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Chair

Mr. Pat Finnigan

Standing Committee on Agriculture and Agri-Food

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• (1555)

[English]

The Chair (Mr. Pat Finnigan (Miramichi—Grand Lake, Lib.)): We will begin this committee meeting.

Welcome everyone to the meeting. We do have quorum so we will get right to business.

I'd like to welcome our witnesses today. From the Dairy Farmers of Canada we have Caroline Emond, executive director. From Fédération des producteurs de lait du Québec we have Alain Bourbeau, director general. From the Dairy Farmers of Ontario we have Peter Gould, general manager and chief executive officer. From the Agropur co-operative we have Dominique Benoit, senior vice-president, institutional affairs and communication.

Welcome, everyone. We will proceed with a 10-minute opening statement, if you wish, and then we will open the floor to questions.

Maybe we could start with Ms. Emond.

[Translation]

Ms. Caroline Emond (Executive Director, Dairy Farmers of Canada): Thank you, Mr. Chair.

I will begin my presentation in French, and then I will continue in English.

On behalf of Dairy Farmers of Canada, or DFC, I'd like to thank you for the invitation to appear before the Standing Committee on Agriculture and Agri-Food in view of its study on milk proteins. Today, I will speak about the improper use of certain milk protein substances, such as diafiltered milk, under the cheese compositional standards for Canada—and the negative impact this has on Canadian dairy farmers.

DFC is the voice of all farmers on each of the 11,350 dairy farms from coast to coast. Our organization strives to create stable conditions for the Canadian dairy industry today—and in the future. We work to maintain policies that foster the viability of Canadian dairy farms, and promote Canadian dairy products and their health benefits.

We care deeply about our country, and we are active participants in our local communities. A vibrant dairy industry means more jobs and improved access to infrastructure. It also means economic benefits for other industries ranging from banking, to feeds, to parts and machinery sales, to veterinarians, and much more. It is important to emphasize that the Canadian dairy sector makes a huge contribution to the Canadian economy. It contributes \$18.9 billion

to the GDP and \$3.6 billion in tax revenues every year. It sustains 215,000 full-time equivalent jobs across the country.

Dairy is either the top or second agricultural sector in seven out of ten provinces. Furthermore, unlike other jurisdictions where farmers' incomes are heavily subsidized, Canadian dairy farmers derive their income from the marketplace. However, that marketplace will be further diminished by the access granted in the comprehensive economic and trade agreement, CETA, and the Trans-Pacific Partnership, TPP.

As you probably know, the dairy farming sector in Canada operates under a Canadian agricultural policy known as supply management, the objectives of which are to: ensure farmers receive a fair return, derived from the marketplace, for their work and investments; provide processors with a stable supply of milk, so that they can properly plan their production year after year; and provide consumers with a consistent supply of milk and milk products of the highest and safest quality, at a fair price.

The system achieves these objectives by enabling Canadian dairy farmers to act collectively to negotiate prices and adjust milk production to meet consumer demand. In so doing, supply management ensures that Canadian prices for both farmers and consumers remain relatively stable and less subject to the volatility of the global market. The fact is, in countries where milk production has been deregulated, such as in New Zealand, the United Kingdom and Australia, farmers have at times received less for their milk, while consumer prices have gone up.

For example, in New Zealand throughout 2014, although the farm gate price for milk decreased by 42%, the retail price for milk increased by 2.2%. The Government of Canada put in place a supply management system in the early 1970s in an effort to reduce the surpluses in production that had become common in the 1950s and 1960s, and ensure a fair return for farmers.

Canadian dairy was the first industry to operate under supply management—a system that egg and poultry farmers would later adopt. For the dairy sector, the supply management system is administered by the Canadian Dairy Commission. The basic idea behind supply management is simple; the goal is to manage production so that supply would be in balance with demand.

The farm gate price enables farmers to cover the costs of milk production, including a fair return on labour and capital. In other words, we only produce as much milk as is required by the Canadian marketplace, while limiting surpluses that would otherwise end up on the world market at dumping prices.

• (1600)

Supply management is a stool that rests on three equally important pillars.

The first pillar is producer pricing, which ensures that the milk price received by dairy farmers takes into account both the cost of production, including capital and labour costs, and the overall conditions of the Canadian economy. It is important to note that the Canadian Dairy Commission and provincial milk marketing boards do not set the retail price, and neither do the farmers. The price that consumers pay at the grocery store or in a restaurant has always been set by the retailers or the restaurant owners themselves.

The second pillar is production discipline, which ensures that the supply of Canadian milk equals the demand from consumers. Each dairy farmer in Canada owns a quota—a share of the market—that allows him to produce a certain amount of milk. Depending on consumer demand, the amount that a quota allows a farmer to produce can increase or decrease; upward and downward quota adjustments are made on an as-required basis.

The third pillar is import control. For supply managed commodities, imports are controlled using tariff rate quotas. They allow a predetermined quantity of dairy products to be imported at preferential tariff rates, generally duty free, while maintaining control over how much is imported.

The over-quota tariffs are set at levels that meet the objective of ensuring that only the quota agreed to in trade agreements is imported. Other than exceptional cases, tariff rate quotas for dairy products are fully filled every year.

In 2015, the total value of dairy products imported into Canada, including both tariff rate quotas and non-tariff rate quotas, reached more than \$824 million. As you can see, Canada imports a significant amount of dairy every year.

I will now continue my presentation in English.

[*English*]

Without any control on what is imported, it is impossible to manage supply management to match demand. A lack of import controls will inevitably lead to overproduction and instability within the system. Furthermore, it is more than just having the right rules in place. The auditing and validation process, and the enforcement of the rules, are equally important. Currently those who would exploit the rules are well aware that when it comes to dairy, Canada's enforcement and application of our existing border measures are inconsistent. Adequate audit and enforcement are essential in discouraging those who would exploit those loopholes.

People can be very creative in order to circumvent tariff and quotas. The pizza food topping preparation issue is a great example. Between 2009 and 2013, farmers lost an estimated \$62.6 million due to the importation of these preparations. We also have the butteroil-sugar blend issue and more recently the case of salt being added to

cream, all of which is in order to avoid tariff and quotas. The list goes on and on.

The government is responsible for the enforcement of Canada's border measures and must act quickly to limit damages caused to Canadian industry. This role will be even more important when service imports enter into Canada as a result of CETA and TPP.

The role of CBSA is to ensure the products crossing the borders are well classified and the products that are coming in are verified to ensure they fit the definition of the tariff line. Let's be clear. All we're asking is that the government enforce existing rules and allow only the amount that has been agreed to in trade agreements to enter the country.

We also need more transparency, especially as it pertains to the process CBSA uses to issue advance rulings. Decisions that impact our industry may or may not be consistent with our understanding and the interpretation of the rules. CBSA issues advance rulings at the request of importers. Currently there is no formal process to know whether a ruling has been issued, or even to find out whether the CBSA is investigating a complaint about a ruling. There is no industry consultation. When CBSA issues an advance ruling, it should be done through a transparent process so that stakeholders are aware and can offer input and respond when appropriate.

When the three pillars of supply management are functioning as intended, it enables the dairy industry to weather any economic storm, remain stable, and achieve a high level of self-sufficiency. If any of those three pillars becomes unstable then it risks putting the entire system in jeopardy.

• (1605)

This brings me to the reason we're here today: milk protein. Canadian milk used to be used as the main source and base component in making dairy products. However, while some cheese and yogourt makers still use 100% milk, more and more are adding ingredients such as milk protein isolates, milk protein concentrates, and diafiltered milk in substitution of milk. These ingredients can either be produced in Canada or imported. When imported, those ingredients are not classified under chapter 4 of the customs tariff schedule, which includes dairy products. They are classified under chapter 35, which includes ingredients such as milk protein substances. Originally these milk protein substances were imported in a dry form. Over the past five or six years we've seen a change of pattern. The amount of milk protein imported in liquid form under the same tariff line has increased significantly. This milk protein substance is then used as an ingredient in the making of cheese and yogourt.

