



January 31, 2019

The Standing Committee  
on Alberta's Economic Future  
c/o Committee Clerk,  
3<sup>rd</sup> Floor, 9820-107 Street,  
Edmonton AB T5K 1E7

Via email: [economicfuture.committee@assembly.ab.ca](mailto:economicfuture.committee@assembly.ab.ca)

Dear Standing Committee Members:

**Re: Inquiry into the Impact of the Canada-United States-Mexico Agreement (formerly USMCA) on Alberta agriculture**

Thank you for the opportunity to participate in the Standing Committee's inquiry into the effects of the Canada-US-Mexico Agreement (CUSMA) on Alberta's supply managed agri-food industries.

The Western Dairy Council (WDC) is the trade association for dairy processing companies in Canada's four westernmost provinces. The Council's twenty-one member companies manufacture and market all categories of finished dairy products from fluid milk to cheese, butter, dairy ingredients and everything in between. Collectively, our members process more than two billion litres of milk and generate approximately \$3 billion in annual product sales. In Alberta, we processed more than 780 million litres of milk last year (more than 97% of the province's total production) and supported more than 2,500 jobs.

The WDC was formed in June 2017 through the amalgamation of the Alberta and British Columbia Dairy Councils and the expansion of their activities to the provinces of Manitoba and Saskatchewan. While there were many reasons for the amalgamation, the single biggest factor was the shift in industry dynamics from the local and provincial levels to the national and international levels. This shift has occurred not only in the marketplace, but also in the policy arena, where critical decisions in areas as diverse as allocation of the milk supply and the administration of import quotas are typically made through national processes.

The impact of international trade agreements upon the Canadian dairy industry has accelerated this shift. CUSMA is the third in a succession of major trade agreements that will have a profound impact on both the Canadian and the Alberta dairy industries. While we understand that this inquiry focuses on CUSMA, it is important to note that the other agreements -- the Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) will also have a major impact on the dairy industry, both in themselves and cumulatively. According to calculations by Agriculture and Agri-food Canada, the import access concessions of the combined agreements alone will amount to approximately ten percent of total Canadian milk production (using 2017 as the base).

Alberta produces approximately 8.3% of the Canadian milk supply. And while extrapolating national figures to provincial circumstances is a crude measure at best, it is clear that the three trade agreements will have a profound negative impact on the Alberta dairy industry. For competitive reasons we cannot disclose details on specific businesses or business segments, but there is little doubt that the impact will be proportionally severe within the processing sector.

CUSMA provides the United States with tariff-free access to Canadian markets in 14 categories of dairy products, collectively amounting to 3.59% of Canadian production by 2025 (again, using 2017 as the base). Alberta dairy processors are active in all fourteen categories, particularly in the fluid milk, cream, butter, cheese and dairy ingredients categories.

In addition, CUSMA imposes “disciplines” (quantitative limits and prescribed pricing mechanisms) on *global* Canadian exports of certain dairy products (i.e., exports to all countries, not just CUSMA partners). It also commits Canada to eliminate its Class 7 ingredient class. Finally, it commits the Government of Canada to publicly disclose key milk classification and pricing information changes, allowing its trade partners to interject if they disagree with or have concerns with any of that information. These are unique provisions not typically found in comprehensive trade agreements and Canada needs to insist that the United States also amend their reporting practices to be as transparent as we are -- and will be -- with their dairy policy changes and regulations.

The Government of Canada recognizes that CUSMA, along with other trade agreements,<sup>1</sup> will have a disruptive impact on the domestic dairy industry. To that end, it continues to consult with dairy producers and dairy processors on a variety of fronts to identify ways of maintaining a healthy and competitive industry in the future.

Given these factors and the processes that are already underway, at this time the Western Dairy Council will limit its recommendations to the following areas:

1. **Allocation of Tariff Rate Quotas (TRQs):** TRQs are mechanisms that allow set amounts of specific products to be imported at a low or zero rate of duty. Dairy-related TRQs are used to manage imported dairy products and are granted by Global Affairs Canada. The Western Dairy Council is adamant that dairy TRQs be allocated, to the full extent possible under the CUSMA agreement (and other trade agreements), to Canadian dairy processors.<sup>2</sup>

---

<sup>1</sup> In addition to CETA and CPTPP, other regional free trade agreements are currently being negotiated.

<sup>2</sup> The agreement does not allow the parties to allocate TRQs to processors exclusively.

Previous TRQ allocations – notably for cheese under CETA – apportioned dairy TRQs across various segments of the supply chain. The effect has been to disrupt the domestic market, first by giving distributors, retailers and further processors increased access to the market at the expense of dairy processors who had developed it in the first place, and second by enabling situations where quotas may not be completely filled, thereby underserving markets that could otherwise be filled by domestic processors. The effect is to create a windfall for some segments that had not previously served the market and an uncompensated loss for those that had.

A different allocation mechanism was applied to dairy TRQs under CPTPP, which addressed some of these issues while raising others. We understand that Global Affairs Canada intends to conduct consultations on CUSMA TRQ allocation this spring, and urge the Government of Alberta to support the dairy processors' position (which in turn has been endorsed by Canada's dairy producers) that TRQs should be allocated to the fullest extent allowable to the processing sector.

2. **Engagement in Adjustment Processes:** As mentioned above, the Canadian dairy industry is examining various ways of fulfilling and adjusting to the specific provisions of the CUSMA. The Western Dairy Council is an active participant in these discussions, as is the province's regulatory authority, Alberta Milk. We encourage the Government of Alberta to stay abreast of these processes and to be prepared to advocate, where necessary, for Alberta's interests in discussions with the federal government.
3. **Work with Industry:** More generally, we encourage the Government of Alberta to work with the dairy processing industry to implement policy changes that facilitate adjustment to the requirements of CUSMA and, over the longer term, promote the increased competitiveness and sustainable growth of the dairy industry in Alberta and western Canada. The new environment, underlined by CUSMA but driven by many other forces as well, challenges the long-term viability of local, specialized, small-scale manufacturers that cover many product lines and instead calls for larger, specialized businesses capable of serving broad market areas. A comprehensive understanding of the new dairy industry landscape and identification of the policies required to allow industry to thrive in it will require continuous interaction and coordination with the industry, with the federal government and with other provincial governments.

We hope these comments are useful and encourage greater interaction with Alberta's dairy processors, to help respond to CUSMA's dairy provisions and to ensure the industry continues to remain viable, if not stronger, in the future.

Of course, we would be pleased to elaborate on these points or answer any questions you might have. Thank you for the opportunity to comment.

Sincerely yours,  
**WESTERN DAIRY COUNCIL**



Dan Wong  
President

cc. WDC Directors  
Alberta Milk