Les Producteurs de lait du Québec

The Chairman's Address
2015 Annual General Meeting

Ladies and gentlemen,

Dear fellow producers, delegates, members of the Board of Directors, guests, partners and colleagues from other provinces, thank you everyone for attending this Annual General Meeting.

To start, I would like to share a story with you that says a lot about the chronic problems of agricultural markets.

This story took place in Albany, New York and was covered by CBS in last Thursday's newscast. Eight local dairy farms, including one with around 950 cows, faced the prospect of having to shut down their operations. Their processor gave them 30 days' notice that it would no longer buy milk from them due to a milk surplus in the state. They had one week left to find a new buyer before they would have to dump their milk or sell their cows. However, just two years ago, milk processors in the state of New York were complaining publicly about the shortage of milk due to huge growth in the Greek yogurt market.

Since the beginning of 2015, the price received by U.S. milk producers has dropped 30% to 40%, after peaking in 2014. Analysts explain this drop by pointing to the decline in U.S. dairy exports, which was caused by the stronger dollar and weaker demand around the world, especially from China. In reaction to falling prices caused by waning domestic demand and the glut of dairy products, Chinese producers also dumped their milk and sent their cows to the slaughterhouse at the beginning of this year.

In New Zealand, Fonterra announced to its members that it had slashed its farm-gate milk price forecast by 40%.

The lower price outlook is the same in Europe's main dairy countries: After the quotas end, Europe hopes to unload its dairy products in Asia. It is not alone; the entire world has set its hopes on Asia, including Oceania, the United States and even some in Canada.

Given the situation, what price do you think the eight producers in Albany will get for their milk? That's if they find a buyer!

The last dairy market crisis was in 2008-2009. I am sure that you remember when French and Belgian producers publicly dumped millions of litres of milk. The U.S. government injected one billion dollars of support for producers.

Are we in the early stages of a new crisis? Only the future will tell.

In the meantime, this volatility is another example of just how effective the invisible hand of the agricultural market is. Producers are told that there is not enough milk to satisfy domestic demand and develop exports. Then, they are told that there is too much milk. Drink it! Sell your cows! Or I might even buy it if you lower your price enough!

Whether you have 50, 950 or 10,000 cows, you quickly become a price-taker when a buyer no longer wants your milk.

Market volatility, instability, and chronically low revenue are not new phenomena in our sector. That is why most governments intervene to support their agricultural sector. Most provide assistance through subsidies because subsidies, we are told, are more compatible with the laws of the market.

In the Canadian dairy and poultry sectors, we have chosen supply management. This means that the government does not intervene with regulations or subsidies. Yet, according to our critics, this is not compatible with the laws of the market.

How many decades has it been since a situation like the one facing the milk producers in Albany happened here? Or like the one in Europe and the United States in 2009, when milk was dumped and emergency subsidies were paid. Not compatible, but effective and economical.

I have quoted Churchill, the UK's former Prime Minister, in a previous speech. This was a man who knew how to turn a phrase. That is why I would like to quote him again.

In a 1947 speech to his country's House of Commons, he said: "Democracy is the worst form of government, except for all those others that have been tried from time to time."

Let me paraphrase this: ***Supply management, my friends, is the worst form of agricultural marketing, except for all those others that have been tried from time to time.***

No system is perfect. Supply management can be improved and we continue to work on it, though it has functioned for over 40 years. Supply management has had positive results for producers and their partners. It is an excellent tool for equitable, sustainable development. And none of the recent or past experiments with deregulation have done anything to convince me that we would gain by abandoning this system, as suggested by a National Post columnist last week.

Earlier today, Alain presented the 2014 report, and on February 19, we presented a 2009-2013 review of our joint plan to the Régie des marchés agricoles et alimentaires du Québec. Some of its highlights are worth mentioning.

- Our milk sales surpassed 2.4 billion dollars in 2014, up 2.5% over the previous year.

- Quebec’s total quota increased more than 2%.

- By the end of last year, producers were entitled to produce 5% more than at year-end 2013.

- Retail sales were steady, particularly butter sales.

- We continued to improve the quality of our milk last year, particularly as concerns somatic cells, which fell by nearly 16,000 cells on average over the year.

In the 2009-2013 review we presented to the Régie, we emphasized that during this period:

- We increased our revenue from milk sales by over 200 million dollars.

- Our allocation rules allowed for dynamic growth in the product classes with the highest demand:

    - We delivered 45% more milk in Class 2, mainly for yogurt;
    - and 18% more milk in Classes $3a_1$ and $3b_1$, for fine cheese and regional cheddar.

