Dairy Farmers of Canada

Les Producteurs laitiers du Canada

PRESENTATION BEFORE THE STANDING COMMITTEE ON INTERNATIONAL TRADE

PRESENTED BY CAROLINE EMOND,
Executive director, Dairy Farmers of Canada
Thursday, February 25, 2016

21 Florence Street
Ottawa, Ontario
K2P 0W6
Telephone: (613) 236-9997
Fax: (613) 236-0905

21, Rue Florence
Ottawa (Ontario)
K2P 0W6
Téléphone: (613) 236-9997
Télécopieur: (613) 236-0905

LAIT 100% CANADIEN
100% CANADIAN MILK

Dairy Farmers of Canada | Les Producteurs laitiers du Canada

DFC is pleased to participate to the preconsultation of the Standing Committee on International Trade on the TPP. DFC has never opposed the signing of international trade agreements that preserve the integrity of supply management.

DFC is the voice of Canadian dairy farmers fostering a strong and united support of farmers at the grassroots level for a national system of supply management. We are the national lobby, policy and marketing organization representing all dairy farmers living on Canada's 11,350 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.

It is important to emphasize that the Canadian dairy sector makes a huge contribution to the Canadian economy. It adds $18.9 B to the GDP, sustains 215,000 full-time equivalent jobs in Canada, contributes $3.6 B in tax revenues, and is one of the top two agricultural sectors in 7 out of 10 provinces. Furthermore, unlike other jurisdictions where farmers incomes are heavily subsidized, the Canadian dairy sector derives its income from the marketplace; a marketplace which will be affected by the opening of the market to European and TPP countries. The dairy sector is a positive contributor to the Canadian economy regardless of the state of the economy.

While we would have preferred that no additional market access be conceded in the dairy sector, we recognize that the government fought hard against other countries demands and have lessened the burden by announcing mitigation measures and a compensation package.

In addition to the CETA agreement that amputated our market of 17,700 tonnes of cheese, the TPP agreement includes concessions for chesse with an additional 16,502 tonnes, as well as concessions for all other dairy products. To this day, the dairy sector is extremely proud to state that it does not receive any direct payments from the Canadian government.

While we were pleased that Canada's compositional standards for cheese were preserved in the TPP agreement, we do have some concerns with respect to whether or not Canadian regulations and standards will be applied to imported goods. The growth hormone rBST, for example, is banned in Canada, but remains in use in other counrtrie. In addition, some of the labelling requirements mentioned in the Minister of Health's mandate letter for sugar, sodium and trans-fat content are different from country to country. These have important implications for Canadian businesses, who could be placed at a competitive disadvantage if importers do not face the same regulations. It would also create confusion for Canadian consumers who might struggle with products not meeting the higher Canadian standards.

Regarding the estimated 3.25% of access granted for milk and dairy products in the TPP agreement, using the government's assumptions, DFC staff were able to replicate the government's calculations. However, when calculating using DFC's own assumptions, which differ slightly from the government's on some products, our estimates came in at a slightly

21 Florence Street
Ottawa, Ontario
K2P 0W6
Telephone: (613) 236-9997
Fax: (613) 236-0905

21, Rue Florence
Ottawa (Ontario)
K2P 0W6
Téléphone: (613) 236-9997
Télécopieur: (613) 236-0905

LAIT 100% CANADIEN 100% CANADIAN MILK

higher number. According to our conservative estimates, the outcome ranges between 3.37% and 3.97%[1], representing a loss of revenues ranging between $ 190 million and $ 250 million (depending on what is really imported). In a similar manner to CETA, TRQ Administration is very important in order to ensure these products are imported in a manner that is coherent with supply management and which helps preserve the stability of the Canadian marketplace for milk and dairy products. This is particularly true for butter, since the agreement will prevent the Canadian Dairy Commission from importing the TPP butter TRQ as it currently does for the WTO TRQ. Clarification is needed about who will be able to import as well as the role the CDC can play to ensure the impacts of the agreement are limited.

Unfortunately, the combined effects of CETA and TPP will seriously impact Canadian dairy farmers' bottom line year after year. DFC conservatively estimates the combined impacts arising from both CETA and TPP to be between 4.85% and 5.8 % of the 2016 milk production forecast by Agriculture and Agri-Food Canada (between $282 million and $357 million in lost revenues). These are perpetual losses that cannot be substituted through exports. While we are working on strategies to take advantage of some export opportunities, these remain limited as a result of the WTO Panel (2002), which essentially concluded that any export sale at below domestic prices constitute an export subsidy.

