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The Honourable Mark Eyking

Standing Committee on International Trade

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● (0845)

[*English*]

The Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)): Good morning, everybody.

She's been a rough wet night and morning, but it's good to see everybody here.

We're going to try to have this meeting structured a bit like the last one. I'm thinking that we'll have our first round. We'll probably do 50 minutes. Then, if the other guest witnesses are here, we'll go right to them. Then we'll try to save the last 15 minutes for new business.

Is that in agreement with everybody?

Some hon. members: Agreed.

The Chair: Our main topic today is agriculture. That's dear to many of our hearts, especially with our former minister here.

To start off, we have the Canadian Agri-Food Trade Alliance here today, and the Vintners Association.

If you folks are ready, we usually try to keep our presentations tight, so we have lots of room for questions. I'm sure you've done this before.

We're going to start off with the Agri-Food Trade Alliance.

Ms. Citeau, go ahead.

[*Translation*]

Ms. Claire Citeau (Executive Director, Canadian Agri-Food Trade Alliance): Thank you, Mr. Chair.

On behalf of the Canadian Agri-Food Trade Alliance, or CAFTA, which is the voice of the Canadian Agriculture and Agri-Food exporters of Canada, I thank you for having invited me today to speak to you about the Trans-Pacific Partnership.

[*English*]

CAFTA is a coalition of national and regional organizations that seek a more open and fair international trading environment for agriculture.

Our members represent farmers, producers, processors, and exporters from major trade-dependent sectors including the beef, pork, grain, oilseeds, sugar, pulse, soy, and malt sectors. Together that's roughly 80% of Canada's agriculture and agrifood exports, about $50 billion annually in exports, and an economic activity that supports hundreds of thousands of jobs across the country.

As you know, Canada has one of the most trade-dependent agriculture sectors in the world. We export over half of everything that we produce, and 60% of that goes to TPP markets. CAFTA strongly supports the TPP and believes that it is integral to the future viability of Canada's export-oriented agriculture sector. It is essential that the TPP be ratified and implemented quickly.

The TPP region represents a market of 800 million people and absorbs 65% of our exports. It includes some of our top trading partners: the U.S., Mexico, and Japan. But it also includes some of our largest competitors: the U.S., Mexico, and Australia. Some signatories already do have trade agreements with one another.

Specifically, Japan is our third priority export market and a premium market that demands $4 billion per year in Canadian agrifood products. That's roughly 10% of our total agrifood exports. TPP countries also include fast growing markets in Asia such as Vietnam, Singapore, and Malaysia.

Additional access to the U.S., Japan, Vietnam, and Malaysia appears to be the major market gain for Canadian agriculture and agrifood exporters under a ratified TPP. Tariffs will be removed or phased out of a number of export commodities in key markets. Outcomes are significant for Canadian agriculture and agrifood exporters despite the fact that the U.S. and Japan remain highly restrictive on their sugar market.

I would like to share with you a sample of CAFTA members' projections of the opportunities that seem to be provided in the TPP. For canola these include better trade security, more value for their products, and increased exports by up to $780 million per year. For pork producers, the opportunities are preferential access ahead of non-TPP competitors and the ability to compete in the billion-dollar Japanese markets, where exports could climb to $300 million. Canadian beef producers expect to double or triple annual exports to Japan to nearly $300 million. Canadian barley producers could export an additional 400,000 to 500,000 tonnes of barley in various forms, worth about $100 million.

The TPP will create new opportunities, provide a secure trading environment, level the playing field, and preserve current exports for a lot of our products. This applies to our 1.5 million tonnes of premium wheat exported to Japan; our $2.3 billion in grains and special crops going to Japan, Malaysia, and Singapore; our $884 million in soybean exports to TPP markets, and our $340 million in pulse exports to TPP markets.

As for Canada's sugar and sugar-containing products, the TPP provides welcome, though small, increases into the restricted U.S. market. The industry is currently looking at doing an analysis of what the opportunities in Japan, Vietnam, and Malaysia will mean for their sector.

Beyond tariffs, the TPP also sets a new Asia-Pacific framework for trade with rules to increase co-operation and transparency on non-tariff barriers related to sanitary and phytosanitary measures, biotechnology, and plant health.

We recognize that this agreement may do more for some than others and will certainly not eliminate all tariff barriers in the region, but all our members are united in supporting the TPP as a significant improvement on the status quo for all Canadian agrifood exporters and our broader economy in general.

Overall, the TPP preserves our privileged access to our number one trading partner, the U.S. It secures unprecedented access to fast-growing Asia-Pacific markets, and it provides an opportunity to enhance our competitive position in the region and obtain more value for our products. It also provides an opportunity to negotiate the terms of entry of potential future countries such as South Korea, Taiwan, Thailand, the Philippines, and others.

Most importantly, the TPP puts us on an equal footing with our global competitors in the region. Canadian agriculture cannot afford to relive the destructive experience of South Korea, which saw a billion-dollar market virtually cut in half overnight when our competitors, namely the U.S. and Australia, had access to this market and we did not.

Ultimately, if we're not part of the TPP and other signatories are, we will fall behind, so the best way to implement the TPP quickly is to ratify it quickly. The TPP will substantially increase opportunities for hundreds of thousands of farmers, producers, and exporters who depend on trade. Without such an agreement, Canada would be ceding market share to global competitors in the region.

● (0850)

Thank you.

The Chair: Thank you very much for that presentation.

We're going to move on to the Canadian Vintners Association and Mr. Paszkowski.

Mr. Dan Paszkowski (President and Chief Executive Officer, Canadian Vintners Association): Good morning. My name is Dan Paszkowski. I am the president and CEO of the Canadian Vintners Association, better known as the CVA. I'd like to thank everybody for the opportunity to provide the Canadian wine industry's perspective on the Trans-Pacific Partnership agreement.

As the national voice of the Canadian wine industry, our members are engaged in the entire value chain, including grape growing, farm management, grape harvesting, wine production, bottling, retail sales, research, and tourism.

Canada is a premium global wine producer, skilfully producing high-quality table wine, sparkling wine, and icewine. Canada's wine industry is robust and growing, contributing $6.8 billion to the national economy, supporting 31,000 jobs, and attracting more than three million tourist visitors every year.

Canadian vintners are actively engaged in the global economy, with $74 million in export sales shipped to 40 countries in 2015, up from $20 million in 2005. From Nova Scotia to British Columbia, vintners support a competitive and fair global trading environment, recognizing the numerous benefits to industry, customers, and the greater economy.

Under the TPP agreement, the Canadian wine industry widely anticipates developing preferential relationships with our largest trading partners, providing enhanced access to 800 million consumers, and nearly 40% of the world economy. While roughly 96% of our TPP wine export value is currently exported to the United States, Asia-Pacific consumers are rapidly increasing their interest and demand for premium wines, providing important new market potential for Canadian vintners.

TPP members are responsible for 98% of Canada's current wine export volume, in part because Canada already appreciates tariff-free access with the United States, Mexico, Chile, and Peru. Nonetheless, the proposed agreement will offer immediate and tangible benefits to the Canadian wine industry, reducing costly tariffs, providing greater protection for authentic icewine, and streamlining complex technical and administrative barriers to trade.

If Canada were excluded from the TPP, the sole benefit of these negotiations would go to some of the world's most ambitious wine-exporting countries, namely, Australia, Chile, New Zealand, and the United States, leaving Canadian vintners significantly disadvantaged.

Most importantly, today I want to emphasize that our export growth realization is tied to our domestic success. The Canadian wine industry is firmly rooted in Canada, yet our domestic market share is a mere 32%, 10% of which is for our premium wines, the lowest of any wine-producing region in the world.

For the Canadian wine industry to reach its full potential, decision makers and political leaders must recognize that TPP countries already represent 46% of total wine volume imported to Canada. Combined with CETA, this amounts to 89%. Our competitors are eager for even greater sales, investing millions annually to market their products in provincial liquor boards. Last week, *The Globe and Mail* reported that New Zealand wine export sales to Canada were up 18% in 2015, surpassing 92 million, and this is before the full implementation of import tariffs when the TPP enters into force.

All eyes are on Canada. We are the second largest wine-growing market in the world, with wine consumption growing three times faster than the global average. Canada is the sixth largest wine importer in the world and over the past decade, imports have captured 75% of Canada's 150 million litre wine sales growth. Looking ahead, Canadian wine demand is expected to grow by 50 million litres, or 11%, by 2018, making our country increasingly attractive to our import competition.

The Canadian wine industry looks forward to the removal of tariff and non-tariff barriers to trade with TPP countries, but given the front end competitive benefits that this agreement offers our competitors, ratification must include federal support to help the wine sector adjust, take advantage of, and prepare for trade agreements like TPP and CETA.

With 685 grape wineries operating across Canada, our future success in the global market remains intricately tied to our growth and success at home. A competitive tax system, support for private infrastructure investment, and the removal of interprovincial barriers to wine trade will help stimulate innovation and business investment, enhance our competitive position, capture greater domestic share, and help take advantage of these emerging export opportunities.

Thank you for your time. I look forward to your questions.

● (0855)

The Chair: Thank you very much.

We'll start off our first round. Each presenter has six minutes and we'll start with the Conservatives.

Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Leamington, CPC): Thank you, Chair, and thank you all for coming.

