



Chicken Farmers of Canada

Pre-Budget Submission to
the Standing Committee on Finance



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Chicken Farmers of Canada's Budget 2019 Recommendations

1. That the government implement measures to help the Canadian chicken sector face the increase in imports and the erosion of the sector's share of production resulting from the concessions made in the Comprehensive and Progressive Trans-Pacific Partnership.
2. That the government fix loopholes affecting Canada's chicken farmers pertaining to fraudulent cross-border activity.



Executive Summary

Canada's farmers work hard 365 days a year to ensure Canadians enjoy consistent access to fresh, locally grown Canadian food. As such, Canada's chicken farmers play a significant role in the food chain and the value chain, raising high-quality, safe chicken, while contributing \$6.8 billion to Canada's Gross Domestic Product, and paying \$2.2 billion in taxes. Not only does our sector directly sustain 87,200 jobs, it also supports further employment all throughout the value chain—in farming, processing, veterinary work, transportation, retail, restaurants and more.

Chicken Farmers of Canada is recommending reasonable, practical, and trade compliant ways to remain competitive and create jobs, while strengthening the chicken sector and our world-class supply management system. We look to the Standing Committee on Finance and Budget 2019 to make these changes that will be beneficial to Canadian farmers, consumers, and families.



Background

Chicken Farmers of Canada proudly represents Canada's 2,800 chicken farmers, supporting jobs, economic growth and prosperity in both rural and urban communities from coast to coast. We work alongside 191 processors, and our Board of Directors is comprised of members of the value chain—farmers, processors, further processors and restaurant/foodservice operators. Our main responsibilities are to ensure that our farmers produce the right amount of fresh, safe, carefully raised chicken for Canadians, and to represent the interests of chicken farmers and the Canadian chicken sector.

The chicken sector is a growth and value-addition success story. Production is increasing, while production practices are constantly evolving and improving. Our stable system of supply management ensures we remain competitive, while raising the safe, high-quality chicken consumers demand.

Our farmers are proud to see how their hard work supports Canada. The chicken sector:

- contributes \$6.8 billion to Canada's Gross Domestic Product
- sustains 87,200 jobs
- pays \$2.2 billion in taxes; and
- purchases 2.6 million tons of feed, thereby supporting other farmers.

We do this all without subsidies.

The Canadian chicken sector operates under supply management, where the ability to control the market access provided by Canada to our trading partners is one of the three essential pillars of our system. Coupled with our production discipline that matches domestic demand, the supply management system generates stability and consistent economic contributions to all corners of the country.

We thank all parties represented at the Finance Committee and in the House of Commons for their support of supply management, and we are pleased to continue our work together growing Canada's economy. However, chicken is crossing the border fraudulently, creating a loss of jobs, a loss of economic contribution, and increased uncertainty for our farmers.

With this pre-budget submission, Chicken Farmers of Canada requests that the Standing Committee on Finance and the federal government place priority on our recommendations for adapting to the impact the CPTPP will have on our sector, and re-establishing the integrity of the import control pillar. Not only will these create cost savings for government, they will permit the Canadian chicken sector to increase its contribution to GDP, employ more Canadians, and pay more taxes.



Recommendation: Implement measures to help the Canadian chicken sector face the increase in imports and the erosion of the sector’s share of production resulting from the concessions made in the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)

While we understand the importance for Canada to be part of the CPTPP, we must stress that the Canadian chicken sector will be severely impacted by the agreement, as the market access concessions granted therein will directly affect each and every one of our farmers.

Through the original Trans-Pacific Partnership agreement (TPP), Canada acquiesced 2.1% market access in response to the demands from the US. Despite the withdrawal of the US from the TPP, this concession was maintained in the CPTPP, where it will instead be filled with products from Chile. In other words, the impact of the CPTPP remains the same as that of the TPP.

Budget 2019 must provide a comprehensive strategy that includes domestic programs to assist the supply management sectors adjust to the impact of CPTPP and ensure that they continue to create quality jobs for Canadians and better contribute to the Canadian economy overall. In particular, new measures designed to foster investment must be introduced, as investments—not bailouts—will be key to the continued success of our sector.

Recommendation: Fix loopholes pertaining to fraudulent cross-border activity

The Canadian chicken sector has long been faced with three major import control issues that are displacing Canadian production and processing, and depriving the Canadian economy of millions of dollars.

