Philippot family
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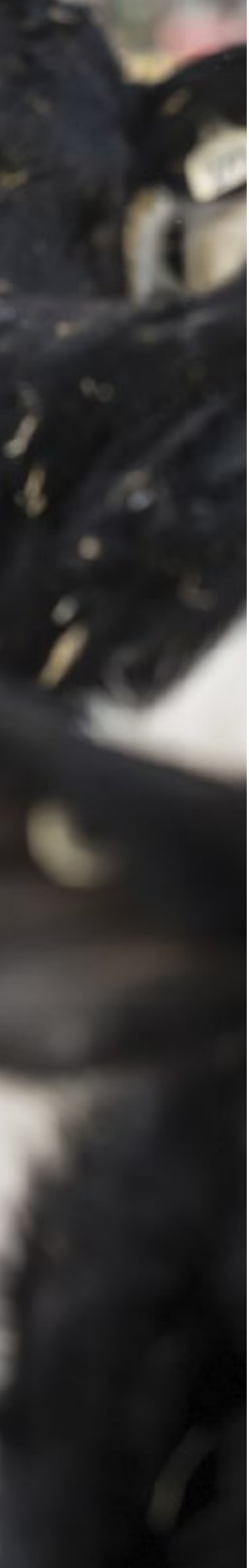
2018 CANADIAN DAIRY SECTOR OVERVIEW

DAIRY FARMERS OF CANADA™

DAIRY FARMERS OF CANADA™



A new year brings both challenges and opportunities; Canadian dairy farmers are ready for both.

From the time of Canada's first settlers to today, dairy has been a staple of our nation's rural communities—while providing healthy, high-quality milk, cheese, yogurt, butter, and other products for our urban centres. Dairy is a longstanding part of Canada's history. It is both a sustainable provider, and a key economic driver for our country. It is a growing industry, with immense economic potential. Unleashing that potential is a challenge Canadian dairy farmers embrace eagerly.

As an elected representative, you play a vital role in helping to create the environment within which Canadian businesses can thrive. You are uniquely positioned to be able to bridge Canada's urban and rural divide, and to understand the many ways that each part of the Canadian economy must collectively come together for us to be successful as a nation. In other words: as an MP, you help set the table, as dairy farmers, we bring the milk. Every Canadian dairy farmer, their families, their employees and business partners, from across the country, appreciates your ongoing support for supply management and dairy, and cannot thank you enough. Given the challenges we are currently facing as an industry, that support is more important and meaningful now than ever.

The world is changing rapidly; in the age of information, consumers have never been more aware, interested and concerned about what they eat, where it comes from, what is in it, and how it is produced. As Canadian dairy farmers, we live these changes every day on our farms, where technology, science, and our on-farm practices are continually and proactively evolving in response to changing consumer desires. As a part of these efforts, in November 2017, Dairy Farmers of Canada hosted a sustainability symposium to discuss and exchange ideas on how we can continue to improve our industry and better position it for a sustainable future. To Canadian dairy farmers, sustainability isn't just a part of doing business, it's a responsibility.

Canadians have also begun to question our existing regulatory and legislative environment to ensure that every system, policy and rule is still fulfilling the purpose it was created for. This type of introspective evaluation and evolution is a good thing; however it is important to keep in mind throughout this process that not every policy requires change – some policies just work the way they are.

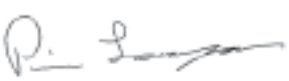
Within this ever-changing context, in 2018, the Canadian dairy industry faces no shortage of challenges: from the next agricultural policy framework, to market access granted or under consideration within international trade agreements, to changes to taxation, to the pending characterization of many dairy products as 'unhealthy' by the Healthy Eating Strategy. It will be all the more challenging considering that, along with these potential roadblocks, the Canadian dairy sector has been singled out by the Government as a priority industry for growth.

However, if we weren't ready to roll up our sleeves and get to work – we wouldn't be dairy farmers. With your ongoing support, we are confident that we can, together with our elected officials, navigate these issues and ensure that dairy remains a growing and integral part of Canada's economy – and, more importantly, a foundational part of our national identity.

We have prepared this package as a guide to our sector. This booklet addresses the economic impact of our sector, and explains how our supply management system works, including its three pillars. It also outlines challenges related to international trade agreements, the sustainability efforts of Canadian dairy farmers, and the potential impacts of the Healthy Eating Strategy on nutrient-rich dairy products.

Canadian dairy farmers are confident and optimistic that, working in collaboration with our elected representatives, we will ensure the future for Canada's dairy sector will be brighter than ever. Please do not hesitate to reach out to staff at Dairy Farmers of Canada for further information, or if you are interested in attending a dairy farm tour. We would be thrilled to hear from you!

Thank you,



Pierre Lampron, President
Dairy Farmers of Canada

Content

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Section 1 Who We Are

Since 1934, Dairy Farmers of Canada (DFC) has acted as the voice for the entire community of Canadian dairy farmers; promoting and defending their interests at both the national and international levels.

While our commitment to farmers has never faltered, our mandate has evolved considerably. Since the 1960s, the primary role of DFC has been to advocate for policies that stabilize the market and bring fair returns to farmers, contributing to the creation and evolution of the successful supply management system we have today. In 1994, Dairy Farmers of Canada merged with the Dairy Bureau of Canada—the national organization then responsible for the generic promotion of Canadian dairy products. Today, DFC's scope of activity includes all policy, marketing, nutrition, government and stakeholder relations, and research initiatives at the national level. Our goal is to represent the farmers on each of Canada's 10,951 dairy farms, and to create viable conditions for the nation's dairy industry that allow it to thrive and remain a bedrock of Canada's rural communities for generations to come.

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How We Are Organized

Similar to Canada itself, DFC is a federation whose membership is constituted by the dairy associations/marketing boards within each of the 10 provinces. As each province in Canada has its own unique set of challenges and opportunities—so too do each of DFC's provincial members. Like Canada, there is a duality that exists within DFC that strives to balance the individual particularities and needs of each of our provincial members, with our shared national identity, for the collective benefit of dairy farmers across the country. Notwithstanding the inherent challenges in achieving consensus in any federated organization, DFC strives to provide a balanced and united voice for dairy producers from across the country.

The DFC board of directors comprises 16 members; 14 of them named by their respective provincial associations. This includes three from each of Ontario and Quebec and one from each of the remaining eight provinces. The two remaining members are the President of DFC, as well as a member of the Canadian Dairy Network, which represents the dairy cattle breeds in Canada. We are an association run for farmers by farmers.

Each provincial association/marketing board is a regulated buyer of milk from dairy farms in Canada, and negotiates conditions of milk sales to processors based on market demand. These conditions include the implementation of quality and sustainability standards. Provincial associations are also involved in communications, marketing and research activities. Most also deliver innovative research and education programs in schools that foster awareness of both agriculture and the dairy sector in Canada. Working hand in hand, DFC and the 10 provincial associations represent farmers' interests and create the environment needed to operate sustainable dairy farms that produce high quality milk for Canadians.

International Involvement

DFC is a member of the International Dairy Federation and participates in various expert groups such as the Standing Committees on Nutrition and Health, Marketing, Environment, Sustainability, Food Standards, and Dairy Safety and Quality that share knowledge, scientific information and expertise across borders. DFC also participates and contributes to the work of international associations such as the World Farmers Organisation, the Global Dairy Platform, and the International Farm Comparison Network. The Canadian dairy sector is proud of what we do, how we do it, and what we bring to the table—and is eager to share it with the world.

OUR VISION, MISSION, AND VALUES

The number of programs led by DFC on health, education, research and advocacy are succinctly captured in our vision, mission and values statements:

OUR VISION

Canadian dairy products for a healthy future.

OUR MISSION

Educate
Facilitate
Mobilize

To ensure the sustainable production of milk and the healthy consumption of Canadian dairy products.

OUR VALUES

Sustainability
Teamwork
Integrity
Passion
Dynamism

DAIRY FARMERS OF CANADA NEW LOGO

In 2016, DFC launched a new logo that captures our past – and positions us for the future. **Our new logo represents both Dairy Farmers of Canada as a collective, as well as the individual dairy farmers from across the country** who proudly contribute to the health and well-being of their fellow Canadians through dairy products.

A certification of origin logo, replacing the blue cow, was released in January, 2017, to enable Canadians to **easily identify products made with 100% Canadian milk.**

For over two decades, the blue cow logo represented dairy products of Canadian origin. Over time, its use was extended to represent Canadian dairy farmers generally. Our research indicated it was time for a change.

While our look may have changed, we will always remain committed to providing Canadians with the same sustainably produced exceptional quality milk the nation has come to trust and rely upon.

Section 2 What is Supply Management?

The Canadian dairy farming sector operates under what is known as supply management. The objectives of Canada's dairy supply management include:

- Ensuring farmers receive a fair return, derived from the marketplace, on their capital and labour costs;
- Providing processors with a stable supply of milk, so that they can properly plan their production year after year; and,
- Providing a consistent supply of milk and milk products of the highest and safest quality, at a **fair price**.

The system enables Canadian dairy farmers to act collectively to negotiate prices and adjust milk production to meet consumer demand. Supply management ensures Canadian prices remain relatively stable and less subject to the volatility of the global market. Unlike many other jurisdictions, including the United States and the European Union – where consumers pay twice for their milk (once through taxpayer subsidies, and again at retail) – supply management allows Canadian dairy farmers to earn comparatively stable returns from the marketplace, **with no direct government subsidies for milk production**.

An effective supply management system also requires a commitment from the federal government to ensure the importation of dairy products is predictable, and complies with Canada's international trade agreements.

Historical Perspective

The Government of Canada implemented a supply management system in the early 1970s to provide greater market stability, match production with consumer demand, and to ensure a fair return for farmers. Canadian dairy was the first sector to operate under supply management, a system that egg and poultry producers would later adopt.

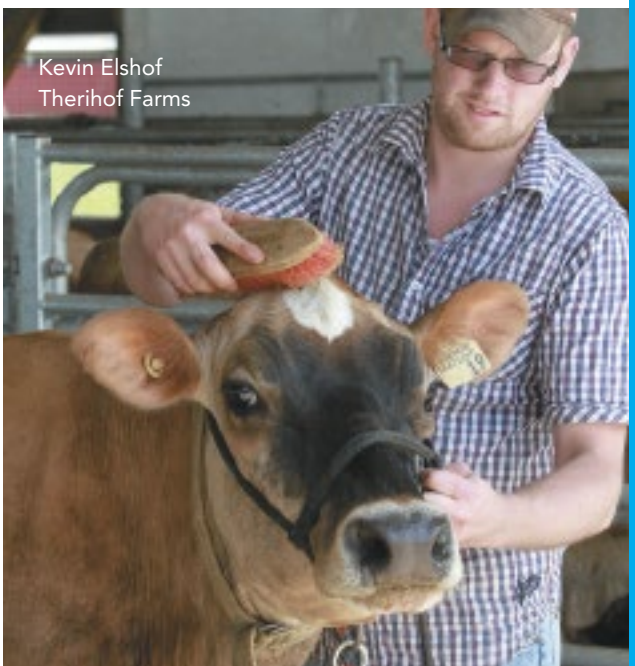
For the dairy sector, the supply management system is administered nationally by the Canadian Dairy Commission (CDC), a crown corporation which serves as a secretariat to the Canadian Milk Supply Management Committee (CMSMC). Each year, the CMSMC is responsible for assessing the consumer demand for milk products and adjusting the national target for production accordingly.

