



# **Chicken Farmers of Canada Pre-Budget Submission to the Standing Committee on Finance**

## **2017 Federal Budget**

**August 4, 2016**

## **Executive Summary**

Representing 2,700 farmers and working alongside 145 processors, Chicken Farmers of Canada is responsible for chicken raised and sold commercially in Canada. We take pride in the valuable contribution we make to the Canadian economy, in addition to being an important player in the domestic food chain. While contributing \$5.9 billion to Canada's Gross Domestic Product, sustaining 78,200 jobs, and paying \$2 billion in taxes, our industry generates employment in farming, processing, veterinary work, transportation, retail, restaurants and more. Our farmers work hard to ensure the chicken that is available to Canadians is safe, delicious, and raised to the highest standards.

Canada's chicken farmers are proud of their steady economic contribution, and we want to keep growing—and we can't do this without the support of government and consumers alike. Our industry is faced with the persistent circumvention of our import controls, creating a loss of jobs and a lack of predictability for our farmers. We are recommending reasonable, practical, and trade compliant ways to strengthen our world-class system. These changes will be beneficial to Canadian farmers, consumers and families.



## Background

Chicken Farmers of Canada proudly represents Canada's 2,700 chicken farmers, supporting jobs, economic growth and prosperity in both 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 sector.

With the ongoing policy support from our government and the trust of Canadian consumers, our farmers and the chicken industry are a pillar for growth, job creation, and innovation across the country. The chicken sector:

- contributes \$5.9 billion to Canada's Gross Domestic Product
- sustains 78,200 jobs
- pays \$2 billion in taxes; and
- purchases 2.5 million tons of feed, thereby supporting other farmers.

Canada's chicken farmers are proud of this steady contribution, and we want to keep growing. But 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. Our farmers are seriously concerned about significant breaches in the integrity of the import control pillar for chicken.

On October 5, 2015, the previous government announced its commitment to implementing measures to address the losses that have been caused by increasing fraudulent imports over the past several years.

With this pre-budget submission, Chicken Farmers of Canada requests that the Standing Committee on Finance and the federal government fulfill this commitment by considering our three recommendations for re-establishing 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 sector to increase its contribution to GDP, employ more Canadians and pay more taxes.



## **Recommendation 1: Mandatory Certification for Imports Classified as Spent Fowl**

**Issue:** Illegal imports of chicken declared as spent fowl are displacing Canadian production and processing, and costing Canada millions of dollars.

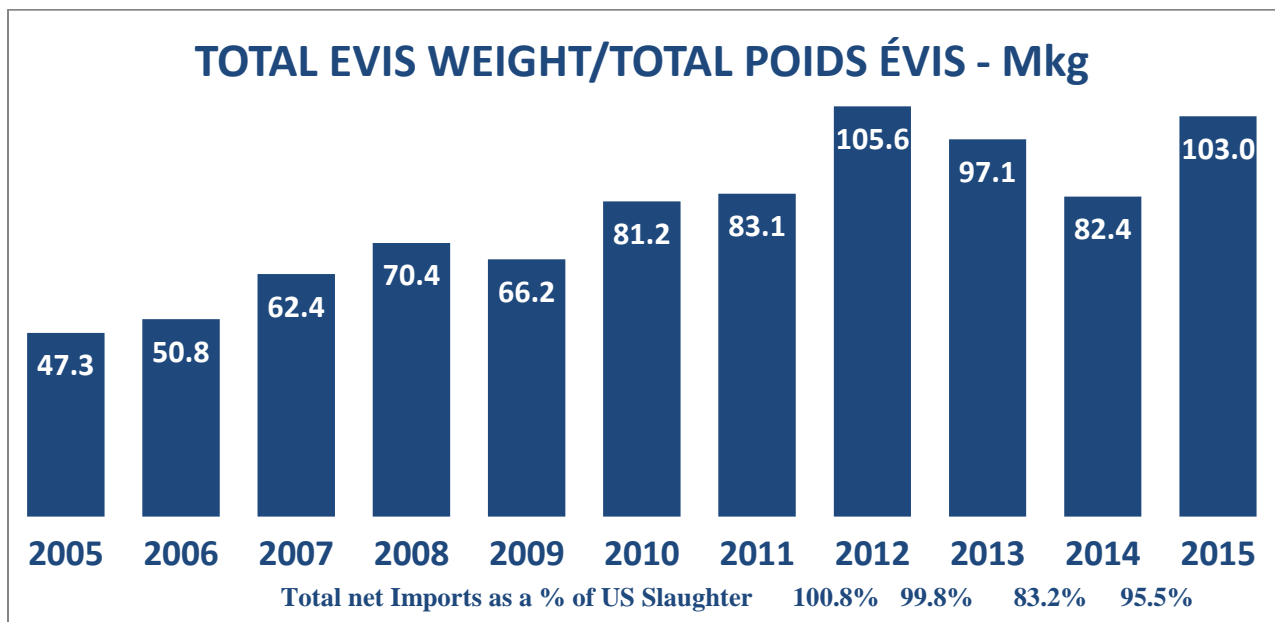
Spent fowl are laying hens at the end of their production cycle: a by-product of egg and hatching egg production. While broiler chickens are raised specifically for meat consumption, spent fowl hens lay eggs and when their productivity declines, they are processed for their meat.