In 2015, recognizing the impact the TPP agreement would have on our sector, the Government of Canada committed to closing the loopholes that are affecting our sector, and to implementing the anti-circumvention measures related to chicken imports. Given that the impact of the CPTPP remains the same as that of the TPP, our farmers expect this same commitment to resolving these issues. These are explained in detail as follows:

Chicken Fraudulently Imported as Spent Fowl

Illegal imports of chicken declared as spent fowl are displacing Canadian production and processing, and costing Canada millions of dollars in lost economic activity.

Spent fowl are laying hens that have reached the end of their production cycle: they are a by-product of egg and hatching egg production. Chicken coming into Canada is subject to import controls, but spent fowl is not. Evidence points to broiler meat being wrongfully



declared as spent fowl at the Canadian border, and thereby entering Canada without being subject to import controls. This fraudulent activity breaks the chain of food traceability, putting Canadian consumers at risk of serious illness in the event of an American chicken meat-related safety recall.

There is no means of visually distinguishing between broiler meat and spent fowl meat at the time of importation. In 2014, with financial support from Chicken Farmers of Canada, Trent University successfully developed a forensic DNA test that can verify whether a given product contains chicken, spent fowl or a combination of the two.

Chicken Farmers of Canada recommends that the Government of Canada implement the DNA test immediately in order to distinguish imports of broiler meat from spent fowl meat. Having a reliable means of testing will ensure that no broiler meat is imported illegally as spent fowl. The impact of this fraudulent activity on the Canadian chicken sector and the Canadian economy has been significant. By addressing this issue, the Canadian chicken sector stands to create 2,770 new jobs, contribute \$208 million more to Canada's GDP, and generate \$70 million in taxes.

Duties Relief and Drawback Programs

The Duties Relief and Drawback Programs (DRP) administered by the Canadian Border Services Agency were not designed for perishable, import controlled agriculture goods such as chicken. The Auditor General's 2017 Spring Report found that the DRP's control framework was ineffective, allowing some supply-managed goods to be diverted into the Canadian market. Chicken Farmers of Canada agrees with the Auditor General's findings, and has identified the following specific concerns with respect to the DRP:

- (1) improper product substitution where high-value chicken cuts are imported for inclusion in a processed export good, but the re-exported product contains less valuable chicken cuts or meat from spent fowl, a lower quality product that can be labelled as chicken;
- (2) unreported or misreported marinating, glazing, sizing and yields result in less chicken being re-exported than was imported, with the difference being diverted into Canada's domestic market;
- (3) inadequate design for perishable products allowing up to four years to re-export, which greatly exceeds the shelf life of frozen chicken products; and
- (4) inconsistency between government programs where participants evicted from the Global Affairs Canada Import to Re-Export Program (IREP) for not respecting the rules are allowed to participate in the DRP.

The Import to Re-Export Program (IREP) administered by Global Affairs Canada is better designed for agri-food goods subject to import controls like chicken.



Chicken Farmers of Canada recommends that the Government of Canada either exclude chicken from the Duties Relief and Drawback Programs, or implement therein the same parameters as in IREP. Rectifying this situation will support the creation of 1,425 new jobs, the contribution of \$107 million to Canada's GDP, and the generation of \$36 million in taxes.

Specially Defined Mixtures

When chicken is combined with 13% of other ingredients, it is labelled a "specially defined mixture" (SDM) and is not considered chicken for import control purposes. In other words, products containing up to 87% chicken meat are generally not subject to import controls. A handful of companies have identified this as an opportunity to circumvent trade rules and import even more chicken into Canada. This tariff engineering can be accomplished through the simple addition of a package of sauce to a box of chicken wings, or through the creative packaging of two distinct products, such as pizza and chicken pieces, in the same box.

Chicken Farmers of Canada recommends that the definition of specially defined mixtures be clarified to prevent tariff engineering for the sole purpose of circumventing import controls. Resolving this issue will support the creation of 260 new jobs, the contribution of \$20 million to Canada's GDP, and the generation of \$7 million in taxes.

Next steps

Canada's 2,800 chicken farmers take pride in being able to feed millions of Canadians safe, high-quality chicken, while also contributing to our strong economy.

Our recommendations to the Standing Committee on Finance stem from the desire to keep chicken the number one meat protein choice of Canadians, while ensuring that the chicken that enters the Canadian market is safe, raised to the same high standards we have here in Canada, and properly labelled or classified. We seek the government's immediate support in order to remain competitive, encourage investment and continue to grow the economy. We estimate that by making the proposed changes, our sector will create 4,455 new jobs, add \$335 million to Canada's GDP, and further contribute \$112 million in taxes.

