



Chicken Farmers of Canada Pre-Budget Submission 2016 Federal Budget

February 12, 2016

Introduction

Chicken Farmers of Canada proudly represents Canada's 2,700 chicken farmers, supporting jobs, economic growth and prosperity in rural and urban communities from coast to coast. Our main responsibility is to ensure that our farmers produce the right amount of fresh, safe, high-quality chicken for Canadians, in addition to representing the interests of chicken farmers and the Canadian chicken industry.

With the ongoing policy support from our government and the trust of Canadian consumers, our farmers and the chicken industry:

- Contribute \$5.9 billion to Canada's Gross Domestic Product
- Sustain 78,200 jobs
- Pay \$2 billion in taxes; and
- Purchase 2.5 million tons of feed, thereby supporting other farmers.

Our industry is proud of the contribution we make to the Canadian economy, but it is not without its challenges, and we look to the government to help us continue to generate growth, innovate, and keep food safe.

The future growth and success of the chicken industry relies on the stability provided by the three pillars of supply management: production planning, producer pricing, and import controls. In an ever-changing and rapidly moving global economy, our farmers are concerned about the integrity of the import control pillar and Canada's involvement in trade agreements. Chicken Farmers of Canada has always supported a trade negotiating model that achieves market access gains for Canadian agriculture, while maintaining the integrity of the import control pillar of supply management.

At the conclusion of the Trans-Pacific Partnership agreement on October 5, 2015, the previous government announced its commitment to implementing anti-circumvention measures to address the losses and instability that has been caused by increasing fraudulent imports over the past several years.

With this pre-budget submission, Chicken Farmers of Canada looks to the Minister of Finance and the federal government to consider our three recommendations to re-establish the integrity of the import control pillar of supply management:

These three recommendations come at no cost to government. In fact, by removing duplication in programs there will be cost savings for government. As well, they will permit the Canadian chicken industry to increase its contribution to GDP, employ more Canadians and pay more taxes.



Recommendation 1: Exclude Chicken from the Duties Relief and Drawback Programs

Issue: The Duties Relief and Drawback Programs administered by the Canadian Border Services Agency under Duty Deferral were not designed for agriculture goods such as chicken. Moreover, it does not provide adequate safeguards to address potential diversion into the domestic market when chicken is imported into Canada for further processing and subsequent re-export. What started as a modest program with imported volumes of up to 2 million kilograms in 2011 has now grown, with imports having reached 96 million kilograms in 2015; this represents more than 9% of our production. More specifically, Chicken Farmers of Canada has identified the following concerns with respect to these sub-programs of the Duty Deferral Program:

- (1) Improper product substitution where high-value chicken is imported (and marketed in Canada), and the re-exported product contains less valuable chicken cuts or meat from spent fowl, a lower quality product that can be labelled as chicken.
- (2) Unreported or misreported marinating, glazing, sizing and yields which result in less chicken being re-exported than is being imported, with the difference leaked in Canada.
- (3) Inadequate design for perishable products allowing up to four years to re-export, which greatly exceeds the shelf life of frozen products.
- (4) Inconsistency between government programs where participants evicted from Global Affairs Canada Import to Re-Export Program (IREP) for non-respecting the rules are allowed to apply under DRP.

Businesses will still have access to the Import to Re-Export Program administered by Global Affairs Canada, which is specifically designed for goods subject to import controls, and is better suited for the chicken industry. This will remove program duplication and provide program administration savings for government.

Recommendation: It is our understanding that the federal government is in the final stages of excluding poultry tariff lines subject to the Tariff Rate Quota from the Duties Relief and Drawback Programs, by making an exception similar to the one that exists for fuel and plant equipment. This exclusion would eliminate the program duplication that currently exists, and all legitimate Canadian further processors of chicken would continue to have access to the Import to Re-Export Program. This exclusion should be included in the budget to ensure its timely implementation.



