



**A FOUNDATION FOR FOOD SECURITY IN CHALLENGING TIMES:
Dairy Farmers of Canada 2021 Pre-Budget Submission**

Dairy Farmers of Canada

Recommendations for the 2021 Budget

- **Recommendation 1:** The government announce the remaining schedule of the CETA and CPTPP compensation package, and commit that all remaining funding come in the form of direct payments to producers.
- **Recommendation 2:** The government announce the financial envelope and payments schedule for a full and fair CUSMA compensation package (which accounts for the impact of the agreement's early entry into force on dairy export thresholds), and commit that the funding come in the form of direct payments to producers.
- **Recommendation 3:** The government provide the Canada Border Services Agency (CBSA) and Canadian Food Inspection Agency (CFIA) the resources and training needed to thoroughly and effectively enforce dairy import regulations and standards at the Canadian border. Furthermore, in order to ensure reciprocity with the USA, the CFIA should be empowered and have the resources to conduct inspections of dairy processing facilities seeking to export into Canada.

Canada's dairy farmers are part of a sector that produces a stable domestic supply of nutritious dairy products for Canadian consumers. As one of the top two agricultural sectors in seven out of ten provinces, Canada's dairy sector is a driver of economic growth, and a leader in sustainable practices.

Food security is critically important to Canadians – particularly during COVID-19. This was recently reinforced by a poll conducted by Abacus Data on March 27, 2020 which found that 62% of Canadians are concerned about the availability of certain types of products. In addition, a poll conducted on May 15th, 2020 by Grassroots Public Affairs found that 64% of Canadians believe that hunger and food insecurity will worsen in the future as a result of COVID-19, while 97% trust the quality of food grown or produced domestically.

The recommendations in this submission support the continued growth of the dairy sector to further stimulate the economy across all provinces, and contribute to the stability and long-term viability of rural communities. As the country emerges from a global pandemic, this will be particularly important in ensuring food security for Canadians.

COVID-19 and Supply Management

Like most other sectors of the Canadian economy, and in spite of our role as an essential service, the COVID-19 pandemic has had negative repercussions on the dairy value chain. The onset of the pandemic caused sudden, rapid fluctuations in demand for milk and dairy products, from an initial period of rush buying to widespread closures in the hotels, restaurants and institutions (HRI) sector. Unfortunately, due to the highly perishable nature of fluid milk – and the fact a cow can't be turned off like a tap – some farmers were forced to dispose of their milk. This is an action no dairy farmer ever wants to take. While there remains a lot of uncertainty with COVID-19 (including the potential for additional disruptions caused by further waves), the total monetary impacts of the pandemic on the dairy sector, including farm revenue losses and extraordinary costs, could exceed \$300 million in 2020.

Recalibrating production to reflect these unprecedented peaks and valleys in demand has been complex; however, the co-ordination inherent to supply management has enabled the sector to rapidly adjust to a shifting landscape. Milk boards across the country quickly took steps to reduce milk production, and worked collaboratively with industry stakeholders to put measures in place to balance production with the rapidly evolving marketplace. Beyond adjusting on-farm milk production, dairy farmers took the additional step of working with processors to direct surplus milk and dairy products to Canadian food banks, making donations with an estimated value over \$10 million to help Canadians in need.

As an additional measure, Dairy Farmers of Canada worked with the Canadian Dairy Commission (CDC) and the federal government to position its storage programs for butter and cheese to help deal with any surplus milk. The sector also worked with the CDC and all parties in the House of Commons to modify the *Canadian Dairy Commission Act*, which increased the CDC's borrowing capacity from \$300 million to \$500 million. This was a welcome announcement in case of any additional market disruptions due to COVID-19. Given the CDC's existing line of credit was in danger of being exhausted, this increase was an important option that could help mitigate any further disruptions. DFC would like to thank both government and opposition parties for their support of recent modifications to the *Canadian Dairy Commission Act*.

The timeliness and efficiency of the dairy sector's response to the challenges caused by COVID-19 are a testament to the agility and co-operation inherent to Canada's system of supply management. This has enabled the sector to respond to the impacts of the pandemic throughout the dairy supply chain in a coordinated manner - while minimizing impacts on Canadian consumers and ensuring food security.

Countries without supply management, such as the U.S., have not been as well positioned to act quickly or collectively in response to the crisis. For example, in May 2020, the U.S. Department of Agriculture announced its agriculture relief plan in response to COVID-19. The package included \$16 billion (USD) in direct support for producers from all commodities, in addition to \$100 million (USD) per month in purchases of dairy products¹. The total estimated value of the package allocated to dairy producers is \$2.9 billion (USD). In response, the National Milk Producers Federation (NMPF) called the announcement, which came on top of the significant ongoing yearly subsidies the sector already receives – not to mention recently granted Canadian market access – “insufficient to meet the needs of milk producers.”²

By contrast, although impacted significantly by the pandemic, Canadian dairy farmers did not seek financial support from government to address the repercussions of COVID-19.

