

**To: DFC President and P10 Chairs**

**CC: Canadian Dairy Commission**

There are two processes to address some of the challenges facing the dairy sector. Some of those challenges are high level and strategic in nature and are being dealt accordingly through the dairy industry consultative committee. Other are more technical in nature and will be dealt with through a negotiating committee. Timing of outcomes of both processes are uncertain, and if history is any guide when it comes specifically to negotiations, it could take years to reach a successful conclusion.

We offer that there are a number of challenges on which we have reached a decision point and that would therefore benefit from a decision as early as the July CMSMC. Many of those more pressing issues are win-win in nature, or have the potential to be win-win, and are well documented making them the 'lowest of the low hanging fruits' for the dairy sector. Accordingly, an agreement can be reached on those in the very near future in our view. In the spirit of getting discussions going well ahead of the July CMSMC on those most pressing challenges, we suggest the following comprehensive approach to position the industry for growth, which can be formally adopted by producers and processors at the time of the July CMSMC.

### **'Positioning the Canadian Dairy Sector for Growth'**

1. Through a CMSMC decision in July, marketing boards will support that the existence and role of dairy processors in the Canadian dairy supply management system is to be recognized in an official industry document so that processors become equal partner to producers in the system. An example of a statement to be included in an official industry document is the following: *"Processors have a unique and crucially important role in the Canadian dairy supply management system through their ability to invest and reinvest in processing capacity, which ensures that producers have viable markets for their milk and that customers/consumers benefit from a stable supply of high quality dairy products"*
  - a. The official industry document where this statement will be codified is to be jointly agreed by producers, processors and CDC. For example it could be the CDC Act (or associated regulations), or a federal-provincial agreements such as the National Plan, or P10 agreement, etc
  - a. In the meantime, producers will support that the evaluation of assets in the butter/SMP make allowance study should be made according to the "Fair value-replacement value" accounting method.

Through a CMSMC decision in July, producers (DFC and marketing boards) will officially support the elimination of the word 'modified' from 'modified milk ingredients' so that wholesome and nutritious dairy ingredients (originating from the mammary glands of an animal) are regrouped under **a unique generic name**: 'milk ingredients'.

- a. In French, 'substances laitières' and 'substances laitières modifiées' will be replaced by the unique generic name 'ingrédients du lait' as the word 'substance' has probably just as bad a connotation as 'modified'.
- a. Existing definitions of 'milk ingredients' and 'modified milk ingredients' will be merged (no change in definition) under the unique generic name 'milk ingredients'

Producers and processors will jointly lobby the Canadian Dairy Commission to discontinue the policy of institutional cross subsidy between domestic classes and special classes

- a. This means the elimination of criteria #3 of exceptional circumstances (criteria #3 = maximum difference of 3.5% between the average COP and the 1 to 5d blend price)
  - a. CDC mandate toward producers **remain intact** and **producers can still trigger exceptional circumstances if they feel that a cost impact is not adequately capture by the cost of production formula pursuant to the first criteria of exceptional circumstances**
4. Through a CMSMC decision in July, Stream 2 (Milk Allocation for Growth) will be approved
    - a. Providing that CMSMC Secretariat finalizes all the modalities of Stream 2
  5. Through a CMSMC decision in July, the two MSVP components of Stream 3 will be approved at \$14/hl and 10 years
    - a. The detailed modalities of Stream 3 will be subject to a subsequent CMSMC decision in consultation with processors
  7. CDC to commit to share with Secretariat on a quarterly basis a demand elasticity analysis on the main dairy products and share statistics on per capita consumption of dairy products
  8. Producers will commit to a five-year stable environment on promotional initiatives, with conditions remaining the same in the coming five years unless producers and processors agree to change them.