

**Presentation to the Senate Committee
on Agriculture and Forestry**

**International market access priorities
for the Canadian agricultural and agri-food sector**

Submitted by:

**Canadian Poultry and Egg Processors Council
February 18, 2016**



Presentation to Senate Committee on Agriculture and Forestry

Good Morning. My name is Robin Horel and I am the President and CEO of the Canadian Poultry & Egg Processors Council (CPEPC). Thank you for the invitation today to provide to the Committee and other interested parties CPEPC perspectives on international market access priorities for the Canadian agricultural and agri-food sector.

The Canadian Poultry and Egg Processors Council is the national trade organization for Canadian chicken and turkey processors, hatcheries (for day old broiler chicks, egg laying chicks and turkey poults), egg graders and egg processors. Now in our 66th year, our Council has member companies in every province of Canada. In addition to representing the interests of more than 170 Canadian poultry processors, egg graders and processors and hatcheries, our membership includes over 50 national and international industry partners who have joined us as associate members. Representing some of the largest agri-food corporations in Canada, our member companies process over 90% of Canada's chicken, turkey, eggs and hatching eggs. This economic activity generates over \$5 billion in annual retail sales. To accomplish this, our members have invested over \$1.5 billion in plants and equipment, and directly employ more than 20,000 Canadian workers.

The Supply Management System for Poultry and Eggs

CPEPC's member companies work within the Supply Managed system for chicken, turkey, eggs and broiler hatching eggs. CPEPC and our members support the system and we are *"committed to building the long term competitiveness of the Canadian poultry industry. A foremost priority is to modernize the supply management system to ensure continued broad consumer support, mitigate processor risk and to better respond to market pressures and the competitive environment"*.¹

There have been a number of developments in the Canadian poultry and egg industry since our last appearance before the Committee in December 2014. Our comments today will focus on the conclusion of the Trans Pacific Partnership agreement, as that is the most serious development in the last 14 months.

Exports and imports are critical components of the supply management system for poultry and eggs in Canada. This is the same message we imparted to members of this Committee in December of 2014.

In chicken, the Canadian consumer preference for breast meat and wings is met by importing additional breasts and wings, over and above what is produced in Canada, through TRQ's. In addition, export programs in the chicken sector result in the export of thighs and drums. The result is a market that is kept in balance (natural production from the processing of whole birds is approximately 52% breast & wings and 48% legs....we change that ratio through imports and exports to approximately 57/43). Canada continues to be a net importer of chicken.

In turkey, we see a similar consumer preference. In addition, more than half of the turkey market is further processed products. The vast majority of these use breast meat. In turkey, most of our imports are breast meat while most of our exports are residuals (drums, wings, tails, frames and mechanically separated meat). In turkey we are a net exporter by weight, but a net importer by value.

In eggs, our imports are used primarily to balance the market during periods of increased demand or lower production. We are net importers of shell eggs. We are both importers and exporters of processed egg products and usually slight exporters of processed egg products.

In broiler hatching eggs, similar to table eggs, we use our imports to balance the market during periods of increased domestic need or lower domestic production. Our international commitment on broiler hatching eggs means that we import approximately 20% of our requirements which makes us large net importers.

In addition, CPEPC's membership includes some primary breeding genetics companies. In the turkey and layer business, these companies supply product to the domestic market but also export eggs or day old chicks / poults to a number of countries. For these companies, exports are the largest part and are critical for their business. They would not be in business in Canada without these exports.

The major points to note from these high level snapshots of imports and exports in the commodities that CPEPC member companies work in include:

1. Although we are a net importer in the sectors in which we operate (with the exceptions of turkey where we are a net exporter by volume, but a net importer by value; and processed eggs where we are a net exporter...but for eggs in total we are a net importer), exports are important to the sectors in general and to CPEPC member companies in particular.
2. Both exports and imports are critical components of the supply managed systems for poultry and eggs. They are used to balance the domestic market to meet Canadian consumer preferences and to fill periods of increased demand or lower production.
3. Exports of some products (like eggs or day-old birds from genetics companies, or processed egg product from some of our egg processors) are not residual products but are important value added products.

Trans Pacific Partnership

Canadian chicken, turkey and egg processors, egg graders and hatcheries will be impacted by the additional market access granted as a result of this agreement if it is adopted by Canada. Nevertheless, CPEPC recognizes the importance of this agreement to the overall Canadian economy. CPEPC attended the TPP trade talks toward the end of the process and appreciated the support of the Canadian government and the negotiators in concluding the negotiations - providing clarity around the future of supply management.

