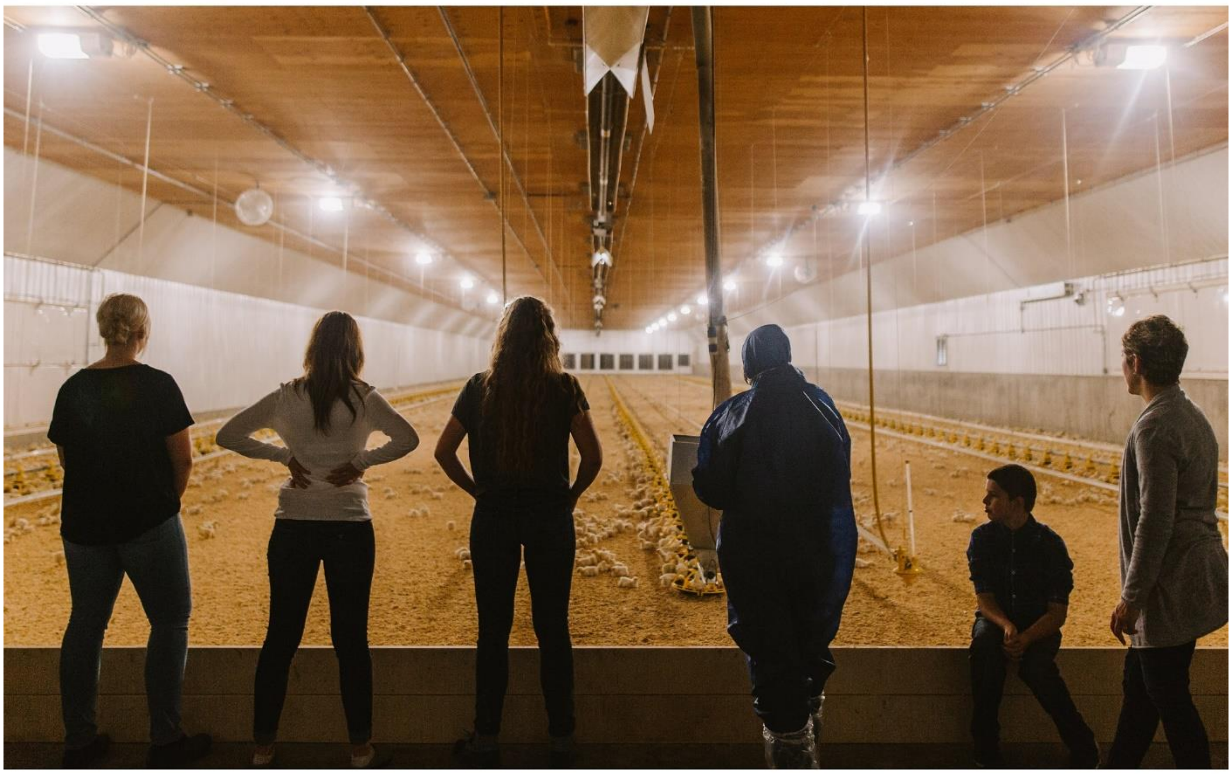
Chicken Farmers of Canada

Presentation to the Standing Committee on International Trade



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@chickenfarmers

Chicken Farmers of Canada | 1007- 350 Sparks Street | Ottawa, ON K1R 7S8 | T: 613-566-5910 | F: 613-241-5999

Thank you for inviting us before you today to share our perspectives on the modernization of the North American Free Trade Agreement (NAFTA).

Our Industry

Chicken Farmers of Canada is a national organization that represents Canada's 2,800 chicken farmers and works alongside 191 processors. Our board of directors includes farmers, processors, further processors and restaurant/foodservice operators. Our farmers work hard every day to ensure that the chicken Canadians eat is safe, delicious, and raised to the highest standards.

The Canadian chicken industry's 2,800 farmers and 191 processors:

- Sustain 87, 200 jobs
- Contribute $6.8 billion to Canada's Gross Domestic Product
- Pay $2.2 billion in tax revenues to federal and provincial/local governments
- Purchase 2.6 million tons of feed, supporting feed mills and grain farmers

Source: Kevin Grier Market Analysis and Consulting Inc., The 2015 Economic Impact of the Poultry and Egg Industries in Canada, June 2016.

The Canadian chicken industry is a growth and value-addition success story. Our production has steadily grown more than 12% in the past 4 years, and will grow another 4% this year. And we do all this without subsidies.

NAFTA: The USA has a positive trade balance

In addition to our impressive domestic activity, we also respect Canada's trade commitments by providing significant access to our market. The stable and predictable 7.5 % access we provide to our trade partners is based on our domestic production, so it grows at the same pace as our production. Our TRQ also provides real market access, meaning that we do not use non-tariff barriers as is a current practice within many other countries. For instance, when Avian Influenza hit parts of the Midwestern USA in 2015, we did not close our borders to American chicken imports, as many of the USA's other trading partners did.

The United States is Canada's number one source of chicken imports. In 2016, Canada imported 142 million kilograms of American broiler chicken meat, which accounted for 86.3 % of all Canadian broiler meat imports. Since 2012, Canada has been the second largest destination for U.S. broiler meat after Mexico in terms of both volume and value. When considered on a per capita basis, the value of Canadian imports of U.S. chicken is actually three times greater than the value of Mexican imports of U.S. chicken. The United States has also enjoyed a consistent positive balance in its chicken trade with Canada. Since 2012, the American chicken trade surplus with Canada has averaged at over CAD 307 million per year.

The growth of the trade in broiler meat between the United States and Canada has outpaced many other sectors. Since the implementation of NAFTA in 1994, the value of U.S. chicken exports to Canada grew by 406 % while the total value of all United States exports to Canada has grown by 166 %.

