian dairy farmers do not receive any government subsidies – this creates an un-level playing field in the export market. Canadian dairy farmers have instead chosen to focus on serving the domestic market for a fair return.

Q Does Canadian milk contain growth hormones such as rBST?

A No! Unlike other jurisdictions such as the U.S, in Canada, the bovine growth hormone rBST is illegal – all milk produced here in Canada is rBST-free, guaranteed. With milk produced in other jurisdictions, there is no such guarantee.

Q Are Canadian dairy farmers rich?

A No. In 2013, the average income[3] of a dairy farm operator in Canada was $61,253. The truth is, most Canadian dairy farmers make a fair and modest return, which is actually well below some other agricultural sectors in Canada, such as oilseed and grain farming, where an average operator earns an annual income of $82,430.

Under supply management, most farms are family run – the average herd size in Canada is only 82 cows! The cost of year-round production is high due to the Canadian climate, and most farms realize only modest margins. For further context, according to a 2014 study by the International Farm Comparison Network (IFCN), given a global average price that was, at the time, roughly US 43$/100 kg of milk, only 36% of the world's milk production was sold at a price covering the cost to produce that milk. If we apply the average price of milk from September 2015 (US $27.20/100 kg of milk) to this calculation, well under 20% of dairy farmers on the planet could cover their costs of production without supply management to ensure price stability (as we have in Canada), or some form of government subsidy (as is used in other jurisdictions like the US).

Supply management works for farmers, for processors, and for consumers – without any direct government subsidy.

[2] Including CETA and TPP

[3] Average total income adjusted for capital cost allowance, Cansim Table 002-0035, Statistics Canada

Appendix C Border Control Issues

Problem 1
Misclassification of Ultrafiltered/ Diafiltered Milk at the Border

Milk is composed of – and can be deconstructed into, several elements.

Most of the time, Canadian milk is used as the main source and base component in making dairy products, and then other ingredients, including milk protein substances, are added to create specific particularities in products.

These milk protein substances are either produced in Canada, or are foreign – which means they must cross and be classified in the **Customs Tariff Schedule** at the border.

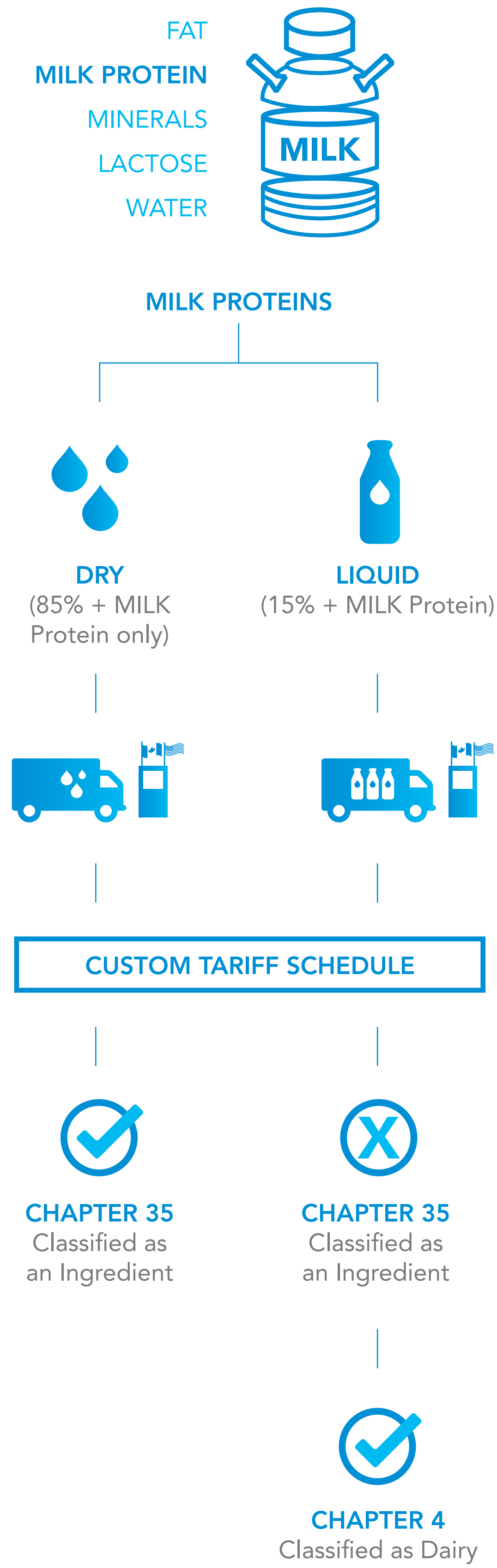
When it crosses the border, if the milk has been broken down into its compositional elements instead of kept together in its regular state, it is possible for it to be treated as "ingredients" (which are tariff-free under Chapter 35 of the **Customs Tariff Schedule**), rather than "dairy" (which is subject to quota limited with heavy tariffs in Chapter 4).