How Does Supply Management Work?

The basic idea behind supply management is simple, and is similar to what producers in every industry do. The goal is to manage production so that supply balances demand, and to enable efficient farmers to cover their costs of production.

Each farm owns quota (market share), and only produces as much milk as is required by the Canadian marketplace—while limiting surpluses. This enables farmers to earn a predictable and stable revenue directly from the market.

Supply management can be visualized as a roof supported by three pillars: producer pricing, production discipline, and imports management. If any one of the three pillars becomes unstable, the entire system risks collapse.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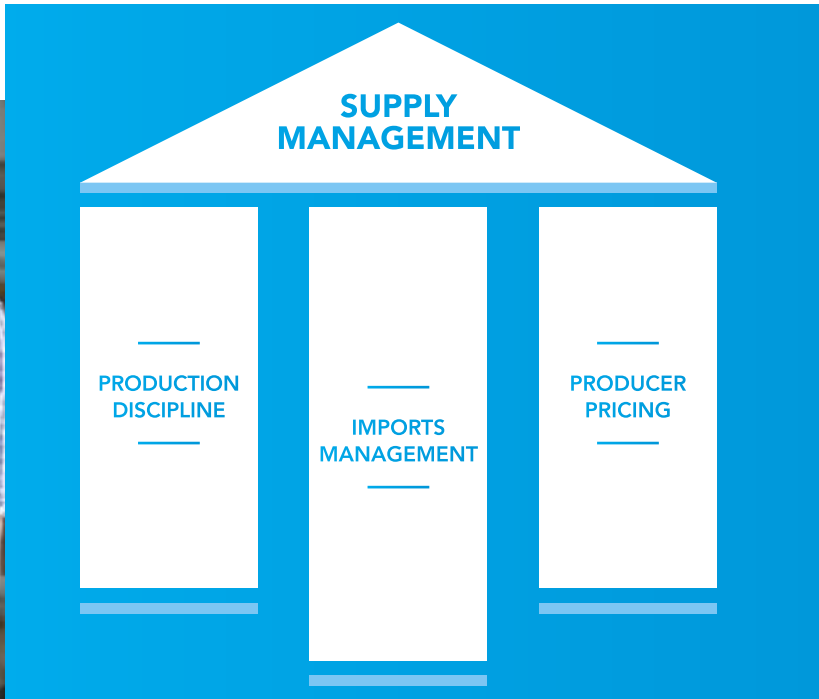


The Three Pillars of Supply Management

1. Producer Pricing: To ensure price stability for farmers, the milk price received by dairy farmers takes into account both the costs of production, including capital and labour costs, and the overall condition of the Canadian economy. Without supply management, the Canadian government would have to provide a substantial level of subsidization—which is often common in non-supply managed jurisdictions, to help farmers survive the increased price volatility observed in the world market.

It is also important to note that the CDC and provincial milk marketing boards do not set the retail price, and neither do the farmers. **Retailers set the price that consumers pay at the grocery store.**

2. Production Discipline: To ensure the supply of Canadian milk equals the demand from consumers, each farm in Canada owns quota (market share) that allows it to produce a certain amount of milk. Depending on consumer demand, the amount that a quota allows dairy farmers to produce can increase or decrease. This is an efficient way to avoid overproduction and to ensure a fair and stable return for farmers. The relative income stability provided by supply management allows Canadian farmers to constantly innovate and invest in their farms, rather than hold income in reserve as insurance against market volatility.

3. Imports Management: In Canada, imports are managed using tariff rate quotas, or TRQs. These allow a predetermined quantity of dairy products to be imported at preferential tariff rates (generally duty free). To maintain control over how much is imported, the over-quota tariffs are set at higher levels. For example, when we say that the Comprehensive Economic and Trade Agreement granted an additional access of 17,700 tonnes of cheese to the European Union, we mean that an additional 17,700 tonnes of cheese can be imported into Canada from the EU tariff-free. Any quantity over and above that amount would be subject to a higher rate of duty.

Imports management is an essential part of the Canadian government's responsibility towards maintaining supply management. Without any controls on imports, it is impossible to ensure that supply actually equals demand. A lack of imports management will inevitably lead to instability within the system.

In contrast with the highly unstable global market, when the three pillars of supply management function as intended, the dairy industry can weather economic storms, and remain sustainable and self-sufficient. This allows Canada's dairy farms to remain profitable and continue to produce high-quality Canadian milk **without direct government subsidies for milk production**—unlike other global jurisdictions.

Supply management enables Canadian farmers to invest millions every year into their farms, in terms of infrastructure, equipment, feed, and services. It also enhances contributions to their communities and the future of our economy, and facilitates the adoption of a long-term perspective, as well as many mandatory healthy and sustainable practices that benefit the environment and the wellbeing of their animals.

Without supply management, due to the volatility of the global market, the comparatively high costs of production in Canada (due to a colder climate), and the perishable nature of their products, many Canadian dairy farmers would simply go out of business. This would put the dairy sector in jeopardy, which would hurt Canadian communities, Canadian consumers, Canadian farmers, and the Canadian economy.

Section 3 Canadian Dairy: A Driver of Economic Growth

Dairy farmers were among the first groups of settlers to arrive and settle in the New World. When they cleared the land and founded their small farms, they nourished not just their own families, but their growing communities. Today, many of these farms have flourished and have become key contributors to Canada's economy.

Dairy is one of the top two agricultural sectors in seven out of 10 Canadian provinces. According to a study conducted by EcoRessources in 2015, nationwide, the dairy sector sustains approximately 221,000 full-time equivalent jobs, and contributes roughly $19.9 billion a year to Canada's Gross Domestic Product (GDP). It also remits $3.8 billion a year in taxes at the federal, provincial and regional levels. Dairy remains a dynamic sector; all of these numbers have increased significantly since the last EcoRessources study was conducted in 2013. In addition, dairy farmers do not receive any direct payment from government to produce milk—**all revenue from milk sales is generated from the marketplace.** Within Canada, a vibrant dairy industry means more jobs, improved access to rural infrastructure, and a stronger economy that all Canadians benefit from. The dairy industry is a mainstay of the Canadian federal and provincial economies, generating significant impacts. With its continued growth, the sector creates new jobs and helps stimulate the economy across all provinces, as well as within numerous rural communities Canada-wide.

One of the **top two** agricultural sectors in **7/10 provinces.**

CANADIAN DAIRY: AN ENGINE FOR JOBS

10,951 FARMS

$8.7B TO GDP

115,793 JOBS

+

444 PLANTS

$11.2B TO GDP

105,143 JOBS

=

$19.9B

to Canada's GDP

220,936

Canadian jobs

Source: EcoRessources, 2015 data

The state-of-the-art Elora Dairy Research Centre (Guelph) opened in 2015.

CANADIAN DAIRY FARMERS INVEST MILLIONS EVERY YEAR INTO RESEARCH AND INNOVATION

Canadian Dairy: A Leader in Research and Innovation

Supply management affords the Canadian dairy sector the stability and predictability it needs to make significant and continual investments into research and innovation. As a result, Canadian dairy farmers invest millions of dollars year after year into numerous dairy nutrition and production research projects; into on-farm sustainability programs like our *proAction*® initiative—which sets high standards for on-farm practices, including animal welfare and the environment; and into increasing efficiency, on-farm productivity, and identifying market opportunities. Farmers and processors appreciate the stability and viability that supply management offers Canadian dairy—as well as the many opportunities for future innovation and growth.

Since 2010, DFC has invested a major part of our research budget in collaboration with other industry partners and Agriculture and Agri-Food Canada (AAFC), under the dairy research cluster. We look forward to continuing to make these investments under the next Agricultural Policy Framework. **The Canadian dairy sector is growing, and we continue to implement strategies proactively and collectively to ensure that our sector will continue to thrive and drive growth in the future.**

KEY RESEARCH AND INNOVATION FACTS

In Canada, ongoing significant investments into innovation have contributed to **milk yield increases per cow**

more than

157%

OVER THE PAST 43 YEARS

This has outpaced

UNITED STATES **+125%**

UNITED KINGDOM **+93%**

NEW ZEALAND **+46%**

over that same timeframe

Canadian dairy genetics are among the best in the world. **The total value** of Canadian dairy genetic exports, including **dairy cattle, embryos and semen** rose from

$68M (1988) ▸ **$155M** (2016)

*Source: dairyinfo.gc.ca

Carbon emissions from Canadian dairy farms decreased by

28% **FROM 1990 TO 2015**

Emissions from dairy production represent less than

1% **OF TOTAL NATIONAL EMISSIONS[1]**

Section 4 International Trade and the Canadian Dairy Industry

The Impact of International Trade Agreements on the Canadian Dairy Industry

Dairy Farmers of Canada supports international trade agreements that benefit Canada and Canadians. However, DFC maintains that the dairy sector and its farmers should not have to bear the cost of trade concessions for gains in other Canadian sectors.

