



## President's Address - Wally Smith

*As delivered | February 5, 2015*

---

Ladies and gentlemen, guests and fellow farmers, we've all seen the headlines in the last couple of weeks: oil prices have dropped 45 to 50 per cent, the forecast is for it to stay significantly lower in 2015 due to supply and demand dynamics. Exports from Canada have slowed dramatically and there was a little bump in the price a few days ago but yesterday it sank 3 per cent again.

The public knows about the low prices and the impact on the economy: Yes we may have more disposable income, but it is not good for the deflationary spiral that countries around the world are suffering from.

The public knows about oil price dilemma and the supply and demand dynamics, but it also applies to milk internationally. The dairy industry headlines internationally are about prices dropping by 45 per cent in the last few months; prices are to stay significantly lower in 2015. Exports have slowed dramatically, but there's more: 1,000 farmers in the UK did not get paid in January for their production because their processor didn't have the cash to pay them for their product.

In New Zealand, almost historical lows are threatening dairy loan defaults and farms are deeper in debt just to stay alive. The chair of federated farmers in New Zealand Andrew Hogart talks about the ripple effect of economic pain to the rural economies as farmers cut back spending everywhere they can. Agrimoney, a newspaper in New Zealand, said industry groups warned of analysis that around 25 per cent of NZ dairy farmers are facing some business risk this season with the low price. That means they will have difficulty meeting their interest payments, their rent, their farm-working expenses without incurring more debt. The group cautioned against banking on an imminent revival in farm gate milk payouts, which tends to lag dairy commodity markets. He went on to say we don't expect milk prices to recover anytime soon and it will be maybe in June when things will get really, really tough for farmers.

So farmers are borrowing money to keep their operations alive. Forget about capital expenditure, they're having trouble paying rent for their land.

We're not talking about buying land or capital assets. We've had this scenario in the last decade in Canada with the Canadian beef and pork sectors, where low prices drove farmers out of business; where they had to borrow money to stay alive; and when they could no longer borrow money to stay alive, ladies and gentlemen, they went out of business. When a farmer goes out of business, the farmer generally does not return to operate a farm. Not only do you lose the production but you lose the expertise.

The problem is about to get worse because in eight weeks, in Europe, quotas will be removed from the countries that still have applied them to the production systems there. And the forecast is if they can afford to keep producing that production will go way up and prices will sink even lower.



## President's Address - Wally Smith

*As delivered | February 5, 2015*

---

Supply and demand dynamics.

A pillar of supply management, ladies and gentlemen. One of the reasons we have ability in this country to have the stable industry we enjoy is because we *don't* oversupply. We supply the domestic requirements and we are still showing growth. We *don't* have the wild swings of the volatility of low prices and then a few months of high prices where things average out. Because most farmers internationally, ladies and gentlemen, do not enjoy the standard of living that Canadian dairy farmers enjoy. We have a system that is important to maintain, a system that allows stability, a system that allows us to borrow money for capital assets to buy land, to renew our equipment, not just to borrow money to stay in business.

So what's happening in the oil industry? Layoffs, we've seen drilling rigs idled, we've seen catering companies in Fort McMurray totally close down their camp; it has become ghost town. I have a lot of friends who work in Fort McMurray. They are out of work. In Calgary, house prices are crashing. Is this what we think is sustainability?

There are a lot of critics out there of supply management; we have some in government, we certainly have them in the press, we have people who believe the lies being communicated by the critics, namely that consumers are going to get cheaper products if we get rid of supply management.

We want to grow. We need to grow the industry. Critics of the system say if you only you deregulate it in Canada you too can be liberated from the shackles of supply management that prevent you from getting into this lucrative export market in Asia. There are suicide lines other countries because farmers no longer know where to turn. That's where the growth opportunities are, we are told. But only 7 per cent of international production is traded internationally. Only 7 per cent. Most dairy production in the world is used in the same country that the milk is produced. And supply management, ladies and gentlemen, isn't about just the system, it's about empowering farmers as collective group and it is about the family farm. The family farm where the average Canadian farm has 76 cows in production. And that is something worth preserving.

Now I'm not against exports and I'm certainly not against growth, but exports have to make sense. We don't want to go to world price in Canada where we farm in the Northern hemisphere - and export and not get a decent price for our product, to lose money while doing so.