Where the situation becomes more complex is when the same product is not treated the same way by two different government agencies. For example, when one agency treats a product as an ingredient and another treats it as milk, then you have a problem. Under the cheese compositional standards for Canada, when making cheese it is required that a minimum percentage of the protein used in the cheese-making be sourced from milk. The percentage required varies from cheese to cheese. For example, cheddar is required to derive a minimum of 83% of its casein from milk and a limit of 17% of the total in protein can be derived from ingredients. The Canadian Food Inspection Agency is responsible for enforcing the cheese compositional standards, which means verifying that the required milk-to-ingredient ratio defined under the cheese compositional standard for each cheese is met.

Because milk proteins are an ingredient that can be less costly, some processors are taking to using milk protein substances as part of their required minimum percentage of milk when making cheese instead of using it in part of the allowable percentage of ingredients. This is also inconsistent with its classification at the border when the ingredients are not even being considered under the dairy chapter, but enter the country tariff-free.

As previously mentioned, the CFIA is responsible for enforcing the cheese standards. From 2011 to 2016 DFC had 60 meetings with government officials on this issue and have sent 19 letters to various ministers.

[Translation]

The Chair: Ms. Emond, could you conclude your presentation? The time is almost up.

Ms. Caroline Emond: Okay.

The Chair: I will give you the last word, but I ask that you keep it brief.

[English]

Ms. Caroline Emond: Okay.

In addition to the DFC's efforts regarding the milk protein, it's important to realize that CETA, other trade deals, and the TPP will have a major impact as well on our industry.

In conclusion, the Dairy Farmers of Canada focuses on serving our domestic market. It's important that we continue to do so without too much erosion. Canadian milk matters and we need your help. The situation has endured for too long, so we're hoping that you can actually help us with that.

• (1610)

[Translation]

The Chair: Thank you.

I now give the floor to Mr. Bourbeau, who has 10 minutes.

Mr. Alain Bourbeau (Director General, Fédération des producteurs de lait du Québec): Mr. Chair, if I may, I will first yield the floor to my colleague, Mr. Gould.

The Chair: That's fine.

Mr. Gould, is that okay with you?

[English]

Are you okay with that?

Okay, we'll go with Mr. Gould.

Mr. Peter Gould (General Manager and Chief Executive Officer, Dairy Farmers of Ontario): Let me begin by thanking you for the privilege and opportunity to make a presentation before the standing committee.

My name, as you already know, is Peter Gould. I'm the chief executive officer for Dairy Farmers of Ontario.

Dairy Farmers of Ontario represents 3,800 dairy farms that currently produce approximately 2.7 billion litres of milk annually. As a result of pooling arrangements, Ontario processes close to three billion litres of milk in about 60 processing facilities across the province, most of which are small or medium-size plants, privately owned, family businesses.

This meeting is timely. It is timely because it is a critical time in the dairy industry, not critical because important decisions have to be made for the next year, but critical because today's decisions will influence, and perhaps I should say, determine the future success, viability, and sustainability for the next generation of dairy farmers.

Everyone has a role to play: producers, processors, and governments, both federal and provincial. In Ontario, we believe solutions come about when industry, producers, and processors can work toward common outcomes. There are times when those outcomes need help from government. We need private-public partnerships to ensure investment, innovation, growth, and jobs.

Caroline has touched on some of these things but I'll just reiterate some of them.

Supply management is often described as having three pillars: effective border control, production discipline, and pricing.

My belief has always been that effective border control is the bedrock that the system is built on. It is also the pillar that has been least effective over the years. That presents all sorts of challenges from income instability to investment planning for both producers and processors. It negatively impacts the scale of industry in Canada.

I'm going to talk a little about leaky borders, touch on the Canadian International Trade Tribunal, and as already mentioned, milk protein isolates.

One of today's defining issues is the uncontrolled imports of milk protein isolates, MPIs. They're being imported in an ever-increasing amount, displacing domestically produced skim milk solids and proteins, changing the competitive landscape and negatively affecting dairy farmer incomes.

Imports of milk protein isolates have increased exponentially since 2012. Canada has had a tariff rate quota on milk protein concentrates, MPCs, since the mid-1990s. Ten or twelve years ago, a few companies started importing MPIs, the isolates, higher concentrations of proteins.

Milk protein concentrate is a skim milk product, from which varying degrees of lactose and permeate, mostly water, is removed. These highly concentrated proteins were entering duty-free, effectively circumventing the MPC tariff. This was recognized by Dairy Farmers of Canada. The Canada Border Services Agency sought redress by taking the issue to the Canadian International Trade Tribunal.

The protein levels in skim milk, the normal skim milk as it comes off the farm, in round terms is 35% protein on a dry matter basis. Any protein level above that is considered to be concentrated. If we have skim milk with 40% protein, a common concentration is 52%, 72%, all the way up to 84% protein, it's still considered a concentrate.

The Canadian International Trade Tribunal determined that a concentration over 85% is an isolate, not a concentrate, even though it is used for the exact same purpose, and it was designed in the first place for the sole purpose of circumventing the MPC tariff.

That decision would not be the common understanding of an average person, and it is also not consistent with government policy.

The Government of Canada sought redress. In and around 2008, the government established a new TRQ and tariffs for milk protein isolates. The only problem was that no new tariffs could be applied for our NAFTA partners, the U.S. and Mexico, so it has been and remains an open border with the United States. MPIs cross the borders as ingredients, but can be used in Canada as milk. It is a conundrum that also makes no sense to the average person.

This is not the first problem resulting from a CITT decision. Twenty-five years ago, the Canadian International Trade Tribunal decided that butterfat in butteroil-sugar blends should not be subject to a tariff. A butteroil-sugar blend was also designed to circumvent the tariff and can be and is used as a primary input for both ice cream and confectionery.

The test the CITT applied was whether you would put it on a piece of toast. The answer was no, so no tariff. Butteroil-sugar blends come in by the thousands of tonnes every year.

As I said earlier, border controls are the most important of the three pillars, the foundation of supply management, of orderly marketing.

•(1615)

There are other examples of leaky borders. One is a product called pizza kits, which is 20% meat, 80% cheese. It entered Canada as a meat product. That was addressed by the government—thank you—shortly after the CETA was signed. Caroline has also referred to a couple of products, cream-sugar and cream-salt blends that are 99% cream. They're entering this country and I'm not exactly sure how they get here. It's either through an advanced ruling under the CBSA or it could be just coming in illegally.

The dairy industry needs consistent application of policy and solid government support to achieve its potential. Producers are responsible for the other two pillars. It's only the federal government that can effectively control the border.

I'm going to shift gears a little here and talk about some changes in the market.

One of the big ones has been growth and demand for butterfat, which is really a phenomenon. Traditionally, a lot of butter, not all, is made from cream, and that cream is a by-product. When we make fluid milk products, there's extra cream; when we make cheese and yogurt, that has been used to make butter. In the last two or three years, I can't emphasize this enough, there's been a profound shift in consumers' attitudes and behaviour. Butterfat is no longer a bad word, nor is it a bad fat. That's great news for the dairy industry, at least it should be. That also means less cream to make butter and more milk going into butter-powder plants. You don't have the sources of cream from milk and yogurt and those types of sources, so if we're going to meet our butterfat demand, we have to put raw milk into the butter-powder plants.

