

March 24, 2006

Mr. Richard Doyle  
Executive Director  
Dairy Farmers of Canada  
Suite 1101  
75 Albert Street  
Ottawa, Ontario  
K1P 5E7

Dear Richard:

RE: Article XXVIII

This is follow-up to the joint meeting of our Executive Committees on March 10, the subsequent information and commentary on parameters for a potential joint package you provided us and our meeting at staff level earlier this week.

Most importantly, we now have received clarifications from the Government regarding questions we had on the specific proposal to use Article XXVIII. We are advised that the Government of Canada does not believe an Article XXVIII action would curtail MPI imports. The attached letter we received this week to DPAC/ATLC states that:

*"As it stands now, most imports of MPIs are entering Canada from non-NAFTA countries. If we could take action to restrict imports from these countries, our expectation would be that the current imports could be replaced by imports from the U.S. or Mexico."*

*"It is the government's view that, as a result of our NAFTA commitment, higher tariffs implemented as a result of Article XXVIII negotiations could not be applied to the U.S. and Mexico."*

Additionally, Minister Strahl has publicly expressed very serious reservations with the proposal:

*"I don't want to do something that has long, unintended consequences ... if we do something wrong it could make a bad situation worse."*

.../2

It is evident that the Government's concerns with the proposed action have not been addressed nor has DPAC/ATLC's. Our organization cannot support something that the Government doesn't believe will resolve the matter satisfactorily. We do not want to see an action taken that puts supply management even more at risk.

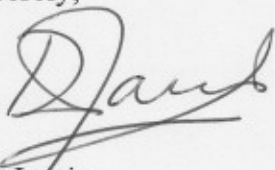
Richard, we need to continue to examine other options and solutions to the current and future challenges facing the dairy industry. My members were disappointed that your outline of the parameters of a potential agreement between DFC and DPAC/ATLC does not accept the need to modernize our Dairy Product Regulations by endorsing Version 9 nor the need to end DFC's demand to change the current "definition of milk" in the regulations. The more prescriptive compositional standards and other regulatory changes that DFC is seeking will not promote dairy industry growth and could be seen to be creating new non-tariff barriers to imported ingredients. Such initiatives would likely be challenged by our trading partners. Furthermore, our request for a program to promote the domestic production of milk protein concentrates/isolates does not appear to be viewed by DFC as a key element in addressing the import situation.

My members are very concerned with the current state of the industry -- the drop in consumption, our losing ground to other competitors in the food industry, the continued quota cuts faced by dairy producers, and the impending agreement in the Doha Round that we are not prepared for and that will impact the industry. Our organizations need to develop together realistic solutions and an action plan that will put in place on a long-term basis a growth strategy. Producers and processors need to explore and develop opportunities that focus on the consumer and the marketplace and that will drive growth for dairy products. This is the only avenue that will support more milk production at the farm level. I believe we should continue to sort through all these issues with our respective Executive Committees and that more meetings between DFC and DPAC/ATLC could be productive. We are prepared to outline at the next meeting some recommendations that our members would like to see tabled with producers and that could then be proposed to the Government.

But regarding this specific matter, to the best of my knowledge, the Government and key stakeholders including the majority of dairy processors across Canada continue to have significant concerns with the proposed Article XXVIII action. It is a high risk venture that would not solve the import problem that DFC has identified and therefore should not be initiated.

I'll call you to discuss our next steps.

Sincerely,



Don Jarvis  
President and CEO

c.c. DPAC/ATLC Board of Directors