WE ARE DAIRY FARMERS

CANADA-EUROPEAN UNION COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT & THE EFFECTS OF IT ON THE CANADIAN AGRICULTURE SECTOR

PRESENTATION TO THE HOUSE OF COMMONS STANDING COMMITTEE ON AGRICULTURE AND AGRI-FOOD

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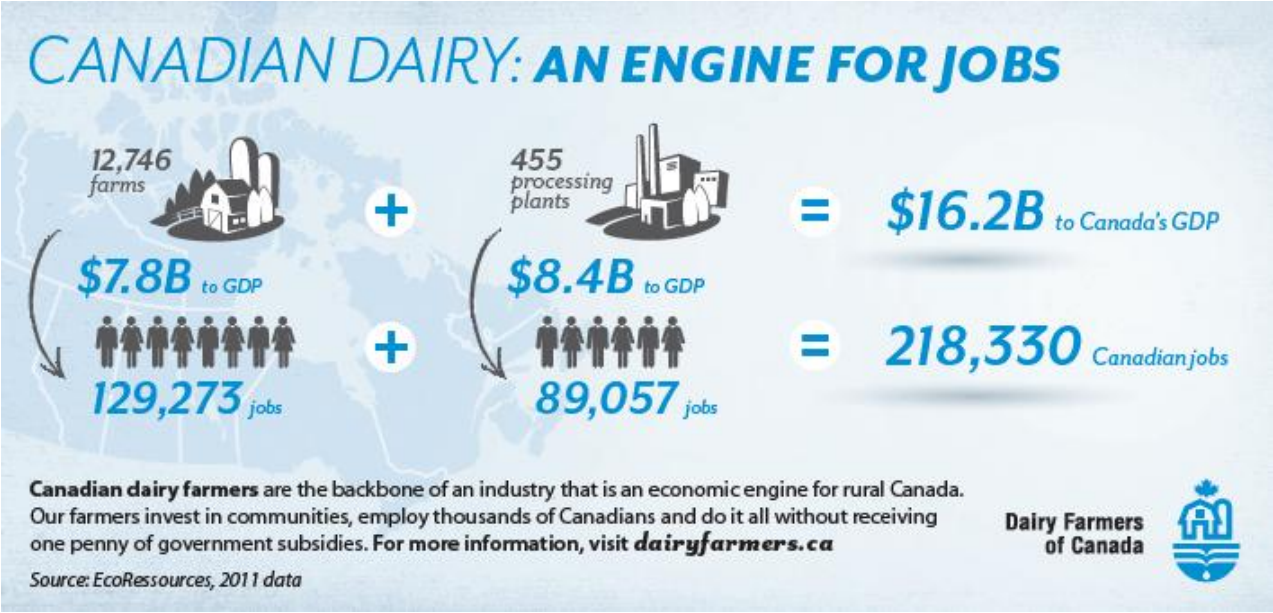
DAIRY FARMERS OF CANADA (DFC)

Run by farmers, for farmers, DFC is the voice of Canadian dairy farmers. DFC is the national lobby, policy and promotion organization representing Canada's farmers living on more than 12,000 dairy farms. DFC strives to create stable conditions for the Canadian dairy industry, today and in the future. It works to maintain policies that foster the viability of Canadian dairy farmers and promote dairy products and their health benefits.

DFC leads the generic dairy market development in the Canadian dairy market with an annual marketing budget of $80 million collected from dairy farms across Canada. This is invested in maintaining and growing the Canadian dairy market segment through targeted and consumer oriented promotion plans that include processors, further processors and retailers. The domestic cheese market has been a priority market segment, with an annual strategic investment totalling $30 million dedicated to developing this market across Canada.