- There was no lack of milk here. We met the demand in all our markets, without creating a surplus.

- Organic milk production grew 16% during this period, and 21% if we include 2014.

- The decline in the number of dairy farms has slowed considerably. Less than 7% of farms ceased production from 2009 to 2013, compared to around 17% from 2003 to 2008. During that time, from 2009 to 2013, Europe lost 32% of its dairy farms.

- Quebec's Minister of Agriculture stated at the beginning of his term that he would make the next generation of farmers one of his priorities. This has long been a priority for Quebec milk producers. The summary profile of the dairy sector that the MAPAQ presented to the Régie during our periodic assessment pointed out that 36% of all young farmers established in 2011 in Quebec mainly produced milk, while our sector represents less than 24% of agriculture operations.

- From 2009 to 2013, 967 young farmers benefitted from the Young Dairy Farmers Assistance Program, and our Startup Assistance Program helped 49 new dairy farms begin production.

So does this mean that there aren't any problems? Of course not! While we have to continue contemplating the quota shortage problems, we remain open to stepping up and improving our efforts to ensure the transfer and development of our businesses.

This winter's P5 quota policy consultation made it quite clear that all producers want to maintain and improve the Young Dairy Farmers and Startup Assistance Programs. We will come back to this issue during our meeting, in addition to the other items discussed in the consultation.

Quebec milk producers are also working very hard to improve their efficiency and meet society's and their clients' expectations.

- Nearly 40% of producers are members of management consulting groups, over 50% are members of an environmental consulting group and 80% are registered for milk monitoring.

- In the last five years, some 2,000 producers have on average participated in Valacta's winter training courses, such as this year's course on methods of improving animal comfort.

Dear friends, milk producers are entrepreneurs who are committed to the sustainable development of their businesses. Every year, we generate considerable social, economic and fiscal returns. As you have surely noticed, our annual report highlights the economic importance of dairy production in all regions of Quebec. Not to boast, but we can safely say that our sector is one of the steadiest and strongest contributors to regional vitality in Quebec. We maintain a critical mass of related activities and services that benefit all other agricultural sectors, especially the most marginal and unstable.

At the end of March, ÉcoRessources released its final report on the economic impacts of the Canadian dairy industry in 2013. The results are remarkable.

Together, Canadian milk producers and processors generate a total of around 19 billion dollars for the GDP, contribute 3.6 billion dollars in tax receipts and provide 215,000 quality jobs to Canadians. In Quebec alone, we have added more than 6 billion dollars to the GDP, contributed 1.3 billion in tax receipts and generated some 80,000 jobs.

From 2009 to 2013, the Quebec dairy sector's total contribution to the GDP increased by over 17%, while Quebec's total GDP increased by only 8.8%. Our performance was twice as good as the rest of Quebec's economy. That deserves to be mentioned.

Dear friends, I am aware that I have reeled off a lot of numbers in this speech, but these results are both outstanding and real. Not promised or desired gains.

People are behind these numbers. Men and women in Quebec and Canada. There are thousands of men and women who are driven and committed every day to do real, essential work. We do not speculate or make bets on potential markets in the hopes of creating wealth. We are in the real economy. We contribute to creating wealth for our country and our fellow citizens by producing an essential product, a food, every day.

That brings me to the very worrisome issue of international trade negotiations. This issue could jeopardize the extremely positive impacts of our sector and supply management.

We are repeatedly told that Canada continues to defend supply management in the current negotiations, but since Canada made the concession to Europe in the CETA negotiations, we are extremely wary. And with good reason. The 17,700 tonnes of additional access granted to European cheese, including 16,000 tonnes of quality cheese for the retail market, will cause considerable losses in our young fine cheese sector. According to our calculations, this represents 30% of current sales in this niche, where Quebec is very present.

Prime Minister Harper himself committed to compensate for these losses when signing the draft agreement in October 2013. Since then, there has been radio silence in Ottawa. We met once and haven't had heard any news since. Worse still is that all of the government spokespersons simply repeat that compensation will be provided **if** there are losses. I no longer know which tone of voice or language needs to be used to repeat it: There is no **if**.

When European cheese enters our market, cheese made from subsidized European milk, it bears repeating, will be consumed by Canadians. These are Canadians who would have consumed our cheese, made with our milk. There is no **if** in this situation.

