

# TPP: this devil is in the details...

IT IS TEMPTING for dairy farmers to feel some relief in the wake of the recently concluded Trans Pacific Partnership (TPP), which now awaits ratification by the House of Commons.

Much of the uncertainty over the past two years has been removed, and clearly, the level of public discourse provoked by the TPP has been good for the sector. Persistent attacks on Canada's supply management system by the likes of Martha Hall-Findlay, Senator Kerry and others fell easily in the face of facts: the latest global price comparison (52 weeks ending December 2014) showed Canadian consumers paid an average of \$1.30 for a litre of fresh milk, which compares favourably with retail prices of \$1.83 in New Zealand, \$1.81 in France, \$1.15 in the United States, \$1.19 in Germany and \$2.35 in China.

This TPP-induced flurry of public focus on SM has resulted in a more informed consumer: recent polls confirm fully 81% of Canadians want to retain supply management, and 58% would be willing to pay higher prices if necessary to maintain a system that ensures fair prices to farmers and delivers a stable supply of safe, healthy, locally-produced dairy and poultry products to consumers.

But it would be a mistake to assume the impact of the trade concessions granted by Canada at the TPP negotiating table will, in the fullness of time, be limited to Ottawa's assertion of a 3.25% loss of market share.

On the face of it, an agreement to give up of 3.25% of Canada's dairy market means 250-300 million litres of milk per year that will no longer be produced by Canadian cows. This is in addition to the \$110-150 million loss of market opportunity under CETA. Ottawa's TPP estimate is based on assumed 2016 production volumes. More significantly, Canada's loss of market share will depend greatly on the mix of products imported (whether for processing or retail).

Canada has not – at time of writing – released the details of the negotiations, but based on statements by our trading partners, Canada has agreed to immediately eliminate – upon entry into force of the TPP – all tariffs on milk protein substances and margarine (which can contain 15% butterfat). Tariffs on whey powder will be eliminated over 10 years (with duty free TRQ's in the interim). For all other dairy products (e.g. example butter and cheese), Canada will establish new TRQ's that will grow for an additional 13 years after

they reach agreed-upon quantities.

Although the impact of increased market access through TRQ's can be estimated as percentages of domestic production, the impact of tariff reductions or eliminations cannot. Products in the latter category (unbounded and not subject to TRQ's) will enter in response to forces of supply and demand. The inability to predict imports for these classes of dairy products calls into serious question the validity of Ottawa's 3.25% estimate of market share loss phased on over 5 years.

Already, Canada has a serious problem with imports of milk protein isolates (85% milk protein concentrate). Since 2007, due to tariff free access under the North American Free Trade Agreement (NAFTA) and more recently the Canada European Trade Agreement (CETA), imports of MPI's have increased by 76%. This has displaced skim milk powder as a protein source in the Canadian market, seriously disrupting Canada's ability to balance its butter fat/non-fat-milk-solids ratio. Since Canada's ability to export dairy products is limited under WTO, displaced skim milk powder has been sold domestically at very low prices and, at times, has had to be disposed

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of as waste. As high over-quota tariffs are eliminated for milk protein substances and dried whey, increased imports of these SNF-dense products will exacerbate the problem.

Presently, MPIs from non-NAFTA and CETA nations are subject to TRQ's and an over-quota tariff rate of 270%. It is not clear whether MPIs will be included in the products (described by US, Australia and New Zealand, respectively, as milk protein 'substances', 'concentrates' and 'products') for which tariff's will be eliminated.

If MPI's are included (and MPI inclusion in both NAFTA and CETA suggests this is likely), Australia and New Zealand will likely shift their export mix from concentrates to isolates. This would leave Canada fully exposed to imports of MPI's from the top four global dairy exporters, an eventually described as "ominous" by Agri-Food Economic Systems because it would greatly exacerbate Canada's surplus of SMP with no offsetting increase in export market access.

There are some TPP benefits for Canada's dairy farmers: Canada's cheese standards will continue to be enforced and tariffs have been eliminated for some specialty and artisanal Canadian cheeses exported to the US.

Simultaneously – though no more than an election promise at the time – Ottawa committed to implement policies that would include an income protection package and quota value guarantees for all five SM sectors as well as funds for promotion and marketing and processor modernization (presently only one BC processing plant can produce MCIs).

The specific tariff items to be impacted by the TPP agreement – which still requires assent by Parliament – will be released in the days ahead. But based on statements by our trading partners, Ottawa's assertion that the TPP will result in a mere 3.25% loss of market share seems very unlikely indeed. **D**



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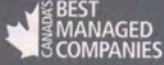
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