DFC supports trade agreements as long as there are no negative impacts on dairy farmers. Canadian dairy farmers should not bear that cost. The government chose to make concessions on dairy to secure the TPP trade agreement. The compensation to dairy farmers for revenues lost is a part of the compromise the Canadian government was willing to make.

We are seeking from the Canadian government a commitment to invest, at a minimum, the full $4.3 billion envelope into dairy and other supply managed sectors.

Contrary to the claims that trade agreements have helped shape a better world market environment, it is difficult for us to conclude that, 20 years after the WTO, the world marketplace is a friendlier place for farmers.

When DFC appeared before the Senate Committee in November 2014, we told members that the world dairy market was essentially a dumping ground. Unfortunately, the situation remains disastrous. Looking at the International Farm Comparison Network (IFCN)[2] world price indicators[3] (e.g. a constructed world price equivalent measured as $ USD per 100 kg of milk) prices have decreased from $56 per 100 kg of milk in February 2014, to $33 per 100 kg in November 2014 and stood at $25 in January 2016.). At this price, none of the world milk production can cover its cost of production. Let's not forget that dairy is not a sector where trading is defining the industry.

[1] This will be in addition to an already very open market where imports account for 10 to 15 % of the Canadian requirements depending on their various estimates. This is well above the so-called 'open-market' that is the US, where 2 to 3 % of their dairy markets come from imports.
[2] 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.
[3] IFCN world milk price indicator: weighted average of three IFCN world milk price indicators: 1. SMP & butter (35%), 2. Whey (45%), and 3. WMP (20%).

21 Florence Street
Ottawa, Ontario
K2P 0W6
Telephone: (613) 236-9997
Fax: (613) 236-0905

21, Rue Florence
Ottawa (Ontario)
K2P 0W6
Téléphone: (613) 236-9997
Télécopieur: (613) 236-0905

As a matter of fact only 9% of dairy production is traded on the world market. Dairy is mostly produced for domestic / local needs.

The CETA and TPP agreements open the door to products from dairy industries that are highly subsidized in both the US and the EU, putting Canadian dairy farmers at a disadvantage in our own market. Even products from New Zealand would currently enter the Canadian market at dumping price, because 80% of New Zealand dairy farmers cannot cover their cost of production with the current market price they are getting, and Fonterra is helping offset some of this impact[4].

In 1966, Canada decided to support its dairy farmers by voting into law the Canadian Dairy Commission Act, whose mandate is to "provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment." Since then, Canada has been fulfilling its promise to its farmers. DFC hopes it continues.

This is why Dairy Farmers of Canada strongly believes supply management works. We wish to reiterate that DFC is not opposed to pursuing export opportunities. However, we are facing higher costs of production at the farm level as well as in the processing chain in Canada. For example, Canadian processor margins are almost double what they are in the EU, suggesting that export opportunities are limited. These export opportunities must return adequate profits to both farmers and processors. The promotion of export activities and export strategies can only succeed if they are jointly developed through a strong producer/processor partnership, in collaboration with government. To be successful on the world markets, the Canadian dairy industry must target specific niche markets, as opposed to commodities. There is a real interest in exploring and developing beneficial and smart export activities and 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.

In conclusion, DFC is looking forward to working with the government, which has reiterated its support for supply management, and working collaboratively to find solutions. We want to ensure farmers will continue to make an adequate income from the marketplace, while adequately compensating the farmers and processors for the negative impacts accruing from both TPP and CETA.

[4] Fonterra farmers can now apply for co-operative support: http://www.fonterra.com/nz/en/hub+sites/news+and+media/media+releases/fonterra+farmers+can+now+apply+for+co-operative+support/fonterra+farmers+can+now+apply+for+co-operative+support

21 Florence Street
Ottawa, Ontario
K2P 0W6
Telephone: (613) 236-9997
Fax: (613) 236-0905

21, Rue Florence
Ottawa (Ontario)
K2P 0W6
Téléphone: (613) 236-9997
Télécopieur: (613) 236-0905