Recommendation 2: Mandatory Certification for Imports Classified as Spent Fowl

Issue: At present, there is no auditable importer documentation to provide the Canada Border Services Agency with proof that products classified under a spent fowl tariff line, in fact, contain spent fowl, as opposed to chicken meat subject to Tariff Rate Quotas. In addition, it is difficult to verify whether a given product contains chicken, spent fowl or a combination of both due to the limited capabilities of existing testing technologies. As a result, a substantial and growing volume of chicken meat is being imported into Canada in direct circumvention of Canadian border measures respecting chicken and chicken products. Over the past 4 years, Canada has imported close to, or more, spent fowl than the total production in the United States. This is clear proof of fraudulent practices and hence the need for these imports to be certified. Imports of spent fowl have increased to more than 100 million kilograms, representing almost 10% of our production. Chicken Farmers of Canada has successfully concluded research at Trent University to develop a forensic DNA test to verify that a given product contains chicken, spent fowl or a combination of both.

Recommendation: Harmonize Canada's border administration practices with the United States Department of Agriculture (USDA) Fowl Meat Verification (FMV) program for spent fowl in the United States. This import certification would apply as much to Chapter 2 products (meat cuts) as to other spent fowl further processed products in Chapter 16 (nuggets, cooked strips, tenders). The import certification will provide an auditable paper trail to prove that product classified under a spent fowl tariff line is actually spent fowl. The best means of making this certification mandatory is for the Governor-in-Council, under section 164 of the *Customs Act*, to make a determination that this is required information.

In addition, recourse to the DNA test to verify physical samples will provide greater certainty on the import certification program.



Recommendation 3: Reinstate into the Customs Tariff Definition the Sauce and Cooking Requirements of Specially-Defined Mixtures (SDMs) as contained in Canada’s WTO Commitments

Issue: The existing SDM definition in Supplementary Note 2 to Chapter 16 of the *Customs Tariff* Schedule is narrower in scope than what Canada agreed to in its WTO Schedule of Commitments. As a result, some chicken products that should be subject to TRQs are entering Canada tariff-free, therefore displacing Canadian chicken.

Recommendation: Reinstate the sauce and cooking requirements of the SDM definition in the *Customs Tariff* as per Canada’s WTO commitments will provide importers and domestic stakeholders with a single, consistent definition of SDMs.

An appropriate method of achieving this alignment would be an amendment to the *Departmental Consolidation of Customs Tariff* by re-inserting the words referring to the “cooking requirements” and to the inclusion of “sauces”. The amended SDM definition we are proposing would read:

1. "Specially defined mixtures" of tariff items Nos. 1602.31.11, 1602.31.92, 1602.32.11 and 1602.32.92 means a product containing partially or fully cooked, including par fried chicken or turkey, wherein 13% or more of the total weight of the product is comprised of goods other than the following: chicken, turkey, bread or breading, batter, oil, glazing, sauces, other coatings and bastes, and any added water (including that used in marination, glazing, sauces, other coatings, bastes, breading and batter)...

Reinstating the sauce and cooking requirements in the SDM definition is consistent with our WTO obligations and such an alignment is also compatible with Canada’s obligations under the NAFTA.



Next Steps

Canada's 2,700 chicken farmers take pride in not only being key contributors to Canada's food chain and supplying Canadians with high-quality food, but even more so in the economic contribution the industry brings to our country. And we want to keep growing and contributing. Chicken Farmers of Canada's recommendations stem from the importance of re-establishing the integrity of the import control pillar of our supply management system, while being an active participant in Canada's trade obligations. Closing these loopholes will create jobs, encourage investment and grow the economy.

Chicken Farmers of Canada looks forward to continuing our work with the federal government in ensuring the industry remains vibrant and evolving. Canadians rely on their government for job creation and economic growth, just like they expect reliable and safe food. In considering our recommendations for inclusion in the 2016 federal budget, you will reinforce your government's commitment to both.