Seventeen thousand seven hundred tonnes of cheese, in milk equivalent, is more than the annual production of Saguenay–Lac-Saint-Jean's producers. Page 46 of our annual report clearly features the figures on regional production and processing returns. You will also see the photo of the Bradette family, proud producers in the region. Once again, those figures are just shy of what we will lose to the European Union.

Some of our demands on Ottawa include measures to mitigate the impacts and investments in development initiatives to increase the efficiency and competitiveness of Canadian producers and cheese makers.

We have demanded that the new tariff quotas be allocated in such a way that takes into account the cheese makers who will lose their market. Some cheese makers, other than the major processors that already have import permits, want access to new quotas, and the federal government should offer that possibility to them.

The governments should also significantly increase their support for local cheese promotion and expertise development.

To me, that is not too much to ask.
The federal and Ontarian governments did not hesitate to come to the aid of the Canadian automobile industry in 2009. You probably saw in the news last week that the federal government sold its last shares in GM, just like Ontario's government did not long before. Both governments bought around 10 billion dollars of shares in car manufacturers to save the industry. The net balance from the sale of the last shares will result in a loss of around 2 billion 500 million dollars. In addition to this amount, there was the half billion announced in the 2014 budget, which will be invested over two years in a research and development fund for the automobile industry. A total of 3 billion of dollars of Canadian taxpayer money will be used to support a sector that provided 20,000 direct jobs in 2014. What is the federal government waiting for to provide us with the same help? I should repeat that Quebec and Ontario's dairy industry, which makes most of Canada's cheese, generates 51,400 direct jobs alone.

I would also like to remind the Quebec government that it must show leadership in getting its due from Ottawa, given the importance of our sector to the province. And it should do so before even thinking about ratifying the CETA. We haven't even processed the CETA, and now another negotiation is threatening us.

As you know, Canada joined the Trans-Pacific Partnership negotiations in 2012. At the time, Prime Minister Harper clearly reaffirmed his commitment to protect and promote supply management in the negotiations. He repeated it again in November during his visit to New Zealand. But now, the pressure is mounting on Canada to make major concessions. Some even demand that sectors under supply management be deregulated. The United States, for one, turned up the heat some time ago.

In mid-March, Prime Minister Harper made a statement that gave us great cause for concern. When talking about the Trans-Pacific Partnership (TPP) negotiations, he said: ***"We have difficult choices in this one (the TPP negotiations). We have some areas where obviously we see great advantages for Canada, but others where there will be challenges.*** *So we're obviously there at the table in what is a very important agreement doing our best to protect Canadian interests."*
What difficult choices is the Prime Minister talking about? And in which areas will there be challenges? He states that Canada is doing its best to protect Canadian interests. But does doing its best mean making other major concessions in our sector?

This is undoubtedly a very important negotiation, as Mr. Harper says. We too have always acknowledged the importance of trade for Canada. The United States and other participating countries hope to get the jump on the Chinese markets and create an attractive free trade zone for other countries in the Pacific. It is more of a strategic position than a desire for major economic returns.

Without downplaying the importance of this agreement, I would like to put it into perspective.

The 12 countries currently in the TPP negotiations have a total population of about 800 million people and a GDP of 28,000 billion dollars (28 trillion dollars). Canada already has free trade agreements in force with four of these countries: the United States, Mexico, Peru and Chili. We are also currently in negotiations with Japan, the largest economy in the TPP zone after the United States.

So we already have free access to 523 million consumers (65% of the total) in the countries that generate 20.5 trillion dollars of GDP (73% of the total). When the agreement now being negotiated with Japan is reached, we will have free access to 80% of the consumers and 91% of the total GDP of the TPP countries.

The maximum economic gain in GDP that all countries can hope for upon concluding the TPP is a few tenths of a percent, according to the estimates of some economists. The Fraser Institute, which is in favour of the agreement, has estimated the potential gains for Canada at a maximum of 0.5% of total GDP, i.e. around 9 billion dollars.

That is no small number, but is it worth jeopardizing a dairy sector that adds nearly $19 billion every year to the country's GDP, provides 214,000 jobs and contributes 3.6 billion dollars in tax receipts to government treasuries? Combined with the impacts of the poultry and egg sectors, we are talking about nearly 30 billion dollars of GDP, 5.4 billion dollars in tax receipts and over 300,000 jobs.

Columnists in Canada's major newspapers continue press the government to follow Australia's example and abandon supply management. Ill intent or basic ignorance, which is no better?