One of the things that happened for the first time in April or possibly May 2015, in Ontario, was we reached plant capacity. We did not have enough capacity to process particularly skim milk powder, and we started putting the milk into the butter-powder plants, extracting the cream, and finding alternative places to use the skim milk. I'm sure you're all aware of that. Sometimes it ends up in liquid manure pits or it goes to hog farms, but there are limits to how much skim milk can end up in those uses. Nobody wants to see that either in the short term, or certainly in the long term.

As a country, the simple problem is we are not able to meet current demand let alone future growth for butter and butterfat. The situation is further exacerbated by the fact that with few exceptions—I'm not saying there are no exceptions, but in general—the skim milk powder dryers we have in this country are old. They use old technology. The cost is high to operate them and they have arguably outlived their useful life. Simply put, they need replacing.

The bottom line is dryers in Canada need to be replaced with up-to-date technology, and that's not necessarily a dryer for a dryer. There are new technologies, better referred to as ingredient plants, that handle the skim milk solids. In addition to that, dryer capacity needs to be significantly increased, not only to meet current demand, but also future growth for the next 15 to 20 years. We don't want to build just to replace what we have. There has to be much more capacity.

There are two pre-conditions for investment by processors: one is an ingredient class; the second one is a competitive price. Producers and processors are jointly working on that solution. It's called an ingredient strategy, and we're making good progress, from our perspective. This is an opportunity for a private-public partnership. Government financial support would greatly assist in ensuring necessary investments are made. Without those investments, the danger is we'll be looking at potential divestment, disinvestment, and contraction, rather than meeting the potential for a vibrant, growing, high-tech, domestic dairy industry.

I'll make just a few concluding remarks before I wrap up and summarize some of the things that I said.

The first point is, effective border control is the foundation of a successful supply management system, of a strong domestic dairy industry, and that is the pillar in supply management that the federal government has the sole responsibility for. I'm suggesting it is time for an overhaul to ensure the government is fulfilling its end of the bargain. Leaky borders hurt the system.

The second point is that skim milk dryers are old and need to be replaced. They need to be replaced with modern technology and much greater capacity. Time is not on our side. From the day a company makes a decision until milk is delivered to that plant, it will be two to three years—more likely three than two. The real question is what happens if we don't? The impact will be immediate and dramatic.

• (1620)

The third point I want to summarize is that there is a great opportunity, which I just mentioned, for the government to be a partner in the future of the Canadian dairy industry, to ensure that it stays on track for investment, growth and the viability of the next generation, not for today, not for tomorrow, but for the next 20 or 25 years.

The last point is that we need a federal investment modernization fund for the whole industry to allow the dairy industry to modernize, especially the processing sector. Now is the time to act. The Ontario ingredient strategy actually is scheduled to start on April 1. Processors need assistance in the form, as I said, of a public-private partnership.

Thank you.

The Chair: Thank you, Mr. Gould.

Mr. Bourbeau, do you want to go now? Okay.

[Translation]

I will now give the floor to Mr. Benoit for 10 minutes.

Mr. Dominique Benoit (Senior Vice-President, Institutional Affairs and Communications, Agropur cooperative): Thank you, Mr. Chair.

Members of Parliament, members of the House of Commons Standing Committee on Agriculture and Agri-Food, good afternoon.

Thank you for giving us the opportunity to comment on the important issue of imported dairy proteins. We would like to talk about Agropur cooperative, Canada's supply management system in the international context, and more specifically our point of view on dairy proteins and diafiltered milk imported from the United States.

Agropur is a dairy cooperative owned by 3,367 dairy producers in Ontario, Nova Scotia, New Brunswick, Quebec and Newfoundland and Labrador. We have annual sales totalling nearly \$6 billion. Our 28 plants in 8 provinces process 30% of the milk produced in Canada. Our 6,000 Canadian employees and 5,000 dairy producer families contribute to the economic vitality of many communities across the country.

Over the past few years, we have invested more than \$1 billion in our Canadian facilities and the acquisition of Canadian companies, while merging three co-ops in order to better meet our customers' needs. Following a number of acquisitions in the United States, our American operations now generate 44% of our sales.

In terms of supply management, 2015 was a year of mobilization at Agropur. We played an important role as an ambassador for our industry throughout the year. During the Trans-Pacific Partnership negotiations, we energetically defended the supply management system.

We believe that the leadership and mobilization of all stakeholders who believe in the supply management system gave the federal government the support it needed to be able to defend supply management against other countries that wanted it to be entirely dismantled. Against this background, we widely circulated an analysis of the potential impacts of ending supply management in the dairy industry produced by Boston Consulting Group. That study is available on Agropur's website. If you like, we could also send you a copy. That very thorough, professional and credible study advances a different point of view than the Conference Board of Canada and similar organizations.

The BCG study shows that dairy production continues to receive major financial support from governments or to be regulated in the major dairy-producing countries. The study also shows that no country has managed to make a success of dairy industry deregulation without massive government intervention.

Let us take the example of Australia. Since its government decided to deregulate the dairy industry at the beginning of the 2000s, Australia's dairy production has fallen 15% and its share of export markets has declined every year. Farm gate prices have rarely been so low, and yet Australian consumers aren't paying less for dairy products than are Canadian consumers.

In New Zealand, the government intervened at the beginning of the 2000s to help create and maintain a processing and exporting monopoly owned by dairy producers. Therefore, producers share in the benefits of almost all dairy processing.

This year, that organization has had to allocate significant funds to financing producers who were unable to meet their financial obligations. The New Zealand government is still intervening on a massive scale to support its dairy industry by making it possible for a quasi-monopoly to process and export the country's milk and dairy products, for the benefit of producers.

In Europe, the dairy industry has been deregulated since the spring of 2015, and prices for milk and dairy products are at record lows. The dairy crisis in Europe is forcing some countries to get out their checkbooks in order to help producers, who find themselves in a fast-deteriorating financial position, and the European Union has allocated 500 million euros in emergency funding.

•(1625)

It should also be borne in mind that our neighbour is the world's largest producer of cow's milk. In the U.S., the 135 largest farms produce as much as Canada's entire dairy industry. The largest American dairy processing plants are five to six times bigger than the largest Canadian plants. Our industry is no match for this giant.

Canada has a unique dairy system that has stood the test of time. It provides dairy farmers with enough income to cover their costs and processors with a stable environment. It helps maintain the social fabric and supports the economic development of our communities, while supplying consumers with high-quality products at competitive prices. Therefore, we believe it is warranted and indeed more important than ever for all stakeholders to work to support supply management. In the recent trade agreements, the federal government has succeeded in maintaining high tariffs at the border, a key requirement for preserving our dairy system.

We will now discuss the third point—ingredients and diafiltered milk.

While supply management has been protected in the international agreements, it is now up to us to safeguard it domestically. The federal government took some important steps in 2007-2008 by establishing cheese manufacturing standards that limit the quantity of ingredients that can be used. However, recent imports of diafiltered milk from the U.S. pose a new threat to supply management. This product was developed for the sole purpose of circumventing Canadian border controls and Canadian cheese standards. These proteins are being used to replace Canadian skim milk in the making of cheese and yogurt, and there are no technical limitations on their use in the manufacturing process.

Canadian skim milk that is not needed to make cheese or yogurt is dried to make skim milk powder for export or sold for animal feed. As Mr. Gould mentioned, it has also been thrown away in recent months. Since drying capacity is no longer sufficient, given massive imports of diafiltered milk, skim milk unfortunately had to be dumped in 2015. Large amounts could be thrown away again in spring 2016 if nothing is done.

The deliberate confusion must end. At the border, this product is considered an ingredient by the Canada Border Services Agency, allowing it to enter the country duty free. On the other hand, when it comes to yogurt and cheese manufacturing, it counts as milk for the Canadian Food Inspection Agency. That means its use is not limited by the cheese and yogurt manufacturing standards.