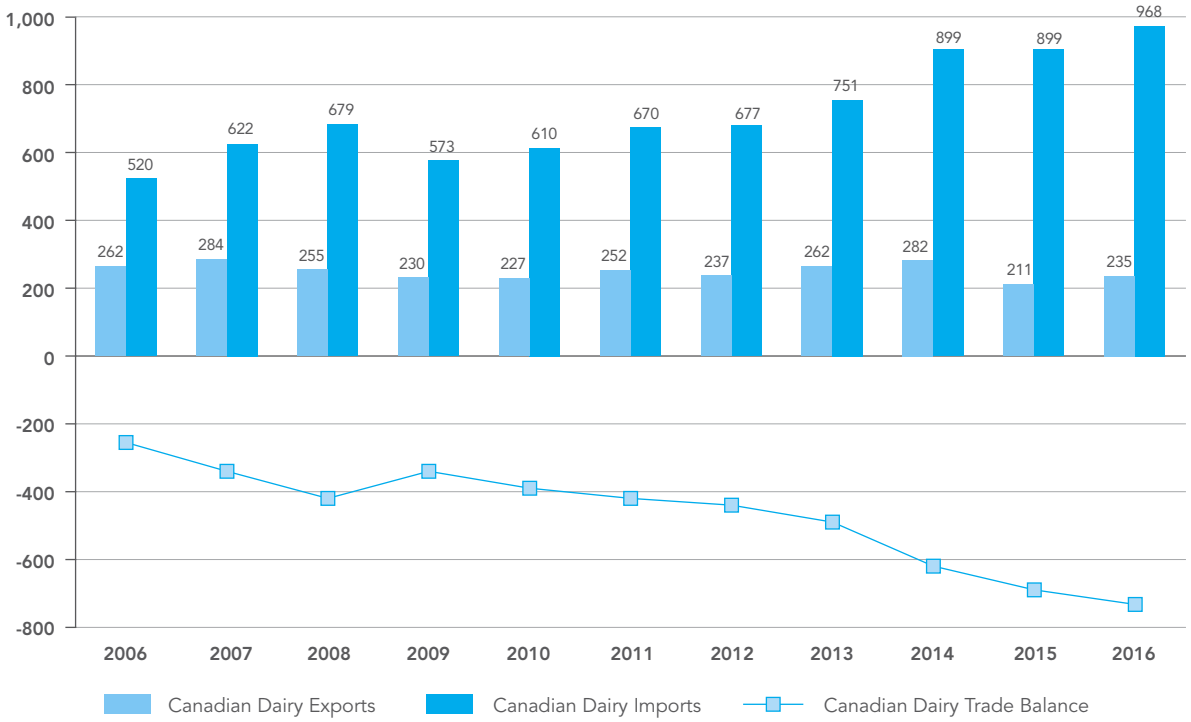
An estimated 8% to 10% of the Canadian dairy market is already open to imports; this is more than many other countries in deregulated jurisdictions. In 2016, Canada imported approximately $969 million in dairy products and the Canadian dairy trade balance stood at $734 million. In fact, each year, for the past decade, Canada has imported at least $500 million in dairy products; and over $900 million each of the past three years. **Any additional access granted to the Canadian dairy market in free trade deals simply adds to an already significant number.**

The Global Perspective

Currently, less than 10% of the total world dairy production is traded on the world market; more than 90% of total world dairy production is meant for domestic consumption.

Nevertheless, imbalances between supply and demand for dairy products can lead to overproduction, which can cause milk to be sold in the international market at dumping prices[2]. This has been exemplified during the current global dairy crisis, which has seen a significant drop in the world price. This, in turn, has led to a corresponding drop in the farm-gate price that dairy farmers across all jurisdictions receive for their milk. In fact, according to a 2016 study by the International Farm Comparison Network (IFCN), given a global average price that was, at the time, roughly US$28/100 kg of milk, less than 10% of the world's milk production could have been sold at a price covering the cost to produce that milk. In 2017, the situation has improved, with a global average price from January-November of US$35.90/100 kg of milk. Nonetheless, even at this improved price, only 56% of the milk produced worldwide could have been sold at a price

CANADIAN DAIRY TRADE IMBALANCE WITH THE WORLD, 2006—2016
(in millions of current dollars)



covering the cost to produce that milk – a clear illustration of the type of harmful price fluctuation that supply management helps the Canadian dairy sector avoid.

While the low farm-gate price has had an impact on dairy farmers in Canada, its effects have been particularly negative on farmers in deregulated jurisdictions that do not have the relative shelter provided by supply management such as the EU, Australia, New Zealand, and the United States.

Continued Impacts of the Global Dairy Crisis

Since late 2014, persistent over-production around the world has resulted in a prolonging of what has been termed by many as the 'global dairy crisis' – surplus production leading to low global milk prices received by farmers, in many cases below their costs of production. In 2015-2016, the impacts of these low prices led to a number of countries in other jurisdictions offering generous bailout packages to help their farmers cope with the market downturn. These packages came on top of the substantial subsidies, dairy price supports, and other measures already granted to dairy farmers within many other jurisdictions. Although the situation did improve in 2017, prices still remain low; the ongoing crisis continues to have a major impact on farmers across the world.

2015-2016 International Bailouts

In the European Union, between September 2015 and June 2016, the European Commission bailed out the European dairy industry twice, for a combined total of €1 billion. Included in this package, in an attempt to slow the overproduction that is devastating the global dairy market, is €150 million to entice farmers to voluntarily reduce their milk production (in other words, a voluntary supply management measure). In total, approximately 44,000 European dairy farms took advantage of this program; this represents four times the number of total Canadian dairy farms! Some European dairy farmers are now pressuring the EU commission to include this program as a permanent tool in the Common Agricultural Policy – which provides more than €50 billion in support to the European agricultural sector.

Moreover, until as recently as September 2017, the EU Commission has continued stockpiling the European market's surplus production into intervention stocks, reaching a total of 380,000 tonnes. Though the intent was to begin selling the stocks back on to the market, sales to this point have been trivial, and the stockpile of unsold product remains at a very high level. This continues to create a lot of uncertainty on the world market.

The Australian dairy industry was deregulated in 2000, subjecting Australian dairy farmers to the mercy of international pricing. As a result, they receive a low price for their milk and are particularly vulnerable to decreases in global demand. In 2016, in response to the global crisis, Australia announced a $578.8 million support package for dairy farmers.

New Zealand's dairy sector has not been immune to the drop in global demand for dairy products either. During 2015-2016, the average herd in New Zealand lost approximately $143,000 (US). This contributed to New Zealand dairy farmers suffering their worst financial losses since the 2002-2003 season.

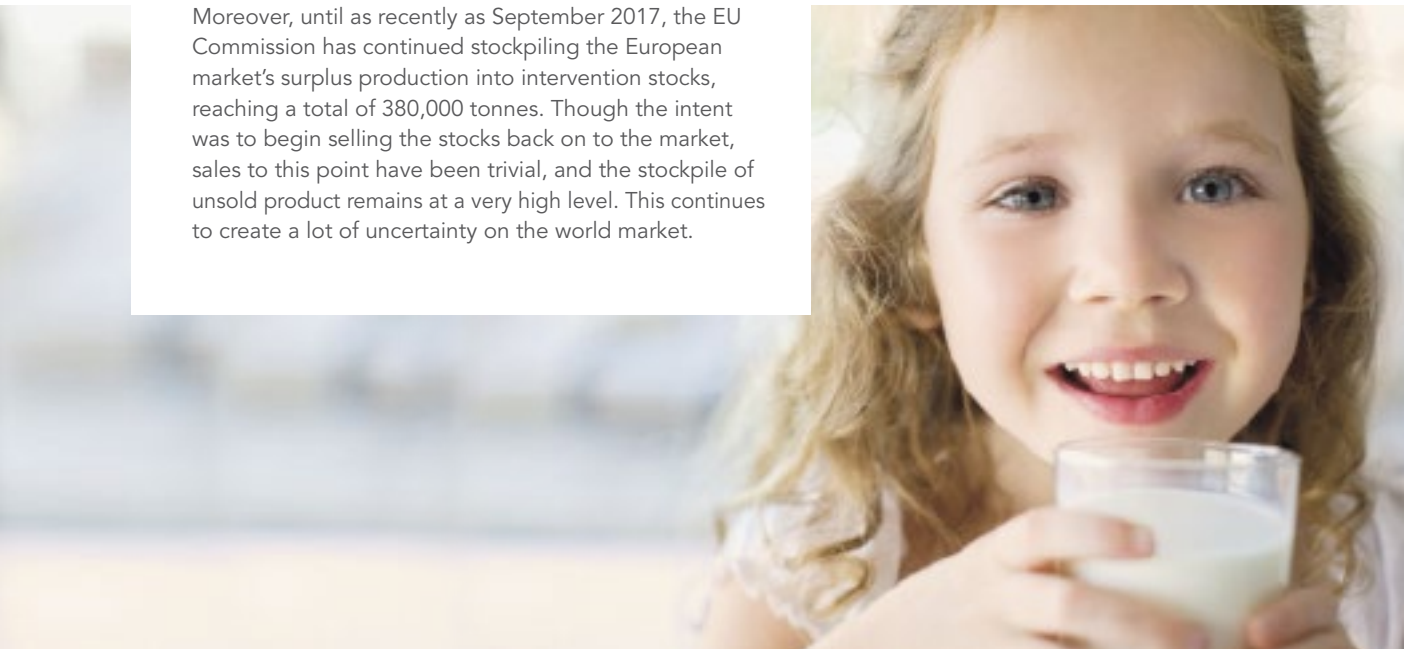
In the United States, since August 2016, the US Department of Agriculture has pledged to buy up to $40 million in cheese to help cut down on a massive surplus and help to raise milk prices for struggling dairy producers. This comes in addition to the generous subsidies that US dairy producers already receive.

Looking Into the Future

Needless to say, the emergency measures described above are expensive, and it remains unclear whether they will have their desired effects. Looking ahead to 2018, markets are expected to remain depressed and signals suggest that overall prices could go even lower in the world market than they are currently.

Meanwhile, in Canada, the crisis has had a lesser impact because the Canadian market operates under a supply management system that rests on effective and enforced import and production control and planning measures that fully respect Canada's international trade commitments.

Canada's system of supply management is a legitimate solution to the surplus, and allows farmers to earn fair returns while providing Canadians with a stable supply of nutritious, high quality dairy products.



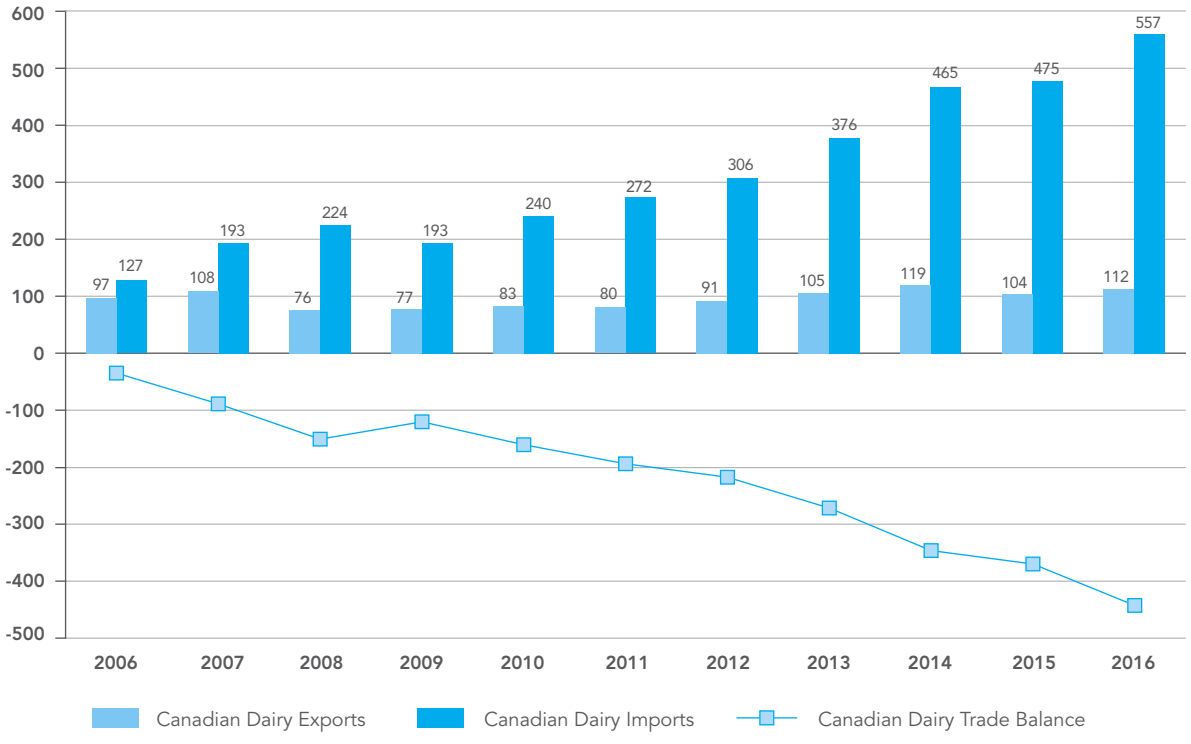
The Comprehensive and Progressive Agreement for Trans-Pacific Partnership

