

WE ARE DAIRY FARMERS

STUDY ON INTERNATIONAL MARKET ACCESS PRIOTITIES FOR THE CANADIAN AGRICULTURAL AND AGRI-FOOD SECTOR

PRESENTATION TO THE STANDING SENATE COMMITTEE ON AGRICULTURE AND FORESTRY

Mr. Yves Leduc
Director of International Trade
Dairy Farmers of Canada

Mr. Bruno Letendre
Vice-President
Dairy Farmers of Canada

Tuesday, November 4th, 2014

Dairy Farmers
of Canada



21 Florence St.
Ottawa, ON
K2P 0W6



DAIRY FARMERS OF CANADA (DFC)

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

DFC leads the generic dairy market investment in Canada with an annual marketing budget of \$80 million which is collected from dairy farms across Canada. Amongst others, the domestic cheese market remains a priority market segment, with an annual strategic investment totalling \$19 million dedicated to developing this market across Canada (not taking into account additional investment by DFC members). Studies have shown that without the yearly investments in marketing and nutrition, market share would rapidly erode. DFC also is committed to working with other members of the dairy food value chain with the common goal of market growth.

The Canadian dairy sector continues to provide a significant contribution to Canada's economy:

- DFC has commissioned EcoRessources Consulting to undertake an updated economic impact analysis of the dairy sector in Canada. According to preliminary results, the dairy sector contributed \$19.3B to Canada's GDP in 2013, sustained than 218,000 jobs and contributed more than \$3.6 billion in local, provincial and federal taxes.
- The preliminary results are showing constant growth in the contribution of the Canadian dairy sector to Canada's economy.
- We look forward to sharing this economic profile when it is completed later this year.

DFC has and continues to be proud of what the industry has achieved these past 45 years, and supply management has no doubt contributed to the development of a highly efficient and profitable dairy industry in Canada. Unfortunately, producing milk in a northern climate such as Canada comes at a higher cost, and this explains why the industry turned its attention to primarily supplying the domestic market. Export activities only account for a small percentage of Canada's dairy production, between 1-2 % of our milk production.



THE WORLD MARKET PLACE

A closer look at the world's markets allow us to conclude that not only are they facing extreme fluctuation, but they are essentially a dumping ground. While world market conditions have improved in 2013 compared to 2012, where the International Farm Comparison Network (IFCN)¹ world price indicator² (e.g. a constructed world price equivalent measured as \$US per 100 kg of milk) increased from \$36 US to just above \$50, the IFCN world price indicator has just recently dropped back to the 2012 level (US\$35.9 per 100 kg in September 2014). At this price, only a small portion of total world milk production can cover its cost of production. That percentage in 2012 was 12%.

The above information is critical to understand where Dairy Farmers of Canada is coming from. The reality is that not only are we facing higher costs of production at the farm level, suggesting that export opportunities are limited, but this is also the case along the production chain with Canadian processor margins being almost twice as much what they are in the EU for example.

Without disputing that the world markets could offer some opportunities, we must remain realistic in our approach. In addition to price, an early 2000 WTO panel ruled that any export from Canada sold below domestic price is considered "subsidized". Furthermore, exports originating from two of the largest milk producing jurisdictions, the EU and US, are benefiting from a generous level of support in their respective jurisdictions. This creates an uneven playing field, not only on the US and EU markets, but also on the Canadian domestic market as we will be facing additional competition as a result of CETA.

Combined with a prohibition to use export subsidies in the EU, the reality is that Canada is not in a position to realize huge benefits from the opening of the EU dairy market. The reality is also that subsidies in the EU can make up as much as 40% - 50% of farmers' income and they get a lower market price for their milk. This puts Canadian milk and dairy products at a price disadvantage.

¹ International Farm Comparison Network (IFCN) has compiled data on farm prices and cost of production for the past 14 years, covering a comparative analysis among 95 countries.

² IFCN world milk price indicator: weighted average of 3 IFCN world milk price indicators: 1. SMP & butter (35%), 2. Cheese & whey (45%), 3. WMP (20%)



UNFETTERED ACCESS: MYTH OR REALITY

More particularly, despite the outcome of the CETA agreement which will allow Canadian dairy exports to enter the EU market tariff free, it remains a myth that Canada now has unfettered access to the EU market. There is no doubt, however, that Canadian producers and processors, and cheese makers in particular, compete on quality. A pilot project in select US markets has demonstrated that Canadian specialty cheeses can find a niche in the US market, however, the cost of marketing these products in the US market remains significant and therefore limits the potential for increased export activities. Despite these challenges, DFC has rejuvenated interest among Canadian cheese makers and will be rolling out an expanded US initiative in 2015 with willing partners.

EXPLORING PROFITABLE EXPORT OPPORTUNITIES

Let us be clear: DFC is not opposed to pursuing export opportunities. These, however, must return adequate profits to both farmers and processors. We are more than willing to consider and promote export activities; and export strategies can only succeed if they are jointly developed through a strong producer/processor partnership, in collaboration with government. We feel that in order to be successful on the world markets, the Canadian dairy industry must target specific niche markets. In addition to the marketing project in the US, DFC had a marketing representative at the 2014 SIAL held in Paris last month (October) and we have also entertained discussions with stakeholders about baby formula exports to China.

Therefore, there is a real interest in exploring and developing beneficial and smart export activities. These discussions are at a preliminary stage and we cannot provide the committee with highly detailed information regarding which markets should be prioritized at this juncture. We wanted to appear before this committee because it is important that to understand that we are seriously working on finding solutions which would allow the Canadian dairy sector, and our partners here at the table this evening, to take advantage of export opportunities, providing that these are considered with the framework of Canada's supply management; a system which continues to be defended by Canada's government in trade negotiations.



CONCLUSION

For dairy farmers, the government's continued commitment to supply management as referenced once again in the 2013 Speech from the Throne means that it will work with DFC on solutions that ensure that farmers will continue to derive an adequate income from the marketplace.

In conclusion, we can assure you that we are engaged in a dialogue with processors and government stakeholders in finding ways to help sustain and grow the Canadian dairy sector.