

2013 – MHF Comment – Supply Management – FAQs

We could save the average Canadian family hundreds of dollars a year, bring food processing jobs back to Canada, and increase our international trade, all by dismantling supply management in dairy, poultry and eggs. At the same time, we can compensate the affected farmers, and help them with transition to succeed in the world market (as we did so successfully with our Canadian wine industry in moving to free trade with the US). We can address the challenge of supply management with a positive, win-win solution.

(The following is a synopsis of points made in greater detail in my major research paper, found at <http://policyschool.ucalgary.ca/?q=content/supply-management-problems-politics-and-possibilities> . I urge anyone interested in this topic to read the paper, and to send whatever questions, suggestions, comments to info@marthahallfindlay.ca.)

Canadian families are paying much too much for basic nutrition.

Canadians are forced to pay 1 ½ to 2 times as much for whole milk as Americans – and that's just milk. It is simply untenable that Canadian families pay upwards of \$300 **more** a year than they should for staples of our diet in order to subsidize a tiny number of relatively well-off farmers and those who work in the dairy protection lobby.

Milk, cheese, all other dairy products as well as chicken and eggs, are produced in Canada under a heavily protected supply management regime (controlled marketing boards). The system made sense in the 1970s, but it's now 2013 and circumstances have changed dramatically.

People in Vancouver make weekly cross-border shopping trips to the US to buy their milk, cheese, chicken and eggs. (Our tariffs run from between 200% to 300% to keep competitive imports out.) In Ontario, police recently broke up a cheese-smuggling ring (not drugs – CHEESE), people smuggling cheese in from the US and selling it in Ontario, because cheese is 2 to 3 times the cost in the US

Worse, it is regressive – it hurts most the very people who need affordable access to good nutrition – single parent families with young children, living in poverty. Studies have shown that those children end up drinking Coke instead of milk, eating chips instead of cheese and yogurt, because the

dairy products are so much more expensive. The artificially high prices have a very damaging effect on the very people who need good nutrition the most. It's shameful.

Contrast this to the fact that the average dairy farm has a much higher net income than that of the average Canadian family, and has over \$2 million of assets. Canadians, particularly low-income families, pay hundreds of dollars more than they need to for basic nutrition, whereas the average dairy farmer is a millionaire. Many others, including processors, restaurants and non-supply-managed farmers (by far the majority of Canadian farmers) have been calling for an end to supply management for years. We need to rally anti-poverty groups and food bank operators to speak out as well.

What IS Supply Management?

Supply Management is a system of controlled markets that applies in Canada to dairy, poultry (chicken and turkey), and eggs (both table eggs and hatching eggs). It evolved over time, implemented in its current form in the 1970s, primarily to ensure a fair return for farmers and price stability for processors and consumers.

It is not available to any other agricultural activities — beef, pork, grain, pulses, oil seeds and their oils — which are, for the most part, subject to the open (and international) market. Different agricultural sectors receive different supports from governments (including Canada), but only dairy, poultry and eggs benefit from the comprehensive controlled market approach of supply management.

As the name suggests, it is a system determined by supply and not, as in most economic activities, demand. Although in practice it gets very complex, the theory is relatively simple: the prices for milk paid to the producers (the farm gate prices) are established based, not by what the market is willing to pay, but primarily on the costs of production; high protective tariffs are in place to prevent competition from outside; and production is controlled through a regulated quota system.

The system of supply management (marketing boards) artificially supports fewer than 10% of Canadian farmers – and most of the rest of Canada's farmers suffer

I have been accused of being 'anti-farmer'. The opposite is true. Although there were very good reasons for implementing supply management in the 1970s (volatile prices, the shutting of international

markets) there were approximately 145,000 dairy farmers. There are now barely more than 10,000 – a staggering drop of over 90%. Yet there are over 200,000 farmers in Canada, most of whom produce beef, pork, grains, oilseeds, pulses – these farmers do not benefit from artificial supports and high tariffs. They instead want greater access to the fast-growing markets, particularly in Asia, for their products.

Many non-supply-managed farmers have also told me of challenges such as increased costs of inputs and higher land prices making their own operations more difficult due to the artificially high prices for dairy, poultry and eggs. There are even dairy farmers who have expressed support, because they want to be able to expand and compete internationally as well. We must not sacrifice greater potential prosperity for the majority of Canadian farmers -- protecting fewer than 10% of farmers hurts more than 90% of the rest. Dismantling supply management for dairy poultry and eggs would, in fact, *benefit* by far the majority of Canadian farmers.

Protecting the family farm? A fallacy.