In 2015, following the signing of the original Trans-Pacific Partnership (TPP) deal, DFC estimated the sum of access granted to the dairy industry in order to secure the agreement for Canada would amount to as much as 4% of the Canadian dairy market, based on the 2016 milk production forecast by Agriculture and Agri-Food Canada[3]. If ratified, the market access commitments made in the original TPP agreement would have resulted in perpetual lost revenues of as much as $246 million per year for Canada's dairy farmers. Please note that DFC staff are in the process of revising these original estimates to reflect current market conditions.

In January 2017, President Donald Trump fulfilled a campaign promise by pulling the United States out of the original TPP deal. In the months since, the 11 remaining members of the original deal worked towards moving forward on an agreement without the US, now known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, (CPTPP). Although the departure of the US represents a loss of approximately 60% of the original TPP market GDP, on January 23rd, 2018, the Government of Canada announced that it will sign a revised CPTPP agreement which includes the market access concessions originally agreed to in 2015, when the US was still a part of the deal. How is this in the best interests of Canadians?

On the one hand, the Canadian government has repeatedly stated that it wants a vibrant, strong, and growing dairy sector that creates jobs and fosters investments; on the other hand, it continues to carve out pieces of our domestic dairy market, first through the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), and now through the CPTPP.

CANADIAN DAIRY TRADE IMBALANCE WITH THE US, 2006—2016
(in millions of current dollars)



The Government must understand that in continuing to make these concessions, they are putting the Canadian dairy sector in jeopardy.

This announcement comes in the middle of the renegotiation of NAFTA, another vehicle that threatens to weaken the Canadian dairy industry. The Government must realize that there is a cumulative effect to these carve outs, which cannot be understated.

The dairy sector is present in a majority of the ridings across this country. DFC is very interested in seeing how MPs will explain these concessions to the dairy community, and to the hundreds of thousands of workers who depend upon this community for their livelihood.

The North American Free Trade Agreement

Following the election of President Trump in November 2016, the United States announced their intention to renegotiate the North American Free Trade Agreement (NAFTA) between Canada, the United States, and Mexico. The first round of the renegotiation of NAFTA launched on August 20th, 2017 in Washington DC.

In October 2017, during the fourth round of the renegotiations, the United States tabled demands that would amount to a veto on all future Canadian domestic dairy policy decisions – and an end to all tariffs on supply managed goods within ten years. Their demands on dairy and other supply managed goods were in line with what they have tabled for other sectors across the board – they are outrageous, and would spell the end of Canada's supply managed systems.

In Canada, a lot of attention has been devoted to the impact of dairy on the NAFTA renegotiations; however, it is important to keep in mind that for the US, dairy is comparatively low on the priority list. There are numerous sectors with a much greater impact on the US economy than dairy, including automotive, steel, and textiles, to name a few. Furthermore, when it comes to dairy, there really isn't a 'problem' to solve – the United States already enjoys a positive trade balance of 5:1 with Canada – the only problem currently plaguing the US dairy industry is their chronic overproduction. However, Canada has less population than the state of California, and the Canadian market is already filled with high-quality Canadian milk. For the US dairy industry, the Canadian market is not a saviour, it is a drop in the bucket. When it comes to dairy, the only solution to the US' problem is to regulate their production – it isn't to dump their heavily subsidized milk in Canada.

DFC continues to have a presence on the ground in each round of the renegotiations, and we continue to work closely with our provincial members, the Dairy Processors Association of Canada (DPAC), and our supply managed partners (chicken, eggs, turkey and hatched eggs) on this file.

The Government of Canada has now made market access concessions to Canada's dairy market in CETA, and the recently announced CPTPP agreement. It is critical that the Government understand that when it comes to the renegotiation of NAFTA, they must not give up any more on the backs of the hundreds of thousands of farmers and workers in the Canadian dairy sector.

Our message to the Canadian government as it is negotiating NAFTA is simple: no more concessions – enough is enough, they cannot continue to carve out portions of the dairy sector.

Canada is an equal partner in NAFTA, and Canada's dairy farmers are counting on the Government to ensure that our nation's food sovereignty and right to determine and administer our own domestic policies continues to be respected.

The Canada-European Union Comprehensive Economic and Trade Agreement

On October 30th, 2016, the federal government and EU officials signed the Canada-European Union Comprehensive Economic and Trade Agreement (CETA). Shortly after the signing, on November 10th, 2016, as part of a CETA transition assistance program, DFC was pleased to see the government announce a *Dairy Farm Investment Program* (DFIP) of $250 million over five years, as well as an additional $100 million in funding to help spur investment into updating Canada's dairy processing infrastructure.

Dairy Farm Investment Program

The DFIP was split into two rounds of funding. The first round launched on August 22nd, 2017, and included an envelope of approximately $129M. Due to extremely high interest, the first round was closed after only one week, and included a total of 3,060 applications (representing 27% of all Canadian dairy farms!). The DFIP is a positive step that will foster the continued growth of the sector, for the benefit of all Canadians.

On September 29th, DFC and its provincial members met with Agriculture and Agri-Food Canada (AAFC) representatives to debrief on the first round of funding. At the meeting, a detailed report of applications for the first round was given to DFC by AAFC, which is summarized below:

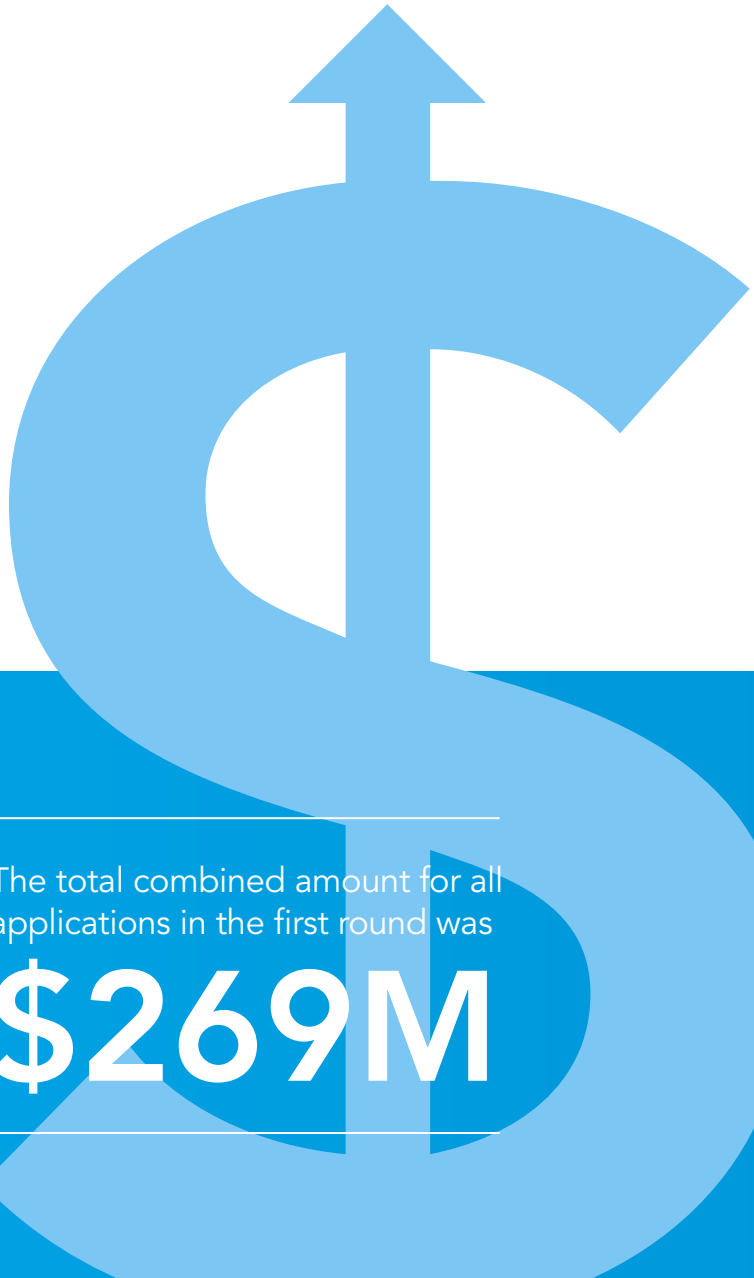
- A budget of $129M was allocated for the first round.
- In total, 3,060 applications were received over the seven days that the program was open.
- **The total combined amount for all applications in the first round was $269M (greater than the entire 5-year funding envelope!).**
- The requests within nearly every province exceeded the budget allocated for the first year of the program.

Canadian dairy farmers invest millions into their farms every year, and clearly, given the high volume of applications received, this program has helped to inspire even more investment – in addition to providing a stabilizing influence given the uncertainty around NAFTA. Continuing this level of investment is not only good for dairy farmers, it is great for the Canadian economy!

Other Trade Initiatives

DFC understands the importance of international trade for the broader Canadian economy, and is in no way opposed to Canada exploring or entering into new trade agreements – **provided such agreements do not negatively impact Canadian dairy farmers.**

With this in mind, DFC is closely monitoring ongoing trade initiatives such as MERCOSUR, China, the Pacific Alliance, and the WTO. **DFC remains opposed to conceding any additional access or any over-quota tariff reductions to any trade partners.** To do so would severely undermine the Canadian dairy supply management system and result in significant losses for Canadian dairy farmers. DFC does not forsee any positive results emerging from these potential agreements for dairy and the other supply managed sectors, and has reiterated this position to government at every opportunity.



