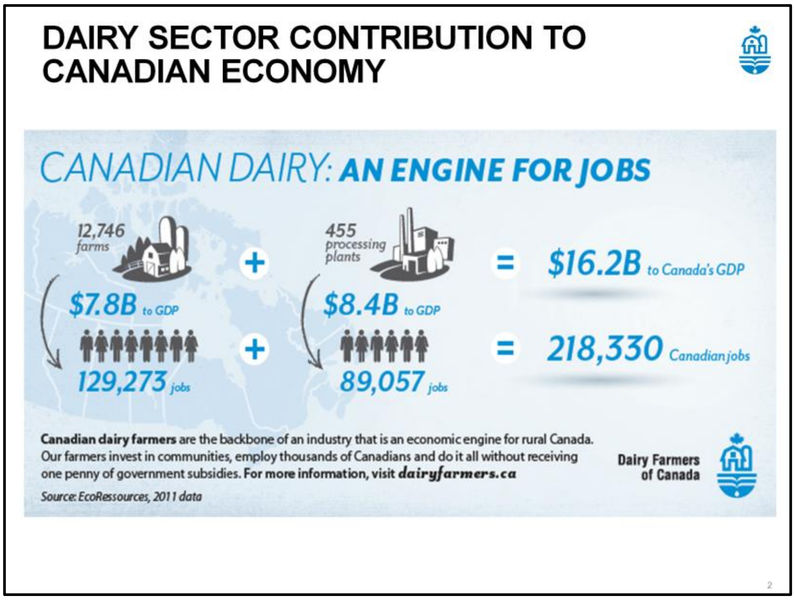
DAIRY FARMERS OF CANADA (DFC)
Run by farmers, for farmers, DFC is the voice of Canadian dairy farmers. DFC is the national lobby, policy and promotion organization representing Canada's farmers living on more than 12,000 dairy farms. DFC strives to create stable conditions for the Canadian dairy industry, today and in the future. It works to maintain policies that foster the viability of Canadian dairy farmers and promote dairy products and their health benefits.

DFC leads the generic dairy market development in the Canadian dairy market with an annual marketing budget of $80 million collected from dairy farms across Canada. This is invested in maintaining and growing the Canadian dairy market segment through targeted and consumer oriented promotion plans that include processors, further processors and retailers. The domestic cheese market has been a priority market segment, with an annual strategic investment totalling $30 million dedicated to developing this market across Canada.



A STABLE AND STRONG DAIRY SECTOR IS GOOD FOR CANADA

- In 7/10 Canadian provinces, dairy is one of the top two agricultural sectors.
- Canadian dairy farms shipped 7.8 billion litres in 2011; an increase from the 7.6 billion litres of milk shipped in 2009.
- The sector's GDP contribution has risen from $15.2B in 2009 to $16.2B in 2011, and the contribution to Canadian employment market grew from 215,104 to 218,330 over the same time period.
- The Canadian dairy industry contributes annually more than $3 billion in local, provincial and federal taxes.
- In British Columbia, 45% of agricultural workers are employed on supply-managed farms (dairy, poultry and eggs).
- More than half of the farm sector revenues in Nova Scotia come from supply managed products -- in fact, dairy alone accounts for 28% of all the farm sector revenues in the province.
- On Prince Edward Island, Amalgamated Dairies Limited (ADL) processes close to 100 million litres of milk each year, employing more than 250 people.
- In Ontario and Québec, thousands of farms and processing plants dot the landscape.
- Canada's artisan cheese makers can be found all across Canada and provide significant economic benefits to their local communities.
- Canadians spend 11.8% of disposable income on food. That's one of the lowest in the world; and only 1.07% is spent on dairy products.