I want to begin with a clarification. Ms. Citeau, you mentioned the drastic reduction or the effects of South Korean trade, but that, of course, has been changed and corrected since we signed the free trade agreement with South Korea.

Ms. Claire Citeau: We haven't regained what we had—

Mr. Dave Van Kesteren: What I'm saying is that we now have the same footing and the same advantage as do other countries in the region.

Ms. Claire Citeau: I think for some of the products the phase-out periods are taking 10 to15 years. Over that time until we get to that end point, which might take 10 or 15 years for some of the products, we'll remain at a disadvantage over some of these tariffs. Australia and the U.S. have an advantage over us.

Mr. Dave Van Kesteren: Thank you.

My region, southwestern Ontario, has a vast array of different agricultural products. I'm pleased to hear you're excited about this, as am I. Not only do we grow products—I think we're first in soybeans, in corn we're very close, we're one of the tops in wheat, and then there are a number of vegetables—but we're also the largest greenhouse growing area in North America and not just Canada.

I wonder if you've been in contact with the greenhouse industry, and I wonder if you could tell this committee what effect it will have on that industry when we ratify this agreement.

● (0900)

Ms. Claire Citeau: I can only speak for the commodities that we represent. In principle for our commodities we rely on trade. We export over half of everything we produce. That's 50% of our beef, 70% of our pork, 75% of our wheat, 90% of our canola, and 40% of our processed food products. With the demand for some of the high-quality Canadian products, we see a lot of opportunities internationally to grow, but we'll leave the other sectors to speak for themselves.

Mr. Dave Van Kesteren: Yes.

In a country like Japan there's a robust trade and industry involved with soybeans. I believe it has to do with non-genetic, modified... GMOs. There are a number of farmers in my area that do produce for Japan. How will that impact their situation and will that prove to be a boom for them as well?

Ms. Claire Citeau: I can't speak in detail for soybeans specifically. I'll let Soy Canada, our member, speak to that in more detail.

What I'll say about Japan is that it's our third export market, and it does over $4 billion in exports of Canadian products annually. What's important to know about Japan is that it is a high-value market. For a lot of our products, and pork in particular, if we were to lose access to that market we could not find the same value for our products in other markets. It's very unique in that sense. It's a high-value market for a number of products like pork, but wheat and sugar as well. It is our largest predictable market for canola seed, the largest market for malt and pork, and the fourth largest market for beef as well.

Mr. Dave Van Kesteren: This will be an advantage because there are still tariffs that are charged on those products, and they will be removed.

Ms. Claire Citeau: That's correct.

Australia does have an advantage in Japan because they already have a free trade agreement with Japan. The longer the TPP drags, the longer we fall behind. It's important for us that this agreement be ratified and implemented quickly.

Mr. Dave Van Kesteren: I'm surmising, and I suspect this is true, that since Australia is in the southern hemisphere we would have the advantages of a northern hemisphere nation for producing the crops when they have their winter. Is that correct?

Ms. Claire Citeau: I think on that I'll let the specific crop producers and representatives speak for their own commodities. What we are seeking in the TPP, and in market access in general, is a level playing field. The TPP will do that for us once implemented.

Mr. Dave Van Kesteren: Dan, it's good to see you. Of course I'm on a role of bragging about southwestern Ontario. I'd point that out that Pelee Island of course is our pride and joy when it comes to the wine industry. We produce some unique wines there as well, as there are in other regions in the nation. I'm always amazed that within our own country, like with Air Canada for instance, that they're not serving Canadian wines. You're absolutely right. We do have some excellent wines.

I wanted to ask you about last year, and it doesn't pertain to TPP. Last year we lost a lot of our vineyards. How is that progressing? What stage are we at with growing the new wines and the new vines? How's that coming?

The Chair: We have only a little time. We'd appreciate a short answer if you could.

Mr. Dan Paszkowski: There was a cold snap in your part of Canada where the frost killed the vast majority of the vines. They have now been replanted. It takes an average of three years before a vine matures to the point where it can produce wine again. The process is well under way.

Mr. Dave Van Kesteren: Just in time for the TPP.

The Chair: Thank you Mr. Van Kesteren.

Thanks for those answers.

We're going to move it over to the Liberals for six minutes.

Madame Lapointe.

[*Translation*]

Ms. Linda Lapointe (Rivière-des-Mille-Îles, Lib.): Thank you, Mr. Chair.

Thank you for being here with us this morning, Ms. Citeau, we appreciate it. The agri-food and wine sectors are sectors that inspire me a lot.

Ms. Citeau, in your statement, you said this: “We recognize that this agreement does more for some than others [...]”. You talked about the sectors that would benefit more. In your opinion, which sectors would be adversely affected by the signing of the TPP?

● (0905)

Ms. Claire Citeau: I cannot talk about the sectors that would be adversely affected, because we do not represent them.

Our members all see advantages to the TPP. Some may see more than others, but I would let them speak for themselves on that.

Take sugar as an example, one of the sectors that is sensitive in world trade in general. We see that the sugar sector and products that contain sugar will gain additional access to the American market. That is access they appreciate, but it is less than they had hoped for.

Ms. Linda Lapointe: Very well.

Ms. Claire Citeau: Generally all of our members see nothing but advantages to the TPP.

Ms. Linda Lapointe: What I understand is that those you represent are favourable to it.

It may be more difficult for some, but the others are all in agreement.

Ms. Claire Citeau: I would say that it is very positive for sugar, but there are nuances.

I would let the representatives of that sector comment further on that.

Ms. Linda Lapointe: Fine.

You also said that the signature of the TPP “[...] provides the opportunity to negotiate the terms of entry of potential future TPP countries such as South Korea, Thailand, Taiwan, the Philippines [...]”.

Have you quantified what this might mean in terms of increased markets?

Ms. Claire Citeau: You mean additional markets?

Ms. Linda Lapointe: Yes.

Ms. Claire Citeau: We have not done that yet.

Ms. Linda Lapointe: Very well. You cannot tell us what beneficial effect this might have on our economy.

Ms. Claire Citeau: No, not yet. However, just for the TPP, you will note that I have already provided preliminary figures and anticipated benefits. Furthermore, there are other countries that might join the accord and have indicated their intent to do so, such as Thailand, the Philippines and others, and these are large markets that are undergoing a period of strong growth in Asia. In our opinion, this can only be beneficial and advantageous.

Ms. Linda Lapointe: Fine.

Concerning pork and South Korea, you spoke earlier of not repeating the same mistake. Japan and the United States were involved. You said that from one day to the next, because of tariffs, we lost 50% of our market. This was due to tariffs.

Are tariffs the only barriers to trade in agricultural and agri-food products in TPP countries right now? If that is not the case, how could we eliminate the technical barriers that are interfering with trade in agricultural and agri-food products in the context of the TPP?

Ms. Claire Citeau: To answer your question on South Korea, that was in 2011. South Korea was our biggest market. South Korea concluded an agreement with the United States and Australia and our market share was reduced by half. It was a $1-billion market. Generally, when it comes to the agricultural and agri-food sectors, you must remember that there are a whole series of measures that can be considered as non-tariff barriers. What we generally see is that despite free trade agreements, once the tariffs have been eliminated, there is an increase in the number of non-tariff barriers.

[*English*]

As tariffs go down non-tariff barriers go up. What we see in the TPP agreement is a number of mechanisms that basically reaffirm the WTO commitments in terms of non-tariff barriers but also go a little bit beyond. I spoke briefly about some of the mechanisms that are to be put in place. There's a chapter, for example, on modern biotechnology. There's a chapter on sanitary and phytosanitary measures. I think there are close to 20 or maybe 25 different committees that will be established to facilitate co-operation amongst officials on things like the timely approval of biotechnology trades and the removal of non-tariff barriers as they arrive.

It will be very important to watch how these are implemented because this is going to be critical to ensure that our exporters realize commercial benefits and that market access is viable in the end. There are committees to address these issues.

[*Translation*]

Ms. Linda Lapointe: Mr. Chair, how much time do I have left?

[*English*]

The Chair: You have another minute.

[*Translation*]

Ms. Linda Lapointe: Thank you.

Mr. Paszkowski, you spoke earlier about federal assistance for the wine industry and producers, should the agreement be signed. What did you mean by that?

● (0910)

[*English*]

Mr. Dan Paszkowski: We're different, for example, from the dairy sector, which has 100% market share in Canada; we only have 30% market share. In order to support our growth, we have to grow domestically to be able to take advantage of the opportunities that the TPP has to offer us, and we do believe there are opportunities.

The things that we're talking about are support for innovation and infrastructure in the wine industry, so that we can produce better quality wines, so we can put in place some climate resilient technology. As David mentioned, with the cold snap in southwestern Ontario, if there had been wind machines there that could keep the warm air down on frosty evenings, it would have protected that entire crop, and these winemakers wouldn't now be waiting three years to take advantage of profitability. Those types of things would be helpful for our industry, and help us to take advantage of what the TPP has to offer.

Also, we're working with one hand behind our back—actually two hands—because we don't have free trade within our own country. British Columbia, Manitoba, and Nova Scotia are the only three provinces that have opened up their borders since a unanimous bill passed in the House of Commons and was approved in the Senate in 2012.