DAIRY FARM INVESTMENT PROGRAM

The total combined amount for all applications in the first round was

$269M

Section 5 Nutrition and the Healthy Eating Strategy

On October 24, 2016, the Minister of Health announced a multi-year *Healthy Eating Strategy*. The Healthy Eating Strategy is best viewed as a framework covering several interrelated regulatory proposals, including, but not limited to: revisions to the *Canada Food Guide*, a proposal for Front-of-Package warning labelling, and new regulations around marketing to children. Each of these proposed initiatives are linked by the fact that they would treat all foods that happen to be above 5% or 15% of the daily value (DV) for sodium, sugar, and saturated fat in exactly the same way – as 'unhealthy', or 'to limit' – whether or not they contain other good nutrients, or contribute to reducing chronic diseases.

DFC considers that Health Canada's approach to the Healthy Eating Strategy is over-simplistic, and flies in the face of extensive and current scientific research. Barring intervention by Canada's elected representatives, the department seems intent on producing new guidelines that will confuse consumers, and may ultimately counter valuable efforts, such as the recently revised Nutrition Facts table, aimed at helping Canadians develop more balanced and healthy diets.

Canadian dairy farmers care deeply about the health of their fellow Canadians, and are fully supportive of the broad goal of the Healthy Eating Strategy; to help consumers make informed, healthier choices. However, we have some concerns with the proposed approach Health Canada is considering to achieve that goal, and the unintended consequences this approach may bring to the health of Canadians.

Focusing on Sodium, Sugar, and Saturated Fat is not Supported by Scientific Evidence

The evidence supporting Health Canada's chosen approach is conflicting, at best – particularly when the most recent evidence is taken into account.

Saturated Fat

The role of saturated fat in a balanced diet is a complex question, and the targeting of saturated fat is not scientifically justified. There is strong evidence from several meta-analyses, including a meta-analysis commissioned by the World Health Organization (WHO), that saturated fat does not increase the risk of cardiovascular disease[4,5,6,7]. Health Canada also reached the same conclusion in their own scientific review of the evidence, stating that the review found that there was no observed association between dietary SFA [saturated fat] and increased risk of CVD or CHD[8]. In fact, since 2015, the Heart and Stroke Foundation has abandoned the idea of setting a threshold or limit for saturated fat and instead argues for a focus on a healthy balanced diet and natural whole foods[9].

When it comes to dairy products, in particular, studies have shown that higher fat dairy foods, including cheese, have not been associated with increased cardiovascular risk, type 2 diabetes, or obesity. In fact, they have been found to have either a neutral or beneficial effect on these health outcomes[10,11,12].

Finally, the characterization of whole milk as 'unhealthy' or 'to limit' based solely on its saturated fat content is not consistent with other initiatives from Health Canada. **According to a joint statement from Health Canada, the Canadian Pediatric Society, Dietitians of Canada and the Breastfeeding Committee for Canada, children under the age of two should drink whole milk, as the fat it contains is essential for their brain development and growth[13].**

Sodium

Health Canada's guidelines currently recommend that people consume between 1,500 mg and 2,300 mg of sodium per day[14]; well below the 3,400 mg of sodium per day that Canadians are actually consuming. However, in 2013, the Institute of Medicine (IOM) published a report[15] which concluded that studies on health outcomes are inconsistent in quality and insufficient in quantity to determine that sodium intake below 2,300 mg/day either increase or decrease the risk of heart disease, stroke, or all cause mortality in the general US population. **This report also concluded that there is "no evidence for benefit and some evidence suggesting risk of adverse health outcomes associated with sodium intake levels in ranges approximately 1,500 to 2,300 mg/day among those with diabetes, kidney disease, or CVD."**

Moreover, evidence from another meta-analysis published in 2014 showed that between 2,645 and 4,945 milligrams per day of sodium was associated with the most favourable health outcomes, and that an increase in mortality risk was found to be associoated with intakes that were outside this range (either higher or lower)[16].

Current evidence no longer supports reducing sodium intake to less than 2,300 milligrams per day for the general population[17,18].

The dairy industry acknowledges the need for individuals to avoid excessive intakes of sodium, and many food manufacturers have already reduced the sodium used in their foods in response. It is important to remember, however, that salt (sodium chloride) is a key ingredient in the safety of several foods, including cheese, and reducing salt in these foods may raise unintended technological challenges, and food safety issues.

Salt is used in the cheese making process to serve many functional properties: enzymatic and microbial control; humidity control; texture; and **to ensure food safety**. While technological challenges and food safety considerations to reducing sodium in cheese may exist, it is important to note that **most categories of natural cheeses already meet Health Canada's Phase II or Phase III sodium targets**[19]**.**

Furthermore, despite its sodium content, **several studies have consistently shown that cheese does not have an adverse impact on blood pressure or cardiovascular health**. In fact, it has been associated with a reduction in the risk of stroke and type 2 diabetes[20,21,22].

Sugars

The scientific evidence targeting "total sugar" is based on studies that have looked mostly at non-nutritious sugar sweetened beverages (SSBs), such as soft drinks. These studies have shown adverse associations between SSBs and cardiometabolic outcomes. However, the same cannot be said for all foods to which sugar has been added, or sugar that is intrinsically present in food. In fact, studies have shown that nutritious foods such as sugar-sweetened yogurts are associated with **reduced** cardiometabolic risk[23].

Furthermore, milk products naturally contain sugar in the form of lactose, which is included in the "total sugar" calculation. The inclusion of lactose is not justified by the scientific evidence, which is primarily based on SSBs, as mentioned previously. It is simply not appropriate to extrapolate research based on the effects of non-nutritious beverages such as soft-drinks to nutritious foods like milk and yogurt.

DFC believes it is important that nutrition information on food labels pertaining to sugar and/or added sugars focus on foods of poor nutritional value such as sugar-sweetened beverages (i.e. soft drinks, fruit punch, iced teas and energy drinks), candies and desserts. Foods with higher nutritional value such as sweetened milk products should not be evaluated on the same basis as foods of poor nutritional value.

Confusing nutrient-rich foods containing sugar with nutrient-poor foods could adversely impact public health if Canadians begin to limit their consumption of milk products. In contrast with nutrient-poor foods, milk products are nutritious, and play an important role in providing nutrients that are important to our health. Furthermore, the current evidence does not support that nutritious foods such as flavoured milk and yogurt have an unfavourable effect on obesity or type 2 diabetes[24,25,26].

It is imperative that Health Canada take the necessary time to consider all available evidence before moving forward with the Healthy Eating Strategy.

Revising *Canada's Food Guide*

As a component of the Healthy Eating Strategy, Health Canada will be making revisions to the *Canada Food Guide*. According to the published Guiding Principles[27] of the latest *Canada Food Guide* consultation, Health Canada is considering:

- Eliminating the 'Milk and Alternatives' food group, despite the fact that the scientific evidence supporting a role for milk products in the prevention of chronic diseases is stronger than ever;
- Actively advocating that Canadians shift towards consuming more plant-based foods and beverages, instead of those that are animal based; and
- Characterizing many milk products as 'to avoid' or 'to limit', based solely on their sodium, sugar, and saturated fat content, and despite their nutritional value and overall beneficial effect on health.

The *Canada Food Guide* is an important educational tool that aids Canadians in making informed, healthy choices. If these recommendations are implemented as currently proposed, the greatest potential consequence is that it could lead future generations of Canadians to erroneously think that dairy products are unhealthy. This could have the unintended consequence of pushing them to turn towards nutrient-poor foods simply because they are not animal-based, or because they are lower in sodium, sugar, and saturated fat. This would only worsen the under-consumption of dairy products, and deprive people of their numerous health benefits.

Plant-based vs. Animal-based proteins

Research continues to confirm that milk proteins rank as some of the highest quality protein available, and are particularly important for growing children and preserving healthy bones and muscles in aging adults. This is especially true when compared to the plant-based proteins the Government is considering replacing dairy with as sources of protein in the new *Canada Food Guide*: unlike milk products, the plant-based sources of protein prioritized by the Government do not even meet Federal requirements to be called "source of protein" on their packaging!

Health Canada's 2015 Evidence Review for Dietary Guidance

Health Canada's own 2015 Evidence Review for Dietary Guidance, which will inform the future *Food Guide*, indicates that the scientific evidence showing that milk products are associated with a reduced risk of heart disease, type 2 diabetes and colorectal cancer is as strong if not stronger than it is for vegetables, fruit, whole grain and plant-based protein foods.

Furthermore, Health Canada's evidence review highlights that milk products are associated with bone health and reduced risk of hypertension and stroke. The report also states that Canadians do not consume enough of the following eight nutrients: vitamin D, calcium, magnesium, zinc, potassium and vitamin A, vitamin C and fibre. **It is important to note that milk is a valuable source of six of these nutrients.**

Canada Food Guide – DFC requests

When it comes to the revised *Canada Food Guide*, DFC requests that:

- the *Food Guide* focus on moderation and a balanced diet, instead of on limiting three "negative nutrients."
- the *Food Guide* not recommend replacing dairy sources of protein by plant-based sources of protein.
- the nutritional and health benefits of milk products continue to be recognized and featured adequately in the new *Food Guide*.
- if the format of the new *Food Guide* includes food groups, the Government maintain the long-standing Milk and Alternatives group.

As an MP, you still have the time to influence this policy, and Canadian dairy farmers need your help!

DFC believes, and scientific research continues to support, that milk products are an easy-to-access source of valuable nutrients, including calcium, protein and others, that should continue to be recognized in *Canada's Food Guide* as an important part of a healthy diet. If you agree, please do not hesitate to reach out to DFC staff, and we will let you know how you can help.

MILK PRODUCTS CONTAIN UP TO 16 ESSENTIAL NUTRIENTS

Front-of-Package Warning Labelling

In the Fall of 2016, as a part of the Healthy Eating Strategy, DFC learned that Health Canada would be moving forward with a plan to implement new Front-of-Package warning label requirements, which would significantly impact dairy products.

As proposed, any food that is above 15% of the daily value for sodium, sugar, or saturated fat, would be mandated to carry a warning symbol (among those being considered was a stop sign), accompanied by the words "High In" (i.e., High in Sodium) – regardless of whether that food contains other good nutrients or not.

Health Canada's stated goal for the Healthy Eating Strategy is to "help consumers make the informed, healthier choice". Rather than confusing consumers by defining the overall healthfulness of a food solely by three target nutrients, **DFC encourages Health Canada to focus their efforts instead on educating Canadians on: the importance of moderation; the recently updated Nutrition Facts table – which provides a far more complete picture of a food; and on the important difference between nutrient-rich, and nutrient-poor foods in achieving a healthy, balanced diet.**

As currently proposed, the following dairy products will have to display a **"high in saturated fat"** front-of-package warning label:

- Whole milk;
- Regular-fat and higher-fat yogurts;
- Most creams;
- Most cheeses, even the lower-fat versions;
- All butters.