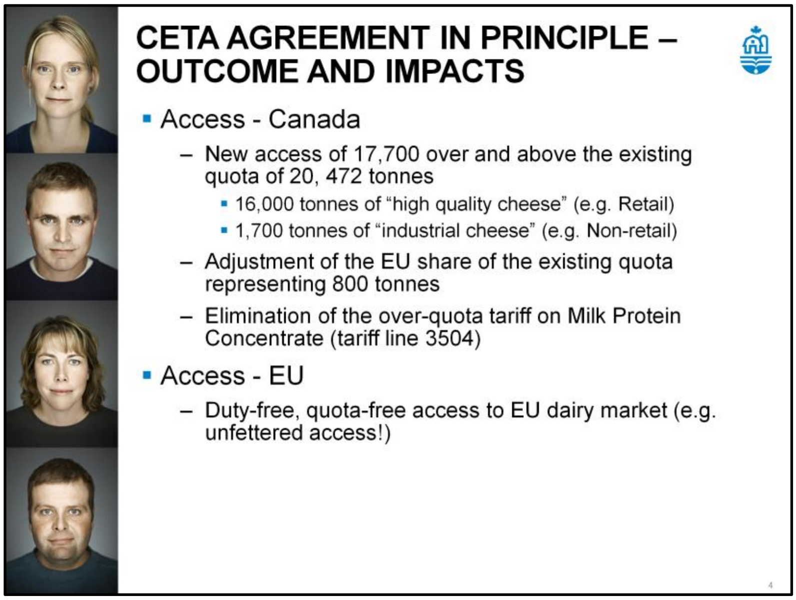
DFC'S REACTION TO AGREEMENT-IN- PRINCIPLE

- Canadian dairy farmers reacted to the announcement of the CETA Agreement-In-Principle with strong concerns of the excessive access that was given to the EU

Canadian dairy farmers reacted to the announcement of the CETA Agreement-In-Principle with strong concerns on what it could mean for the Canadian dairy sector, specifically the domestic cheese market that we've been working closely with industry partners and substantial financial investment of $30 million annually from our farmers to develop and grow across Canada.

We are immensely proud of our domestic cheese sector that has been blooming in recent years, and the Canadian cheese makers, small, medium and large, who've been producing award winning cheese for the local and domestic marketplace.

It is important to note the impact that the access granted to the EU could have as it is more significant than what's been reported.



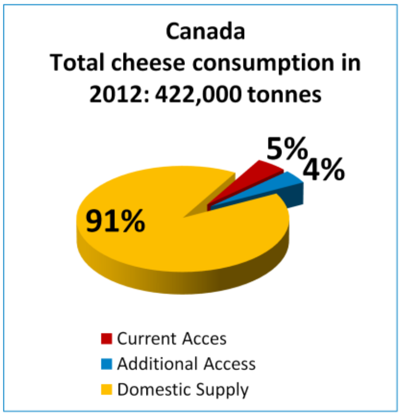
To put the outcome of the agreement into perspective:

17,700 of new access is equivalent to…

20% to 33% of the fine cheese market in Canada
4.2% of Canada’s cheese consumption
2.2% of Canada’s milk production
$150 million in loss income at the farm level, year after year after year....
A minimum of $300 million at the industry level

Total access for cheese will increase to 38,112 tonnes or 9% of Canada’s consumption.

DOMESTIC AND IMPORT SUPPLY



Import Penetration Rate - Cheese		
Canada	European Union	United States
9%	1%	2.4%
Source: Statistics Canada, USDA		

The access for cheese will then increase from 5% to 9% of our domestic consumption. There are no reasons to be pleased about supplying 91% of the Canadian market when compared to other countries. For example, the EU supplies 99% of its market and the U.S., 97.6%.