If we had those types of things in place, we could grow our domestic market, and therefore, take advantage of these agreements. With reduction in tariffs, New Zealand and Australia will continue to grow their market share here. If we can't compete, we won't benefit domestically and we won't benefit from the TPP.

The Chair: Thank you very much.

[*Translation*]

Ms. Linda Lapointe: What I understand is that you also have a problem within Canada because of interprovincial barriers.

[*English*]

The Chair: There's other time, if somebody wants to pick it up, but we have to move on to the NDP.

For six minutes, we have Madam Ramsey.

Ms. Tracey Ramsey (Essex, NDP): Thank you so much for your presentation. It was very informative.

There are over a dozen wineries in my riding in Essex County, so I really listened closely to what you had to say today.

I recently met with Colio Estates, whom you represent. We discussed some of their concerns around the icewine designation, certainly around the interprovincial barriers, the role that potentially the federal government could play in helping to alleviate that. Like you say, there could be a level playing field across Canada and not the borders that currently exist.

The question that I have focuses around that market share that you currently have. The Canadian Vintners Association has indicated that the Canadian wine sector's domestic market share is 32%, the lowest of any wine-producing region in the world. If Canada ratifies the TPP, would wine producers from other TPP countries gain additional access to the Canadian wine market? Would your share go down?

Mr. Dan Paszkowski: Potentially the answer would be yes. I mean, the tariffs aren't significantly high in Canada. They range between 2¢ to 5¢ per litre, so they're not overly significant.

As I mentioned, the United States and Chile are already entering tariff-free. There's a potential for Australia and New Zealand to sell more wine in Canada. The benefit would be somewhere around $6 million to $8 million per year. With that $6 million to $8 million, they could lower their prices. They could use that money towards additional market promotion in Canada. Liquor boards would love to sell more products.

It is a risk. We're not scared of competition, but as I mentioned, if there were some support to help us grow, that would be extremely helpful.

We are very happy that the previous government and the current government has enabled the agri-marketing program to use some of that funding to do domestic market promotion. In December, the government provided us with $1.7 million, matched by industry for a total of $3.4 million over the next two years, to do domestic and international promotion. That will help.

Ms. Tracey Ramsey: Can you speak to us a little about the impacts that NAFTA had on your industry?

Mr. Dan Paszkowski: Sure.

I think most people, going back in history, thought that when the Canada-United States Free Trade Agreement was signed in 1988, that the Canadian industry would be decimated and would die. The federal government and provincial governments did help us at that time to replant some of the hybrid varieties that we had—cold climate varieties—into more mainstream Chardonnay, Cabernet Sauvignon, Merlot varieties.

We did that replant program. We did research and development. We created a VQA quality assurance system, and our industry flourished.

Ms. Tracey Ramsey: Can you tell us the percentage of market share you had before NAFTA and the percentage that—we know you have 32% now.

Mr. Dan Paszkowski: We had 50% market share in 1988 and now we've dropped down to 32% and our goal is to grow the industry back to that 50% market share.

● (0915)

Ms. Tracey Ramsey: Okay.

Madame Citeau, you spoke about potentials in the market, but I wonder if you could let us know specifically if you have any studies.

We know the government doesn't have an economic impact study around the TPP so a question that I'm asking people who are coming forward is if they have commissioned their own studies. Do you have any studies that you've been basing your position on the TPP upon?

Ms. Claire Citeau: The numbers I provided, and there's a bit more provided in the reference document that was sent yesterday.... Members do their own studies and my role is to roll it up, but they've individually conducted their own studies to come up with these numbers.

Ms. Tracey Ramsey: Could they share those with the committee?

Ms. Claire Citeau: I'm sure if you ask them they will be happy to do so, yes.

Ms. Tracey Ramsey: Can we ask through you or do we have to go individually to...?

Ms. Claire Citeau: I'm happy to facilitate that.

Ms. Tracey Ramsey: Thank you.

I want to speak a little about the consultation process.

We know the previous government mainly negotiated this in secret—some partners were involved—but I'd like to ask you about the consultation process under our current government.

Could you describe to us what consultations you've had potentially with the minister or possibly the parliamentary secretary?

Mr. Dan Paszkowski: We were involved with the previous government from the front end. We did have officials participate at our board meetings, providing us with updates. I was sworn to secrecy and participated in the discussions as well. There were conference calls with the chief negotiator monthly or every two months.

Since the new government has come into place we have written letters identifying our concerns, and this is my first opportunity to address the TPP.

Ms. Claire Citeau: As for us we've been engaged and consulted throughout the negotiation. CAFTA has advocated for Canada's participation in the TPP and was present in Auckland when Canada first joined the negotiations in 2012. We were also in Auckland earlier this month for the signing of this historic deal.

Since I joined the organization, I have been going to every round, starting with the Ottawa round, and typically at every round we're able to meet at least once with the negotiator and with the chief negotiator as well every time in between rounds.

Ms. Tracey Ramsey: Since the election have you met with the current government? Have you had a consultation?

Ms. Claire Citeau: Since the election I have met with the chief of staff, as a group we've also met with Minister Freeland and earlier last week with David Lametti, her parliamentary secretary, and we've also made sure that the government as well as this committee and the agriculture committee has received our letters.

Ms. Tracey Ramsey: Thank you.

The Chair: We're going to go back to the Liberals for six minutes.

Mr. Dhaliwal.

Mr. Sukh Dhaliwal (Surrey—Newton, Lib.): Thank you.

The Chair: You're welcome if you want to share, if a bit has to be finished up.

Mr. Sukh Dhaliwal: Thank you, Chair.

Mr. Paszkowski and Ms. Citeau, welcome.

B.C. is the best wine producer in the world.

Dan, can you describe to me how British Columbia will benefit from the TPP and how it will negatively affect British Columbia and what we have to do to mitigate those provincial barriers you mentioned earlier?

Mr. Dan Paszkowski: I can't disagree with you. British Columbia does make some fantastic wines.

We'll be holding our first wine caucus, non-partisan wine caucus, on March 7. I'm sure all of you will be invited to participate, and there's always a reception at the end of our caucus meeting. I think British Columbia has great opportunities from the TPP in terms of its location in the world and Asia-Pacific. Japan is our seventh largest trading partner for wine. There are great opportunities in Japan, Singapore, Malaysia, and Vietnam with the reduction of tariffs. I did mention that the tariffs in Canada ranged between 2¢ and 5¢ per litre. They are significantly higher in those countries. Vietnam has a 50% *ad valorem* tariff and in Japan it's 15%. The elimination of those tariffs will allow us to compete with, as was mentioned, Chile and Australia, which already have free trade agreements with Japan, and allow us to get greater access into a market where wine consumption is continuing to grow.

As I mentioned, from a negative perspective for British Columbia, if more Australian and New Zealand wines enter into that marketplace at a faster pace than we can grow our own domestic share, that will continue to reduce market share in Canada.

I did mention that we went from 50% to 32%, but over that period of time, from 2000 to 2015, we also increased our production of quality wines in Canada by five times. Market share is lower, but production is higher, and we believe we can grow that to the benefit of the Canadian economy.

From an Agreement on Internal Trade perspective, three out of the 10 provinces have opened up their borders, two of which are wine-producing jurisdictions. We believe that if ministers, who are supposed to be meeting on the Agreement on Internal Trade in March, could focus in on wine, even if it was as a pilot project, to continue to open up borders would be extremely helpful. As we grow our market share domestically, we'll be able to take greater advantage of the TPP.

I'll give you an example from the United States. Small wine producers in the U.S. represent 5% of production. In 2005 in the United States, the Supreme Court ruled that it was unconstitutional to allow a winery to ship directly to a consumer within the same state but not to allow a winery out of state to ship to that consumer. Since that time small wineries have represented 51% of direct consumer delivery in the U.S. They will continue to become more profitable because they're getting more margin for their products. As they continue to become more profitable, they're going to start exporting to the most attractive wine market in the world, which is Canada, which is going to put us at a competitive disadvantage.

It's extremely important that we do make progress in opening up our borders so that we can take advantage of the export opportunities we have but also to protect ourselves from those other wine producers that are growing because they don't have two hands tied behind their back.

● (0920)

Mr. Sukh Dhaliwal: In your opinion, what is it that is not letting those borders open up right now? What are the hurdles we face and how can a minister intervene to help open up those barriers?

Mr. Dan Paszkowski: We thought that amending a piece of legislation that existed from 1928 would do the trick. That eliminated the criminal element from moving alcohol across provincial borders, but it put in the hands of the provinces the requirement for them to amend their regulations to allow for that to happen. Once the wine crosses a border, it's within provincial jurisdiction, so they have to open up their borders. Really, all it's going to require is for each of the remaining provinces to amend their regulations to allow for some form of direct delivery to take place. We have provided legislative examples of how that could take place. To date those jurisdictions haven't listened.

Mr. Sukh Dhaliwal: Thank you.

To Ms Citeau, you have said that all your stakeholders have expressed that TPP is going to help when it comes to northern and western Canada—Manitoba, Saskatchewan, Alberta, and British Columbia. From a Canadian agricultural perspective, will there be any sector that will be negatively affected by the TPP?

Ms. Claire Citeau: I can only speak to those we represent, and those we represent have all been united—

Mr. Sukh Dhaliwal: You said that earlier. I know you are focusing on those ones. My particular question is whether you see any particular sectors in northern and western Canada that will be negatively affected or are there positive benefits for northern and western Canada?