Therefore, the federal government has an important role to play. Diafiltered milk should be treated as an ingredient in the cheese and yogurt composition standards and should therefore have to respect the letter and the spirit of the standards. As well, verification rules need to be strengthened to ensure compliance with the standards.

Minister MacAuley's announcement at the Dairy Farmers of Canada annual meeting in early February is a step in the right direction. We offer the government our full cooperation in strengthening, clarifying and enforcing the rules. That is also in our interest as a processor. Our priority is to make sure all processors are operating on a level playing field and playing by the same rules.

The federal government must keep its promise and do something about dairy ingredients such as diafiltered milk that circumvent import rules and limit the use of such ingredients in Canadian manufacturing.

This is a priority issue for Agropur, its members and all Canadian dairy producers.

•(1630)

At the same time, the industry is currently negotiating the details of a national ingredients strategy that will be a win-win for both producers and processors. We must negotiate conditions that will promote the production of dairy ingredients in Canada at competitive prices and capitalize on our Canadian skim milk. We also have to capitalize on our structural surpluses for the benefit of producers, while supplying processors with ingredients for their domestic manufacturing.

The ingredients strategy presents many challenges but also opportunities. As my colleagues said earlier, we are heartened by recent developments. The negotiations are confidential, but we need the federal government's support. The government must take clear action regarding diafiltered milk, and that will help us finalize a national industry agreement.

An ingredients strategy, accompanied by clear action by the federal government to strengthen the standards, is the only solution. It is what producers, dairy cooperatives and government must promote and defend if an effective supply management system is to be maintained and strengthened.

Thank you.

The Chair: Thank you, Mr. Benoit.

Mr. Bourbeau, the floor is yours. You have 10 minutes.

Mr. Alain Bourbeau: Thank you, Mr. Chair. It's my turn to thank you for this invitation.

Unlike my colleagues, I will not read out a presentation. I have submitted a document to you where I give an overview of the foundation of the Canadian agricultural policy for the dairy sector. That presentation has been partially covered by my colleague Caroline Emond, who explained how supply management works and why it is still relevant in 2016, even though it was implemented some 40 years ago now.

The other part of my presentation basically talks about the history of the problem and explains it. I fully agree with the explanations provided by the three previous witnesses. I will try to briefly explain what the tangible and quantified impacts of that practice are.

Any surpluses of non-fat solids are the responsibility of producers. There are responsibilities in the management of this system. The government is in charge of border management, and producers are responsible for production control. We bear the costs of any surpluses.

It is normal for us to have a surplus of non-fat solids in Canada, as all other countries also have surpluses. The U.S. has surpluses of non-fat dairy solids, as do the Europeans. It should be noted that, over the course of the last two years, the surpluses have greatly increased owing to importing and the shift related to the use of diafiltered milk, among other things.

For example, in 2010, the tariff line for those products was 13,200 tonnes. In 2011, the quantity was similar—13,150 tonnes. In 2012, there was a slight increase to 15,000 tonnes. In 2013, the quantity was 16,000 tonnes, and starting in 2014, there was a surge, with the quantity going up to 20,700 tonnes. According to the data for the first three quarters of 2015, we estimate that we will have reached 32,000 tonnes at the end of 2015. That is a dramatic rise. If we establish the equivalent of that importing in skim milk powder, we estimate that it will correspond to 50,000 tonnes of that product.

What is the impact of all that on the producers' daily lives? The structural surplus, year after year, has been about 60,000 tonnes in recent years. We expect to reach from 90,000 tonnes to 100,000 tonnes this year, mainly owing to the importing of diafiltered milk.

When these components penetrate into our markets, they displace Canadian non-fat solids. That creates a shortfall for Canadian producers. As the market is saturated, instead of enhancing the value of those solids by using them in cheese and yogourt—for which we obtain about \$5 per kilogram, as Dominique explained—we become responsible for surpluses. Instead of using those non-fat solids in value-added products, we have to use them in animal feed. The price is about \$1 per kilogram in those cases. The shortfall for producers is about \$4 per kilogram. If we apply that unit loss to the displaced quantities, for an equivalent of 50,000 tonnes of skim milk powder, the shortfall for Canadian dairy producers is about \$200 million.

Our component sales are another sign of that shift. Beginning with the year when cheese standards were established in Canada, we have noted a fairly stable relationship between the quantities of fat sold in cheese categories and the quantities of non-fat solids sold. For example, starting in 2007-2008, for each kilogram of fat sold for cheese, 2.3 kilograms of non-fat solids were sold. That relationship remained practically stable until 2012-2013, when it started collapsing.

• (1635)

Instead of selling 2.3 kilograms of Canadian non-fat solids for each kilogram of fat sold, we sold 2.15 kilograms in 2012-2013. We came back to 2.19 kilograms in 2013-2014 and, in 2014-2015, we are at 2.11 kilograms. So the drop off has been sustained for Canadian producers.

If we were to transpose those effects to an average farm in Quebec, it would represent about 6,000 hectolitres—so 600,000 litres of milk, to use more familiar units. If we take the loss I was referring to earlier, which amounts to about \$2.5 per hectolitre, the loss in net income for an average farm is nearly \$15,000. The costs related to the milk production necessary to meet 100% of needs in terms of fats are still there, but the loss is net because the gross price drops, while the producers have the same expenses to deal with. That value represents a very large part of the cost of life and of the part families use for surviving. So it is clear that the discontent expressed by

producers in your ridings stems directly from this situation because it represents concrete factors for them on a daily basis. These are basically the things I wanted to talk to you about.

Moreover, last year was especially difficult for producers. In addition to the diafiltered milk phenomenon, I would like to point out that, despite its supply management, Canada is a country that is much more open in terms of its markets than the Europeans or the Americans are. In their case, 1% to 3% of their consumption is probably imported, while that figure is already close to 8% in Canada. About 12% of Canadian dairy fat is also sold at prices based on world price references, and nearly 25% of our non-fat solids are already at that level. Last year, those world prices were extremely low because of the markets' high volatility. This meant that, when it came to their income, our producers, in addition to having to contend with the highly negative effects of diafiltered milk, saw their prices crumble by a total of nearly \$5 per hectolitre. If I add that to the effects I talked about earlier, there was a loss of \$25,000 to \$30,000 per farm last year. When you hear dairy producers in a bad mood who want to bang on office doors, it's because they are very upset and worried about the current situation.

My colleagues did a good job of explaining the problem involving diafiltered milk earlier. There are some solutions, which are essentially political. So we trust that you will solidify the support your parties have already expressed very clearly toward our marketing system, and we are counting on you to continue giving us a hand and finding solutions to these issues.

Thank you.

• (1640)

The Chair: Thank you, Mr. Bourbeau.

[*English*]

Thank you to all the panel for your excellent presentations. I know some of you might have to leave a bit early. Monsieur Benoit, you have another 45 minutes or so. Okay.

We'll start the questioning.

[*Translation*]

We will begin with Mr. Gourde.

You have six minutes.

Mr. Jacques Gourde (Lévis—Lotbinière, CPC): Thank you, Mr. Chair. I want to thank the witnesses for their presentations.

I believe that Mr. Bourbeau's last words accurately convey the thinking of our committee members. We all have to work together to find a solution to the diafiltered milk problem. We are all aware of it here, and we all have farms in our ridings. I don't think there is anyone in the committee who doesn't have a friend or has not been made aware and affected very closely by this major problem. We have known about the problem involving solid proteins and that involving pizza kits. Today, we are dealing with this problem.

It's amazing how innovative the U.S. industry is to always manage to circumvent the rules and invent new products to circumvent them again. We will work together on finding a solution, but is there a new generation of products we cannot even imagine that is coming to the market? Will we be able to implement a process or a way to raise the standards to resolve the issue once and for all? We are always coming back to square one.