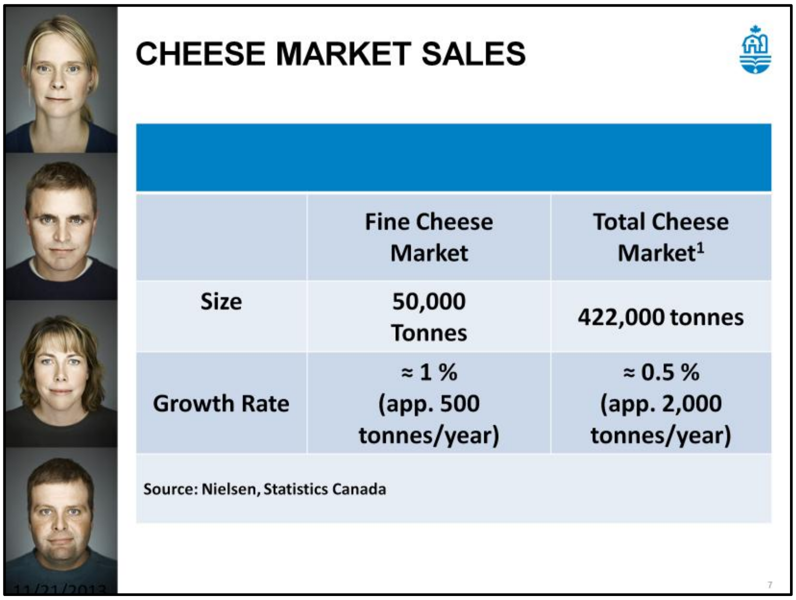
CANADIAN CHEESE PRODUCTION

	Cheese production tonnes	Growth
2008	399,762	
2009	404,173	1.1%
2010	408,647	1.1%
2011	404,152	-1.1%
2012	408,197	1%
Average		0.5% (or app 2,000 tonnes per year)

Source: Statistics Canada

Let’s now look at the Canadian cheese production in order to gain a better understanding of how this agreement will impact both the Canadian cheese makers and Canadian farmers.

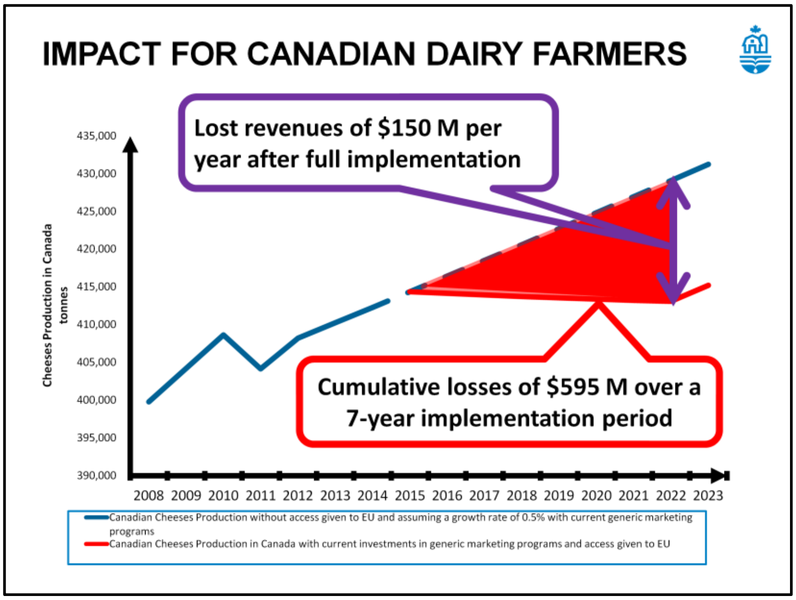
The growth in the cheese sector is not as significant as what has been reported. While certain segments of the market have grown faster than others, the reality is that cheese production in Canada has grown only by ½ of 1% these past 4-5 years.



Based on the current level of imports from the EU and the significant portion that is ‘fine cheese’, the impact, depending on the cheeses that may come into the Canadian market, is anywhere from 15-30%. There will be a lack of predictability on what will be imported.