Ms. Claire Citeau: In agriculture and for the sectors I represent, no.

Mr. Sukh Dhaliwal: No. Okay, thank you.

The Chair: Your time is up, Mr. Dhaliwal.

That ends our first round. We have about 10 minutes or so, and we'll start off the second round.

We have Madam Ludwig.

Ms. Karen Ludwig (New Brunswick Southwest, Lib.): Great, and I'm splitting my time with my colleague.

The Chair: You have six minutes altogether.

Ms. Karen Ludwig: Thank you both for your presentations.

My questions are somewhat around the area of modification of products. Entering into the new markets are there any product modifications that you would have to do, either in the winery area or in agriculture, to adapt to the new markets?

● (0925)

Mr. Dan Paszkowski: In Asia, in the Asia-Pacific countries, they do have a keen interest in sweeter wines. There also is a growing interest in sparkling wines. If we can penetrate those markets as those tariffs continue to come down and we produce more of those products, we believe we can capture a pretty significant market share there.

We're a superpower in icewine production around the world. We're the only country in the world that can produce it year in and year out. Within the agreement there is a definition of icewine. As many of you know, icewine is counterfeited around the world, particularly in Asia-Pacific countries. Having that definition is extremely important and we believe there's a huge growth opportunity for those products.

Ms. Karen Ludwig: Thank you.

Ms. Claire Citeau: I think, in principle, the industry is ready to adapt their products. If they see the commercial opportunities, they will do so. It's up to them to decide to make those changes and adapt their product. The TPP is only an agreement. The implementation part of it will be important, and then it's up to the companies to take advantage or not of the opportunities.

Ms. Karen Ludwig: This question is for both of you again. How prepared are Canadian companies to adapt for the new markets?

Ms. Claire Citeau: Being prepared is a means to an end. I think the end is being able to continue to export their product on a competitive level, a level playing field. Is the industry ready? I think you'd have to ask the different sectors, but given the fact that we are already currently the fifth exporter of agricultural and agrifood products in the world, we have a good reputation for the quality and food safety systems that are in place there, so I think we are well positioned.

Mr. Dan Paszkowski: In terms of export readiness, there are probably only 50 wineries in Canada that currently export. They are your larger and medium-sized ones. The small ones have to grow a foothold in Canada first. This is not unique to Canada. If you look at a country like Spain, which owns about 95% market share in their own market, they owned their own market before they started exporting.

Our members will continue to export. Those who are exporters have a foothold in the TPP countries already, and they look forward to growing that market share there. Some of the things that the federal government could do is provide us with improved market information on wine sales opportunities and demographics in each of these TPP countries, for example, so that when a small winery or a medium-sized winery is prepared to go, they go there running. They're not going there making mistakes.

Ms. Karen Ludwig: I'll ask a question specifically on that, then. I just have two and then I'm done.

Have you approached Agriculture Canada to prepare a report on your specific question?

Mr. Dan Paszkowski: We haven't asked Agriculture Canada. We have talked to Global Affairs Canada, international trade, and the trade commissioner service that this is an area where it would be important to develop that type of information. The United States does this through their GAIN reports, which are highly helpful, and we do lean on those. They provide you information on the tax structure, the tariffs, the demographics, the trend, male-female consumption habits, etc., and that's very important if you want to enter into that marketplace.

Those are the types of things we would be looking for, not for every country but for specific countries.

Ms. Karen Ludwig: My last question is this. What difference, what impact do you think there will be with the new imports coming in within, let's say, TPP, in terms of price, in comparison to your product or products?

Mr. Dan Paszkowski: We compete in every price range, so if you look at the lower end we do produce blended wine products, which are about half of our economic impact. Those are Canadian and imported wines blended together to meet the 85% of the Canadian population that drinks wine in that $8 to $12 range. Beyond that, we produce our VQA and 100% Canadian premium products that range from, on average, $15 in Ontario or $20 in B.C., all the way up to $30, $40, $50.

We can compete toe to toe with these products. Our challenge is being one of the most attractive wine markets in the world. The governments of the United States and all of the CETA countries spend millions and millions of dollars in Canada to promote their products, and that becomes a greater challenge.

Ms. Karen Ludwig: Okay, thank you.

● (0930)

Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.): I have a question around currency devaluation. I know it's a concern for some of the countries that are within the TPP agreement, namely Japan.

Ms. Citeau, I know you mentioned that Japan was one of the markets that you are focused in on and would like to see some real opportunity there.

To Mr. Paszkowski, how would currency devaluation affect you?

In the same light, in regard to currency fluctuations, we've seen a great deal of currency fluctuation with the Canadian dollar over the last number of years, especially over this year. How has that affected you within the TPP market?

The Chair: You have a half a minute, but go ahead. That's just the way it rolls.

Mr. Peter Fonseca: Could you address the devaluation?

Mr. Dan Paszkowski: Clearly, the margins are tight in any marketplace. In Japan, for example, when you have a 15% *ad valorem* tariff and then you have impacts on currency, if you can't meet the margins it's not an attractive market to enter into.

The Chair: Before we move to the Conservatives, I'd like to welcome two other members of Parliament to the table. We have Mr. Stetski from Kootenay-Columbia, and Mr. Lemieux from Chicoutimi—Le Fjord. Welcome.

For the last part of this round we have the Conservatives and Mr. Ritz.

Hon. Gerry Ritz (Battlefords—Lloydminster, CPC): Thank you, Mr. Chair.

Dan and Claire, thank you for your presentations.

Claire, you made the point that this should be ratified quickly so that your companies can gear up and be ready for the market.

Dan, would you echo those sentiments?

Mr. Dan Paszkowski: I would completely agree.

Hon. Gerry Ritz: You also alluded to the fact that you've done some cost-benefit analysis with your member groups, and we'll have access to that. That's good. I know there has been quite a bit of discussion—I've seen numbers out there and I don't believe them, personally—that there are going to be 58,000 jobs lost if we do this.

Food processing is the largest manufacturing sector in the country. It's not Ottawa. It's not anything else. It's food. Do you have any idea of the jobs that could be created once these markets are in place and we start to gear up to address the market share that we can gain in countries like Japan, which is premium, as well as some of the other countries that are talking about joining the TPP? Do you have any idea of the potential percentage increase in food processing jobs?

Ms. Claire Citeau: Not specifically right now. It's something that we are looking into and will be happy to share with the committee once we have it.

It's important to know that while we don't have the specific costs or benefits in terms of what it will create for all sectors, the costs of not being in the TPP are very important to consider. Look at the Canada-Korea situation, but also consider the fact that if we are not in the TPP the rules of origin are such that our companies would be excluded from supply chains, because our products would not qualify as TPP originating.

Hon. Gerry Ritz: That's a good point. I've always thought there would be a tougher sell with the jobs that would not be created and the jobs lost if we're not part of this global change. We would see an erosion, especially in the South Korean market should they join, because then they would have access to it and they wouldn't need us at all.

I'm very concerned about that. If you have done any work on that, it would be great. We did do some at Agriculture and Agri-Food Canada using that pork market in Korea as an example.

You also both talked about the rules behind the tariff walls. It's not difficult to bring tariff walls down when the countries then just slip back into non-tariff trade barriers. We see that with the agreements now. We've been very cautious and careful that we have the phytosanitary agreements, agreements on GM products, and a lot of other things that could be thrown up as a roadblock.

You both have been consulted all along. Thank you for that and the direction you've given.

Was there anything that you think should still be added when it comes to non-tariff trade barriers?

Mr. Dan Paszkowski: The non-tariff part was important to us and the TPP did address that. As you may or may not know, Canada participates in something known as the World Wine Trade Group. With that group, which includes all the new world wine producers, including Australia, New Zealand, the United States, Argentina, Chile, etc., we have developed agreements over the past 20 years or so, such as an MOU on winemaking practices, labelling agreements, a definition of icewine, and things of that nature.

The hard work that we've done over the past 20 years was put into the TPP agreement. All those non-tariff barriers had been addressed by that addition to the TPP agreement.

I'll give you an example in terms of labelling. Different countries have different labelling rules for variety, volume content, alcohol content, and country of origin. It costs a lot of money when a small Canadian producer wants to export and they have to redo a brand new label for 50 cases, for example. Having that in the TPP means that our labels are now accepted in all those TPP countries. If there is a specific label requirement there, it can be stickered on once it arrives in that country. That's a significant cost advantage for a country that's largely just entering the export market.

● (0935)

Hon. Gerry Ritz: Thank you.

Dan, you also said that in 1988 you were 50% of domestic consumption and today you're 32%, but that at the same time your exports have grown. It's the value of the industry now that is very significant. How does that 50% of 1988 numbers compare with today's numbers, when you have 32%?

Mr. Dan Paszkowski: Our exports definitely have grown significantly since that time, as has our domestic production. That was the point I was trying to make, that we have lost market share. That's because over the past 10 years, for example, because we're so attractive, imports have captured 75% of wine sales growth. We want to turn that around. We want to get back to 50%.

But our volume growth has increased and our exports have increased. Per capita wine consumption in Canada in the past decade has increased by 26%. There's a great interest in wine. Per capita consumption of spirits is flat—zero per cent—and beer has gone down by 9%. That's not to say that our volumes are down. It's just that there is a huge interest in wine from knowledgeable Canadian consumers. There's a huge opportunity for us to take advantage of that domestic growth and to take advantage of what TPP has to offer, but the two have to go hand in hand.