DAIRY SECTOR CONTRIBUTION TO CANADIAN ECONOMY



A STABLE AND STRONG DAIRY SECTOR IS GOOD FOR CANADA

- In 7/10 Canadian provinces, dairy is one of the top two agricultural sectors.
- Canadian dairy farms shipped 7.8 billion litres in 2011; an increase from the 7.6 billion litres of milk shipped in 2009.
- The sector's GDP contribution has risen from $15.2B in 2009 to $16.2B in 2011, and the contribution to Canadian employment market grew from 215,104 to 218,330 over the same time period.
- The Canadian dairy industry contributes annually more than $3 billion in local, provincial and federal taxes.
- In British Columbia, 45% of agricultural workers are employed on supply-managed farms (dairy, poultry and eggs).
- More than half of the farm sector revenues in Nova Scotia come from supply managed products -- in fact, dairy alone accounts for 28% of all the farm sector revenues in the province.
- On Prince Edward Island, Amalgamated Dairies Limited (ADL) processes close to 100 million litres of milk each year, employing more than 250 people.
- In Ontario and Québec, thousands of farms and processing plants dot the landscape.
- Canada's artisan cheese makers can be found all across Canada and provide significant economic benefits to their local communities.
- Canadians spend 11.8% of disposable income on food. That's one of the lowest in the world; and only 1.07% is spent on dairy products.

DFC'S REACTION TO CETA AGREEMENT-IN-PRINCIPLE

On October 16, the Government of Canada agreed with the EU to a tentative Comprehensive Economic and Trade Agreement (CETA).

Canadian dairy farmers reacted to the announcement of the CETA Agreement-In-Principle with strong concerns on what it could mean for the Canadian dairy sector, specifically the domestic cheese market that we've been working closely with industry partners and substantial financial investment from our farmers to develop and grow across Canada.

We are immensely proud of our domestic cheese sector that has been blooming in recent years, and the Canadian cheese makers, small, medium and large, who've been producing award winning cheese for the local and domestic marketplace.

We reacted strongly to the news of the excessive access that was given to the EU, in particular in the fine cheese segment of the Canadian cheese market. It is important to note the impact that the access granted to the EU could have as it is more significant than what's been reported.

The EU would get an additional tariff-free access of 18,500 tonnes (16,000 tonnes of "fine cheeses", 1,700 tonnes of "industrial" cheeses and 800 tonnes under the existing TRQ). This is over and above the 13,471 tonnes the EU already has under the Canadian cheese TRQ.
The EU access will total 31,971 tonnes or 7.5% of the Canadian cheese market. Imports (all countries) will then move from 5% to 9% of total Canadian cheese market. This gives the EU an additional exclusive access of 32% of the current fine cheese market in Canada, over and above the existing generous access.

The loss to the dairy farmers is real. The additional access is equivalent to a 2.25% cut in farm quota, bringing a potential farm income loss of nearly $150 million/year. To put that into perspective on the level of the significance to the Canadian dairy sector, the projected loss from the additional access given to EU is the equivalent of the total milk production in Nova Scotia or other small provinces.

In total, the estimated impact to dairy farmers and cheese makers is a loss of domestic market valued at $300 million annually.

CANADIAN DAIRY SUPPLY MANAGEMENT

We would be remiss to not take this time to reflect on the how the supply management system enables the Canadian dairy sector to effectively and efficiently manage the production of the perishable product with processor plant management to deliver Canadians with fresh, high quality, safe and nutritious dairy products.

Canada's supply management dairy policy rests on three pillars: production management, predictable imports and farm pricing. The predictable imports pillar depends on the government's international rights to maintain and enforce tariffs on imported goods. In other words, the Canadian government has negotiated a minimum level of access for various dairy products as part of the trade agreements. Canada therefore has the authority to legislate and regulate imports to ensure we respect our international agreements without disrupting the Canadian dairy market.

The aim of the Canadian dairy supply management system is to balance supply and demand, as well as balance market power among the supply chain stakeholders. Despite concentrating our effort on the domestic market, international trade talks are an important aspect when it comes to maintaining the integrity of the Canadian system in the future. Import controls or the ability to predict imports at levels negotiated in international trade agreements are critical considering that dairy farmers discipline their production to ensure domestic demand is met without creating unnecessary surpluses.