We can export, in fact we already do. We export our fine cheeses. There's ricotta going out of south western Ontario across the line into the states, there's fluid milk going from the west coast into Asia, and there's opportunity there. And there's nothing non-trade compliant about exports when we export at domestic price, and we can explore innovative and other ways to export but only if it makes sense. And only if it is trade compliant.



## President's Address - Wally Smith

*As delivered | February 5, 2015*

---

Ladies and gentlemen, the government must never trade away sustainable economic driver of unsubsidized supply management to participate in the unsustainable, uneconomic model of subsidized world trade. I'll repeat that: the government must never trade away the sustainable economic driver of unsubsidized supply management to participate in the unsustainable, uneconomic model of subsidized world trade.

[Applause]

Why? Because supply management is an oasis in the vast desert of low price and hopelessness of farmers around the world. We talk about our three pillars, we talk about our system being underpinned by disciplined production, by administered pricing, by border protection, which is a government responsibility, but I would submit this morning that supply management has four pillars. There's an additional pillar and that is the pillar of rural economic activity throughout our country from coast to coast. Ladies and gentlemen, it is a system worth fighting for.

It's a sustainable industry that provides well-paying jobs, and makes significant contributions to tax coffers and all levels of government, both provincially and federally.

Now I've talked about change in past and I think I might have been a little misunderstood. Because when I talk about change or renovating the system while maintaining the pillars of supply management, I'm not talking about trading our system away for export opportunities into that lucrative international market. I'm talking about change internally, where we have better governance, where we have expedited decision making, where we can be more united provincially. I know national pool right now isn't on the radar, but I see that as a vehicle to be able to get to these efficiencies that internally will allow us to more quickly take advantage of opportunities and to strengthen our system.

I think also there is some misunderstandings around the word modernize. At DFO's celebration two weeks ago, they celebrated their 50th anniversary of orderly marketing in the province of Ontario and I was privileged to speak at their celebration. I said that supply management is a system that evolves, develops and adapts. It's a living system; it's always been modernizing.

And all of a sudden we've adopted this term that we're going to modernize supply management. Well, I'm not prepared to modernize supply management into oblivion. I'm quite happy to see this system continue to evolve. We have to protect the fundamental principles of supply management that are so near and dear to not only farmers but all our service providers, our suppliers, our truck drivers, and the ripple effect of all the economic activity that depends on production system of dairy farmers in Canada.



## President's Address - Wally Smith

*As delivered | February 5, 2015*

---

I do, however, believe that we need to look very seriously at the new market environment that we find ourselves in. An environment that provides more flexibility, an environment that allows more flexible pricing, an environment that allows more flexible production. We grew by 2% last year, ladies and gentlemen, in the domestic market. Growth is good; growth is necessary; growth is important. How can we further grow our market? It takes more than just us as dairy farmers.

I just talked about the pillar of administered pricing. Supply management has always had this formula by which farmers receive their pricing at the farm gate, and then that milk is sold to processors, and processors set their price to the retailers and the rest of their customers. In the last few weeks, the Canadian Dairy Commission made an announcement: the price of milk to dairy farmers was going down roughly 1.8 per cent. Down ladies and gentlemen. You didn't see that reported in the mainstream media, but every time it goes up just a bit we are criticized heavily by those who want to pounce on supply management. But price decrease? I guess it was good news, it didn't make the papers. There's a problem. We received a letter in the office wondering if those prices would be passed onto consumers. Would consumers benefit from this price reduction that the farmers have to bear? And I'll quote from this letter:

- *I am disappointed to learn that processors do not intend to pass on savings to the customer.*

I don't know if that's true, but it seems to be true because otherwise why would a farmer organization receive a letter stating that?

I have a challenge to the processors this morning: we want growth, you want growth. The answer isn't necessarily in the export market, so how about we share flexible pricing to enhance domestic market growth leaving both of us profitable with the consumer benefitting? How about investing more in a stable market for domestic purposes, innovate, become efficient, invest in Canada?