Last fall, I made things perfectly clear in the so-called Australian deregulation "success" story. In Dairy Australia's most recent annual report, it states that from 2000, the year Australia deregulated, to 2014, the number of farms dropped by 51%, total production fell nearly 15% and the value of exports declined by over 13%. You call that a "success story?"

We also hear lofty claims about potential gains in the lucrative Chinese market, which I mentioned at the beginning of my speech. Yet, according to European Commission experts, in the next decade, the growth of Chinese dairy product imports could go from 16% per year, which it has posted in the last decade, to 3% per year in the upcoming decade, not to mention China's desire to become more self-sufficient.

Let me repeat the observation I made earlier: All of the large dairy exporting countries are targeting the Chinese market: Oceania, the United States and Europe. Forgive the metaphor here, but there is going to be a huge traffic jam in front of the Great Wall of China in the coming years.

The United States is now putting more and more pressure on Canada to make substantial concessions for its markets under supply management. Its appetite is like a bottomless pit. Since NAFTA came into force, total U.S. dairy product exports to

Canada have increased by 330% in tonnage. They went from around 24 million kilos in 1993 to 133 million kilos in 2013. And it won't stop there!

New York State, which I mentioned earlier, produces 5 billion litres of milk annually, which is 1.7 times Quebec's production. Four Californian counties together produce as much milk as Canada in its entirety.

Just seeing how U.S. producers are treated when there is too much milk, we can easily imagine what would happen to us if the border was completely open.

Canada needs to stand up and say no!

We cannot compete with the climate of milk producers in Oceania or the United States, or the subsidies of milk producers in the U.S.

The brutal reality is that if Canada opens its markets to dairy products from these countries, our sector will experience an unprecedented crisis. The impact on regional economies and our communities will be catastrophic.

The entire industry and its suppliers would be hurt. As concerns the economic impacts I mentioned earlier, supply management benefits dozens, even hundreds of businesses and 214,000 workers in Canada: processors, bankers, input suppliers, equipment suppliers, mechanics, hardware stores, local building contractors, transporters, consultants, veterinarians and many others.

The TPP negotiations are advancing and may even end this spring. It's time for us all to wake up. Not just producers. This is a wakeup call for provincial governments, partners, the entire dairy industry in Quebec and the rest of Canada. We must absolutely form a common front and state loud and clear to the federal government that it must not yield to the pressure, but make good on its promises to keep supply management fully intact.

Tomorrow, we will meet with two ministers. I am counting on you to politely, but clearly, convey this message. In the coming months, we may have to mobilize ourselves to send a stronger message. Be ready to answer the call if the situation requires it. I am counting on you.

I cannot end my speech without addressing another major issue for the future of our sector: the national negotiations that have still not taken place with our processing partners.

First, I'd like to make it clear once again that we want the Canadian dairy sector to grow and develop. We share this vision with our fellow producers across Canada. For that matter, I would like to repeat the vision adopted last fall by representatives of the five P5 provinces:

In 2018, P5 producers will be united by better harmonized policies and common strategies that meet market needs and achieve profitable growth of at least 2% per year.

We are 100% behind this vision.

During this meeting, we will have an opportunity to review and adopt a resolution to follow up our strategic plan. It includes a proposal for our organization’s vision:

By 2020, we will have achieved 10% profitable market growth and draw on national market and revenue sharing to ensure that the most efficient, strongest and driven dairy farms under supply management will be sustainable in all regions.

We should have already begun the talks by now. They need to be fully confidential so that we can address all the issues, without taboos and in full confidence, but they have not yet begun because our processor friends are setting pre-conditions for negotiation.

I’ll put it bluntly: That is an unacceptable attitude!

The processors’ conditions can be discussed at the negotiating table, just like all other parties’ proposals. The only pre-conditions, if any, which should be set for these negotiations are those that concern the attitude and spirit in which the negotiations are held.

We are ready to listen and discuss all the big issues with our partners in a spirit of compromise and mutual concession. I repeat: in a spirit of compromise and mutual concession.

There is also one basic principle that must be mutually acknowledged but not compromised: Our discussions, negotiations and mutual solutions will have to comply with the agricultural policy framework in effect, supply management, and the stability and equity it affords all partners.
We are open to truly mutually profitable business transactions and to negotiating all changes and arrangements toward that goal, while preserving the basic principles of supply management.

We will not sit at the table to negotiate the end of supply management, but to come to an agreement that will be beneficial and respectful to all parties.

Thank you.