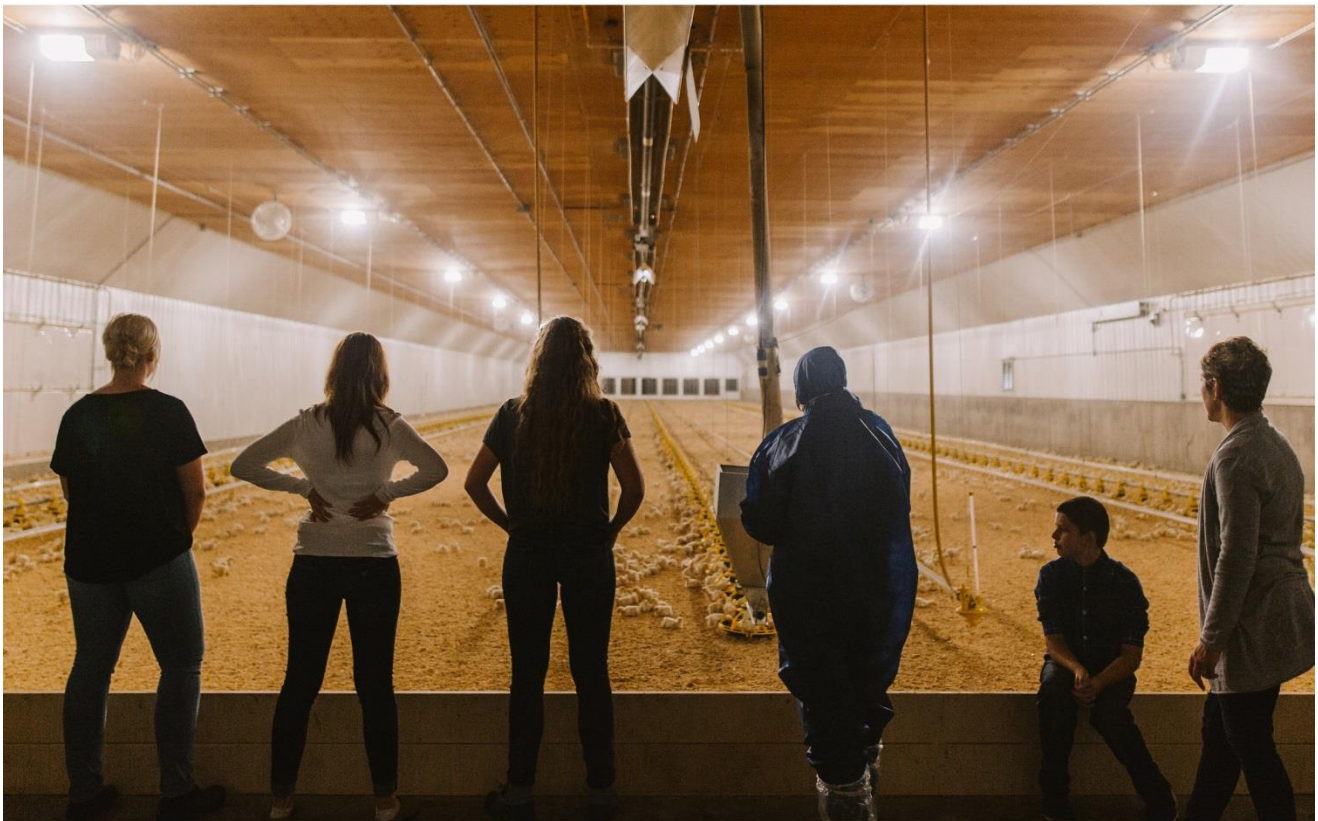




# Chicken Farmers of Canada

Pre-Budget Submission to  
the Standing Committee on Finance



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## **Executive Summary**

Canada's farmers work hard 365 days a year to ensure Canadians can eat. As such, Canada's chicken farmers play a significant role in the food chain and the value chain, raising high-quality, safe chicken, while making a strong contribution to Canada's economy. While contributing \$6.8 billion to Canada's Gross Domestic Product, sustaining 87,200 jobs, and paying \$2.2 billion in taxes, our industry generates employment in farming, processing, veterinary work, transportation, retail, restaurants and more. But we can't do it alone. Chicken Farmers of Canada looks to the Standing Committee on Finance, and the federal government to work with our industry so we can keep making these valuable contributions.