Hon. Gerry Ritz: I agree, and then there's the interprovincial thing, which we've been working on for quite some time. I find it absolutely ridiculous that New Zealand wine has an easier time getting into British Columbia than Ontario wine has. That makes no sense to me at all. It's a bit of kingdom-keeping at the provincial level.

You mentioned the court case in the U.S., which worked out extremely well for them. Have you guys never considered doing something like that here?

Mr. Dan Paszkowski: It's very difficult to do something like that in a marketplace in which you have a monopoly liquor board system. A constitutional court case—

Hon. Gerry Ritz: But you're talking about direct sales. I understand the fly in the ointment, but is it worthwhile considering something like that, even just to raise the profile?

Mr. Dan Paszkowski: I think the profile has been raised in New Brunswick, with the gentleman who carried a few cases of beer across the border. That court case is still in the courts. There is a chance it could move forward, and that might be the fly in the ointment to get some progress on this issue.

But I'd hate to wait for that court case. I'd prefer to say that under the discussions of the Agreement on Internal Trade, something could happen. Given the fact that eight out of 10 provinces have Liberal governments, there may be an opportunity for the federal government to talk to its provincial colleagues to finally start opening things up.

Hon. Gerry Ritz: Thank you very much.

The Chair: Thank you. Your time is up, Mr. Ritz.

Thank you, guests, for coming. It was a really good, informative discussion.

We're going to take two minutes now to bring in our new witnesses. I hear there are some chicken farmers here, but the dairy farmers are still milking their cows and they'll be here very shortly.

● (0935)

——— (Pause) ———

● (0940)

The Chair: We're good to go with the second round.

We have supply management in the room. It is unique to Canada and it works very well for us.

Committee, we're going to try to keep this round to 45 minutes. We have the dairy farmers and the chicken farmers. The chicken farmers are up first. Someone said the chicken came before the egg.

You have five minutes for your opening. Then we'll go to the dairy farmers and then open it up for questions.

Go ahead, folks.

Mr. Mike Dungate (Executive Director, Chicken Farmers of Canada): Thank you, Mr. Eyking.

Good morning, everyone. Thank you for inviting us to share our perspectives on the Trans-Pacific Partnership.

My name is Mike Dungate. I'm the executive director of Chicken Farmers of Canada. With me today is my colleague Yves Ruel. He's our manager of trade and policy.

I'd like to quickly tell you a bit about our industry, about how the chicken industry benefits all of Canadian agriculture, and about how we can improve our contribution to Canada's GDP, in spite of the additional access that Canada had to provide to conclude the TPP agreement.

We're a national organization. We represent 2,700 chicken farmers in Canada. Our board of directors has farmers, processors, further processors, and restauranteurs. We take a value-chain approach to it and really are a growth and a value-addition success story.

We sustain 78,000 jobs, $2.4 billion in farm cash receipts, and $6 billion in contribution to Canada's GDP. We pay $2 billion in taxes. We're part of the economic solution. We also purchase 2.5 million tons of feed, annually, and support other farmers with what we do.

We have farmers located in every province and we have more farms today than we had in 1978 when we started our business. Production has grown steadily, about 20% in the last 15 years. The year 2015 marked the sixth consecutive year of growth. We grew 3% this last year.

Contrary to a popular misconception, our market is not closed. Everybody focuses on the high over-quota tariffs, which nobody pays. Their sole purpose is to determine what the level of access is to our market and provide certainty. People avoid talking about the tariff that people actually pay. For every one of our free trade partners, chicken comes into Canada duty free or at a maximum of 5.4%.

It's not applied just on a small amount. In 2015 we imported 214 million kilograms of chicken into Canada. That makes us the 17th largest importer of chicken in the world. It makes us the second most important market in 2015, up from number three for the U.S. and after Mexico. Of the 12 Trans-Pacific Partnership countries, we import more chicken than the U.S., Peru, New Zealand, Australia, Malaysia, and Brunei combined. That's absolute volume with 35 million people. We're a big importer of chicken.

Only 10% of chicken production is exported globally. That's because it's a fresh market product. It doesn't have the shelf life of other meats and that's why it is at that level. Of the 10% of global production that is traded, Brazil and the U.S. account for 75%. In fact, we're the eighth largest exporter of chicken in the world, but we're a bit player, at that.

We believe we can increase our contribution to the Canadian economy, despite the concessions provided under the TPP.

At the end of the TPP's implementation period, we will offer additional access of 26.7 million kilograms to our market on an annual basis. This is the equivalent of us losing 61 farms in Canada, average size, with annual sales of $57 million. That's the hit that comes on us. In a loss, in terms of jobs, it's about 2,200 jobs, and it's about $150 million in contribution to GDP on an annual basis.

It will be on top of the already significant access we have of 7.5% of our previous production and that equalled just over 80 million kilograms this past year. When you take the two together, 9.6% of our market will be from imports, very close in line with the 10% that is traded globally. There's nothing for us to be ashamed of regarding the access we provide into our market. Every single kilo of that access will come in duty free.

On its own, this would be a hard hit for the Canadian chicken industry. However, the displacement of our production resulting from this additional access can be mitigated by the elimination of some import control circumvention measures. We've been working with the government for several years on these issues.

Three specific measures were announced by the government when the TPP was signed on October 5, 2015. It's critical that the government implement these, without delay. They were announced with the TPP, but they're not tied to the TPP.

● (0945)

The first is to exclude chicken from the duties relief program. This is a Canada Border Services Agency program that allows companies to import chicken, keep that chicken in Canada for four years—not sure what it's like after four years—potentially substitute it for lower-value product and re-export it. We see it as a fraudulent way to circumvent the import controls that we have. That volume is 96 million kilograms or about 9% of our production, so it's not an insignificant number.

The second is to implement mandatory certification for all spent fowl imports. These are old laying hens and they're not subject to import controls at all. We imported 103 million kilograms, or about 9.5% of our market of them. The problem we have here is not stopping spent-fowl imports but the fact that we're importing more spent fowl from the U.S. than they produce in the U.S. That speaks to outright fraud. They're labelling it as spent fowl, and it's actually chicken. That's taking away 8,900 jobs and $600 million in GDP contribution that we could be doing.

The third issue is to stop creative packaging by modifying what we call the "specially defined mixture rule." Add a packet of sauce to chicken and it's no longer chicken. It comes in duty free. We don't think adding a packet of sauce that the consumer doesn't want, that the consumer throws away, should be a valid means of changing tariff classification.

In addition to the elimination of these import-control circumvention practices, there were indemnity programs announced on October 5. These will help the industry to face this new TPP access. We believe these measures recognize the difficult concessions that Canada had to make to get this deal that provided us access to other markets. They will provide some relief to farmers, albeit on a temporary basis, and help both farmers and processors.

In conclusion, the Canadian chicken industry and its evolving supply-management system continue to be a significant contributor to the overall health of the Canadian agriculture economy. We're innovating and we're investing to grow our industry. We're evolving our system to change and meet consumer demands. While the TPP agreement will be a hard hit on its own, chicken farmers and the Canadian chicken industry believe that the package that was announced by government on October 5 is the critical component. We support a rules-based trading system and call on the government to re-establish the integrity of our import control system by eliminating those circumvention practices so that we can fully seize the opportunities we have for our market.

Thank you.

● (0950)

The Chair: Thank you very much, Mr. Dungate. That was a good snapshot of your industry, where it is and where you want it to go.

We're going to go to the Dairy Farmers of Canada.

Please, go ahead.

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

Good morning. DFC is pleased to participate in the pre-consultation of the Standing Committee on International Trade on the TPP.

My name is Caroline Emond. I'm the executive director of the Dairy Farmers of Canada. I'm joined today by my colleague Yves Leduc, who is the director of the policy and trade department. He's been following the trade negotiations for more than 20 years now, so he will definitely be able to give you all the background you need on this agreement and others.

DFC has never been opposed to the signing of any international trade agreements that preserve the integrity of supply management.

DFC is the voice of the Canadian dairy farmers, fostering a strong and united support of farmers at the grassroots level for a national system of supply management. We are the national lobby, policy, and marketing organization representing all dairy farmers living on Canada's 11,350 dairy farms. 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 farmers and promote Canadian dairy products and their health benefits.

It is important to emphasize that the Canadian dairy sector makes a huge contribution to the Canadian economy. It adds $18.9 billion to the GDP; sustains 215,000 jobs, full-time equivalent; contributes $3.6 billion in tax revenues; and is one of the top two agricultural sectors in seven out of 10 provinces. Furthermore, unlike other jurisdictions where farmers' incomes are heavily subsidized, the Canadian dairy sector derives its income from the marketplace, a marketplace that will be affected by the opening of the market to European and TPP countries. The dairy sector is a positive contributor to the Canadian economy regardless of the state of the economy.

While we would have preferred that no additional access be conceded in the dairy sector, we recognize that the government fought hard against other countries' demands and have lessened the burden by announcing mitigation measures and a compensation package.

In addition to the CETA agreement that amputated our market of 17,700 tonnes of cheese, the TPP agreement includes concessions for cheese, with an additional 16,500 tonnes, as well as concessions for all dairy products. To this day, the dairy sector is extremely proud to state that it does not receive any direct payments from the Canadian government.

