

April 1, 2005

The Hon. James S. Peterson
Minister of International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario
K1A 0G2

The Hon. Andy Mitchell
Minister of Agriculture and Agri-Food
Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario
K1A 0C5

Dear Ministers:

RE: GATT Article XXVIII Proposal

The Dairy Processors Association of Canada / Association des Transformateurs Laitiers du Canada (DPAC/ATLC) have concerns and questions regarding a proposal to impose new TRQ's on imports of dairy ingredients.

Our fourteen members operate in every region of the country and purchase, process and market more than 90 percent of the milk produced in Canada. This industry generates \$11 billion of sales annually and directly employs more than 25,000 workers.

DPAC/ATLC's Board of Directors has been advised that last month representatives of Dairy Farmers of Canada (DFC) briefed you and your staffs on a plan for Canada to immediately invoke Article XXVIII of GATT against imports containing dairy ingredients. It is our understanding that this is a little used provision that was set out in the original GATT Agreement of 1947 and in almost 60 years Canada has rarely employed it.

To date, DPAC/ATLC has been provided little information about the proposal and our industry has not been consulted regarding the impact on our businesses, our customers (industrial, foodservice and retail) and ultimately Canadian consumers. In addition, our Board now is very concerned that Canada's credibility in the WTO negotiations has been raised in Geneva by Australia, New Zealand, Brazil and the E.U. in reference to the potential use of Article XXVIII. Canada needs to be a strong player at the negotiating table in order to advance the interests of our industry. It appears that already the potential invocation of Article XXVIII threatens that ability. Our primary concern is that at this crucial stage of the current WTO negotiations such an initiative would be a high risk venture that would seriously undermine a balanced position at the WTO.

DPAC/ATLC's mandate is to promote the healthy growth of our industry. Our members' businesses support dairy producers and supply management and the current system needs to be more focussed

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on enabling the dairy sector to be successful in an increasingly competitive marketplace. Our Chairman at DFC's Annual Policy Conference in February stated:

" We believe, as processors, that our industry (not just processors, not just producers, but our entire industry) does not have a game plan to compete in that environment. In fact, the dairy industry seems to be looking to counter this trend by looking for more protection to increase tariffs in a world of opening borders. We believe this is dangerous!"

"We see an environment that uses supply management as its foundation, but that establishes an environment that enables us to innovate and grow . . . one that focuses not on protection and that includes the ability to compete in export markets."

DPAC/ATLC understands that this proposal by DFC is intended to protect supply management, but our Board of Directors has a number of questions we wish to raise with you and the Government of Canada regarding the invocation of Article XXVIII. They include:

1. Would the invocation of Article XXVIII impact Canada's bargaining power and credibility to defend its balanced position and ultimately supply management?
2. Would the unilateral setting of new TRQ's by Canada change the base on which Canada is negotiating?
3. Can Canada set new TRQ's under the NAFTA and would it affect our obligations with the U.S. and Mexico?
4. DFC's proposal apparently takes into account "compensation" to affected countries. How would the "compensation" be calculated? Under what conditions would it be accepted by our trading partners? Would it take into account Canadian dairy and other food processors' future requirements?

Representatives of our Board of Directors wish to discuss these and other related questions with you at your earliest convenience. A list of our members and Board is attached for your information.

I will be in touch with your offices early next week to make the necessary arrangements.

Sincerely,

original signed by

Don Jarvis
President and CEO

c.c. The Hon. Ralph Goodale, Minister of Finance
DPAC/ATLC Board of Directors