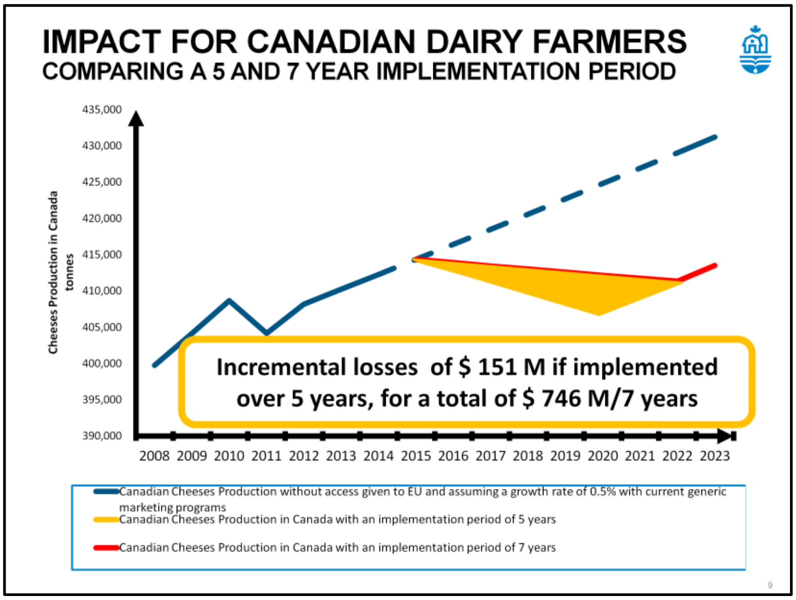
The fine cheese market is the segment that will be the most affected. Considering this is the segment of the market that attracts the highest value, import strategies will be developed to compete primarily in this market. Failing to compete in the fine cheese market, we expect a cascading effect towards the specialty cheese and ultimately towards the mass market, e.g. cheddar.

In other words, the fine cheese makers will be directly affected and the impact at the producers level will be spread over the entire cheese production sector as farmers are working collectively to supply the market and are sharing the returns collectively.

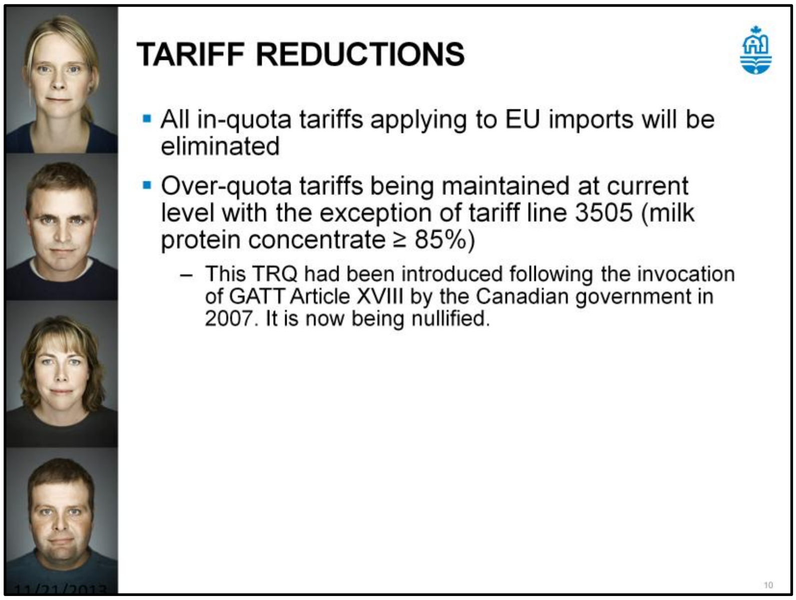


If the CETA deal is implemented over a 7-year period, it will add up to a total of $595 million in cumulative losses.

Over a 7-year implementation period, the production of milk going into cheese production would decrease slightly. But most importantly, what Canadian farmers are losing is future growth in which they have heavily invested in.



If the deal is implemented over a five year period, not only will this result in a production quota cut, it will result in an incremental loss of $151 million, for a total of $746 million after 7 years.



