Check Against Delivery

Speaking Notes

DPAC Presentation to the Standing Senate Committee on Agriculture and Forestry

Tuesday, February 26, 2019

Check Against Delivery

Good morning 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 impacts of CUSMA and CPTPP Trade Agreements on Canada's dairy processing industry.

My name is Dominique Benoit, I am an Executive Member and Treasurer of the Dairy Processors Association of Canada (DPAC) Board of Directors and Senior Vice-President, Institutional Affairs and Communications. With me today is Mathieu Frigon, DPAC's President and CEO. As you will recall, DPAC touched on this subject in its appearance last October. However, now that we have the details of CUSMA, we will be able to provide a more in-depth analysis of the impacts that CUSMA, CPTPP and CETA will have on the Canadian dairy sector. We now also have a better sense of the measures required to mitigate the impacts of these three agreements.

OVERVIEW OF DAIRY PROCESSING INDUSTRY

As the second largest food processing industry in Canada, dairy processing contributes more than $18 billion annually to the country's national economy. Dairy processors directly employ 24,000 Canadians in 471 facilities across the country, with an aggregate payroll of $1.2 billion. Our industry is a major employer in rural communities, providing good jobs to middle-class Canadians. Total compensation per hour worked in dairy manufacturing is $45.40 per hour. This is 35% higher than compensation in food manufacturing as a whole, and 22% higher than the entire manufacturing sector.

Dairy processors have invested $7.5 billion in their businesses over the past decade. This includes capital investments to both expand and update existing facilities and build new ones to support increased production, as well as research and development to spur innovation and bring new products to market. Over the last five years, these investments have increased the industry's labour productivity by 38% and contributed to a 12.7% growth in its real GDP. On both fronts, dairy processing has outpaced the food manufacturing and general manufacturing sectors in Canada.

These improvements have allowed dairy processors to increase their purchase of Canadian milk by more than 1.2 billion litres in the last five years. This 15% increase has considerably benefited Canada's 11,000 dairy farmers. In this same period, consumers have also seen benefits as the prices of dairy products have decreased by 1.7% while the general retail prices of foods have increased by 7.9%.

As we have previously stated to this Committee, dairy processors have been motivated to continue the pattern of growth and move the industry, and Canada, forward. However, recent trade agreements threaten to curb this growth and diminish the long-term competitiveness of the Canadian dairy processing industry.

IMPACTS

At full implementation, access granted under CUSMA, CPTPP and CETA will capture close to 10% of the Canadian dairy market, which is in addition to the 8% already conceded in the context of previous trade agreements. At full implementation, we estimate that the market access granted under CETA, CPTPP and CUSMA will have a $320 million annual impact on net margins. Further compounding this will be the additional $60 million in annual losses that will be incurred due to the export restrictions imposed on dairy as part of the CUSMA. This pressure will act as a strong disincentive for investment and will stall the current growth rate.

This begs the question: how can we adequately support our dairy processing industry--its investments, its jobs-- to allow it to pursue its growth?

MITIGATION

To do this, DPAC proposes a three-pronged approach which includes: the allocation of dairy import licenses to dairy processors, a program of mitigation measures, and the development of a long-term vision and strategy for the dairy sector.

DPAC has long advocated for all possible dairy import licenses, known as tariff-rate quota or TRQs, to be allocated to dairy processors as a key solution to mitigating the negative impacts of trade deals. Allocation of TRQs to dairy processors is a fiscally responsible mitigation measure as it comes at no cost to the Federal

Government. We can imagine that this is attractive to those working on behalf of the Canadian taxpayer.

But beyond being fiscally responsible, there is a practical reason to consider allocating TRQ to dairy processors. We possess the expertise to import a wide variety of dairy products in a way that will be the least disruptive to Canada's domestic dairy market.

To illustrate our thinking, we would like to go back to the government's 2017 decision to allocate less than half of CETA cheese TRQ to dairy processors. Other types of stakeholders who received TRQs did not have a vested interest in importing cheeses that would minimize the impact on existing production lines and manufacturing platforms in Canada. This resulted in substitution. As of last fall, the vast majority of TRQs were used to import products that are already made here at home: Parmesan, Cheddar and Feta cheeses. This did not minimize impacts on existing product lines or Canadian dairy processing jobs, and provided little benefit to Canadian consumers who saw minimal increase in variety at the retail level. Unfortunately, it seems the only beneficiaries of the government's decision were retailers, furthers processors, and brokers who, effectively, received compensation despite not having been negatively impacted by CETA.

DPAC firmly believes that, by allocating TRQ to any other stakeholders, the government fails to recognize dairy processors' contributions to strengthening and growing the domestic dairy market. This undermines our business models, deters future investments in manufacturing capacity, and results in the loss of high paying jobs here at home.

As such, we welcomed the announcement this past November that 80-85% of CPTPP dairy TRQ would be available exclusively tor dairy processors on a one-year basis. As part of this announcement, the government also committed to review the allocation of WTO, CETA, CPTPP and CUSMA TRQs in the coming year. We await further information on how the government will chose to allocate the CUSMA TRQs; however, we hope the CPTPP announcement is a signal that the government now understands the importance of allocating dairy TRQ to dairy processors.