Between 6-8% of Canada's dairy consumption is supplied by imported products coming in tariff-free which makes Canada more generous than the U.S and EU. This increased access to the EU into the Canadian cheese market and importation of MPIs, require predictable planning to ensure they do not disrupt the domestic market planning and delivery of milk commitments to Canadian processing plants that employ Canadians in communities across the country.

CETA PROVISIONS THAT IMPACT CANADIAN DAIRY SECTOR

DFC has identified a number of potential negative impacts on the Canadian dairy sector as a result of the CETA deal. All of these could result in unpredictable imports into the Canadian dairy sector if left unattended:

1. The deal creates new categories of import quotas for industrial cheese versus "quality cheese" which remains undefined as of yet.

2. Based on the current level of imports from the EU and the significant portion that is 'fine cheese', the impact, depending on the cheeses that may come into the Canadian market, is anywhere from 15-30%, there will be a lack of predictability on what will be imported.

3. The removal of the application to the EU of the over-quota tariff on milk protein isolate is eliminating the action taken by the Federal Government in 2007 to control the imports of such products. This reversal will cause unpredictability and instability as a result of these imports now being allowed.

The protection to be afforded by EU on Geographical Indicators and their dairy products should be available within this country; that is effective enforcement and protection of our own standard of identity for dairy products.

In order to offset any negative impact in the current and forecasted market growth in the Canadian cheese market, increased market development funds will be required to realize the market growth that is forecasted and has effectively been handed over to the EU. This will need to be over and above the market development investments that Canadian dairy farmers have put into building this market and will need to continue to invest in order to sustain its share of the domestic cheese market. (See Appendix A)

It is also important to put into context the notion that Canada now has unfettered access to the EU cheese market. In the early 2000s, a WTO panel ruled that any export from Canada sold below domestic price is considered “subsidized”. Combined to a prohibition to use export subsidies in the EU, the reality is that Canada is not in a position to benefit from the opening of the EU dairy market. The reality is also that subsidies in the EU can make up as much as 40% of farmers’ income and they get a lower market price for their milk. This puts Canadian milk and dairy products at a price disadvantage. (See Appendix B)

KEEP CANADIAN DAIRY STABLE AND STRONG

Dairy farmers are committed to working with government and processors to ensure we keep Canadian dairy sector stable and strong while delivering high quality, Canadian made dairy products to Canadian consumers.

Our dairy farmers are committed to a national industry with strong economic contribution in every region. Our dairy farmers want to derive their income from the marketplace, not taxpayer subsidies that come in the mailbox. Our dairy farmers want to grow the domestic dairy market to benefit Canada.

In our discussions with the federal government we are focused on developing an industry-government plan that ensures:

- Market oriented approach where Canadian dairy farmers remain empowered in our sector to be self sufficient and not reliant on government treasury;
- National plan that recognizes an equitable delivery that respects that the dairy supply is ‘local’;
- Respects the broader impacts the TRQ administration will have on operational logistics such as milk allocation, production planning and producers’ returns;
- Consistent with a long term plan on the Canadian dairy sector we want in 2023;

- Foresight and long term planning for strategic investments in markets with growth potential, including market development and intelligence gathering to ensure return on investment;
- Longest period of implementation.

For dairy farmers, the government's continued commitment to supply management as referenced once again in the Speech from the Throne means that it will work with DFC on solutions that ensure that farmers will continue to derive their adequate income from the market place.

