Dairy Farmers of Canada

Les Producteurs laitiers du Canada

PRESENTATION BEFORE THE STANDING SENATE COMMITTEE ON AGRICULTURE AND FORESTRY

PRESENTED BY WALLY SMITH,
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Tuesday, February 23, 2016

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DFC is pleased to participate in the Senate Standing Committee on Agriculture and Forestry's study on international market access priorities for the Canadian agricultural and agri-food sector. Our position is well-known as the Canadian dairy sector is mainly focused on producing for the Canadian market. Our export opportunities are mostly related to fine cheeses and valorization of skim milk powder. Our domestic market for dairy products is however the target of countries like the US, New Zealand, Australia and the EU, who see opportunity to export here.

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.

We care deeply about our country and strive to be active participants in our local communities. A vibrant dairy industry means more jobs, improved access to infrastructure, and additional economic benefits passed on to other industries ranging from banking, to feeds, to parts and machinery sales, to veterinarians, and much more. We believe it is important to reiterate the positive contribution of the Canadian dairy sector to the Canadian economy[1]:

- One of the top two agricultural sectors in 7 of 10 provinces;
- Contributes $18.9B a year to Canada's GDP;
- Sustains approximately 215,000 full-time equivalent jobs across Canada;
- Remits $3.6B per year in taxes; and,
- Dairy farmers in Canada do not depend on direct government subsidies.

Canadian dairy farmers are socially responsive and care about our animals and the environment, which is why we are committed to setting and driving sustainability standards and demonstrating industry best practices through our proAction initiative.

DFC leads the generic dairy market investment in Canada with an annual marketing budget of over $80 million which is collected from dairy farms across Canada. That represents about 2/3 of Canadian dairy farmers' investments in marketing/nutrition, totalling approximately $120 million. As mentioned before this committee in November 2014, an important share of our strategic investments aim to grow the Canadian cheese market, a market which will be amputated by an additional 16,502 tonnes of cheese as a result of the TPP, over and above the 17,700 tonnes of cheese conceded under the CETA agreement.

[1] "The Economic Impacts of the Canadian Dairy Industry in 2013", EcoRessource, http://www.dairyfarmers.ca/content/download/4337/41452/version/7/file/EcoREssources_2013DairyEconomicContribution_en.pdf

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In addition to cheese, the TPP agreement includes concessions for all other dairy products. DFC estimates the combined impacts arising from both CETA and TPP to 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). To this day, the dairy sector has been extremely proud to state that it does not receive any direct payments from the Canadian government.

Unfortunately, the combined effects of CETA and TPP will seriously impact Canadian dairy farmers' bottom line year after year. 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.

The government made concessions on dairy to secure the TPP trade agreement. We consider, therefore, that offering new access to dairy in exchange for greater export opportunities for other products from Canada in order to sign the TPP and CETA agreements, the compensation to dairy farmers for revenues lost is a part of the compromise the Canadian government was willing to make.

DFC is supportive of trade agreement as long as there are no negative impact on dairy farmers. Canadian dairy farmers should not bear that cost. Considering that these markets will be lost in perpetuity, it is clear that the amount announced as part of the Income Guarantee Program (which covers the 5 supply managed sectors for TPP as well as CETA for dairy) isn't sufficient to compensate for lost markets.

We also wish to draw your attention to the Quota Value Guarantee Program. Dairy industry stakeholders believe this program isn't likely to yield any payment. The Canadian government has an opportunity to make a strong statement by re-purposing the money devoted to this program so it can instead be invested towards the goal of helping Canadian dairy farms better prepare for increased competition. For example, a portion of these funds could instead be used for infrastructure and to invest in the proAction Initiative, as previously requested by DFC.

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.

Notwithstanding the negative impacts resulting from recently negotiated trade agreements, we are pleased that the uncertainty related to these negotiations is now behind us. We hope the economic environment will allow supply management to thrive.

However, 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 market place 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. 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 New Zealand products would currently enter the Canadian market at dumping price, because 80% New Zealand dairy farmers cannot cover their cost of production with current market price they are getting, and Fonterra is helping offset some of this impact4.

In 1966, Canada decided to support its dairy farmers by voting into law the Canadian Dairy Commission Act, which 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.

To discuss export opportunities in the dairy industry, DFC recommends members of the committee invite Semex Canada to appear before them. Semex is not only one of our export jewels, it is world renown for delivering high quality bovine genetics. Semex has been solving problems for producers for over 35 years. Yet, they still experience export issues. As you may know, to export semen or embryos, Canada and the receiving country must have a health charter.

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

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

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In Canada when a problem occurs, the government sends a fax. By comparison, in the USA they hop on a plane. You can appreciate how long it can take to solve a problem in Canada. CFIA, the agency responsible for the Health charter, lacks sufficient staffing to be able to accomplish their mandate.

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.

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