Do you have any ideas or suggestions to try to make our borders airtight and resolve the issue? That often comes back to politics. However, we don't want to have this problem and we really want to work with industry, which is something we have always done for 45 years. We want to continue in that direction and we all have to do our part. Now is the time to put forward any suggestions.

Mr. Alain Bourbeau: Thank you, Mr. Gourde.

I would say that there is definitely no magic formula. However, a management culture should ensure that the Canadian agricultural policy in the dairy sector—and this also goes for other sectors covered by supply management—would review the control of imported products. Before they come into the country, those products are monitored by Canadian institutions, and it is at that stage the management culture must definitely be improved. Questions following a specific protocol should be asked before those products are authorized. It is clear that the mixture containing oil, butter and sugar that was mentioned was designed to circumvent tariffs. You can only make ice cream with 49% butteroil and 51% sugar. No other application is possible in the agri-food sector.

It is clear that, had authorities been vigilant regarding the purpose of the product and had this kind of a situation been put into perspective in the Canadian policy, the problem would have been completely avoided. I could apply the same analysis to protein concentrates. Chapter 4 of the customs tariff did not set a limit in terms of percentage for milk protein concentrates. The analysis carried out at that time was inconsistent with the sound perspective our dairy policy could have brought. In short, to prevent similar situations from taking place, we really have to change our culture in terms of analysis and be vigilant from the beginning to avoid having to pick up the pieces.

• (1645)

Mr. Jacques Gourde: Canadian processors have taken advantage of diafiltered milk entering the country. Agropur, which belongs to Canadian dairy producers, in the interest of competitiveness, had to buy those same products that harmed its own shareholders. Mr. Benoit could tell us about that.

It's like the chicken and the egg. Which of the two should be saved?

Mr. Dominique Benoit: Thank you, Mr. Gourde.

I would say that we should save both the chicken and the egg. The only reason those proteins are imported today is that processors are looking for ways to reduce their costs. All Agropur can do is jump on the bandwagon. We are on the market, competing with major players, and we have no choice but to use the same tools as others. That being said, diafiltered milk was created to circumvent rules at the border and manufacturing rules. I can guarantee that no one in the United States manufactures cheese using liquid protein

concentrates with protein levels of 85%. Processors don't do that. It does not exist.

In Canada, processors are using that product now—and Agropur has to do it because of competition—for one reason, and that is cost savings. But that makes no sense because cost savings cannot benefit producers. At the end of the day, processors do not benefit from those savings. Profitability is achieved only after the processing stage.

However, the study carried out by the Boston Consulting Group on a global scale has shown that there was no link between the price paid by the consumer and the income earned by the producer. The price of dairy products has not decreased for Canadian consumers. As processors, we have to be competitive. We don't have a choice. We're trying to go along with the way things are going, but honestly, this has to stop because the entire industry is doing it to the detriment of supply management and the system.

The Chair: Thank you.

Mr. Breton, go ahead.

Mr. Pierre Breton (Shefford, Lib.): Thank you, Mr. Chair.

Ladies and gentlemen, thank you for joining us today. The committee greatly appreciates your expertise and suggestions.

I am especially proud to see people from Agropur, which has two plants in my riding. Agropur was created in our area, in Granby. Gentlemen, thank you for being here today. I will first put a question to the dairy producers, and then I will put one to you.

Mr. Bourbeau, you talked about impacts. It is said that producers have suffered losses of \$200 million. As far as I understand, when we look at the chart representing total imports in Canada, we see that imports have tripled in five years. The chart for the United States alone indicates that imports from that country have increased eightfold. You were saying that the situation would continue over the next few years.

Can you talk to us about the effects that loss of \$200 million will have? Here I am thinking of the loss of jobs, as well as the potential loss of our farms. What can you tell us about that? We talked about money, but human beings are also involved.

Mr. Alain Bourbeau: When a farm loses a third or a half of its income to cover its living expenses, it cannot keep that up for many years. Equity deteriorates.

What happens in real terms? That shortfall will mean an accumulation of accounts payable and short-term debts, which will eventually be consolidated. But there is a limit to that. Should the situation continue for a few more years, it may lead to the closing of companies and job losses, and it may have a ripple effect.

The document we are presenting to you talks about the ripple effect within the sector. Our system generates more than 80,000 jobs. We can easily establish ratios. Each \$100 million the industry is losing eliminates a certain number of jobs. A loss of \$200 million will surely lead to a few thousand jobs potentially being lost.

In the enthusiasm of my testimony earlier, I forgot to submit the list of companies that support our requests. That can also respond to the question raised by Mr. Gourde earlier. We asked our 150 delegates from the entire province to meet with processors, small and large, on their territory and to ask them whether they support the requests we are making. As Mr. Benoit said earlier, more than 50 of them support us. We have submitted that list of companies to the clerk. The vast majority of companies support us in that effort and agree that, if the rules are the same for everyone, they will respect them.

I invite you to look at the list. Agropur is actually one of the companies that support us, and we are grateful for that.

• (1650)

The Chair: Mr. Breton.

Mr. Pierre Breton: Thank you.

Everyone seems to agree on this issue. All the processors are at the same level. What would happen if, tomorrow morning, they decided to stop using those dairy proteins or diafiltered milk?

You were talking about financial consequences for a company that may be the only one not to use those products. I understand that this would not make any sense in terms of competition, but what would happen if all the processors decided to use Canadian milk and products?

Mr. Dominique Benoit: Thank you for the question.

The first thing I want to say is that we, the processors, are in competition. The competition on the Canadian market is fierce. Of course, everyone is looking for ways to become more competitive and to reduce their costs to be able to take market shares. That's clear. I think that's where the government has a role to play. It should establish clear rules, so that everyone would be on a level playing field and bound by the same rules. That is the real challenge we are facing.

The federal government is doing something about this by supporting supply management. As my colleagues said earlier, we—the industry producers and processors—are currently negotiating conditions that would enable us to manufacture those ingredients in Canada.

However, as long as the issue of imported diafiltered milk has not been resolved, processors will definitely look for any way possible to reduce their costs. What we want is for the rules of the game to be fair for everyone, and the federal government can make that happen.

The Chair: Ms. Brosseau, the floor is yours for six minutes.

Ms. Ruth Ellen Brosseau (Berthier—Maskinongé, NDP): Thank you, Mr. Chair.

I want to thank Ms. Emond and the other witnesses for their presentations today. I would have liked to have a bit more time to discuss with you, but we had some responsibilities in the Chamber of the House of Commons.

This is a very important issue. Unless I am mistaken, milk proteins and issues related to diafiltered milk have been under discussion for a few years. We have tried to move this file forward during the oral question period by putting questions to the former government.

We have a new government now. As Mr. Breton was saying, everyone recognizes the fact that human beings are involved here. An average-sized farm is losing about \$1,000 per week. The situation is dire. We are talking about human beings and families.

Ms. Emond, you said in your presentation that you have had about 60 meetings with the CFIA and with the Conservative government's representatives. You must have also had meetings with the representatives of the new government. Can you tell us why you think no solutions have been put forward and nothing concrete has been proposed to you? You have suggested several solutions. Could you explain why 60 meetings have been held with no results? Can you tell us more about that?

• (1655)

Ms. Caroline Emond: Thank you for the question.

If I knew the answer, the issue would surely be resolved by now.

I think we have to find solutions that can satisfy everyone. We talked to you earlier about a fairly simple approach to implement existing rules, including the cheese composition standards. We simply need someone to decide to apply them. The agency responsible for that may not currently have the ability to do so. Is it a matter of resources or of political direction? One thing is certain: we know who could take care of this.