While we were pleased that Canada's compositional standards for cheese were preserved in the TPP agreement, we do have some concerns with respect to whether or not Canadian regulations and standards will be applied to imported goods. The growth hormone rBST, for example, is banned in Canada but remains in use in other countries. In addition, some of the labelling requirements mentioned in the Minister of Health's mandate letter for sugar, sodium, and trans-fat content are different from country to country. These have important implications for Canadian businesses, which could be placed at a competitive disadvantage if importers do not face the same regulations. It would also create confusion for Canadian consumers who might struggle with products not meeting higher Canadian standards.

Regarding the estimated 3.25% of access granted for milk and dairy products in the TPP agreement, using the government's assumptions, DFC was able to replicate the government calculations. However, when calculating using DFC's own assumptions, which differ slightly from those of the government on some products, our estimates came in at a slightly higher number. According to our conservative estimates, the outcome ranges between 3.37% and 3.97%, representing a loss of revenue ranging between $190 million and $250 million, depending on what product is really imported at the end.

In a similar manner to CETA, TRQ administration is very important in order to ensure these products are imported in a manner that is coherent with supply management and that helps preserve the stability of the Canadian marketplace for milk and dairy products. This is particularly true for butter, since the agreement will prevent the Canadian Dairy Commission from importing the TPP butter TRQ as it currently does for the WTO TRQ. Clarification is needed about who will be able to import as well as the role the CDC can play to ensure the impacts of the agreement are limited.

Unfortunately, the combined effects of CETA and TPP will seriously impact Canadian dairy farmers' bottom line year after year. DFC conservatively estimated that the combined impact arising from both CETA and TPP to be between 4.85% and 5.8% of the 2016 milk production forecast by Agriculture and Agri-Food Canada.

● (0955)

It represents between $282 million and $357 million in lost revenue. These are perpetual losses that cannot be substituted through exports. While we are working on a strategy to take advantage of some export opportunities, these remain limited as a result of the WTO panel, which essentially concluded that any export sales at below the domestic price constitutes an export subsidy.

DFC supports trade agreements as long as they have no negative impact on dairy farmers. Canadian dairy farmers should not bear the cost. The government chose to make concessions on dairy to secure the TPP trade agreement. The compensation to dairy farmers for lost revenue is a part of the compromise the Canadian government was willing to make. We are seeking a commitment from the Canadian government to invest into dairy and other supply management sectors the full $4.3 billion envelope at a minimum.

Contrary to the claim that trade agreements have helped to shape a better world market environment, it is difficult for us to conclude that. Now, 20 years after the WTO the world marketplace is not a friendlier place for farmers.

When DFC appeared before the Senate committee in November 2014 we told members that the world dairy market was essentially a dumping ground. Unfortunately, the situation remains disastrous. Looking at the International Farm Comparison Network world price indicators, prices have decreased from $56 per 100 kilograms of milk in February 2014 to $33 per 100 kilograms in November 2014 and to $25 in January 2016. At this price, none of the world milk producers can cover their cost of production.

Let's not forget that dairy is not a sector in which trade defines the industry. Only 9% of dairy production is traded on the world market. Dairy is mostly produced for domestic and local needs.

The CETA and TPP agreements open the door to products from dairy industries that are highly subsidized in both the U.S. and EU, putting Canadian dairy farmers at a disadvantage in our own market. Even products from New Zealand would currently enter the Canadian market at a dumping price, because 80% of the New Zealand dairy farmers cannot cover their costs of production with the current price they're getting; and Fonterra is helping them to offset some of this impact.

In 1966 Canada decided to support its dairy farmers by voting into law the Canadian Dairy Commission Act, whose mandate is to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment. Since then, Canada has been fulfilling its promises to its farmers, and DFC hopes it will continue.

This is why the Dairy Farmers of Canada strongly believes supply management works. We wish to reiterate that DFC is not opposed to pursuing export opportunities. However, we are facing higher costs of production at the farm level as well as the processing chain in Canada. For example, Canadian processor margins are almost double what they are in the EU right now, suggesting that export opportunities are limited.

These export opportunities must return adequate profits for both the farmers and the processors. The promotion of export activities and export strategies can only succeed if they are jointly developed through a strong producer-processor partnership in collaboration with government. To be successful in world markets, the Canadian dairy industry must target specific niche markets as opposed to commodities. There is a real interest in exploring and developing beneficial and smart export activities, and we can assure you that we are engaged in dialogue with the processors and government stakeholders in finding ways to help sustain and grow the Canadian dairy sector.

In conclusion, DFC is looking forward to working with the government, which has reiterated its support for supply management, and working collaboratively to find solutions. We want to ensure farmers will continue to make an adequate income from the marketplace, while adequately compensating the farmers and processors for the negative impact occurring from the TPP and CETA.

Thank you.

● (1000)

The Chair: Thank you very much, Madame Emond, for a good snapshot of the dairy industry.

We're going to start our six-minute rounds with the Conservative Party and Mr. Van Kesteren.

Mr. Dave Van Kesteren: Thank you, Chair, and thank you all for coming.

I began my questions in the last round bragging about southwestern Ontario, which is of course a garden of Eden, but we have very little dairy and very little chicken. I do have some connection there, though. We have a small farm and we raise some Holsteins and of course we have chickens. Every small farm has chickens.

My wife's parents were dairy farmers and her brother is a chicken farmer, so I certainly know and appreciate it. I think anybody in dairy has a great love for their work, not only for the employment but for the animal itself. I don't know if that's true about chickens or not, but they're a whole lot of fun on the farm as well.

Anyway, with that segue, were you all involved with the consultations throughout the procedures? I'll start with you, Mike.

Mr. Mike Dungate: Yes, we were intimately involved with the consultations and as you hear it from this side we're not opposed to a trade agreement. We're looking at a trade agreement and making sure a trade agreement works for Canada, but it works for us as well.

We've had an ongoing relationship with Global Affairs, as well as with Agriculture and Agri-Food Canada and the ministers. We had ongoing discussions with them, and we had ongoing discussions with the negotiators. I think there was a level of trust that we could share information back and forth, and I don't think we had any concerns on that perspective for our own industry.

Mr. Dave Van Kesteren: Thank you.

Madame Emond, were you also involved with the consultations?

Ms. Caroline Emond: Yes, we were an active stakeholder throughout the negotiations, and we worked closely with the negotiator to give them the information they needed to do their jobs properly. The collaboration has been at a level where we could share, and we made sure they had the right facts and the data to do the job.

Mr. Dave Van Kesteren: There was a compensation package that was offered to the dairy industry. We had the dairy people visit us, and they were quite pleased with that.

Is that compensation package still on the table? Is the current government still going to honour that package?

Ms. Caroline Emond: Thank you, that's a good question.

Mike mentioned, and it's the same thing for us, that the TPP trade agreement goes with a mitigation and a compensation package. That was the way it was built and negotiated. As we said, we never opposed the trade agreement, but why should our industry bear the costs of that agreement that had been negotiated for the benefit of other sectors?

We understand that fully. We have never prevented our colleagues in pork and beef to export because it's important to them, and we respect that. You can see that lately, both with CETA and TPP, dairy is the sector that is paying the price for that.

We are a great contributor to this country, and I think everybody supporting supply management can understand that the dairy sector is not only an economic benefit to this country, but also a social one. The role we play in those rural communities is important, and I think that's why we want to make sure this industry is healthy.

We always say that when the dairy farmers are doing well, then the country's doing well. In that sense the compensation package is essential to that agreement.

Mr. Dave Van Kesteren: I would certainly agree.

I would even extend that though. I think the farm in general is something that we guard, and it's precious. Anybody that understands and has had any contact with farming, knows how important it is to our culture. We certainly do want to maintain that.

The other point I wanted to make was that you talked about the difference in standards, but would you not agree that any product that comes into this country has to meet our standards?

I think you would agree as well—and I'll allow you, and I don't want to put words into your mouth—that they have to rise to the occasion because our standards are second to none. Would you agree to that?

● (1005)

Ms. Caroline Emond: What I can agree with is that as dairy farmers we have invested a lot of energy and money to develop a program that we call proAction. This is a program that we've developed ourselves, for ourselves, and going above the Canadian standards right now.

We want our consumers and our customers, the processors, to know we're using the best practices from all sectors: from environment to traceability to biosecurity to animal welfare. We're doing the best we can as Canadian dairy farmers. It's important for our farmers that is taken into consideration because we bear the costs for that.

Mr. Dave Van Kesteren: I would agree.

Mike, I think you mentioned about the chicken. I'll tell you as a consumer I look at the packaging. I want to see and I want to be sure that when I buy chicken it comes from Canadian farmers.

Are we doing a good enough job? Will this agreement allow us to identify where that chicken comes from?

Mr. Mike Dungate: I think it is important that we understand where the chicken comes from. We're doing a branding program in terms of that.

We've built a trust level with consumers. Chicken consumption continues to go up because people trust what we're putting out there, and it's a high-value product. We're not working at the bottom end of the market. We're creating that trust level. If we allow imports that are inferior to that, and they put in question that trust we have because they're getting it at a restaurant where there is no package and they don't know where it's come from, then it is an issue for us.

