Speaking Notes
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Check Against Delivery

DPAC ATLC
Dairy Processors Association of Canada
Association des Transformateurs Laitiers du Canada

Good evening Madame Chair and committee members. On behalf of the Dairy Processors Association of Canada, I would like to thank you for the invitation to appear today to discuss the ways in which the value-added food sector can be more competitive.

My name is Dominique Benoit, I am Treasurer and member of the executive of the Dairy Processors Association of Canada Board of Directors and Senior Vice-President of Institutional Affairs and Communications with Agropur Dairy Cooperative. With me is the President & CEO of DPAC, Mathieu Frigon. Today, we will provide an overview of Canada's dairy processing industry and the recent challenges which have arisen, and are keeping it from reaching its true potential.

Dairy processing contributes more than 18 billion dollars to Canada's national economy annually and is one of the largest food processing industries in Canada, second only to meat in annual manufacturing shipments. Dairy processors directly employ 24,000 Canadians in 471 facilities across the country, with an aggregate payroll of 1.2 billion dollars.

We are proud of our roots in rural Canada. Dairy processing facilities are major employers in rural communities and support the production of Canada's 11,000 dairy farms.

People sometimes make the mistake of equating the dairy industry and rural with quaint and small. This could not be further from the truth when it comes to Canada's dairy processing industry. In fact, we are a growth industry.

Canada's dairy processing industry has seen a steady growth of its real gross domestic product in the last 5 years. It has grown by 12.7% since 2013, while the broader manufacturing industry has seen its GDP contributions increase by 8.6% in that same period.

This has had trickle-down impacts throughout the broader dairy sector--dairy processors have increased their purchase of Canadian milk by more than 1.2 billion litres in the last five years. This is a 15% increase over a five-year period, which has had considerable benefits for Canada's dairy farmers.

You may be wondering: why the sudden surge in growth?

First, Canadians' renewed taste for wholesome products such as cream, butter and cheese has been undoubtedly an important factor, but this growth has also been spurred by the 7.5 billion dollars that have been invested by dairy processors in their businesses over the past decade. These investments have ranged from research and development to bring new products to market and find new and innovative ways to use dairy, to capital investments in facilities both to expand and update existing facilities and build new facilities to support increased production. All those investments have had an impact on productivity: dairy has been a stalwart sector in terms of labour productivity in the manufacturing sector. Labour productivity has increased by 38% from 2012 to 2017 in the dairy processing industry, which compared to 31% for food manufacturing as a whole and only 8% for the entire Canadian manufacturing. Total compensation per hour worked in dairy manufacturing is $45.40 per hour. This is **35% higher than in food manufacturing as a whole, and 22% higher than in the entire manufacturing sector**. Consumers have benefited from the important productivity gains that have occured in the dairy processing industry: retail prices of dairy products have decreased by 1.7% over the last five years, which compares to an increase of 7.9% for the retail price of foods, and an overall inflation of 7.1% in the economy.

Dairy processors have been motivated to move the industry, and Canada, forward. However, a number of recent government actions have the potential to unravel the progress the dairy processing industry has made in recent years, and make us question whether or not the government shares our belief that a strong dairy sector is good for Canada.

A lot of attention has been paid to Canada's dairy sector recently, and I am sure you are all well-aware of the concessions that were made to the United States as part of the agreement made two weeks ago. Unfortunately, the concessions made as part of the USMCA are just the latest, most heavily-publicized, government action which will have lasting, negative impacts on Canada's dairy processing industry. Dairy processors are currently dealing with the implications of a number of government decisions that have the potential to seriously harm the industry. These include:

- increased market access through trade agreements, including CETA, CPTPP and USMCA;
- allocation of tariff-rate quotas associated with CETA to stakeholders that have not been negatively impacted by trade agreements, and have no vested interest to see the overall dairy category grow; and,
- Proposed front-of-package nutrition labelling regulations that will seemingly target dairy products and deter consumption of nutritious and wholesome dairy products.

These issues have the potential to seriously undermine the competitiveness of the dairy processing industry. I'd like to go through each of these now to provide you with greater detail of the implications of each government action.