Since then we have met with government officials to discuss both the mitigation measures in the form of border controls and the programs to support processors that were announced along with the details of the TPP agreement. Both of these are very important to the Canadian industry and critical to CPEPC members.

Mitigation Measures

In announcing the TPP agreement, the government committed to intensifying “on-going anti-circumvention measures that will enhance our border controls. These measures include requiring certification for spent fowl, preventing importers from circumventing import quotas by adding sauce packets to chicken products, and excluding supply-managed products from the Government of Canada’s Duties Relief Program”.

CPEPC and our member companies support all three of these announced “mitigation measures” and in recent meetings with government officials have noted our support and the need to move as quickly as possible. For their part, government officials acknowledge that these measures can be put into place prior to the TPP being adopted. I understand that these programs have been discussed by this Committee and previous witnesses so, for the sake of brevity, I will not outline the details associated with each of these three issues but will be happy to answer questions about any of them.

Processor Programs

With the announcement of Canada agreeing to the TPP in Atlanta, the Canadian government noted some additional proposed programs for both farmers and processors in the supply managed industries. There were two programs announced for processors:

- 1. Processor Modernization Program \$450Million**
“to provide processors with support to increase competitiveness through capital investments and technical and management capacity”
- 2. Market Development Initiative \$ 15Million**
“to help the supply-managed sector to maintain, develop and expand their Canadian and international market share”

CPEPC has had an opportunity to consult with government officials concerning these proposed programs at a staff level and recently, AAFC officials met with our chicken, turkey and egg members during our sectoral meetings to outline the intent of the proposed programs and answer all questions that they are able to at this time.

We understand that the programs, if adopted, will be available to processors in dairy, chicken, turkey and eggs (we are currently in discussion with AAFC concerning the applicability for hatcheries to access these programs). We also understand that while programs for producers are based on “compensation”, the programs for processors are based on “adjustment”.

CPEPC and our members are pleased with the announcement of these programs for processors and, if adopted by the current government, will request that proportional consideration be given to applications from the poultry and egg sectors.

The focus of the Standing Committee's study

Reading the Order of Reference for this Standing Committee I understand that the current study will focus on the same items that were the focus of the previous Standing Committee when we made our last appearance before the Committee in December 2014. The notes on these four items that we included in our 2014 brief have not changed and are included here for the record:

a) Diversity, food security and traceability

The Canadian poultry and egg industries are proud to produce a wide variety of safe, nutritious products for Canadian consumers. Food security and traceability benefit from the system that we work in.

b) The competitiveness and profitability of Canada's agriculture and agri-food sector (including producers and processors)

Supply management was set up to allow farmers to receive fair compensation for their products. It has been successful when measured against that goal. CPEPC member companies support the system, provided it also works for processors, graders and hatcheries. Processors, graders and hatcheries benefit from a consistent supply of safe, quality poultry and eggs. For the most part, the system has been good for CPEPC members over time, as well as for farmers. Ensuring ongoing competitiveness is one of the key goals outlined in the CPEPC strategic plan.

c) Sustainable improvements to the production capabilities of the supply chain

Consolidation at the processing level has occurred, to some extent, over the past decade. However, the systems that result in commercial poultry and egg farms in every region and most provinces of Canada do not lend themselves readily to economies of scale at processing. Understanding the benefits of the system (some of which are noted above), processors do not advocate to change history, but allocations of future production in our growing industries is one of the challenges that the Agencies must manage. It is one of the key elements of modernization.

d) The expectations and concerns of stakeholders from the Canadian agriculture and agri-food sector

The expectation from poultry processors, egg graders and processors and hatcheries, as represented by CPEPC, is for the Canadian government to support policies that allow for the ongoing sustainability of our industries. Of course this includes many domestic policies. However, for the purposes of this Standing Committee regarding international market access priorities, our expectation is that Canada continues to support rules based trade agreements. We have noted how important both imports and exports are to our sectors, even though we are domestically focussed.

In conclusion

Our members operate within supply managed value chains. These systems have benefits and our members support them, with the understanding that we need to look for efficiencies where possible and strive for competitiveness. Imports and exports are important to the maintenance of the systems and are important to our members. Canadian poultry processors, egg graders and processors and hatcheries would not be competitive internationally if open access to the Canadian market was granted without structural realignment of the system. CPEPC and our members need the Canadian government to continue to champion rules based trade agreements.

CPEPC and our members are on record as supporting the Trans Pacific Partnership agreement provided that the “mitigation measures” and programs for processors announced in conjunction with the details of the TPP agreement by the Canadian government are put in place as quickly and efficiently as possible.

ⁱ From CPEPC’s strategic plan