As currently proposed, the following dairy products will have to display a **"high in sodium"** front-of-package warning label:

- Many cheeses;
- Salted butters.

As currently proposed, the following dairy products will have to display a **"high in sugar"** front-of-package warning label:

- All flavored milk (except those sweetened with artificial sweeteners);
- All flavoured yogurt (except those sweetened with artificial sweeteners);
- Most ice creams.

To make matters worse, unlike the dairy products listed previously, due to the thresholds chosen by Health Canada, most potato chips and all diet sodas will not have to carry a warning label, and could therefore be perceived as more "healthy" than nutrient-rich foods like milk products. DFC considers that this approach is too simplistic, and could have unintended adverse impacts on nutrition in general, and, in particular, worsen the under-consumption of milk products.

Front-of-Package Warning Labelling – DFC Requests

When it comes to Front-of-Package warning labels, DFC requests:

- That rather than confusing consumers by defining the overall healthfulness of a food solely by three target nutrients, Health Canada should instead focus their efforts on educating Canadians about the recently updated Nutrition Facts table – which provides a far more complete picture of a food.
- That Health Canada not solely define the overall healthfulness of a food for any policy under the Healthy Eating Strategy by its levels of sodium, sugar, or saturated fat.
- That Health Canada employ a more balanced approach that takes into account the distinction between nutrient-dense and nutrient-deficient foods, and doesn't lump them together.
- If Health Canada is intent on moving forward without injecting the appropriate balance into these policies, they must be encouraged to grant exemptions for nutritious milk products across each of the proposed policies under the Healthy Eating Strategy.

A Front-of-Package warning label proposal is slated to be published by Health Canada in *Canada Gazette* Part 1 in early 2018. The best way to help Canadians to make informed, healthier choices, is to educate them on the importance of moderation, the Nutrition Facts table, and on the important difference between nutrient-rich, and nutrient-poor foods in achieving a healthy, balanced diet. As an MP, you still have the power to influence this policy – we need your help!

EDUCATE CANADIANS – DON'T CONFUSE THEM WITH WARNING LABELS!

Marketing to Children

In 2015, in the Minister of Health's mandate letter, the Minister of Health was instructed to introduce "new restrictions on the commercial marketing of unhealthy food and beverages to children, similar to those now in place in Quebec". This has now become a component of the Healthy Eating Strategy, and is the only policy under the Healthy Eating Strategy to be referenced specifically within the Minister's mandate letter.

As described in detail below, the amendments proposed by the Government to Bill S-228 address two of DFC's three original concerns related to any potential legislation restricting marketing to children. However, it must also be noted that **the main issue has always been which foods will be characterized as 'unhealthy' for the purposes of each policy under the Healthy Eating Strategy (including marketing to children) – this issue was not resolved by the amendments, and remains a major concern.**

WHAT FOODS WILL GOVERNMENT DEFINE AS UNHEALTHY?

Bill S-228

On September 27, 2016, Bill S-228, restricting the marketing of 'unhealthy' food to children, was introduced in the Senate by Senator Nancy Greene-Raine. The restrictions introduced by this Bill would be mandatory, and as such, **would require the Government to define what foods are 'unhealthy'**.

Health Canada has clearly indicated that the definition of 'unhealthy' will be solely based on a food's sodium, sugar, and saturated fat content. For the purposes of Bill S-228, this will be determined by whether or not a food exceeds a threshold of either 5% or 15% (either or, yet to be determined) of the daily value of sugar, sodium, or saturated fat (i.e., if the sodium content in a food exceeds 15% of the daily value, it will be deemed as 'unhealthy').

Furthermore, as each of the other policies under the Healthy Eating Strategy also focuses on the same three target nutrients (sodium, sugar, saturated fat), and utilizes the 15% daily value threshold, DFC considers that the classification of a food as 'unhealthy' for the purposes of Bill S-228 risks being extended across both Front-of-Pack warning labelling and the *Canada Food Guide*.

This Bill passed third reading in the Senate on September 28, 2017, and was moved on to the House of Commons. On December 12th, 2017, Bill S-228 passed 2nd reading in the House of Commons and was moved to Committee with two important amendments supported by DFC:

- The Bill will now define 'children' as persons under 13 years of age (initially proposed as under 17).
- Sponsorships will be exempt from this Bill (it was initially unclear if this would be the case).

Given these two amendments, and pending review of the final details, DFC has one major concern remaining with this Bill: **What foods will the government define as 'unhealthy'**?

Marketing to Children – DFC Requests

When it comes to restricting the marketing of 'unhealthy' foods and beverages to children, at this time, DFC has one request:

- That the government not solely define the overall healthfulness of a food for any policy under the Healthy Eating Strategy by its levels of sodium, sugar, or saturated fat.

Other Nutrition Issues

Trans Fats

Since 2006, Health Canada has encouraged the food industry to reduce or eliminate *trans* fats from the food supply. This positive approach has worked: According to Health Canada, since 2009, *trans* fat intakes amongst Canadians have declined by 60%. Recently, a Notice of Modification was published by Health Canada to prohibit the use of partially hydrogenated oils (PHOs) in foods, which would translate as a ban of industrial *trans* fats. Processors have until September 2018 to stop using PHOs.

Once industrial *trans* fats are no longer present in the food supply, only naturally-occurring *trans* fats, which are present in very small amounts in ruminant milk and meat, will remain. **Unlike industrial *trans* fats, these natural *trans* fats have not been associated with health issues.** Therefore, once industrial *trans* fats have been eliminated from the food supply, it will no longer be relevant to continue to request the identification of natural *trans* fats on the Nutrition Facts table present on food labels; at this time, labelling of *trans* fats should no longer be mandated.

Quantitative Unit Identification (QUID)

Consumers care about what goes in to the food they eat. Although food labels include a lot of information, it is not always clear or easy to find and read. The list of ingredients on a product label currently states what the ingredients are, in order of importance, but does not list the ingredient proportions. This makes it difficult for consumers to compare products, and assess which one best meets their nutritional needs, or expectations for quality. The proposal to group all sugars together is a step in this direction.

The Quantitative Unit Identification (QUID) system for food labels, which identifies the percentage of each ingredient that a food contains, is also a good labelling method to help consumers identify the source or "flavour" of a food—for example a "maple-flavoured" product or "butter-flavoured" popcorn. This system would allow consumers to compare products to know how much maple or butter is used, judge the quality of their ingredients, and avoid deceptive claims on food labels. A form of QUID is being considered by the federal government and it is already being used in other jurisdictions, including the European Union.

DFC SUPPORTS THE INCLUSION OF QUID ON ALL FOOD LABELS.

New Regulations on Nutrition Facts Table

On December 14, 2016, final amendments to the *Food and Drug Regulations*—Nutrition Labelling, Other Labelling Provisions and Food Colours were published in *Canada Gazette, Part II*. Certain changes that will be implemented will create confusion and will need to be addressed further:

- The use of a Daily Value (DV) for sugars based on 100 g of sugars, without differentiating between naturally occurring sugar versus added sugar, will mislead consumers into thinking that healthy foods containing natural sugars (such as milk products and fruit) are high in sugar and should be limited. Monitoring of such information on the label and its impact on nutritious food intake will need to be put in place. Education efforts are also essential to alleviate potential unintended consequences.
- With the revision of nutrition labelling, micronutrients such as calcium and iron have seen their DV significantly increased. This will reduce the ability to use an "excellent source" claim, even for a particular food that contributes a significant amount. Health Canada identified these two micronutrients as a public health concern because of their inadequate intakes by Canadians. **The conditions for making "excellent source" claims should be revised for calcium, in the context of a higher DV to support consumer education on key sources of nutrients.** This would help consumers make healthier food choices and reduce confusing information on food labels.

Taxation of Sugar-Sweetened Beverages

Although not referenced in the Minister of Health, or Minister of Finance's mandate letters, some stakeholder organizations have called upon the government to implement a tax on sugar-sweetened beverages (SSBs) as a means to decrease sugar and caloric intake, which could arguably lead to a decrease in obesity levels. This case was also made in March 2016 in a report on obesity by the Senate Committee on Social Affairs, Science and Technology.

While DFC supports the Government of Canada's efforts to reduce obesity, the effectiveness of such taxes at achieving this goal is questionable, at best. **If such a tax is implemented, DFC asks that sweetened beverages that are otherwise high in nutrients, such as chocolate milk, flavoured kefir or yogurt-to-drink, be exempt.** Milk products have inherent nutritional value that nutrient-poor products such as soft drinks, fruit punch, iced teas and energy drinks do not. Furthermore, their intake is not associated with a negative impact on weight. In addition, **chocolate milk is already sold at a higher price than other plain milk—it does not require a tax on top to differentiate it**. A tax that includes sweetened nutritious beverages, such as chocolate milk, flavoured kefir or yogurt-to-drink would only worsen the under-consumption of nutrient-rich milk products.

Vitamin D Fortification

The mandatory fortification of milk with Vitamin D has been a long-standing and important public health strategy to reduce the prevalence of Vitamin D deficiency in the Canadian population. A lack of Vitamin D can lead to rickets and poor bone health. The most recent Dietary Reference Intake (DRI) recommends that the Daily Value of Vitamin D increase from 200 International Unit (IU) to 800 IU. To ensure that Canadians can meet this new recommendation, Health Canada is looking at ways to increase Vitamin D in the food supply. As a first step, they are looking at increasing the mandatory level in milk to 5 micrograms (μg) per reference amount of 250 mL (from 2.3 μg, currently).

It is important to adjust the Vitamin D fortification of milk to the revised Daily Value so Canadians can continue to depend on the milk they consume to provide their Vitamin D needs. Moreover, over the past 20 years, the consumption rate of milk products has changed—the consumption of fluid milk has dramatically declined, while cheese and yogurt have increased; both cheese and yogurt would be excellent vehicles to provide more Vitamin D to Canadians.

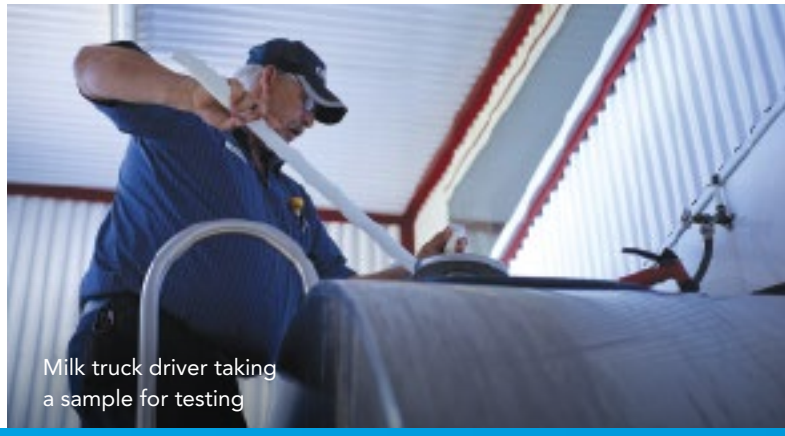
DFC supports the suggested increase of mandatory Vitamin D fortification in milk to the new DV of 800 IU so that Canadians can continue to depend on milk for their Vitamin D needs. DFC also supports extending Vitamin D fortification to yogurt and cheese on a voluntary basis. This would be consistent with Canada's *Food Guide* recommendations for Milk and Alternatives.