Chicken coming into Canada is subject to import controls, and spent fowl is not—there is no limit on how much spent fowl can be imported. However, a substantial and growing volume of chicken broiler meat is being illegally imported into Canada under the guise of spent fowl. These illegal imports became noticeable in 2012, when Canada imported more spent fowl breast meat from the United States than was actually produced in the United States. Furthermore, since the start of 2016 alone, Canada has imported 111% of the United States' entire spent fowl breast meat production. This is of course impossible, and points directly to import fraud. The existence of this fraud underscores the need for spent fowl imports to be certified.

There is also no means of visually distinguishing between broiler meat and spent fowl meat at the time of importation. In 2014, with financial support from Chicken Farmers of Canada, Trent University successfully developed a forensic DNA test that can verify whether a given product contains chicken, spent fowl or a combination of the two. We recommend that this test serve as part of the mandatory spent fowl import certification verification process.



Spent Fowl Imports, 2005-2015



Source: AAFC, 2016

**Recommendation:** Chicken Farmers of Canada recommends that the Government of Canada implement a mandatory certification process for spent fowl imports to complement the existing United States Department of Agriculture (USDA) Fowl Meat Verification (FMV) program for American spent fowl exports. An effective certification process must incorporate the DNA test developed by Trent University that can distinguish broiler meat from spent fowl meat. Having a reliable means of verification will ensure that no broiler meat is imported illegally as spent fowl in circumvention of import controls. The import certification would apply to all spent fowl imports, thereby putting an end to fraud and avoiding the importation of misdeclared chicken, while supporting the creation of 2,770 new jobs, the contribution of \$208 million to Canada’s GDP and the generation of \$70 million in taxes.