The Canadian Dairy Commission currently has a mandate to conduct audits and verifications. It has the resources and the expertise to perform that kind of work. It is prepared to do it and is available. This could be resolved quickly.

I think that part of the answer also has to do with the fact that trade negotiations have been held. As you know, the Trans-Pacific Partnership negotiations have led to certain things being put on hold.

Given the intention to resolve the problem we are experiencing, we hope we will manage to find a solution quickly. Unfortunately, delays and inaction have resulted in situations that never should have happened now looking like the norm. It is difficult to find the will to change them because of a concern to modify a situation that never should have existed. There is an urgent need for action.

Ms. Ruth Ellen Brosseau: I remember when the agreement in principle between Canada and Europe was announced during Thanksgiving weekend. I remember that everyone said we had hit a wall, especially when it came to the dairy industry, for which the agreement led to huge losses. We managed to have a unanimous motion adopted in the House of Commons. We are not sure what the compensations will be following the agreement between Canada and Europe. I assume everyone agrees that the responsibility for enforcing composition standards should be given to the Canadian Dairy Commission.

Mr. Bourbeau, Quebec lost about 250 dairy farms last year. Everyone in the House of Commons recognizes the importance of protecting supply management in our trade agreements and the importance of acting immediately.

We are hearing fine words, but the Canadian government has to stand firm and not throw in the towel. We have to resolve these issues as soon as possible. Can you tell us about the importance of taking action and, perhaps one more time, adopting appropriate measures? I assume that ministers are listening to us and that a report will be submitted.

This is still a complicated situation. It does not only concern the Minister of Agriculture and Agri-Food. Four or five ministers are actually involved in this issue. Unless I am mistaken, it is up to the Minister of Health to develop a vision that could bring everyone together. We have to resolve these issues and not only the problem involving milk proteins. We also have to deal with matters pertaining to poultry, cull cows, and so on.

Mr. Alain Bourbeau: Thank you for your question.

You are doing a really good job of pointing out the issues of consistency, which should exist in the carrying out of a public policy.

In terms of border control, at least four departments are concerned by effectiveness. When I was answering Mr. Gourde's question earlier, I said that there was surely a lack of collaboration between various departments. The Department of Finance is concerned by the payment of tariffs, while the Department of Public Safety is responsible for border control through the Canada Border Services Agency. There is also the Department of Agriculture Agri-Food because this has to do with agricultural policy, as well as the Department of Foreign Affairs because we have trade agreements and have made commitments to our partners. Our trade partners also have agricultural policies and specific requirements.

We often hear that Canada is the only country with a supply management system. That's true, but the U.S. is the only country in the world to have a farm bill, and the European Union is the only entity with a common agricultural policy.

As for your concern, I would say it is vital to create a consistent instrument within government—in other words, among the various departments responsible for the effectiveness of that public policy.

• (1700)

The Chair: Thank you, Mr. Bourbeau and Ms. Brosseau.

[English]

Mr. Longfield, you have six minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Mr. Chair, I'll be splitting my time with Mr. Drouin, if that's okay.

That's fantastic work, and thank you so much for getting all of this together. You've done this before, but it's good to get the current state of what you're thinking.

You mentioned four ministers and there's a fifth if you include innovation. In one of the presentations, you mentioned the state of some of the processors as being in need of upgrading. Do we have the capacity to produce our own MPCs? Do we have the capacity to go technology to technology, or is there a gap that we need to address?

Our government is working on an all-of-government approach to problems. We don't want to miss out on any opportunities if we need to include other ministers as well.

Mr. Peter Gould: That's a great question. We focused a lot on one part of the solution, and it's a very important part of the solution, but the answer is in your question. No, we don't have the technology today, and that is part of the problem as I was referring to.

It creates a level playing field and you get the government to address some of the things that it can [*Technical difficulty—Editor*] for the investment.

I won't make any inappropriate comments here, but our technology is old. We do produce some MPCs and we do produce some MPis, but in relatively small quantities. That was the comment I made.

To have that ability, you need the right conditions for the investment, but it's still going to take time. We talked about a major ingredient plant where you get all the innovation, you get the job, and you get the new technology, but it takes time.

Mr. Lloyd Longfield: I was very fortunate to tour a processing plant in my riding last week, and I saw the innovations they were working on. There were some things around membrane filtration and some of the larger capital problems that need to be solved as well to become technology. We don't want to miss out on opportunities when we look at innovation funds.

I also sit on the industry committee and I may be crossing two committees here, but that's the all-of-government approach.

Thank you for the answer on that. We'd like to see with all of the processors if there's an opportunity for our government to work on projects that will help them be more competitive, because at the end of the day, we have to be more competitive.

Over to Mr. Drouin, if that's okay.

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): Thank you, Mr. Longfield.

With regard to Mr. Gould's presentation, I read here that you said in 2008 the government wanted to establish new tariffs for MPis, but they didn't do it under NAFTA countries. Do you know the rationale for that?

Mr. Peter Gould: To be clear, they did create tariffs and a TRQ, but part of the NAFTA is no new tariffs, so they didn't apply to the United States and Mexico. The United States is a big source of imported product.

Mr. Francis Drouin: They couldn't do it because of NAFTA rules. I'm asking these questions because I want to make sure the strategy with which we choose to move forward is the right one, so we're not back here in four or eight years. If we are trying to block the MPis at the border, can we do that under NAFTA rules?

• (1705)

Mr. Peter Gould: I'm not going to answer that question. I will make the comment, though, that the WTO has a set of rules, as does CETA, NAFTA, the TPP. Under the WTO there are provisions that allow a country to introduce a new tariff code. Under the regional agreements—NAFTA, CETA, TPP, when they come into force—there are no such provisions, so you're absolutely right.

Caroline wants to make a comment as well.

Ms. Caroline Emond: I just want to make clear here that we're not trying to stop imports. There are rules in place. All we're asking for is enforcement of those rules. We produce great Canadian milk here. We talk about innovation, but as Dominique mentioned earlier, they can use that milk.

It's not a question of trying to stop anything at the border; we just want to make sure that we can enforce our domestic rules right now. Don't make this a trade war. It's not one. We have to be very clear on that.

Mr. Alain Bourbeau: Filtration technology has existed for 30 years, so it's not new technology. It's just an issue of investment in these technologies.

Mr. Francis Drouin: Yes, and clearly [*Technical difficulty—Editor*] more than tripled, more than quadrupled.

Mr. Gould, the ingredient strategy that DFO is currently implementing, I'm not sure, is it supported by DFC? Is that the common area across Canada that supports that ingredient strategy? Do you believe that the amount of milk protein imports would decrease if we moved forward with the ingredient strategy?

Mr. Peter Gould: Let me make one comment to begin with. There's a lot in common between what's being done in Ontario and nationally. We're not exactly the same, but everybody is headed for the same outcome.

Just to reinforce Caroline's point, if we get the investment in technology, if we price the product competitively, we create the opportunity. This is not an attempt to replace or displace imports in any way. It's just to bring Canada into the 21st century and create a platform whereby we can compete.

The Chair: Thank you. I guess we're out of time.

Thank you, Mr. Drouin.

Now, Ms. Lockhart, you have six minutes.

Mrs. Alaina Lockhart (Fundy Royal, Lib.): Thank you very much for being here. I really appreciate it.

I'm from the riding of Fundy Royal in New Brunswick. I live in Sussex, which is a dairy town, the dairy centre of the Maritimes, we call it. I've had an opportunity to talk to many farmers throughout the summer as well as into this parliamentary session. One of the things that we talk about a lot is connecting the consumers with the food product and how to have them understand some of the issues in the industry.

Have any studies been done on the diafiltered products, or do you know about the impact on the quality of the products we're producing? What impact does it have?

Mr. Dominique Benoit: Thank you for the question. There's no difference. It's simple.