It was interesting to note an interview that was done in the Globe and Mail with the president and CEO of Saputo. If you hadn't seen it I thought I should share it with you. This is what he said in an answer to a question about the supply management system in Canada. He made one little mistake and I'll point that out. He said '*I think the protectionist system...*', he starts off. Well, we're not protectionist, ladies and gentlemen, because in Canada we have provided more market access to other markets than any other WTO partner that has signed the Uruguay round agreement, so I would challenge that idea that we are a protectionist system. But he said: '*I think the system just the way it is set up perhaps could allow people to be less entrepreneurial because there is less volatility in prices. The flipside though is that such stability has given us, Saputo, an incredible platform to be able to consider getting into more volatile markets.*' His final sentence: '*It has served us well I have to say.*'

I thought that was pretty awesome. It should have been on the front page of the Globe and Mail, not buried at the rear of the business section, but it's there nonetheless and it's public record. And it's a



## President's Address - Wally Smith

*As delivered | February 5, 2015*

---

good system because it allows us as producers and stakeholders to invest in things like proAction, biosecurity, animal welfare, food safety and on the list goes, and it also allows us, ladies and gentlemen, to from the farmer perspective, at farmer cost grow the market through marketing and nutrition to the tune of 80 to 100 million a year, to grow the domestic market, of which processors also benefit.

In fact, I'm really proud of one of the projects that we talked about most recently in the report of the board: our partnership with Dominos and the little blue cow. If you look really closely though it's not a blue cow it's a white cow, and sometimes with the pushback I get from processors about using this cow, using this brand, this generic brand it makes me feel a little blue.

But it's a happy cow, it looks like a mischievous cow, we get that in the barn every so often don't we? That little blue cow, ladies and gentlemen, is there so Canadians know that the product is made with 100% Canadian milk.

We have the Cheese Rolling in Whistler every year, and I'm not so sure that people no longer come just to witness the crazy event of people chasing a wheel of cheese down the hill; or because they are coming to source the cheese market halfway up the hill. The business those cheese makers make in a day; the amount of cheese they sell there; and the people that come to source their cheese there is incredible. It's not just the small cheese makers, it's also the big cheese makers. I have an example of a cheese maker in Canada that is proud to use the 100% Canadian milk logo.

*(Wally shows commercial of Arla promoting its Tre Stelle cheese.)*

I'm proud we have partnerships with both processors and other people in the food chain who use our cow because consumers want to know where the product comes from; they want to know that it's sourced locally; they want to know that it's safe. And if you look at the explosion of farmers markets throughout the country and how rapidly those farmers markets and those kinds of stores are growing in our communities, ladies and gentlemen, it is important to continue with this program.

So last fall we announced a partnership with Dominos, but two weeks ago you also heard that Tim Horton's is now eager to partner with Dairy Farmers of Canada and promote the use of 100% Canadian Milk. There's more in the pipeline, there will be more subsequent announcements.

We're also working with DeLaval, which is a dairy supplier throughout the country, to put that the 100% Canadian brand on its fleet of trucks from coast to coast. We're going through the operations of getting that out there in the next few months.

This blue cow, ladies and gentlemen, isn't there to cause acrimony between producers and processors. It is a vehicle by which I believe we can grow the market in Canada for the benefit of



## President's Address - Wally Smith

*As delivered | February 5, 2015*

---

consumers, producers and processors. We can grow the market, we can build the volume and I think we have a right to be able to do that. Dairy Farmers of Canada has right to spend a few dollars to promote the little white cow because we spend so much money on generic markets, which all brands benefit from. It identifies the origin of the raw product in that particular product that is being sold. It's good news.

Supply management is a great system, it's worth fighting for, and yes we've had trade agreements, we've had CETA, we've also got TPP, and while the TPP may be cause for concern here and there, I believe the government is going to stand firm and support supply management for all the reasons that I have articulated this morning. I invite our other stakeholders - our processors, our producers, our government, to stand shoulder to shoulder, province to province, federal to province - to stand up for supply management and tell the world that this is a system that's sustainable. This is a system that works; this is a system that doesn't need subsidization; this is a system that taxpayers don't fund.

[Applause]

I'm asking for their help: I'm asking for more government aggressiveness in announcing to the Canadian public that we will stand up for supply management in international trade talks. We will not sacrifice or surrender at the TPP. I'm asking for processors to say yes we're going to come alongside you in these uncertain times because we believe this is a system worth fighting for and it's a great platform to launch our investments from.

Ladies and gentlemen, DFC has done a lot of good things since 1994 and during the Doha Round. If we all cooperate and stand up for supply management, stand up for this sustainable system, supply management will have been here yesterday, it is here today and it will be here long into the future. Sustainability is important to agriculture; it's important to the food chain; and we shall endure.

[Applause]