## **Recommendation 2: Exclude Chicken from the Duties Relief and Drawback Programs**

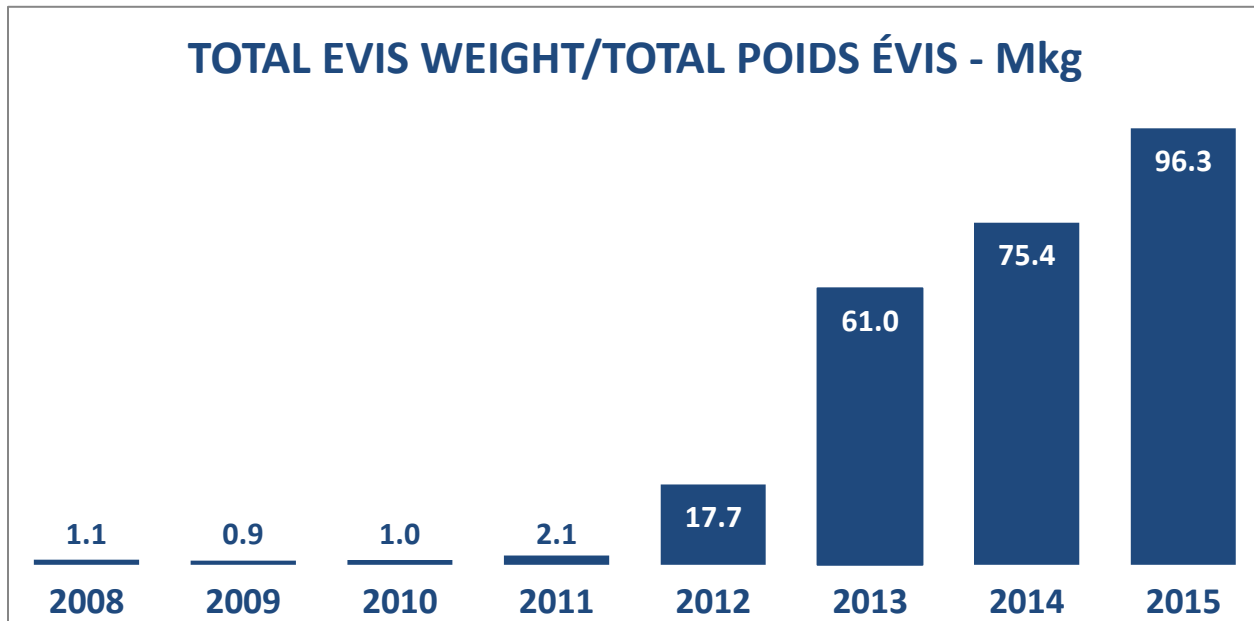
**Issue:** The Duties Relief and Drawback Programs (DRP) administered by the Canadian Border Services Agency under the Duty Deferral Program were not designed for perishable agriculture goods such as chicken, and do not provide adequate safeguards to address the diversion into the domestic market when chicken is imported into Canada for further processing and subsequent re-export. Although initially designed as a modest program, imports through DRP have increased exponentially over the past few years, reaching 96 million kilograms in 2015, which represents more than 9% of our production. Chicken Farmers of Canada has identified the following specific concerns with respect to these sub-programs of the Duty Deferral Program:

- (1) improper product substitution where high-value chicken cuts are imported for inclusion in a processed export good, but 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 result in less chicken being re-exported than was imported, with the difference being diverted into Canada's domestic market;
- (3) inadequate design for perishable products allowing up to four years to re-export, which greatly exceeds the shelf life of frozen chicken products; and
- (4) inconsistency between government programs where participants evicted from the Global Affairs Canada Import to Re-Export Program (IREP) for not respecting the rules are allowed to participate under DRP.

Canadian businesses 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 to the agri-foods sector.



Duties Relief Program – Chicken Imports, 2008-2015



Source: CBSA, 2016

**Recommendation:** Chicken Farmers of Canada recommends that the Government of Canada exclude 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 provide program administration savings for government. It will also support the creation of 1,425 new jobs, the contribution of \$107 million to Canada's GDP and the generation of \$36 million in taxes.



### **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:** Chicken combined with 13% of other ingredients is labelled a “specially defined mixture” (SDM) and is not considered chicken for import control purposes. In other words, products containing up to 87% chicken meat are generally not subject to import controls. A handful of companies have identified this as an opportunity to circumvent trade rules, and have been explicitly creating new SDMs—through the addition of sauce to a box of chicken wings or by creatively packaging together two distinct products, such as pizza and chicken pieces, in the same box—in order to import even more chicken into Canada. These products are created deliberately with the sole purpose of avoiding import controls.

**Recommendation:** Chicken Farmers of Canada recommends that the Government of Canada reinstate the sauce and cooking requirements of the SDM definition in the *Customs Tariff* as per Canada's WTO commitments. This will provide importers and domestic stakeholders with a single, consistent definition of SDMs. An appropriate method of achieving this would be through an amendment to the *Departmental Consolidation of Customs Tariff* that re-inserts the words referring to the cooking requirements and to the inclusion of sauces. The amended SDM definition we are proposing would read:

"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 is also compatible with Canada's obligations under the NAFTA. This will also support the creation of 260 new jobs, the contribution of \$20 million to Canada's GDP and the generation of \$7 million in taxes.





## **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 sector 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. Closing these loopholes will create 4,455 new jobs, add \$335 million to Canada's GDP and further contribute \$112 million in taxes. It will encourage investment and grow the economy.

Chicken Farmers of Canada looks forward to continuing to work with the federal government in ensuring our sector 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 2017 federal budget, you will reinforce the government's commitment to both.