Mrs. Alaina Lockhart: Okay. That's a quick answer.

Also, I'm wondering, when we're talking about this and about production—and I appreciate the talk around innovation and that sort of thing—are you telling me that there's technology in the U.S. that is making it...? Why do they have this product to export into Canada?

Mr. Dominique Benoit: Well, as I said in my presentation, and I commented on it, the only reason this is happening is that it's a way to bring in cheaper protein. That's the only reason.

We are a processor in the United States. We make cheese in the United States. There's no reason, no rationale for us in the U.S. to make cheese using UF85, using diafiltered milk. There's no rationale for it. There's no economic incentive for it. There's no reason for it. The only reason Canadian processors are importing UF diafiltered milk is that it's a cheaper ingredient because it circumvents the tariff and we can use it without restriction in production. That's the only reason.

• (1710)

Mrs. Alaina Lockhart: Very good. Thank you very much.

Francis.

Mr. Francis Drouin: Thanks.

Peter, you were talking about the ingredients strategy for Ontario.

[*Translation*]

Mr. Bourbeau, do you have the same opinion on the issue?

Mr. Alain Bourbeau: I've been looking forward to answering you.

Across Canada, there is a concern regarding a class of ingredients. To tease my colleague Peter, I would say that their impatience caused them to pull the trigger faster than the others.

Before becoming what is referred to as an Ontario strategy, from the beginning or for a few years, this project was nourished and supported by all Canadian provinces. We shouldn't be talking about an Ontario strategy, but a Canadian strategy that took off more quickly in Ontario because that province has a slightly different program. We basically all agree on the same thing. All the provinces, including Quebec, are working very hard on that. Like Dominique, I recognize the effort of our processors who are getting involved like never before in the past 25 years to find a solution together.

I want to reiterate that rules should be clarified so that they would be the same for everyone. If we want to save our dairy policy, the government must take action.

[*English*]

Mr. Lloyd Longfield: I see we're splitting it three ways now.

It was earlier mentioned that you're a co-operative at Agropur. I know that Gay Lea is a co-operative. There are lots of co-operatives. Maybe one of the other arguments, in a positive way, is the co-operative financial model, where the money actually does get back to the farms and does get back to the producers. How strongly has that argument been made in the past, and is that an argument you'd be using going forward?

Mr. Dominique Benoit: Thank you for the question.

Obviously, as a co-operative, our *excédents*—“profits” is not a co-operative term—go back to the farmers. Agropur has paid back to our dairy farm owners in the range of \$500 million over the last five years in patronage dividends. That money, obviously, is being used by them to reinvest in their own farms and reinvest in their communities. That's the beauty of our model: the money remains in the industry. The profits are in the industry.

Ms. Caroline Emond: I would mention that actually not all dairy farmers in Canada are members of co-ops. Co-ops are not replacements to support all farmers. I just want to make sure that's clear.

The Chair: Thank you.

Mr. Shipley, you have six minutes.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you very much.

I want to thank the witnesses for coming.

Mr. Gould, you made an interesting statement, which was actually pretty concerning, about the problem resulting with CITT, the Canadian International Trade Tribunal. You said the test they used was whether you would put it on a piece of toast. Is that actually part of what they used as a tribunal to determine what was a blend or not?

Like, are you serious about that? Are they serious about it?

Mr. Peter Gould: It was a very narrow interpretation. Their question was on whether or not these butteroil-sugar blends are a substitute—

Mr. Bev Shipley: Is that still a term that is used? Is that still a quote? Is that still a determining factor?

Mr. Peter Gould: Well, nothing has changed. They made their ruling. It's not the—

• (1715)

Mr. Bev Shipley: I would just raise that as an issue. I think regardless of what industry we're looking at that a tribunal we turn to and that organizations turn to uses that pretty much uneducated analysis....

Mr. Peter Gould: Perhaps I could use that as a way to maybe raise another point. Alain talked about the importance of producers across the country and the industry being on the same page. It's a challenge. But challenges arise as a result of things that happen at the border. How do we respond and how do we deal with them? We don't always agree on that, but many of them are the result of either the CITT or the Canada Border Services Agency.

We also have to be a little bit careful about the CITT, because we're hoping they might rule in favour one time, but there is a history there.

Mr. Bev Shipley: We know in 2007-08 there were requests, and significant changes were made at that time to help accommodate the industry. Things keep moving along, and obviously those changes now have been supplemented by border crossings of a product that is having a pretty significant negative impact on the industry.

I'll start with the skim milk dryers. I understand the technology issue. I also know that in the past you had made an application under the agriculture innovation fund in terms of the Elora station for the

dairy industry to move forward. I think the next innovation fund application—if that's where you're heading—would be supported by this committee. Not only would it be dryer capacity, but the technology, then, that is used in other countries would come forward for use in those plants. Would that be a fair statement?

Mr. Peter Gould: You didn't have 100% of my attention, and I apologize for that, but based on what I did hear, Mr. Shipley, I think it is a fair statement, yes.

Mr. Bev Shipley: Okay.

Madame Emond, is there a consistency across the country in terms of the pricing of products so that the dairy farmers across Canada would be able to be more competitive in terms of producing a class of milk that would be used? No?

I know there have been discussions, for example, with DFO in terms of a class of milk that would be used to help....

Ms. Caroline Emond: [*Inaudible—Editor*]

Mr. Bev Shipley: Maybe Mr. Bourbeau.

Mr. Alain Bourbeau: If you don't mind. I'll answer in French. It will be easier for me.

[*Translation*]

First, the price of milk is practically the same across Canada, regardless of the milk class used. That's the first factor. There are institutions in Canada through which provinces collaborate to ensure those levels are maintained. The second factor is that there is a payment class in Canada, which we refer to in our jargon as class 5. In that class, the price of milk is the same as the U.S. price to bring a competitive element.

[*English*]

Mr. Bev Shipley: I think we all agree that there needs to be effective border control that falls under CBSA. Minister MacAulay had talked with you, and I think that's an encouraging statement that was made. I'm just wondering if they've given any sort of a timeline in terms of when they would start to implement the concern with CBSA, but also the stopping of the imports.

Ms. Caroline Emond: I'll take that one.

Actually we wish we had a deadline, but we don't. I understand that you might have Minister MacAulay coming to meet with you soon, so you can ask him the question. I will be listening. I will be in the room to get the answer. We're hoping it's soon. That would be my answer, because as you've seen, the time is pressing.

Mr. Bev Shipley: In terms of the amount of imports that are coming in, what are the amounts that are needed here to meet the market demand?

Mr. Benoit.

Mr. Dominique Benoit: We don't need...and do you know why? It's because we have a lot of skim milk in Canada from which we could produce ingredients. If the government would make a decision to control the utilization of those ingredients.... Let me be very clear. We're in the final process of negotiations of a national strategy. We will produce those ingredients domestically, at a competitive price, and we will use them. There's no need for that since we have so much skim milk.

• (1720)

The Chair: Thank you, Mr. Benoit. Thank you, Mr. Shipley. The time is up so we'll have to move to the next questioner.

[*Translation*]

Mr. Drouin, go ahead for six minutes.

Mr. Francis Drouin: I am asking a lot of questions, but you will understand that the dairy industry is extremely important in my area. The St-Albert Cheese Co-operative uses 100% Canadian milk. I have been talking and continue to talk to many dairy farmers.

I want to come back to my question about the ingredients strategy. I want to make sure that I understand what that means. Mr. Benoit alluded to it. This strategy will help producers buy those products at a competitive price. Is that correct?

[*English*]

Peter Gould, you made some reference to it, but it has to be followed by the updates of processors, the dryers. Is that correct?

Mr. Peter Gould: Let me make a couple of points. One has been talked about already. There are some necessary conditions. Nothing will happen unless you have the conditions right.