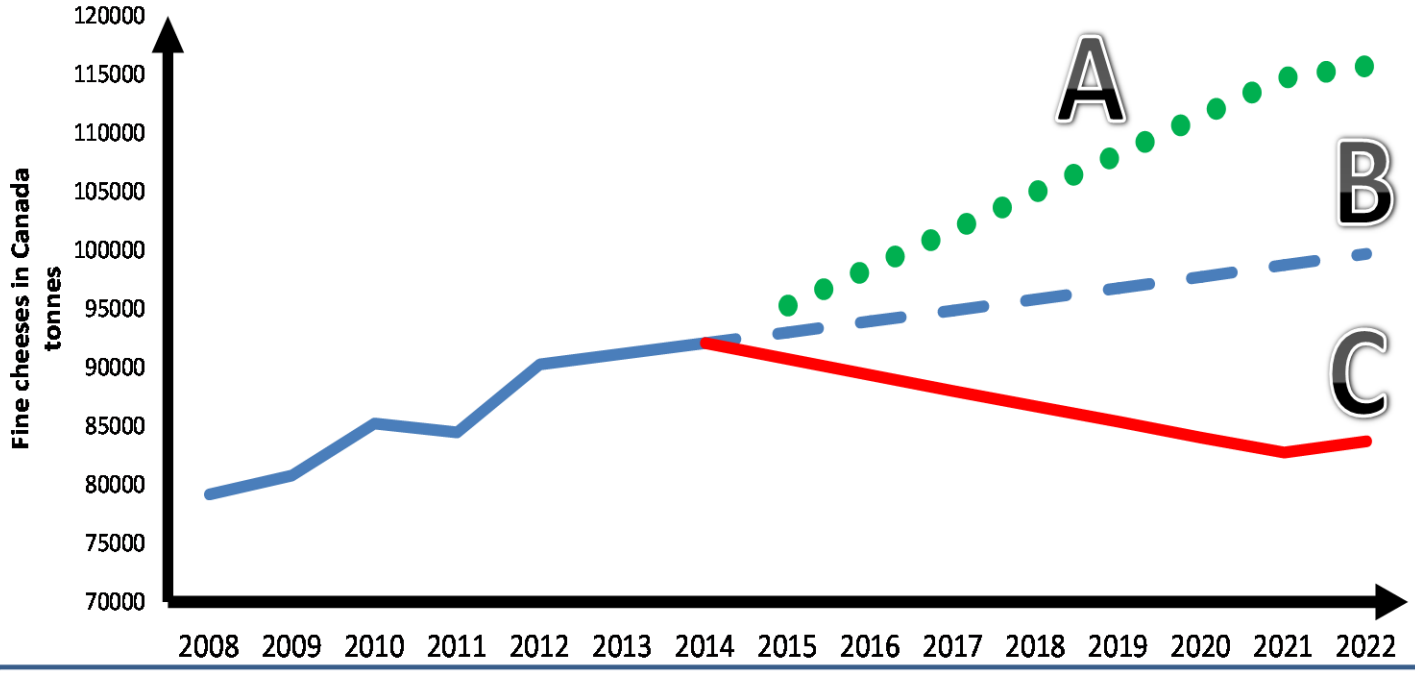
CONCLUSION

DFC and members ask the Federal Government to work with DFC to ensure that:

1. The industry can continue to be stable, strong and forward-looking,
2. That the impact on Canadian dairy farmers as a result of the government's CETA decision be fully mitigated.

APPENDIX A

Fine cheese market in Canada



A – this shows the level of investment that will be required in order to ensure that there is no negative impact on the domestic cheese market as a result of the additional access given the EU in CETA. This includes the total Canadian market with additional investments in generic market (estimated at $170 M) and the access given to the EU.

B – this shows the rate of fine cheese manufactured in Canada without additional access to the EU with an assumption of growth at 1% based on the most recent AC Nielson trend in fine cheese.

C – this shows the projected rate of fine cheese manufactured in Canada with additional access to the EU accounting only for the annual $30 million from DFC for marketing development.

Significant market development funding will be needed over the next 10 years to ensure there's no negative impact on Canadian dairy farmers and cheese makers.

Manufacturing of Dairy Products in Canada: Swiss & Emmental; Parmesan; Monterey Jack; Havarti; feta; Gouda; Brick; Provolone; Colby and Others. Source: Statistics Canada

APPENDIX B

CETA – Dairy
Unfettered Access to the European Market: Fiction or Reality?
DFC Assessment - October 2013

Background

On October 18, 2013, Canada and the European Union reached an Agreement-in-Principle on a Comprehensive Economic and Trade Agreement (CETA). As part of the Agreement, the European Union has agreed to provide immediate *duty-free, quota-free access to its dairy market*. In other words, Canadian dairy products will no longer be subjected to any tariff when exported to the EU. Government is promoting that Canada has gained unfettered access to the European dairy market. The reality, however, is otherwise.

