

# WE ARE DAIRY FARMERS

ORDER OF THE HOUSE  
REFERRING BACK THE FIRST  
REPORT OF THE COMMITTEE:  
CETA AND THE EFFECTS OF IT ON  
THE CANADIAN AGRICULTURE  
SECTOR

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

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## 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. 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 some 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. For the last year DFC has been leading the discussions with provincial milk marketing boards, processors and governments on a modernization/ingredients strategy. The common vision that is the starting point for these discussions is:

- To develop a flexible, market-responsive approach to further increase markets for dairy products and ingredients while maintaining the core elements of supply management for dairy

Further to the impacts resulting from CETA, there is considerable work and effort continuing in the Canadian dairy sector to assess options to offset any negative impact, monitoring other trade talks and the discussions on liberalizing trade in Canada that may bring about positive action to further solidify a national dairy sector in Canada.

As you can see we are open to exploring opportunities that bring real growth, profitable markets while sustaining our Canadian success story, supply management.





## CANADIAN DAIRY INDUSTRY

One year ago, I appeared before this Committee on the initial study of the CETA Agreement-in-Principle. At that time DFC, and dairy farmers across Canada, were reacting to CETA with some concern about what it could mean for the Canadian dairy sector, specifically the domestic cheese market. For several years we have been working closely with industry partners and directing substantial financial investment from our farmers to develop and grow the cheese market across Canada.

We were then, and remain, 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.

The impacts shall not be underestimated. They are considerable and it is estimated that the 17,700 tonnes of additional cheeses imported into Canada will translate into a loss of market of approximately \$125 million for the dairy producers alone. Adding that no one questions that the new cheese TRQ will be fully filled, the administration of the cheese TRQ is therefore a crucial component of the mitigation package.

I should point out that dairy farmers and dairy processors share similar concerns with respect to the administration of the new cheese TRQ and are also calling for government to ensure there is continued predictability in the system. Among other things, we believe it is critical to not allocate import quotas to distributors and retailers. DFC and DPAC recently appeared together on a panel on market access priorities before the Agriculture and Forestry Committee in the other place.

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.

## EXPLORING PROFITABLE MARKET OPPORTUNITIES

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. In addition to price, the outcome on geographical indications completely closed the door to Canadian feta and parmesan from being exported to the EU. 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.

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 that are developed jointly through a strong producer/processor partnership, in collaboration with government, and in compliance with the World Trade Organization rules.

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 in 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. It is important that to understand that we are working on finding solutions which would allow the Canadian dairy sector, and our partners, to take advantage of export opportunities, providing that these are considered with the framework of Canada's supply management.





## CANADIAN DAIRY SUPPLY MANAGEMENT

We acknowledge the government's repeated assurances that supply management and the three pillars remain intact.

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. 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.

We continue to work with all parties to ensure that we continue to sustain a strong and stable supply management system to the benefit of all dairy stakeholders.

## 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.
- Canadian dairy farmers are committed to a national industry with strong economic contribution in every region.
- 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.
- Canadian dairy farmers want to derive their income from the marketplace, not taxpayer subsidies that come in the mailbox.
- Canadian dairy farmers want to grow the domestic dairy market to benefit Canada's families, communities, and economy.

Thank you for supporting Canadian dairy farmers.