While in-quota tariffs have all been reduced to zero, and that isn't something we were opposing, most over-quota tariffs have been maintained at their current levels, with the exception of the over-quota tariff for milk protein concentrate with a concentration level greater than 85% (e.g. Milk protein isolate).

This TRQ had been introduced following the invocation of GATT Article XVIII by the Canadian government in 2007. It is now being nullified.

CETA – AGREEMENT IN PRINCIPLE OUTCOME

- **Geographical indications (GIs)**
  - Recognition of about 50 cheese GIs with limited rights provided to EU on: Asiago, Feta, Fontina, Gorgonzola and Munster
  - Won't affect ability of current users of these names in Canada to continue use, but future users will be able to use the names only when accompanied by expressions such as "kind," "type," "style," "imitation" or the like
  - Canada maintains ability to use components of multi-part terms, for example:
    - "Brie de Meaux" will be protected, but the term "brie" can be used on its own
    - "Gouda Holland" will be protected, but the term "Gouda" can be used on its own

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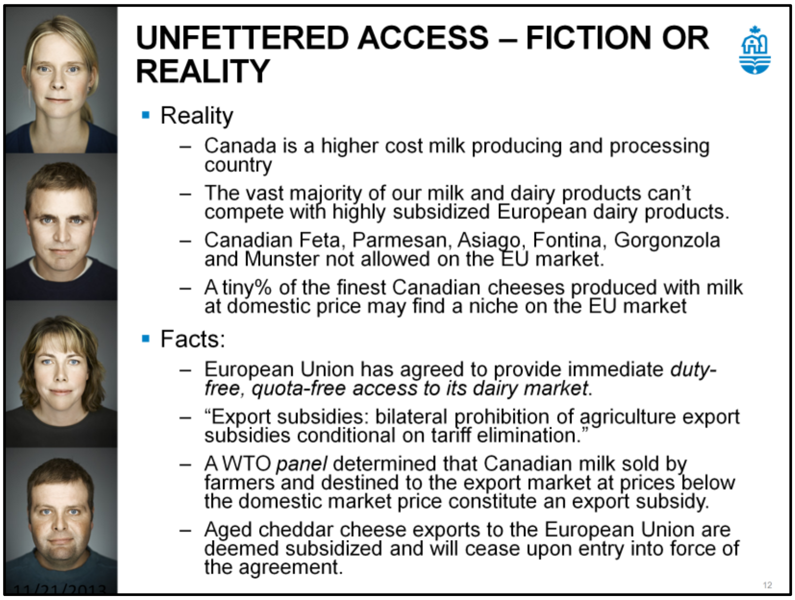
Canada has also granted the EU Geographical Indicator's on 50 cheeses.

The protection to be afforded by the EU on Geographical Indicators and their dairy products should be available within this country; that is effective enforcement and protection of our own standard of identity for dairy products.



It is a myth that Canada now has unfettered access to the EU market. There is no doubt that Canadian cheese makers can compete on quality however:

In the early 2000s, a WTO panel ruled that any export from Canada sold below domestic price is considered "subsidized". Combined to a prohibition to use export subsidies in the EU, the reality is that Canada is not in a position to benefit from the opening of the EU dairy market. The reality is also that subsidies in the EU can make up as much as 40% - 50% of farmers' income and they get a lower market price for their milk. This puts Canadian milk and dairy products at a price disadvantage.

Let's have a closer look at what we are facing on the world markets:

There is no doubt that the world market place is a dumping ground. The International Farm Comparison Network (known as IFCN) has been compiling data on farm prices and cost of production for 13 years and now provides a comparative analysis among 95 countries.

In the latest report, *Dairy Report 2013*, they highlighted that only 12% of the world's total milk production in 2012 has been produced at a cost equal or lower than the world price.

With respect to Canada, we are one of the highest cost producing countries in the world.