One is a level playing field. There is no question about that. You need a competitive price for skim solids, what we call ingredients, which is what I wanted to touch on when Bev raised the question.

With the way we price skim solids in this country, there is a huge incentive to find another source. We have to get on a competitive footing. That's all part of the ingredient strategy.

In terms of ingredient technology I'm not talking about cheese, because we have very advanced cheese technology. For yogourt, it's state of the art. But in terms of ingredients, it's not. That's where the investment has to be made, as I say, to bring Canada into the 21st century.

Mr. Francis Drouin: I know it's mostly been an issue since 2012, because they have skyrocketed.

[*Translation*]

How do Canadian dairy producers see those issues coming and how do they prepare for them? I know that you will probably officially adopt the ingredients strategy across the country over the next few months. However, how do you make sure that we don't end up in those situations? Perhaps you talked about that five years ago, but I am not aware. I would like to plead my ignorance on the matter. I have been a member of Parliament only since October 19. If you have been talking about this for five years, I forgive you.

Ms. Caroline Emond: First, to answer the question, the federal government is responsible for border measures and the implementation of cheese standards. The situation we find ourselves in currently is caused by government inaction and not by us. Let's be clear on that. As for the measures that should be taken, the problems are known and the solutions have been discussed several times. Government responsibilities are necessary, and we talked about that. We are in charge of two pillars. The third pillar, border control, is the government's responsibility. As an industry, we basically make sure to provide our processors with the best possible environment.

I also have to remind you that producers have invested in their facilities over the past 50 years. So they have invested in new equipment, robots, the construction of barns, and so on. Millions of dollars are invested in our farms across Canada. So we have done our share of the work. Processors have invested in Canada. Agropur is a good example of that. There are others that have chosen not to invest in their processing capacities in Canada. We are currently trying to help them and encourage them to do that. We are doing it in partnership with the processors. We hope that the government will also be a partner because we want to make sure to have the best possible environment, so as to benefit from the experience we have in Canada. Our dairy producers are manufacturing milk of very high quality, and our processors have a great deal of expertise. All we want is to make sure to have the most prosperous industry possible and to work with all the partners to achieve that.

Yes, the ingredients strategy is something that has been on the table for a while—for a few years before we even started talking about it. I can tell you that we are now the closest we've been in terms of reconciliation and willingness to work together. So that's an extremely positive development. We need help from the government, and we need the government to fulfill its role.

• (1725)

Mr. Francis Drouin: I will share my time with Mr. Breton. He asked me to leave him one minute.

Mr. Pierre Breton: Thank you, Francis.

We talk a lot about border control, and we know that this role has to be performed by the federal government. As for cheese manufacturing, does it come under government control or does industry decide what products make it in when it comes to yogourt or cheese?

Mr. Alain Bourbeau: We don't have the authority to implement rules to regulate dairy product manufacturing. Those powers belong to the provinces or to the federal government. For example, the federal government regulates when it comes to cheese manufacturing standards. Quebec has provincial regulations that set out certain guidelines so that yogourt can be called yogourt. The idea behind having standards is not to prevent certain things, but to provide a framework and make the standards transparent in the eyes of consumers and assure them that, when they buy a product, if it is called cheese, it's not pudding. When they buy yogourt, it's not frozen dessert. Regulations do not prevent innovations. Regulations bring transparency and clarity for the benefit of the consumer. We, as a group of producers, do not have that authority. That authority belongs to the provinces or to the federal government.

[*English*]

Mr. Lloyd Longfield: What I've seen is that all of us want to help the industry. I think it's in the interest of Canada, and I think the approach that we're taking is to try to make the best legislation we can so that you can succeed in your industry. The farmers can succeed and their families can succeed.

I thought I had a half second to make a comment. I have really appreciated the conversation from all of the people in the room here. I know that we're going to work as hard as we can as a committee for you.

The Chair: Thank you, Mr. Longfield. I think it's a good closing statement..

On that note, I would like to thank the panel.

[*Translation*]

Thank you for sharing your knowledge with this group.

As it is 5:30 p.m., we will end this meeting and let the witnesses go. However, I would ask the committee members not to leave the room, as we have to approve the subcommittee's motions. It will not take long.

• (1730)

[*English*]

Please take your seats.

Mr. Warkentin.

Mr. Chris Warkentin (Grande Prairie—Mackenzie, CPC): Thank you.

I move that the committee adopt the first report of the Subcommittee on Agenda and Procedure of the Standing Committee on Agriculture and Agri-Food and that we do that now. I move the entire report as a block.

I don't think there would be much disagreement if we proceeded.

The Chair: We have a motion on the floor that we adopt the report from the subcommittee.

Is that it, Mr. Warkentin?

[*Translation*]

Can I please have your attention?

[*English*]

Alors, do we support this motion?

[*Translation*]

Is anyone opposed to the motion?

(Motion agreed to [See *Minutes of Proceedings*])

Mr. Francis Drouin: I'm sorry, Mr. Chair, but I would like to make a comment.

[*English*]

With regard to the TPP, as you know, the international trade committee is making a study. Do the clerks interact with one another? I just don't want to overlap. We talked about efficiency here. I want to make sure that we don't overlap on the same subjects and whatnot.

Chris, we've talked about this at the subcommittee level, but I want to make sure we don't overlap.

The Chair: We'll ask our clerk to talk to the clerk of the international trade committee to make sure, as you say, that we don't have overlap, if it's okay with the group.

Are we all set with that?

Madame Brosseau.

Ms. Ruth Ellen Brosseau: I know I came in late, and it's my fault. This says that this is the first report. Are we going to go through these four subjects and put it into one report? Is my understanding correct?

[*Translation*]

The Chair: We just adopted it as a single motion.

Ms. Ruth Ellen Brosseau: Okay. If I understand correctly, the adoption of this motion implies that we will carry out separate studies. We will conduct a study on the Trans-Pacific Partnership and present a report. We will then study the issue of grain transportation for a day and we'll report on it.

[*English*]

The Chair: These are just recommendations. We will look at the time frame and such.

Mr. Shipley.

Mr. Bev Shipley: Can we turn this over for a second?

On the meeting today, I think we've all agreed, and we've talked with Lloyd for a minute, and this is not a study, but I think we all agree. Is there something we could put forward to help you guys in the government, just from the notes that the analyst has done? Is there something that you see coming out of the committee today as some sort of recommendation?

The Chair: Ms. Lockhart.

Mrs. Alaina Lockhart: Personally, I was looking for today to be a fact-finding mission. I didn't have any aspiration to make any recommendations today.

Thank you.

• (1735)

The Chair: Madame Brosseau.

[*Translation*]

Ms. Ruth Ellen Brosseau: We heard from four witnesses today whose testimony was very interesting and who proposed concrete solutions. As we know, a number of those individuals, especially among the Dairy Farmers of Canada, met with the government 60 times. I think it would be worthwhile to write a letter on the issue.

[*English*]

—not a partisan one—saying that we had this meeting with these four people.

We should act. We're asking the Minister of Agriculture to look at dairy proteins. We had a meeting today, and I think it would just be constructive if we wrote a simple letter, maybe sign it together, asking that the government move on this.

[*Translation*]

The Chair: Mr. Longfield, go ahead.

[*English*]

Mr. Lloyd Longfield: The minister will be here soon.

Ms. Ruth Ellen Brosseau: I know.

Mr. Lloyd Longfield: I think we have a lot of information from the meeting that we could take forward to him.

The Chair: Thank you very much, everyone.

The Chair: Are there other comments?

Mr. Francis Drouin: Let's let DFC adopt the ingredients strategy. Then maybe at that point we can talk about moving forward.

Unless there are other comments, I will declare this meeting adjourned.

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