

(Amended)

May 21, 2004

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

Dear Richard:

This is a follow-up to your letter of April 21 that detailed the DFC's new policies adopted in February on amending provincial and federal dairy regulations. At their May Board meeting our Directors reviewed your comments and in particular DFC's new regulatory policies. There was a clear consensus that this new policy direction will stifle innovation in the dairy sector.

You stress in the letter that the purpose of the Dairy Regulatory Advisory Committee" is to recommend amendments to regulations . . . in a manner that ensures maintaining the level of protection that the dairy industry has acquired over the years through the dairy regulations." In contrast, dairy processors believe that the changing demands of consumers should drive our industry and not the adoption of increasingly prescriptive and protectionist regulations. Our Minister of Agriculture and Agri-Food in a speech on April 28 in Toronto promoted that direction and declared the following:

- *"Our industry is undergoing profound, transformative changes. Food producers and processors face an even more informed and demanding consumer who expects variety, quality and nutrition to a degree unprecedented in our history.*
- *There are increasing demands for high-quality, safe, innovative food products. More and more, consumers are demanding food options that help maintain a healthy life style and contribute to their overall sense of health and wellness and they are turning to the food industry for solutions.*
- *Technology, too, has opened up new opportunities . . . But it requires new skills and new investments.*
- *While increased commodity production was the key to our past - value added and processing is the key to our future."*

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In anticipation of our next meeting together on June 1 on regulatory impediments to innovation, we have prepared a list of observations on Canada's current dairy regulatory environment and DFC's position:

1. Dairy represents the most regulated food category in Canada with regulations on every aspect of dairy products at both the federal and provincial levels. A considerable number of the existing regulations could be classified as being archaic and counter-productive in today's marketplace. Our representatives will provide a number of specific examples at the upcoming meeting.
2. Unfortunately DFC now supports even more of these regulations, apparently believing that they will offer greater protection to consumers in addition to dairy farmers' revenues. In the case of consumer protection, this assumption is categorically false. With existing food safety and labelling regulations, consumers can make fully informed choices about the products that they buy with the confidence that producers and manufacturers of these products are required to meet rigorous food safety regulations. With respect to the protection of dairy producer revenue, the risk is that further regulating an already over-regulated industry will completely destroy any remaining incentive for product innovation resulting in the dairy industry and its products being left behind by competing food and beverage industries that are relatively unimpeded in their efforts to provide new and exciting options for consumers.
3. The concept that "standardized products" are necessary to ensure quality is simply not valid. Product quality is unrelated to the existence of a compositional standard. For example, yogurt in Canada has never been subject to a compositional standard. The absence of a compositional standard has allowed manufacturers to innovate and develop a wide range of products that offer a good deal of consumer choice. The quality of Canadian yogurt has never been an issue to either consumers or the regulatory agencies.
4. Compositional standards represent an ancient form of food regulation, prior to regulations respecting the use of food additives and other ingredients. Such standards are inconsistent with product development and innovation. This was recognized by the Codex Alimentarius Commission in the early 1990s when the Commission concluded that enough work had been devoted to commodity standardization and resources would be better devoted to "horizontal activities" such as labelling, food additives, food hygiene, nutrition and food import and export.
5. It also was part of "food standard theory" that such foods did not require the declaration of a list of ingredients as the ingredients were prescribed in law. Now DFC want to invoke truly unacceptable labelling conditions respecting country of origin and method of fabrication on standardized dairy products when the original concept of a "standardized food" did not even include a basic declaration of ingredients.
6. Most of the food industry is not subject to compositional standards. The thousands of "unstandardized products" that are currently available on supermarket shelves are made from a wide range of ingredients, some of which are indeed standardized. Manufacturers of the

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plethora of unstandardized foods are proud of the quality of their products and certainly do not want government intervention in the form of regulatory standards that would inhibit their ability to improve or modify a product to suit a particular market or market niche.

7. In terms of developing a mind-set that would favour innovation, all sectors of the dairy industry should think of milk and milk components as ingredients that can form the basis for value-added foods and beverages. Recognizing that the sale of fluid milk has been declining for the past 30 years, it would be preferable to sell a dairy based beverage product than to have the consumer choose a soft drink or fruit juice. Consumption of milk and milk components in any form is preferable to losing the market to potentially less nutritious competing foods and beverages.
8. The 12 articles of DFC policy outlined in your letter represent an antiquated and anti-consumer policy position. Such a position is truly retrograde in terms of product innovation and developing foods and beverages that meet the demands of the modern consumer. With the advent of mandatory nutrition labelling in December 2005, the presence of saturated fat will become much more evident. Full-fat milk, high fat ice cream and high fat cheeses will predictably continue to lose market share.
9. Compositional standards based on fat content will not strike the modern consumer as a hallmark of quality. Traditional, high fat content dairy products should, of course, continue to be available to those consumers preferring the particular taste and texture profile that these products deliver. However, the bulk of consumers will likely favour lower fat products that provide a greater range of perceived health and nutrition benefits. Both markets represent important opportunities for the dairy industry and neither should be inhibited by unnecessary regulations that impede their potential availability and saleability to consumers.

Finally, it was indicated at the April 5 meeting that DFC would be tabling with the federal government recommendations for significant amendments to the Dairy Product Regulations that would reflect DFC's new policy directions. We understand that those recommendations will be made available to our DPAC/ATLC representatives prior to the June 1st meeting.

We look forward to reviewing these comments with you and your representatives at the meeting.

Sincerely,

original signed by

Don Jarvis
President and CEO

c.c. Gaetan Paquette, Canadian Dairy Commission
Tom Kane, Ontario Dairy Council
Pierre Nadeau, Conseil de l'industrie laitière
DPAC/ATLC Board of Directors