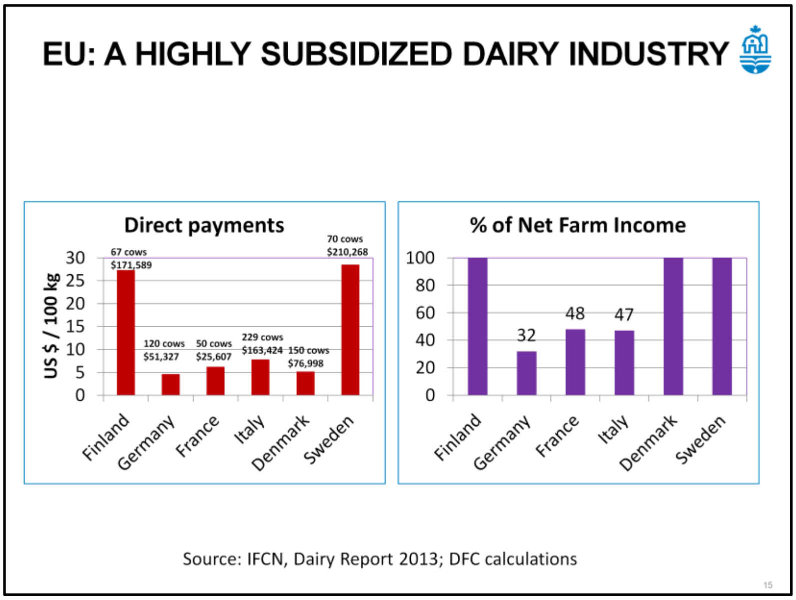
UNFETTERED ACCESS – FICTION OR REALITY

	Farm Gate Price	Processors Margin	
		SMP	Butter
Canada	$78.06	$0.9191/kg	$0.7976/kg
European Union	36.80 Euros ($53.50)	290 Euros/tonne ($0.40/kg)	311 Euros/tonne ($0.43/kg)

Source: European Commission, average farm gate price in August 2013; IFCN Dairy Report 2013; exchange rate of 1.3860 for August 2013; CDC average price for August 2013.

Case in point: the Canadian access for Canadian aged cheddar cheese into the United Kingdom market remains under filled as Canadian processors are seeking milk at $28/hl.

The reality is that not only are we facing higher cost of production at the farm level, but this is also the case along the production chain with Canadian processors margins that are twice as much what they are in the EU for example.



Furthermore, we have been taking about the highly subsidized EU dairy industry. IFCN provides interesting information regarding the level of subsidies received by dairy farmers in several EU member states. Countries like Finland and Sweden are high cost producing countries and are receiving an outstanding level of support, otherwise they would not be in a position to compete on their own market.

The graph on the left shows the estimated level of direct payments (both coupled and decoupled) received by farmers in some EU countries. On the right, it is the level of payment as a % of their net income. It clearly demonstrates that without these payments, many of these farmers would have already ceased producing milk. This creates an unlevel playing field as Canada starts importing the additional 17,700 tonnes of cheese.

In comparison, Canada’s dairy supply management allows Canadian farmers to receive 100% of their income from the market place. And we have to be proud of that, even if it puts us at a disadvantage when it comes to the world market place.

Dairy farmers are committed to working with government and processors to ensure we keep the Canadian dairy sector stable and strong while delivering high quality, Canadian made dairy products to Canadian consumers.

Our dairy farmers are committed to a national industry with strong economic contribution in every region. Our dairy farmers want to derive their income from the marketplace, not taxpayer subsidies that come in the mailbox. Our dairy farmers want to grow the domestic dairy market to benefit Canada.

For dairy farmers, the government’s continued commitment to supply management as referenced once again in the Speech from the Throne means that it will work with DFC on solutions that ensure that farmers will continue to derive their adequate income from the market place.


WE ARE
DAIRY
FARMERS
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