Our industry is faced with the persistent circumvention of our import controls, creating a loss of jobs and a lack of predictability for our farmers. We are recommending reasonable, practical, and trade compliant ways to strengthen our world-class system. These changes 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 from the entire value chain—farmers, processors, further processors and restaurant/foodservice operators. Our main responsibility is to ensure that our farmers produce the right amount of fresh, safe, carefully-raised chicken for Canadians, in addition to representing the interests of chicken farmers and the Canadian chicken sector.

The chicken industry is a growth and value-addition success story. Production has steadily grown more than 20% in the past 15 years, with an increase of 7.5% over the last two years alone. Currently in Ontario, there are approximately 160 new barns under construction, speaking to the immense growth of the industry.

We remain focused on innovation and value addition:

- We grow and process our chickens in Canada
- We further process many of our birds into the wide selection of value-added chicken products seen on store shelves

As a result of this impressive growth, the chicken industry in Canada is a driving force across our country. 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 industry operates under supply management, where the ability to control the 7.5% 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, this system generates stability and consistent economic contribution to all parts 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 seek your action in helping to re-establish the import control pillar of the system. Chicken is crossing the border fraudulently, creating a loss of jobs, a loss of economic contribution, and increased uncertainty for our farmers. In his most recent report, the Auditor General indicated that the lack of attention to import control issues has deprived the Canadian government of \$168 million in unassessed customs duties.



With this pre-budget submission, Chicken Farmers of Canada requests that the Standing Committee on Finance and the federal government place priority on our three recommendations for re-establishing the integrity of the import control pillar, while creating cost savings for government. As well, they will permit the Canadian chicken sector to increase its contribution to GDP, employ more Canadians and pay more taxes.

### **Recommendation 1: Implement the DNA test for spent fowl crossing the border**

**Issue:** Illegal imports of chicken declared as spent fowl are displacing Canadian production and processing, and costing Canada millions of dollars.

Spent fowl are laying hens at the end of their production cycle: a by-product of egg and hatching egg production. Chicken coming into Canada is subject to import controls, and spent fowl is not, as they are not specifically raised for their meat. As a result, there is no limit on how much spent fowl can be imported into Canada. Recent 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. For example, whereas the American chicken industry states that in 2016 the U.S. exported 13 million kilograms of spent fowl to Canada (approximately 26 million kilograms in eviscerated equivalent), Canadian import data for 2016 records U.S. spent fowl imports at 99 million kilograms in eviscerated equivalent. In August 2016, CFIA suspended a meat cold storage facility in the US which resulted in a decline in imports of spent fowl for a few months, however imports are increasing again since March 2017.

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. The U.S. must commit to finding a means of ensuring that their exports of spent fowl are indeed spent fowl, and not mislabeled broiler meat

There is also 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. We have been working with government to implement this DNA test for some time now.

**Recommendation:** 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, we will create 2,770 new jobs, contribute \$208 million more to Canada's GDP and generate \$70 million in taxes.



## **Recommendation 2: Exclude chicken from the Duties Relief and Drawback Programs**

**Issue:** The Duties Relief and Drawback Programs (DRP) administered by the Canadian Border Services Agency under the Duty Deferral Program were not designed for perishable agriculture goods such as chicken. The Auditor General's 2017 Spring Report found that the control framework of the DRP 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 under DRP.

**Recommendation:** 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 exclude poultry from the Duties Relief and Drawback Programs or implement the same parameters as in IREP. Doing so would provide program administration savings for government. It will also 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.



**Recommendation 3: Provide ministerial direction to implement the solution developed by officials to address specially defined mixtures issue:** Chicken combined with 13% of other ingredients 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 have been explicitly creating new SDMs—through the addition of sauce to a box of chicken wings or by creatively packaging together two distinct products, such as pizza and chicken pieces, in the same box—in order to import even more chicken into Canada. These products are created deliberately with the sole purpose of avoiding import controls.

**Recommendation:** It is clear that the 13% rule for ingredients other than chicken did not foresee the addition of sauces or the development of creative packaging. 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 growing our industry, 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 of our industry by closing these loopholes. We estimate that by making the proposed changes, the industry will create 4,455 new jobs, add \$335 million to Canada’s GDP and further contribute \$112 million in taxes. It will encourage investment and grow the economy.

Chicken Farmers of Canada looks forward to continuing to work with the federal government to ensure our sector remains vibrant and evolving. Canadians rely on their government for job creation and economic growth, just like they expect the government’s assurance that their food is safe and reliable. In considering our recommendations for inclusion in the 2018 federal budget, you will reinforce the government’s commitment to both.