The USMCA will give the United States an additional 4% access to Canada's domestic dairy market over the next six years. This in itself will be harmful, but equally harmful will be the impact that concessions made with regard to domestic dairy policies, notably export levies and pricing. What Canada has agreed to will impact its sovereignty to set domestic dairy policy. It will have a significant impact on Canadian dairy processors, and will potentially jeopardize past and planned investments.

However, you cannot view the impacts of the USMCA in isolation. They must be considered within the context of broader Canadian trade policy and alongside the market access concessions made via both CETA and CPTPP which allow more than 4% access to the cheese market and 3.25% access to the overall dairy market, respectively. The Dairy Processors Association of Canada estimates that the combined losses from CETA, CPTPP and USMCA market access commitments will be more than $2 billion over the course of implementation.

The Dairy Processors Association of Canada has been firm in its belief that the outcomes of any trade agreements must contribute to the continued growth of the dairy sector. This includes both its dairy processors and dairy farmers. However, what Canada has agreed to with CETA, CPTPP and USMCA provides no opportunities for its domestic dairy sector.

At present, Canada has no competitive advantage with many of our trading partners. The production of milk in many of these countries is heavily subsidized through government programs. Producers receive a much lower price for their milk, which is then offset by government dollars. This is not the case in Canada. To even remain competitive at home, dairy processors must find new and innovative ways to compete with other food processors.

These are statements that the government cannot refute. Last winter, Global Affairs Canada published an analysis of the benefits and impacts of the CPTPP. In it, the department estimates that dairy imports associated with CPTPP will increase by 13% while exports will increase a mere 0.5%. You cannot look at those numbers and say that there is any benefit for dairy processors or producers in Canada. Yet, just months later, Canada made a similar--if not worse--deal with the United States.

There is an incongruence between the government's public statements of "support for the dairy sector and supply management" and constantly using the domestic dairy sector as a bargaining chip in trade negotiations.

What Canada has agreed to in these agreements will curb innovation, stunt market growth, and create additional losses for dairy processors who have made very substantial investments in recent years to improve Canada's domestic processing capacity. Thus, there is an urgent need for the government to develop, in partnership with dairy farmers and processors, a long-term vision for the dairy sector. We need to clearly define Canada's goals and set an action plan to move forward.

While we are not happy with the outcomes of any of these deals, we can understand that the dynamics of trade agreements are such that governments must work with partners and cannot solely dictate the outcome of negotiations. However, we are concerned by a number of recent decisions which have the potential to further hinder dairy market growth, where the government has been the sole decision-maker, and has, so to speak, both hands on the wheel.

The first of these harmful government decisions is the allocation of the tariff-rate quota associated with market access under trade agreements. Tariff-rate quota, or TRQs as they are commonly referred to, are the licenses which allow the importation of products into Canada duty-free. The Dairy Processors Association of Canada has been adamant that these tariff-rate quota should be considered a key component of any compensation for dairy processors' losses resulting from trade agreements.

To further illustrate why we believe tariff-rate quota should be considered compensation, I would like to explain what has come of CETA.

With CETA, the federal government made the decision to allocate less than half of the tariff-rate quota to dairy processors and thus, effectively compensated industries that were not impacted by the trade agreement.

We are now a year past this decision and can see that the vast majority of tariff-rate quota have been used to import products that are already made here at home: Parmesan, Cheddar and Feta cheeses for the most part. The promises made by other stakeholders to increase the availability of specialized European products remain just that, empty promises.

Unlike these stakeholders, dairy processors have a vested interest in importing cheeses that will minimise the impact on existing production lines and manufacturing platforms in Canada. This will minimise job losses here at home and will complement, rather than substitute, current offerings in the marketplace. This last part is important to the Canadian consumer who will see an increased variety at the retail level.

The government decision to allocate CETA dairy tariff-rate quota to other stakeholders has undermined the business models of dairy processors and deterred future investments in manufacturing capacity.

