

NEWS RELEASE

May 1, 2007

New regulations on cheese could result in \$1.5 billion impact on Canadian consumers, trade and the economy.

The Dairy Processors Association of Canada (DPAC/ATLC), representing dairy processors from coast to coast, has serious concerns for the future of the Canadian dairy industry as a result of a regulatory initiative announced by Agriculture Minister Strahl on February 7, 2007 and therefore asks the Government to halt the process immediately.

The Minister's regulatory initiative is based on a proposal supported by the organization representing Canadian milk producers, the Dairy Farmers of Canada (DFC). The proposed regulations would force dairy processors to purchase more raw full fat milk to produce cheese by limiting or prohibiting the use of ingredients made from milk. These ingredients include whey protein, skim milk powder, milk protein and whey protein concentrates. The purchase of the additional raw milk will increase production costs.

DPAC/ATLC's Chairman Nash Lakha, President and CEO of Parmalat Canada, expressed his concern on behalf of the Canadian dairy processing industry that the initiative would "result in higher prices to Canadian consumers and make it impossible for Canadian dairy processors, at a time when the cost of Canadian industrial milk to Canadian processors is already one of the highest in the world, to develop new products to meet consumer demands."

Mr. Lakha went on to say that the "restrictions could result in more than \$½ billion in increased direct costs to consumers at retail and in the restaurant and foodservice sector and impact another \$¾ - 1 billion in value of traded food products. They also put Canada at risk of breaching its international trade obligations."

The proposed regulatory changes will not only impact Canadian cheese and cheese processors. They will impact imported cheese as well as other food products containing cheese, both Canadian-made and imported. The Canadian restaurant and foodservice business also will feel the effects of this initiative. As the cost of cheese and products containing cheese rise, the operators of restaurants will have to choose between raising prices to their customers or using less cheese and cheese products.

All of these costs eventually impact the Canadian consumer and the overall economy. DPAC/ATLC has conducted amongst its members an assessment of the impact of the proposed regulatory changes. This assessment has been shared with the Federal Government and includes the following estimated annual costs:

- \$250 million increase in cheese costs to Canadian consumers at the retail level.
- \$300 million increase in cheese costs in the restaurant and food service sector.
- \$50 million increase to Canadian food processors using cheese as an ingredient in other products.

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- \$750,000,000 to \$1 billion in traded food products containing cheese (NAFTA alone).
- \$100 million in cheese imports.

Many other issues have been identified, including environmental issues. It is calculated that reformulation of cheese based on the proposed new standards would result in an additional 300 million litres of whey annually. Strict environmental rules make disposition of liquid whey for which there are few customers almost impossible and increases processors' costs substantially.

DPAC/ATLC has received no response to the industry's concerns from the Minister or the Canadian Food Inspection Agency (CFIA).

An overriding concern of DPAC/ATLC members is the lack of official reason given by the Government for the proposed new regulations for cheese. To date, the purpose of this regulatory initiative has not been stated by the Minister. Canadian cheese processors have not requested these regulatory changes nor has the Government identified any health or safety issues for the proposed regulations.

The situation surrounding the proposals has been compounded by the fact that standard regulatory process has not been followed by the Canadian Government. There has been no consultation with retailers, the restaurant and food service industry, food manufacturers, Canadian consumers or provincial and foreign governments, all of whom will be seriously concerned with this initiative.

"The Government is being very secretive about this and is rushing to prepare these regulations and announce them by June without any consultations, and we are very concerned with what could result" said Mr. Lakha. "No other country in the world has regulations and restrictions like these that add costs to consumers", he added.

"We ask Minister Strahl to make good on his commitment made to DPAC/ATLC in January that Canada's new Government would not proceed with changes to dairy product regulations without the support of Canadian dairy processors." said Mr. Lakha.

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Backgrounder (attached)

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