In order to assess whether the Canadian dairy industry is in a position to benefit from that "unfettered access", it is critical to look at other provisions of the CETA agreement, notably the provision regarding the use of export subsidies. In the Technical Summary of the Final Negotiated Outcome document released by the Canadian government on October 29, 2013, it stated that: "Export subsidies: bilateral prohibition of agriculture export subsidies conditional on tariff elimination." In other words, the so-called "unfettered access" is limited to **unsubsidized** dairy exports.

Following the implementation of the Uruguay Round, Canada had developed a number of means to export milk products: special class 5e for over-quota milk; commercial export milk (e.g. optional export program). These programs were challenged by the United States and New Zealand before the World Trade Organization (WTO). The WTO *panel* determined that milk sold by farmers and destined to the export market at prices below the domestic market price constitute an export subsidy. As a result, Canada had to re-regulate all of its export activities to conform to its international obligations. Exports are considered "**subsidized**" and therefore, limited.

We should be aware that we currently have access for aged cheddar cheese into the European Union, but that we do not fill that TRQ. With this CETA agreement, these small exports will have to cease, because of the way they are considered by the WTO.

The Reality

The reality is that in order to benefit from this so-called “unfettered access”, Canada’s milk and dairy industries would have to produce milk and export finished dairy products to the EU at the same price we have on the domestic market.

	Farm Gate Price	Processors Margin	
		SMP	Butter
Canada	$78.06	$0.9191/kg	$0.7976/kg
European Union	36.80 Euros (53.50)	290 Euros/tonne (0.40 $/kg)	311 Euros/tonne (0.43 $/kg)
Source: European Commission, average farm gate price in August 2013; IFCN Dairy Report 2013; exchange rate of 1.3860 for August 2013; CDC average price for August 2013;			

Considering a milk price that is 45% greater AND a processing margin that is at least twice the EU processing margin, it is unlikely that Canada can be cost-competitive in the EU market. In addition, it would be wrong to believe that Canadian processors would accept to invest in the export market from milk priced at $53/hl (the EU price), and would demand greater price concessions. Case in point: the Canadian access for Canadian aged cheddar cheese into the United Kingdom market remains under filled as Canadian processors are seeking milk at $28/hl!

The reality, therefore, is that the Canadian dairy sector is not price-competitive in the EU market, as this can only be achieved through a dismantling of supply management or generating significant losses for the dairy farmers.

Furthermore, we must also look at the outcome on Geographical Indications. While Canada has retained the right for existing producers to continue to produce Feta, Parmesan, Gorgonzola, Asiago, Fontina and Muster in the Canadian market, the Canadian cheese sector cannot export these products into the EU. The EU is clearly limiting the production of GI cheeses – 5 of them being produced in Canada – on its market to the geographic location associated to each of them, and only those can be marketed as such in the EU market.

Conclusion

- In the early 2000s, a WTO panel ruled that any export from Canada sold below domestic price is considered “subsidized”. Combined to a prohibition to use export subsidies in the EU, the reality is that Canada is not in a position to benefit from the opening of the EU dairy market.

- The reality is also that subsidies in the EU can make up as much as 40% of farmers’ income and they get a lower market price for their milk. This puts Canadian milk and dairy products at a price disadvantage.

- While Canadians have quality cheese that can rival with the EU cheeses, the reality is also that the marketplace is not the same:

    - The EU has 500 million consumers compared to Canada’s 36 million.
    - Canada’s land mass is double that of the EU.
    - Population concentration: The EU has 114 people per km² while Canada has only 3 people per km².
    - Canadian products face higher transportation costs.
    - Economy of scale: Canada’s smaller; often artisan cheese makers dot the country. Exporting European countries often have fewer, much larger companies.
    - Due to climate, transportation and social costs, among others, the cost of producing and processing milk in Canada is higher.