Section 6 Sustainable Dairy Production

Long before they became part of the collective consciousness, environmental protection and animal welfare were intrinsic to Canadian dairy farmers' values. Dairy farmers are committed stewards of the land because their farms, families, and future generations' livelihoods, depend on healthy livestock and sustainable agricultural practices. It's not just a matter of practicality, it's a matter of pride.

The *proAction*® initiative

Sustainability has never been more important to Canadians, which is why DFC has set up the *proAction* initiative. The *proAction* initiative aims to provide an efficient and co-ordinated national framework for dairy farmers to continue their business leadership in producing some of the safest, highest quality milk on the planet. Under *proAction*, Canadian dairy farmers take the initiative to set, adhere to, and constantly improve what are already among the world's best practices for on-farm sustainability. DFC and its membership ensure that this program is constantly evolving to meet industry best practices. Although *proAction* can admittedly add



Milk truck driver taking a sample for testing

proAction®

proAction INITIATIVE[28] 6 MODULES

The six modules will set national standards for **milk quality, food safety, animal care, livestock traceability, biosecurity and the environment.**

considerably to a farmer's paperwork, Canadian dairy farmers understand the importance of going the extra mile to ensure customer confidence.

The *proAction* initiative, composed of six modules, began with the launch of the Canadian Quality Milk (CQM) program in 1997. Certification for all modules will have been gradually implemented, on all farms, by 2023. After this date, the goals of the program will be demonstration of constant improvement and refinement. The six modules will set national standards for milk quality, food safety, animal care, livestock traceability, biosecurity and the environment. The modules are as follows:

1. **Milk Quality:** Canadian dairy farmers strictly adhere to regulated milk quality criteria every day to assess farm milk quality. To maintain our good reputation, it is important for Canadian milk quality standards to continue to remain high.

2. **Food Safety:** The Canadian Quality Milk program helps prevent, monitor and reduce food safety risks on farms such as milk contamination. Under CQM, farmers provide proof regularly to on-farm validators that they continue to meet program requirements.

3. **Animal Care:** Treating our animals well, and providing excellent care is one of the highest priorities of the Canadian dairy industry. To measure this, the animal care module includes an assessment program based on the requirements outlined in the *Code of Practice for the Care and Handling of Dairy Cattle*. The program was successfully tested on farms in both 2013 and in 2014, with assessments starting on farms in 2016. In September 2017, farmers have started to maintain records and protocols, and validations have begun.

4. **Livestock Traceability:** Currently, milk is traceable from farm to plate across Canada. All cattle have been systematically tagged on the ear since federal regulations came into force in 2001. Federal regulation is expected in 2018 that will enhance our ability to trace the whereabouts of our animals.

5. **Biosecurity:** DFC worked with the Canadian Food Inspection Agency (CFIA) to develop the *National Standard—Biosecurity for Canadian Dairy Farms*, published in 2013. In 2017, the training of veterinarians to focus on prevention has started. If an animal disease is found on farm, farmers will work closely with veterinarians to control it and mitigate risks so it does not leave the farm.

6. **Environment:** The dairy industry strives to improve efficiencies, and embrace innovation to reduce its environmental impact. Farmers invest in reducing energy use, in improving nutrient, land, and water management, in adapting to climate variability, in enhancing biodiversity, in increasing resilience, and in reducing waste. The environment module of *proAction* will capitalize on existing provincial Environmental Farm Plans (EFP), and DFC is currently participating in discussions on a potential national EFP.

Creating a framework for action and innovation in all those areas, the *proAction* initiative will enable farmers to collectively demonstrate responsible stewardship of their animals and the environment in sustainably producing high-quality, safe and nutritious food for their consumers. Implementation of the *proAction* initiative is an ongoing process, and the different modules are currently at varying stages of development or implementation. However, we are proud to report the success we have had so far in implementing the *proAction* initiative. Right now, in Canada:

- 100% of all on-farm milk tanks and milk trucks are sampled for milk quality.
- All milk is sampled at the farm to allow the industry to trace back any potential issue that may arise after milk leaves the farm.
- 99.5% of farms are currently registered on the food safety program.
- Approximately 70% of dairy farms have had an environmental farm plan, with an action plan developed to improve specific environmental conditions on the farm.
- The production of 1 kg of Canadian milk takes only 20 litres of water, and results in only 1 kg of carbon dioxide emitted; this is comparable to or less than the water and carbon footprints of milk produced in other milk-producing countries, according to the Life Cycle Analysis conducted in 2014.

Emissions from **dairy production** represent less than **1%** of total **national emissions**

Sustainability Matters to Canadian Dairy Farmers

Thanks to supply management, Canadian dairy farmers have the relative stability and long-term market predictability they need to focus on, and invest in, sustainability initiatives like *proAction*. Sustainability, and the continuous improvement of on-farm best practices is important not only to Canadian dairy farmers, but to all Canadians.

Moreover, DFC continues to be involved in other aspects of sustainable production. We continue to invest in research, which, among other things, is designed to help improve our environmental footprint by increasing productivity, reducing our inputs where we can, and increasing feed efficiency, which also includes reducing methane emitted during rumination.

We also continue to discuss and collaborate with industry partners and government, exchanging ideas on ways to improve sustainability in the dairy and broader agri-food sector in various forums, including our participation in government consultations on animal welfare and transportation, for example.

In November, DFC also held a symposium with stakeholders on dairy sustainability, including visits to farms as well as a day of conference. The symposium highlighted several important realizations in the dairy sector and fostered discussions among participants about the progress continually being made in the Canadian dairy industry towards increasing our sustainability. Among the topics discussed were: a talk by the Canadian Dairy Network about how modern genetic and genomic technologies improve sustainability on Canadian dairy farms; the role of milk and milk products as part of a healthy and sustainable diet; and an overview of DFC initiatives promoting sustainability, including production research and the *proAction* initiative. The true success of the symposium was in creating valuable networking opportunities and fostering discussion on sustainability initiatives for members of the food supply chain, and in learning what sustainability means to different stakeholders now, and for the future.

DFC is also currently updating the life cycle analysis (LCA) of Canadian milk production. According to the 2012 LCA study, Canadian milk compares well to that of other milk-producing countries: in the production of 1 kg of Canadian milk, only 20 litres of water are used and 1 kg of carbon dioxide equivalent is emitted. Furthermore, as calculated using data from Environment Canada, emissions from dairy production represent less than 1% of total national emissions[29].

Conclusion

As an elected official, the Canadian electorate and government stakeholders look to you for guidance and assistance in both championing and crafting policies with the potential to make a huge positive impact on our lives. In reading this information booklet, we hope that you have come away with a better understanding of Canada's dairy sector—our history, our challenges, and the things that make us a unique and dynamic part of Canada's economy and rural fabric. We look forward to collaborating and working closely with you to ensure a thriving supply managed Canadian dairy industry for generations to come.

We look forward to meeting with you and your staff, and discussing these issues in greater detail. Please don't hesitate to contact us directly if you have any questions or comments to share.

Respectfully,

Pierre Lampron, President
Dairy Farmers of Canada

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Appendix

Appendix A Dairy Sector FAQs

Q Is supply management a barrier to international trade?

A No. All countries have sensitive sectors they wish to protect. The United States, for example, has a long history of restrictive import protection in the sugar and dairy industries; Japan has a long history of protecting its rice sector; and New Zealand has always vigorously defended its pharmaceutical program. Furthermore, supply management has never prevented Canada from concluding international trade deals. Since 1994, Canada has negotiated 13 trade agreements with 53 countries while maintaining supply management.

Q Is the retail price of milk in Canada always higher than it is elsewhere?

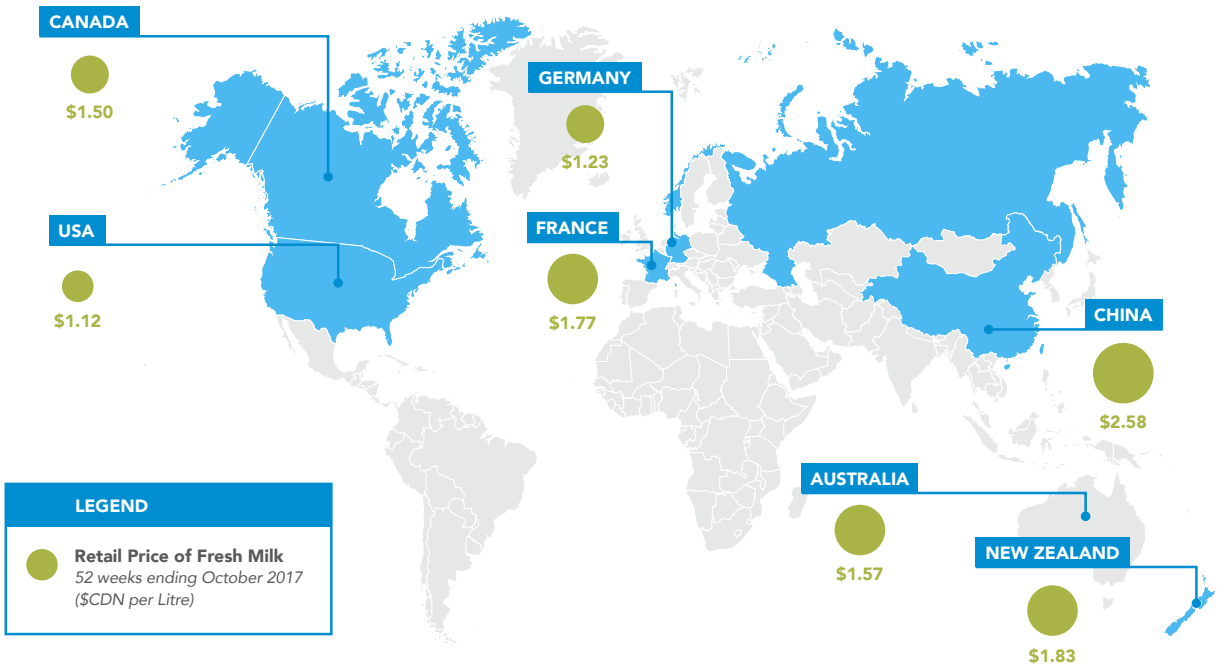
A No. Contrary to what some might argue, in Canada, retail prices for milk are in line with those in other jurisdictions. In fact, a Nielsen study conducted in 2017 showed that consumers paid an average of $1.50/litre for fresh milk in Canada, as compared with $1.57 in Australia, $1.83 in New Zealand, $1.23 in Germany, $1.77 in France, $2.58 in China, and $1.12 in the US Moreover, as **all** Canadian milk is free of the artificial growth hormone rBST (which is not the case in the United States), it is helpful to compare apples to apples: the average price for rBST-free milk in the US over the same period was $1.64.