We believe that the standards we've put in Canada that we want for our families should apply equally to the domestic industry and to imports.

The Chair: Thank you very much, Mr. Van Kesteren. Your time is up.

We're going to go to the Liberals now for six minutes.

Mr. Peterson.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Thank you, Mr. Chair, and thank you, panellists, for being here. We appreciate your contribution and your insight into these complex industries. They play an integral part in the Canadian economy, so we appreciate your being here.

I have a few questions.

Mr. Dungate, you spoke about other barriers that your industry faces. I'm looking not necessarily at TPP-specific ones, but what sorts of barriers has your industry been facing over the past few years, whether or not they are addressed by the TPP? You talked about import circumvention and things like that. How significant are these barriers to your industry?

Mr. Mike Dungate: They are absolutely key. As we said, this is a package and we worked hard. It was clear that we needed....

The whole part about a supply management system is not that we don't import chicken. We import a significant amount of chicken. The point is to know how much of it is coming in, because then we can do our production accordingly and are going to try to drive the market. But if it's circumventing it, that destabilizes what we're trying to do in market terms.

Certainly somebody can bring in chicken, keep it in our market for four years, and export it whenever they want. Even if they were going to re-export it, they are putting it into our market when it's opportune for them and then re-exporting a lower-value product at a time that's opportune for them, whereas we're working on an eight-week production cycle. It's completely out of line.

Our point—and we met earlier this week with François-Philippe Champagne—is that we were at the point concerning the duties relief program with the previous government last May that it was set. It was going to be done. It was to take all food products out of it, because that is not a perishable product program.

We would like to see this in the budget. It's a no-cost measure, and in fact it will support an industry and allow us to contribute more.

Mr. Kyle Peterson: That's good.

The TPP doesn't really address that barrier, then, at all.

Mr. Mike Dungate: No. The TPP will not address that barrier at all. From a non-tariff barrier perspective, there still are barriers from a meat perspective. For example New Zealand doesn't import any chicken, and it isn't because of tariffs. It's because they just don't allow it in.

Mr. Kyle Peterson: Right. It's outright banned.

Just let me understand the supply chain of your industry. Your organization also represents the processors as well as the farmers. Is that correct?

Mr. Mike Dungate: I won't say we represent the processors; we have processors on our board. We work closely with the processors in a value-chain approach, and I think they would share the perspective on these issues that we have.

● (1010)

Mr. Kyle Peterson: I would think they would.

When we're importing chicken in Canada, is it a processed product that we're importing, or is there raw chicken coming in, concerning which Canadian processors can take a value-added role, even if we're importing more? Or is it coming in already processed?

Mr. Mike Dungate: This is part of what we call tariff rate quota administration. Really, the importers are grouped as processors, distributors, food service—there are different pools in it.

There is a lot of value added that comes in. There is a benefit. To be clear, we're not trying to stop the imports there that are certain, that we know are there, that provide some value-added.

Mr. Kyle Peterson: Okay.

Mr. Mike Dungate: There are some that go direct to store shelves, absolutely.

Mr. Kyle Peterson: Thank you for that.

I have one last question on the quota and...indemnification, I guess, for lack of a better word.

I think the previous government indicated that a quota will not be devalued by the TPP. Do you agree with that economic assessment? Have you done one of your own? It seems to me intuitively that the quota must be valued less, if it's moving into this more open market.

Mr. Mike Dungate: Are you talking about production quota value?

Mr. Kyle Peterson: Yes.

Mr. Mike Dungate: It's a tough one to get a handle on, mainly because the price of quota varies from province to province from sale to sale. There's not an open exchange where it can happen in the chicken sector.

Our point is that our job in supply management is neither to increase or decrease the value of that quota. Our job—I would call it my job—is a cash flow business job, not an equity appreciation job. If we're doing our job properly, we would hope there's stability there.

Mr. Kyle Peterson: I think you indicated in your presentation that the—

I'll come to you, Ms. Emond, I'm sorry.

Actually it's a good segue, because I want to know what your appreciation is of the indemnification—whether it's to offset a devaluation in the quota, or how you see it working, or whether you think your quotas will even be devalued.

Ms. Caroline Emond: First, can I answer the first question—

Mr. Kyle Peterson: Sure.

Ms. Caroline Emond: —on circumvention? Obviously that also applies to dairy. This duty deferral program has been detrimental for all supply management commodities. In dairy it's been causing major problems because if chicken after four years is not nice, I can tell you it's the same thing for dairy products. This is not helping. This has to go. This is clear-cut for everybody in the agriculture business.

What's important for this committee—because you said there's no link with the TPP—is that creative circumvention of imports is part of this role, as well as that of your committee. I can tell you there are a lot of creative people out there. We faced the pizza kit crisis we had, and the butteroil-sugar blend. They do the same thing. Put a little sugar in cream and it's not cream anymore. There are all kinds of ways. When we talk about granting access it's important you keep in mind that border control is important. People will find any way to play with them and that is detrimental to us. Contrary to a lot of industries, we do control our production to make sure we respect the demand. If we can't read the demand then obviously that's not happening. I think this is part of the role of the committee.

To answer your question on the quota values, we believe with the information we have that this part of the compensation package is probably not the one that will be helping the farmers directly. We would rather see that money devoted to the revenue loss. According to our calculations, and we need to remind you, it's not only the dairy package. It's all supply management packages. The $4.2 billion is not for dairy. It's for the five commodities. In our case it includes CETA and TPP, and it lasts for 10 years for five commodities. The numbers look big, but I can tell you that the loss of revenues are big.

The Chair: Thank you very much.

We're going to move on to the NDP, and Ms. Ramsey.

Ms. Tracey Ramsey: Thank you.

First of all thank you so much for everything that your organizations do. Supply management is so important to Canadians, so thank you for advocating on behalf of the farmers you represent.

To be sitting here having a conversation about opening our supply-managed dairies and expanding our chicken imports weighs heavily on me as a consumer and as a Canadian. To support producers and supply-managed sectors during the implementation of the TPP and the Canada-European Union Comprehensive Economic and Trade Agreement, the federal government has announced an assistance package composed of a $2.4-billion income guarantee program, a $1.5-billion quota value guarantee program, a $450-million processor modernization program, and a $15-million market development initiative.

Are the proposed amounts sufficient to offset any negative impacts of the TPP and CETA, and help support Canada's dairy and chicken sectors?

● (1015)

Ms. Caroline Emond: First, I must tell you you're not alone in wanting Canadian products. We had a campaign during TPP: Canadian milk matters. There were more than 215,000 letters that were sent across the country to most of you in support of Canadian dairy farmers. They like the Canadian products because they trust the farmers and they know we have the highest standard possible. I think it's important to know you're not alone.

Second, the calculations, the estimates made by the government at the time were made, I would say, more on the safe side of the calculations. The thing is that we don't know which products will be coming in. In the case of dairy, for example, we could bring in milk at 2%, but in the regulations you can go to 6%. Depending on which products are coming in, obviously.... If it's 6% milk, I can tell you the impacts are much bigger and that's why we have a range like that. Depending on the type of product coming in it impacts on the loss because we measure in terms of butter fat.

It's not an easy one. You can say, “This is it”, but I can tell you that for CETA and TPP for five commodities over 10 years, definitely, it's not too much.

Ms. Tracey Ramsey: In addition to Mr. Van Kesteren's question, I would like to ask specifically if you've had any indication from the current Liberal government that they will honour the compensation package that was offered.

Ms. Caroline Emond: We have heard in the House of Commons in an answer to a question by the minister saying he supports compensation. That's all I can say.

Mr. Mike Dungate: We got a letter from Minister MacAulay stating that the government supports, knows that compensation is important, and all that. They're going through a process of determining whether they're going to sign. They're looking at it, they've told us, together. There's no compensation if you don't sign, so—

Ms. Tracey Ramsey: There's no hard yes and we are absolutely going to offer that.

Mr. Mike Dungate: The response that we got from Minister Freeland was that if we were to make a decision right now on compensation, it would be as though we'd already made a decision on signing the deal. So you understand where they're at.

Ms. Tracey Ramsey: If the compensation package isn't on the table, will you still be in favour of signing the TPP?

Mr. Mike Dungate: If the compensation and the indemnification package that was there were not supported, it's a hard hit on our industry. It is a package for us. We worked through this deal and we were positive on this. We were trying to find ways to make this deal work because we knew that issues were going to be addressed as part of that.

Ms. Tracey Ramsey: Go ahead, Ms. Emond.

Ms. Caroline Emond: It's important to make clear that we're not a proponent of that deal. We're not demanding it. We don't gain from it. We actually want to ensure that we don't prevent it from happening, but it is very important that our industry doesn't pay the price of that deal.

Ms. Tracey Ramsey: The other question that I have is around the milk protein isolates. The TPP would eliminate tariffs on Canadian imports of milk protein isolates, a product made from skim milk that is used in the production of dairy products such as cheese, yogourt, and ice cream.

Are these potential tariff eliminations likely to increase imports of MPI, and if so, what would be the implication to skim milk prices for dairy producers in Canada?

Mr. Yves Leduc (Director, Policy and Trade, Dairy Farmers of Canada): With respect to the tariff on milk protein concentrates or isolates, it is not likely going to result in increased imports of MPI into Canada in part because MPIs are currently coming into Canada tariff free, duty free, from the United States. The market is completely open for MPIs originating from the U.S. That concession is not going to have an additional impact on our market.