However, we must caution that a one-size fits all approach will not work when it comes to mitigation. The dairy processing industry is made up of organizations of various sizes and product mixes, all of which will experience the impacts of these trade agreements in different ways. While TRQ allocation may do the heavy lifting when it comes to mitigation for some processors, it may not provide much relief for others. For those processors not receiving import licenses, a support program should be designed for their needs to offset major impacts.

Which leads us to the second component of mitigation measures.

DPAC recommends that, to offset impacts of CETA, CTPPP and CUSMA, the government create a program with a mix of components aimed at mitigating impacts. This program could include: interest free loans or loan guarantees, refundable tax credits, non-repayable contributions for investments, and government programs aimed at supporting investment in innovation, automation, robotics, AI, and marketing initiatives to explore market diversification. This could also include funding to educational institutions to support and expand dairy processing skills capacity.

The CETA mitigation package announced in the Fall of 2016 included a $100 million innovation package for dairy processors. This amount fell short of providing long-term support for dairy processors as it covered just two years of CETA losses.

Thus, we would like to recommend that CETA, CPTPP and CUSMA mitigation programs be regrouped as one program which is widely available to all dairy processors and retroactive 6 to 12 months. The government should aim to minimize red tape, and provide clear and transparent information on funding allocation. This funding must account for each processors’ respective size, product mix and TRQ allocations. Alongside TRQ allocation, these programs will help the dairy processing industry in the coming years.

However, we should be looking beyond just the coming years to better position Canada's dairy sector for long-term success. This brings us to the final component of mitigation measures.

With impending implementation of CPTPP and CUSMA, as well as other Government of Canada initiatives which threaten to undermine domestic dairy consumption, the coming years will be difficult ones for the dairy sector. The time is right for the government to develop, in cooperation with the dairy sector, a long-term vision for the sector which identifies goals and possible plans of action. Thus, we welcomed the government's decision to create a Strategic Working Group alongside its Mitigation Working Group following the conclusion of CUSMA negotiations. It is our hope that this Working Group will start its work in short order.

OTHER ISSUES

I would be remiss to not briefly expand on the other issue which poses serious, long-term harm to our industry, and that is a suite of government healthy eating initiatives that threaten to unnecessarily minimize the role that dairy plays in a healthy diet.

As you are all likely aware, the recently updated Food Guide heavily favours plant-based proteins and fats at the cost of nutrient-dense dairy products. We were surprised to find that Health Canada did not take into account the most recent scientific evidence, notably peer reviewed, highly credible evidence on milk saturated fat that was published as recently as 2018. The possible long-term implications of this decision are further compounded by proposed front-of-package labelling regulations and Bill S-228 on marketing to children regulations. On the latter, note that up to 91 percent of all dairy products could be defined through legislation as being ‘unhealthy’. This defies logic given the best available scientific evidence corroborates the benefits of dairy consumption with regards to the prevention of several non-communicable diseases, including many of those prioritized by the Healthy Eating Strategy.

We have had some constructive discussions with Health Canada and are confident that the unique nutrient matrix of dairy products will be taken into account when front-of-package labelling regulations are finalized. However, we are less confident on possible regulations on marketing to children.

I would like to be clear that DPAC did not actively lobby on the issue of marketing to children, but has been consulted by Health Canada on proposed guidelines. DPAC members have generally expressed support for a model similar to that currently in place in Quebec and we are hopeful that the proposed regulations will move closer to that model as it was outlined in the Minister of Health’s mandate letter.

However, we continue to be extremely concerned with the use of the term “unhealthy foods” in Bill S-228 to differentiate foods that can and cannot be marketed to children. Such attempt to oversimplify nutrition science should be met with skepticism. I am sure the intent of Bill S-228 has never been to declare the vast majority of dairy products as 'unhealthy' through legislation, so we are confident that those words can be changed in the Bill. To reiterate, we do not oppose the idea behind the Bill, but we do have significant concerns with using words such as 'unhealthy foods' to describe foods such as dairy products. As a reminder, dairy products are a key source of 6 of the 8 nutrients that most Canadians already fall short of, and play a key role in addressing Vitamin D and calcium deficiencies in the Canadian population.

In light of these issues, and the issues resulting from trade agreements, I think it is important to reiterate our final recommendation. It is time to reflect on what Canada wants for its dairy sector and what actions are necessary to move it forward. Dairy processors have invested significantly over the past decade and are motivated to see the industry continue along its current growth path.

CONCLUSION

Last October, Minister Freeland stated: *"Compensation for the dairy sector, for the supply managed sector, is fair and justified and there will be full compensation."* What we have outlined today: the allocation of TRQs to dairy processors; a program of mitigation measures; and a long-term strategy for the dairy sector--is what DPAC considers to be full compensation for Canada's dairy processing industry. In doing this together, we should be able to adequately safeguard the investments, jobs, and growth of Canada's dairy processing industry from the negative impacts of these trade agreements.

We thank you again for your time and consideration for this important topic. I welcome any questions you may have.