While supply management has proven its ability to limit the impacts of such drastic market fluctuations, the system isn't designed to offset the level of trade concessions which, as a result of recent trade agreements, will represent a loss of up to 18% of our domestic dairy market by 2024. This is milk production transferred to dairy farmers in other countries for products that will ultimately be offered back to Canadian consumers.

The Importance of Full and Fair Compensation For Recent Trade Agreements

Since 2016, the government has sacrificed the dairy sector three consecutive times to secure Canada's participation in international trade agreements: the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP) and the Canada, United States, Mexico Agreement (CUSMA).

DFC estimates that the combined market access granted under CETA, CPTPP, and CUSMA is equivalent to an estimated average annual loss of \$450 million in farmers' revenues. Additional concessions, under CUSMA, include export charges on some Canadian exports (estimated at \$50 million/year), and the removal of Class 7.

The expected increase in imports coming in to Canada as a result of these agreements will only add to the already significant responsibilities of the Canadian Border Services Agency (CBSA) and Canadian Food Inspection Agency (CFIA) with regards to monitoring and enforcing Canada's dairy regulations and standards at the border. For this reason, it is critical that both the CBSA and CFIA receive the resources and training they need to fulfil their vital roles. If the border is porous, there will be parties who will seek to avoid limits set out under the tariff rate quotas and/or ship sub-standard product into Canada.

In addition, as part of its process to obtain an import certificate by a foreign processor, the U.S. may and has conducted inspections of foreign dairy processing plants. While the CFIA and U.S. Food and Drug

¹ <https://www.usda.gov/media/press-releases/2020/04/17/usda-announces-coronavirus-food-assistance-program>

² <https://www.nmpf.org/nmpf-appreciates-usdas-aid-efforts-encourages-further-assistance/>

Administration (FDA) signed a systems recognition agreement in 2016, “Grade A” dairy products are not included under the agreement; “Grade A” dairy establishments can still be inspected by the FDA. This level of inspection should be reciprocal, and the CFIA empowered and given the resources to conduct inspections of dairy processing facilities seeking to export into Canada to ensure the safety and quality of food for Canadians.

Overall, these trade agreements have already had a negative impact on the confidence of dairy farmers, which in turn is impacting on-farm investments. This loss of confidence is even more acute for many young dairy farmers, who will reconsider their future in the sector. The impact of lost Canadian market share isn’t just limited to dairy farmers and processors; it will also have an effect on farm workers, veterinarians, equipment manufacturers, truck drivers, feed dealers, and many other associated industries. This could be devastating for the social and economic fabric of rural Canadian communities, and impact Canadian food security.

In August 2019, the government announced a compensation package of \$1.75 billion, to be paid out over eight years, to mitigate the market losses related to CETA and CPTPP. While the first year of direct payments to producers was announced, and ended on March 31, 2020, dairy farmers anxiously await an announcement as to the method and schedule of the remaining compensation envelope for years 2 through 8 of the program. The timing and level of payment of the remaining funds, to be paid out in the form of direct payments, needs to be announced as soon as possible to help restore the confidence and ongoing investment decisions of dairy farmers.

At the same time, Budget 2020 needs to formalize repeated public commitments, dating back to 2018, made by the Prime Minister and the Minister of Agriculture and Agri-Food towards full and fair compensation to mitigate the impacts of CUSMA. On July 18th, 2019, the Prime Minister said: “We will make sure there will be the proper compensation, not determined by me, the federal government, but determined by dairy farmers such as yourself”. Fulfilling this commitment is vital to the future of our sector.

It also important to recognize that despite DFC being led to believe that it would not occur before the start of the dairy year on August 1st, CUSMA, officially entered into force on July 1, 2020. This early entry into force will have a profound financial impact on the dairy sector, with a dramatic decrease of 36% in the export threshold quantity for skim milk powder and milk protein concentrate after only one month of the agreement being in place. This constraint was something dairy farmers highlighted to the government with a recommended coming-into-force date of August 1, 2020, not July 1, 2020.

It should further be noted that Canada is the only signatory to this agreement that has agreed to the equivalent of export caps for some categories of dairy products.

Conclusion

As the country and the dairy sector recover from the impacts of a global pandemic, the promised full and fair compensation to dairy farmers – in the form of direct payments – is critical towards mitigating the significant impacts of the concessions granted in recent trade agreements. Without compensation, the impacts of these concessions threaten the long-term viability of the sector, which, in turn, could impact Canada’s food security at a time when Canadians are most vulnerable.

In addition to compensation, it will be equally important in the face of rising imports to ensure that CBSA and CFIA have the resources and training they need to adequately enforce and monitor Canada's dairy import regulations and standards at the border and beyond. Canadians expect that their dairy products are produced according to Canadian standards for both human and animal health.

While COVID-19 has created significant financial impacts on Canadian dairy farmers, thanks to supply management, the sector has been well positioned to continue proudly playing its role as an essential service throughout the pandemic. Dairy farmers and the hundreds of thousands who depend on the sector for their livelihoods are now counting on the government to do its part to ensure they continue to build on their future.