Ms. Tracey Ramsey: We're talking about the potentials for these new markets for Canadian poultry, dairy, and egg exports. Are Canadian dairy and chicken producers priced competitively in these foreign markets?

● (1020)

Ms. Caroline Emond: We have the fine cheeses where you can have a niche market and that's why I was mentioning in the presentation that if we were to go and export, we would have to go into a niche market, not into commodities. We can't compete with New Zealand. Ninety-six per cent of their production is exported on the world market. That's their full business with the situation of no winter.

That's just the reality and the reality is that doing business in Canada is more expensive than elsewhere. We have numbers that show it's in everything. It's regulations. It's all kinds of things.

However, we do have some great products and we have great cheese makers across the country that are actually very creative and have the best product in the world of which we can be proud. There is definitely some niche market. They are not easy to pick. Those are not low hanging fruit. They will demand the work together.

Ms. Tracey Ramsey: And for chicken...?

Mr. Mike Dungate: We sit next to the largest poultry producer in the world, which does not have our winter and does not have to have fully insulated barns to carry them through, so our production costs are higher from that perspective.

The other thing to understand as well is that the chicken market is two markets. It's white meat and dark meat. What gets exported, even by the U.S., is frozen dark meat, which is a low-value product. Even though they're the biggest exporter in the world, it is of a low-value product because the fresh market is the domestic market.

That's the high-value product. A bird is kind of fifty-fifty, but the preference in North America is white meat. The preference in Asia, Africa, and Latin America is dark meat, so what gets traded is the other part of the bird for that consumption.

The Chair: We're going to the last questions for the Liberals.

Mr. Fonseca, you have six minutes and that will wrap it up.

Mr. Peter Fonseca: Chair, thank you.

I'd like to thank our presenters and all of your members for providing us with such healthy safe food from coast to coast to coast.

I would like to get an understanding from an urbanite perspective on how the whole quota system works. For a layperson, can you put it in those terms? How does somebody sell their farm? Do the quotas come with it? How do the quotas work? Are they sold on an open market? How does that work exactly? Are there shares? Are they worth so much?

Ms. Caroline Emond: How long do you have?

Mr. Peter Fonseca: Layperson...very basic.

Ms. Caroline Emond: We'll have to take that offline.

The quota is actually the right to produce. In our case, I can't speak for the others, but I know it's provincially managed as well. Each province has their own way to do it. In some it's rated openly and they have different rules in every province. It depends on which province you want to start your dairy farm, and then we can look into that—

Mr. Peter Fonseca: Are you saying as soon as you have a quota you can produce as much as you want?

Mr. Yves Leduc: No.

Ms. Caroline Emond: You have to produce your quota. It's a responsibility as well. As I said, we manage the whole system through the quota.

Mr. Peter Fonseca: If I want to get into the business, do I buy a quota? How exactly does that work?

Ms. Caroline Emond: Yes.

Mr. Peter Fonseca: Use Ontario. How would that work?

Ms. Caroline Emond: You would actually buy a quota.

Mr. Peter Fonseca: You would buy a quota.

Ms. Caroline Emond: Yes.

Mr. Peter Fonseca: With the TPP, how would this affect the value of those quotas? If somebody today is selling or buying a quota, then looking at the impact of the TPP today, and then maybe if you could project out five or 10 years, what do you see in terms of that quota value?

Ms. Caroline Emond: This is really looking into the crystal ball. One thing I can tell you is that the TPP is taking away a part of our market. It's taking away the growth. If you're a business person, and you're looking at your growth for the next year, for the years to perpetuity, and it's being taken away, obviously you make your business decisions differently. The dairy farm needs a lot of investment, and doing the TPP negotiation, I can tell you, there was a lot of investment in barns that cost millions of dollars. You need to go to the bank to build those barns. It's a lot of investment. You take all of this into consideration in your decision to farm.

Mr. Peter Fonseca: If the TPP went forward, what would the devaluation of a farm be because of the quota? Can you give me an example?

● (1025)

Mr. Mike Dungate: I'll give you an example of how we do it in that quota.

Every eight weeks we set the production in Canada for chicken. We allocate out to a province and we give them their share, and then they allocate to their farmers, every single eight weeks. They will have a unit of that provincial production. If 2% more access comes into Canada, and therefore they get 2% less, their unit will be devalued by that 2.1%. What effect does that have on the market? If we adjust down to compensate for that, it will just be a loss of volume. If we were trying to maintain it, it might be a loss of price in terms of that because that's not being affected.

As I said before, our job is to try to do cash flow as opposed to appreciation of that quota. As we grow, our farmer may have a unit, but a province will say, “We've just grown 1%, so your unit is worth 1% more because when we allocate it out, it's a greater amount”. As we grow, there's an appreciation of the value, not just today but what it will be. If you're in a growth industry like we are, people are buying ahead, just like on the stock market, and saying, “What's the value going to be five years from now when I'm interested in selling, perhaps because I want to retire?”

Mr. Peter Fonseca: The next question is around the makeup of the industry: corporate, large farms, family farms. What's the mix?

Ms. Caroline Emond: The average dairy farm in Canada is 75 cows. In the east, like Quebec, you can have farms with 20 cows to 60 cows. That's the average in Quebec. In Ontario it's 79. In the west it's 140. Those are the averages. As you can see, they are not the biggest farms, like those you see in other countries. We have some bigger farms, but our biggest farm is small compared to many others. Most of them are operated, yes, on a family basis. It's still very common.

Mr. Yves Leduc: If I may, I'd like to add here that even though the dairy farms are incorporated, legally speaking, they remain family-owned and operated at the end of the day. Even the bigger farms that are incorporated are family farms, according to us.

Mr. Peter Fonseca: Would it be the same with chicken?

Mr. Mike Dungate: It's a similar sense. Our largest farms are actually in Atlantic Canada because they need to be larger. They have cost issues, feed is a big issue, and therefore they have higher feed costs so they need more volume. You see larger farms there as opposed to in the rest of the country, and that's just to maintain a level of profitability. Frankly, even at that, they would be the least profitable farms in the country because they have a greater cost disadvantage in terms of it.

Mr. Peter Fonseca: My next question is about the ownership of the farms. Are many of these farms foreign-owned by foreign investors? Do you have international companies coming in? Do we have Tyson coming? Does Tyson own any chicken farms? Do they pick up any of that quota?

Mr. Mike Dungate: I think Cargill as a processor would be the only...but on a farm level? No. Maybe at a breeding level, they might have some, but frankly at a farm level, even at a processing level, we're a Canadian business. I think Cargill is the only company, and it has a wholly owned operating unit in London, Ontario.

The Chair: Thank you.

We have a couple of minutes left, and it was brought to my attention that when I did all my number-crunching here, Conservatives could have a minute and a half, two minutes, so I'm just going to leave that.

Mr. Ritz, you have a short question and maybe we can get a short answer, and we'll wrap this up.

Hon. Gerry Ritz: Thank you, Mr. Chair.

I have a couple of comments on points that Caroline made on the CETA agreement. It's not a zero-sum game, as you portray, and on the TPP, we came in on the landing zone that the Dairy Farmers of Canada gave us. Even using your numbers, we're still within that landing zone. I just wanted to point that out.

On CETA there is tremendous access for dairy dealers in cycled-out cows, because no ractopamine is involved, and so on. They have unlimited access into that market. The 50,000 tonnes of beef that we've negotiated into Europe will certainly benefit eastern dairy more than anybody else, I would think. We also have full access back on dairy.

I know at the last Paris food show 30-some cheese producers from Canada did exceptionally well, won awards, and have now developed market access back in. You did allude to the fact that there are some niche markets that can be accessed.

The whole reason for the compensation package that we worked out with you guys was to make sure there was no run on quota. The Province of Quebec has backstopped a lot of quota. Farm Credit Canada under Agriculture Canada backstops several billion dollars' worth of quota. We didn't want to see a run on that quota value. The whole idea of the compensation was to maintain the stability of the operation.

I just wanted to make those points. We also went into—

● (1030)

The Chair: Is there a question?

Hon. Gerry Ritz: Yes, it's coming.

The Chair: Okay, because you only have half a minute.

Hon. Gerry Ritz: The other thing that we did under CETA was maintain cheese compositional standards, which are worth about $900 million a year to the dairy industry. That was in one of the chapters that was locked, loaded, filed, and we couldn't get into. We did. It was very important to make sure we had that capacity, because that really would have eroded the industry.

Ms. Caroline Emond: Thank you. We were very happy with that. That's why we put in the presentation that maintaining the cheese standard is very important, but enforcing it would be even more important. I think you all heard us on the importance of enforcing the cheese standard right now when we were on the Hill in early February. This is one of the important issues. It's one thing to have rules, but it's another to enforce them as well.

On CETA, just to mention that, yes, it is true that we have unlimited access, but know that Europeans are also good at producing cheese. We have a niche market, but don't believe we're going to be compensated for all the losses we're having right now with those agreements.

The Chair: Thank you very much. That sums it up. Thank you for coming today, witnesses. It was a very productive meeting.

We're going to take one minute here, because we're going in camera, folks, to do our future business.

[*Proceedings continue in camera*]

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