Regulatory Misalignments

Although the Canadian and American markets are closely connected, concerns exist with regard to ongoing regulatory misalignments and differences in practice on either side of the border. Canada's chicken farmers have implemented many measures to ensure that Canadian consumers receive the highest quality chicken. In March 2013, CFC became the first organization to receive full recognition of its mandatory On-Farm Food Safety Program from the Canadian Food Inspection Agency Furthermore, in 2009 CFC implemented a mandatory national Animal Care Program that provides assurance to consumers and retailers that Canadian farmers are producing chicken with a high and consistent level of animal care. CFC's Animal Care Program enforces the recently updated Code of Practice developed by the National Farm Animal Care Council for the care and handling of farm animals. We are not aware of any equivalent on-farm programs in the U.S., bringing great concerns to not only Canadian farmers, but Canadian consumers as well. Our supply management system gives us the capacity to go the extra mile.

We are also responding to growing concerns regarding the use of antibiotics in animal agriculture. The Canadian chicken sector's Antimicrobial Use Strategy is fully aligned with the federal government's Action Plan on Antimicrobial Resistance and Use. The Canadian chicken sector already removed the preventive use of all Category I antibiotics from its production practices in 2014, and is committed to removing the preventive use of all Category II antibiotics by the end of 2018 to support the Federal Action Plan. The United States purports to have an analogous antimicrobial resistance strategy; however, its antibiotic categorization system differs in key ways from Canada and the World Health Organization's. Of particular importance is the fact that Bacitracin is classified as "not important to human medicine" in the United States while it is classified as "important to human medicine" in Canada and by the World Health Organization. This difference in classification creates a competitive disadvantage based on antimicrobial use strategies and the promotion of those strategies. Furthermore, the Canadian definition of Raised Without the use of Antibiotics (RWA) differs from the one used in the United States. In Canada, an RWA label means that the chicken was not treated with antibiotics. In the United States, this definition still allows for the use of ionophores, so long as their use is approved by the USDA and the final product has their use noted on its label. Again, this provides the American chicken sector with a competitive advantage.

Another concern for the Canadian chicken sector is the ongoing issues surrounding the trade in spent fowl. Recent evidence points to broiler meat being declared as spent fowl at the Canadian border, and thereby entering Canada without being subject to import controls. For example, whereas the American chicken industry statistics state that in 2016 the U.S. exported 13 million kilograms of spent fowl to Canada, Canadian import data for 2016 records U.S. spent fowl imports at 68 million kilograms in actual weight and 99 million kilograms in eviscerated equivalent. The impact of this fraudulent activity on the Canadian chicken sector and the Canadian economy has been significant. We estimate that these illegal imports have represented an annual loss of 2771 jobs to the Canadian work force, $208.5 million in contributions to the national economy, and $69.6 million in taxes. This activity also breaks the chain of traceability, putting Canadian consumers at risk of serious illness in the event of an American chicken meat-related food safety recall. The U.S. must commit to finding a means of ensuring that their exports of spent fowl are indeed spent fowl, and not fraudulently labeled broiler meat.

The NAFTA renegotiation should also ensure that the U.S. fully complies with the WTO ruling on mandatory COOL. Although there was a clear decision taken at the WTO determining that this practice is incompatible with trade laws, the U.S. has still not repealed its application to chicken meat. This discrimination against Canadian chicken must be eliminated.

We believe there should be regulatory alignment on those issues. Our programs respond to valuable societal demands, while entailing additional costs to the Canadian industry. Canadian chicken farmers are proud of the role they play in Canada's safe and secure food system; they should not be penalized for their willingness to shoulder additional production costs by having their domestic market eroded through increased imports from countries where equivalent standards and regulations do not exist.

Canada vs USA: David vs Goliath

The United States is the largest producer of chicken in the world, with 18.3 billion kilograms of production in 2016, and the second largest exporter after Brazil, with an estimated 3.02 billion kilograms exported in 2016. Comparatively, Canada's 2016 total production was 1.1 billion kilograms, nearly 17 times smaller than the United States'. U.S. exports alone were nearly three times larger than Canada's entire production.

The magnitude of U.S.' export potential makes it critical to maintain effective import controls to ensure the sustainability of the Canadian chicken sector. Due to the size of their production and the proximity of the Canadian market, any surplus American production would easily be liquidated on the Canadian chicken market, critically undermining our industry. In this context, it is crucial that a renegotiated NAFTA does not harm the Canadian chicken sector and that the following considerations are fully taken into account:

- First, maintaining over-quota tariffs at their current levels to ensure effective import controls is essential for the Canadian chicken industry. Any reduction in the over-quota tariffs would not allow the Canadian chicken industry to predict the volume of imports and the supply management system would be impossible to operate.
- Second, the integrity of the Canadian chicken TRQ must be respected. If chicken products are included in this renegotiation, the negotiated level of access must not exceed our 7.5% level of access provided under the existing NAFTA.
- Third, Canada must preserve all its WTO rights in respect of the use of the agricultural special safeguards.

- Lastly, regulatory misalignments on COOL, mislabeled spent fowl, raised without antibiotics standards, antibiotic categorization and on-farm programs must be corrected

The results of previous regional and bilateral FTAs concluded by Canada demonstrate clearly that Canada can negotiate beneficial trade agreements that expand export markets while preserving supply management, which is essential for the continuation of a successful Canadian chicken sector. Therefore, CFC will continue to support the Canadian government as it renegotiates NAFTA as long as it continues with Canada's successful approach to the previous FTAs and the considerations listed above. We are part of Canada's economic solution, and as such, it is important that the results of trade negotiations do not jeopardize our strong and stable industry that contributes to all regions of Canada.