More importantly, countries without supply management typically heavily subsidize their dairy industries; this comes straight out of the pockets of taxpayers, and essentially forces taxpayers from those countries to pay twice for their milk.

It is critical to keep in mind that the price of milk in Canada is a reflection of the price that consumers are willing to pay. In the value chain for dairy, farmers are at the beginning, processors are in the middle, and retailers are at the end. Retailers have always set the retail price of milk. **The truth is, there is no direct link between the price a farmer receives, and the retail price.** As an example, in 2015, although the price that Canadian dairy farmers received for their milk went down significantly, the retail prices for dairy products went up by 1%.

Furthermore, in countries where milk production isn't regulated (i.e. supply management doesn't exist), such as New Zealand, the United Kingdom and Australia, there has been a notable discrepancy between farm gate prices and retail prices. In many cases, prices have actually gone up for consumers, while revenue for farmers has gone down.

Source: Nielsen Fresh Milk Price Report (2017)



Q Should Canada's dairy sector be seeking a greater role in the export market?

A DFC believes that Canada has a role to play in the global niche export market; however, the truth is, dairy is not a major export commodity. **Less than 10% of all global milk production is exported**, and the global export market already contains established big players such as the US, New Zealand and EU countries who are at a competitive advantage due to lower costs of production and, in many cases, the generous government subsidies they receive. This creates an un-level playing field in the export market, not necessarily economic opportunity.

Furthermore, it is widely known that export markets can often be volatile. Currently, the global dairy market is experiencing very low prices due to surpluses in production. This has led to what some have termed the "global dairy crisis", and has impacted dairy markets all over the world. The current global dairy crisis is a prime example of what can happen when markets go bad, and is exactly why Canada's dairy farmers prefer the relative stability of supply management. Like any business owner, dairy farmers make their business decisions on opportunities that make commercial sense.

Q Is it possible for newcomers to enter the market under the current system?

A Yes. The relative security afforded by the supply management system provides young farmers with an incentive to enter the dairy industry. Every province in Canada has a new entrant program to encourage new farmers to enter into the industry—and a number have made improvements to their programs, based on feedback from participants. Right now, new entrant programs either loan or allocate quota to new farmers. New farmers also benefit from mentoring opportunities.

More young farmers are entering into the dairy industry because of the predictability and stability offered by supply management, not in spite of it.

Appendix A Dairy Sector FAQs cont'd

Q Does supply management undermine innovation and investment?

A No. **Supply management provides the stability farmers need to be able to continually and confidently invest in their farms.** In addition, supply management allows the Canadian dairy sector to invest millions of dollars each year into research and development. As a sector, and as individual farmers, it is in Canada's best interest to stay on the cutting edge of innovation. According to the 2016 Census of Agriculture, "Increased efficiency in the dairy industry was achieved through improvements in feed quality and management, genetics and advancements in technology, including the use of robotic milking. According to data from the Census of Agriculture, 8.9% of dairy type operations now use robotic milking" (Statistics Canada 2017). Furthermore, the average yield per dairy cow in Canada increased by 3% from 2016-2015, and has increased by a total of 153% since the introduction of supply management in 1973!

DFC has been investing in dairy research for more than 25 years, with an annual research budget now reaching over $2M, that includes funding for both human nutrition research, and milk production research. The improvements in yield per cow, and our significant and ongoing investments into research and innovation are a testament to the dairy sector's commitment to continually improving the efficiency and sustainability of our farms, and the growth of the industry.

Q Are all Canadian dairy farmers rich?

A No. A modern dairy farm is a complex operation which requires significant and ongoing farmer investment to maintain. Due to the significant amount of investment for equipment, real estate, labour, and quota that is required, it could be argued that many dairy farmers, similar to other business owners, are **asset** rich. However, for a dairy farmer, these assets represent significant sunken costs that are simply a part of the requirements of doing business—they do not equate to liquid cash, and should not be considered in the same way as an annual salary. In order to realize the full cash-value of their assets, farmers would need to sell their farms and get out of the business altogether!

Q Does Canadian milk contain growth hormones such as rBST?

A No. Unlike other jurisdictions such as the US, the growth hormone, Recombinant Bovine Somatotropin (rBST), is illegal in Canada due to concerns about its impact on the health of animals. Canadian dairy farmers care deeply about the health of our animals. All milk produced in Canada is rBST-free.

Q Does milk contain GMO's?

A No. Canadian cows can and do eat a mix and variety of plants; some of which may be genetically modified, some not. However, the most important fact to keep in mind is that **eating genetically modified food does not change an animal's (or a person's) genetics;** if a cow were fed chocolate, she would not produce chocolate milk. **Similarly, while a cow may consume genetically modified feed, the milk she produces is not genetically engineered. The Canadian Food Inspection Agency, the Canadian General Standards Board, and the Food and Drug Administration in the United States all recognize this from both scientific and legal perspectives.** This being said, the Canadian dairy sector continues to respect consumer choices: any brand of organic milk comes from cows that do not eat genetically modified crops.

Appendix B
National Dairy Research Strategy
Investing in Our Dairy Future

Guiding Principles

The process to develop and implement the National Dairy Research Strategy will be guided by the following principles:

- Transparency
- Inclusiveness
- Integrity
- Founded on a rigorous and credible scientific process
- Social responsibility

Context

Dairy Farmers of Canada (DFC) believes its strong history of research investments:

- enhances farm programs, operations and product value;
- drives dairy sector innovation and profitability;
- supports continuous improvement in the sustainable production of quality, nutritious dairy products; and,
- increases the understanding of the role of dairy products in health.

Dairy Farm Efficiency and Sustainability

Targeted Outcomes

- New technologies and practices have been developed to optimize farm productivity and longevity of dairy cows.
- Best management practices have been developed to minimize the environmental impact of milk production and enable adaptation to climate change.
- Best farm management practices have been developed to support on-farm programs (i.e. proAction).

Investment Priorities

- Dairy cattle genetic improvement (fertility, productivity, feed efficiency)
- Dairy cow reproduction (including alternative tools and practices to reproductive hormones use)
- Dairy cattle nutrition
- Forage breeding and management for improved yield, resistance, conservation, quality and digestibility
- Reduced environmental footprint including GHG (enteric methane), energy and water

Animal Health and Welfare

Targeted Outcomes

- Best management practices and tools have been developed to reduce on-farm economic losses from production limiting diseases with zoonotic potential.
- Best management practices have been identified to improve the health and welfare of cows, optimize productivity and longevity.
- Simple and effective welfare measurements have been developed and used to assess the impact of the evolving milk production environment on cows.

Investment Priorities

- Strategies to mitigate targeted infectious diseases: mastitis, paratuberculosis, salmonellosis, leucosis, bovine viral diarrhea
- Dairy cows' genetic improvement (disease resistance)
- Lameness prevention, management and treatment
- Dairy cow transition period related health and welfare issues
- Pain mitigation and euthanasia BMPs and science-based decision making tools
- Sustainable barn design for conventional and alternative dairy cattle housing systems
- Barriers to adoption of BMPs
- Social aspects of dairy cattle health and welfare (such as consumers' perception)

Coordination Collaboration Communication

Targeted Outcome

A collaborative framework has been developed to coordinate national investments in dairy research and leverage partnerships at all levels (provincial/national) to maximize research results and investments for farmer investors.

AAFC estimated that the concessions would amount to 3.25% of Canada's milk production.

dairyresearch.ca

DFC recognizes the need to strengthen partnerships with its member organizations, governments and stakeholders to build research capacity together for future sector growth.

DFC aims to maximize farmers' investments at the national and provincial levels through a coordinated and collaborative approach to research in dairy production and nutrition.

Communications and Knowledge Transfer

Recognizing that communicating our research investment success stories and mobilizing and transferring results is a critical part of the research continuum for sector growth, DFC commits to developing a communications and knowledge transfer framework that will aim to:

- Report on our dairy research investments, processes and successful outcomes from farm to table;
- Identify and implement effective means of delivering pan-Canadian research results to support dairy farmers continuously improve their farm businesses; and,
- Communicate findings on the role of dairy products in a healthy Canadian diet to the health sector.

Milk Composition, Quality and Safety

Targeted Outcomes

- Methods have been identified to naturally modulate the composition of milk and improve its quality and value, potentially enabling new dairy product development.
- Strategies have been developed to sustainably reduce the use of antimicrobials while maintaining farm biosecurity, dairy cattle animal health and welfare.

Investment Priorities

- Microbiology – better understanding of the impact of microbes on milk and dairy products composition and quality
- Assessment of antimicrobials use in Canadian dairy herds
- Development of alternative tools and practices to antimicrobials use and management

Milk Products and their Components in Human Nutrition and Health

Targeted Outcomes

- Further support has been provided to clarify the role of milk products, particularly full-fat, in cardiometabolic health and healthy aging.
- Further data has been provided on the role of sugar-sweetened milk and yogurt on diet quality and health outcomes.
- The role of milk products has been strengthened in musculoskeletal health, including the prevention of osteoporosis and osteoporosis related fractures.
- The value of dairy products in a healthy, sustainable diet (including plant-based diets) has been investigated.

Investment Priorities

- Dairy products, especially full-fat and specific dairy food matrices (milk, yogurt and cheese), on cardiometabolic health and healthy aging including:
  - Prevention of type 2 diabetes, metabolic syndrome, hypertension, cardiovascular disease
  - Weight and body composition, satiety
  - Risk factors: blood lipids, blood pressure, glycemic control, inflammatory markers
  - Age-related chronic diseases
- Role of sugar-sweetened milk and yogurt on diet quality and cardiometabolic health including:
  - Nutrient adequacy
  - Weight and body composition
  - Type 2 diabetes, metabolic syndrome, cardiovascular disease
- Role of dairy products, particularly milk, in musculoskeletal health including:
  - Muscle and bone quality
  - Prevention of sarcopenia, osteoporosis, falls and osteoporosis related fractures
- Role of dairy products in healthy sustainable diets (including plant-based diets):
  - Nutrient adequacy and healthy dietary patterns
  - Connection between nutrition and health with environmental and social aspects

Investment Priorities

- Create a DFC Board committee responsible for the ongoing review and evaluation of dairy farmer needs, priorities and investments in dairy production and human nutrition and health research.
- Exchange information and deliver new knowledge on pan-Canadian research results to dairy farmers.
- Prepare and implement a communications plan to report on research investments that contribute to the sector's improvement and growth, and add value to Canadian-made dairyproducts.

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