As Canada continues to expand trade, this will continue to be an issue. It is an issue right now with CPTPP and we suspect that it will be an issue again with the USMCA. The federal government cannot continue to compensate industries that are **not** negatively impacted by these trade deals and unfairly treat a key industry—Canada's dairy processors—that has helped strengthen and grow Canada's domestic dairy market over the last 10 years.

Thus, the Dairy Processors Association of Canada asks the government to learn from this mistake and allocate all tariff-rate quota associated within CPTPP to dairy processors. Our members have the expertise to import a wide variety of dairy products in a way that won't upset Canada's domestic dairy market and bring benefit from everyone from the farmer to the consumer.

Beyond trade agreements, dairy processors have been dealing with the potential implications of proposed government regulations on front-of-package labelling which, if implemented, may require 90% of dairy products to carry a health warning label.

The Dairy Processors Association of Canada is of the view that the proposed front-of-package labels are an oversimplification of what makes a product healthy. They will not help Canadians make informed choices for themselves and their families and can have serious unintended consequences.

What are these unintended consequences? Nutrient-dense products like dairy will be vilified while empty-calories snack foods will be given the green light.

For example, cheese will be required to carry a warning label, while a bag of 'smokey bacon' or 'jalapeno and cheddar' chips will not. A container of 2% calcium-enriched milk beverage will be required to carry a warning label, while diet cola, sugar-free energy drinks, and beer will not. Straight sugar and salt would be exempted, while butter and cream will be required to carry a warning label.

It is anticipated that dairy products will account for 50% of all SKUs that will be required to carry front-of-package nutrition labels. The proposed regulations will harm the dairy processing industry more than any other food-processing industry. Further, it will not improve the health of Canadians, which is, and should be, the overarching objective of the Canadian government Healthy Eating Strategy. The Dairy Processors Association of Canada wholeheartedly agrees with that objective, but the regulations on front-of-package labelling, as currently proposed by the Government, will not help achieve this objective. Rather, it may just do the opposite.

For example, research conducted by the Dairy Farmers of Canada indicated that one-third of Canadians would simply avoid products that carry front-of-package nutrition labels. Health Canada itself has acknowledged that Canadians aren't getting enough of the nutrients found in dairy products, such as vitamins A and D, calcium, magnesium, zinc and potassium. Yet, these regulations have the potential to drive consumers away from nutritious dairy products and encourage consumption of empty calories snack foods. This will negatively impact the health of Canadians.

The Dairy Processors Association of Canada is not alone in its concerns with the proposed regulations. Last month the Canadian Chamber of Commerce passed a unanimous resolution to ensure that front-of-package labelling regulations for food products do not affect Canadian business competitiveness. This sentiment was echoed in the Report from Canada's Economic Strategy Tables: The Innovation and Competitiveness Imperative released by Industry Canada on September 28. The report contains the recommendation: "to explore alternative pathways to Front-of-Package labelling that will achieve the intended outcomes of the Healthy Eating Strategy." We support this recommendation and encourage a focus on education.

As I stated earlier, dairy processors have been motivated to see our industry grow. As an industry, we have invested a great deal to spur significant growth over the past decade and would like to see the industry continue along this path. The dairy processing industry has been everything a government would typically wish for in the last five years: GDP growth, productivity growth, and much higher paying jobs than in other manufacturing sectors.

However, we need the government to understand that its recent actions have created instability in the business environment. It is important for the government to now evaluate what actions can be taken to create the stability and predictability that is required to encourage further investment and growth. More immediately this includes:

- The allocation of all available CPTPP dairy tariff-rate quota to dairy processors, not retailers and brokers.
- The review of CETA cheese tariff-rate quota currently held by retailers and brokers and reallocation to dairy processors.
- The postponement of proposed front-of-package labelling regulations to allow for further review of the evidence used to support their implementation.

Finally, there is an urgent need for the government to develop, in partnership with dairy producers and processors, a long-term vision for the sector which includes clearly defined goals and action plans. Only through such visioning exercise, which has not occurred in the dairy sector since the early 1990s, could dairy processors and producers finally envision the future with renewed confidence and enthusiasm.

I thank you for your time and welcome any questions you may have.