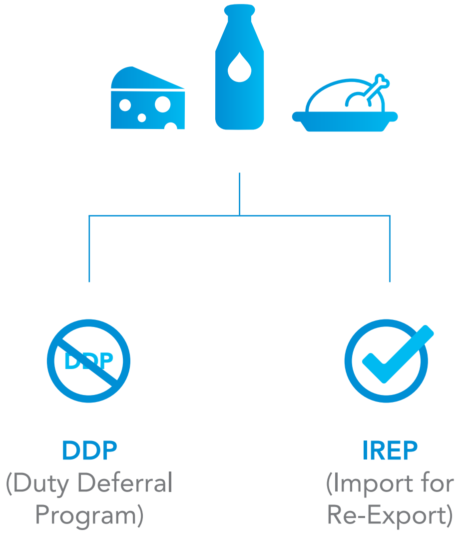
In some cases, the treatment of milk protein substances as "ingredients" is justifiable under existing regulations. For example, it is legitimate under current Canadian dairy regulations that when imported as powder, milk protein substances with a milk protein content of 85% or more are classified as 'ingredients" in Chapter 35, and not "dairy".

However, more recently, milk protein substances in liquid form, with a milk protein content of only 15% – which is considered by processors as 'milk' (ultrafiltered/diafiltered milk) when it comes to applying the Canadian compositional standards for cheese, have nonetheless also been imported as "ingredients" in Chapter 35 in order to avoid paying tariffs. Clearly, this product cannot be both an "ingredient" when imported, and "milk" when it comes to its use.

Solutions

- Include a supplementary note to Chapter 35 to clarify that the tariff lines are for 'milk protein isolates' in dry form only; and a supplementary note to Chapter 4 to clarify that dairy protein substances in liquid form are all classified in Chapter 4 (dairy).
- Ensure the CFIA classifies the ultrafiltered/ diafiltered milk as 'ingredient' (not 'milk') in the cheese compositional standards.
- Have the CFIA delegate the audit of compositional standards to the Canadian Dairy Commission to ensure they are respected.





Problem 2

Misuse of the Duty Deferral Program

Some importers have used the Duty Deferral program to import dairy products (and other foods) and defer their duty payments for up to four years before they re-export.

Duty Deferral was clearly not designed for food – which in most cases is perishable (before 4 years).

Supply managed products have their own specific program called IREP (Import for Re-Export)

Solution

Implement the last government's promise to exclude supply managed products from the Duty Deferral program because the IREP program already exists for supply managed goods (dairy and poultry) when importing products for the purpose of re-exporting valued added food products.

Impact on Canadian Dairy

By exploiting a lack of adequate enforcement in Canada's existing border control regulations, these imported substances are displacing Canadian milk production.

This undermines one of the three pillars of supply management, import control, which is designed to limit the importation of dairy products so that Canadian farms can properly plan their production (another pillar).

When one pillar of supply management destabilizes, there is a chain reaction that makes the whole system vulnerable:

- It is difficult to plan and adjust production, when without adequate enforcement at the border we end up with a lot more protein than is needed to satisfy demand;
- When there is an excess of product, farmgate prices are reduced below the cost of production – which has a severe impact on the livelihoods of Canadian dairy farmers and their families;
- This has an additional negative impact on their business partners, employees, and communities.

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