One of the main arguments for keeping the supply management system in place is to “protect the family farm”, often referring to the farm consolidations in the US. ***But it is simply not true.*** The statistics show that in Canada, the rate of consolidation (smaller farms combining into large ones for economies of scale) is definitely high, but that it has been higher – yes, ***higher*** – in the supply-managed dairy, poultry and eggs sectors, than in most other agricultural sectors. In the 1970s there were approximately 145,000 dairy farmers, and there are now barely more than 10,000 – a staggering drop of over 90%. Economies of scale are attractive to all enterprises – farmers are no exception. (See http://www.ceocouncil.ca/ceo_perspectives/michael-mccain-maple-leaf-foods-on-the-need-for-a-canadian-food-strategy for interesting commentary by Michael McCain, President and CEO of Maple Leaf Foods, on economies of scale in the food sector.)

Supply management has not, and does not, “protect the family farm.”

Protecting Food Safety and Security? Another fallacy.

One argument for supply management is that, somehow, it ‘protects’ the quality of the dairy, poultry and egg products that we eat. However, how well we regulate the use of hormones, or what ingredients are allowed in our foods, has nothing to do with the quota system, but everything to do with regulation, food labeling and food inspection. Here Canada can do

much, much better --- not just for dairy, poultry and eggs, but for all of our food. I have long advocated for better labeling, better regulation and better inspection. There is absolutely nothing to prevent Canada from saying that we will not accept milk into Canada that has been produced using hormones – or we can specify that the labeling be so thorough that people can make their own choice and pay whatever price is most appropriate.

We are exporting jobs – jobs that should be staying in Canada

Processors (the ones who make butter, cheese, yogurt, ice cream) have been setting up plants outside Canada (taking all those jobs with them) in order to compete internationally. Their Canadian plants satisfy the Canadian market – and can do so at the much higher prices because of the overall price-setting and tariff protection. BUT --- those who want to compete internationally cannot do so from Canada because our milk prices are far too high. We are exporting jobs to places like South America – jobs which should stay in Canada – simply because our milk is too expensive to compete. And remember, this is to benefit a relatively tiny number of farmers.

We are losing access to important international markets

Canada's insistence on this protection makes it difficult for Canada to open up access to international markets. This means that all other Canadian enterprises that rely on trade, all those who would benefit from Canadian participation in trade arrangements such as the Trans-Pacific Partnership, are too often denied lucrative access to some of the world's largest and rapidly growing markets. This includes, ironically, most of the farmers in the **non**-supply-managed sectors, such as beef, pork, grains and oil-seeds who make up by far the majority of Canadian farmers. In contrast to the fewer than 15,000 supply-managed farmers (dairy, poultry and eggs together), there are well over ten times that many—over 210,000 farmers (92 percent of the total number of Canadian farmers) are directly dependent on export markets; they either export their products or sell them domestically at prices set by international markets. These farmers would benefit from increased access to the world's rapidly growing emerging economies, particularly those in Asia. Even the dairy farmers themselves are prevented from taking advantage of the opportunities and efficiencies a truly free market affords. Canada is a trading nation – this hurts our whole economy.

Countries that have embraced greater levels of free trade, like Australia and New Zealand, among the initial participants in the Trans-Pacific Partnership, will be unwilling to let Canada sign on to the deal (even though we're in discussions) because they themselves dismantled their own protectionist regimes over a decade ago – to great success. Their dairy industries are now thriving more than ever before.

A win-win solution for farmers

Dismantling supply management is not something that should be feared by the dairy sector. ***It is possible to dismantle supply management in a way that not only works well for dairy farmers, but which can leave them even stronger.*** Even better, it can be done without extra cash from the government—financed by using the existing system – with retail prices that are ***lower*** than what consumers are paying now, but, for the transition period only, not quite as low as full free market prices. The difference will, over years, build the fund that pays for compensation and transition assistance. The formula for what compensation and transition assistance amounts will be appropriate will be complex, primarily because of the value of production quota – and timing. Dairy farmers were 'given' their existing quota at no cost in the 1970s – newer farmers have had to pay up to \$30,000 a cow for the same privilege. Any formula will have to take this and various other factors into consideration. But this overall approach was used successfully by Australia in dismantling its own dairy supply management in 2000, with an eight-year transition period. Not only did consumers benefit, it had a dynamic effect on productivity and re-oriented the Australian dairy industry to a globally competitive, exporting industry.

We have our own Canadian success story to draw on – the wine industry

The Canadian wine industry was heavily protected before free trade with the US. It was so protected, in fact, that the wine we produced was (let's be honest) not very good. Most was actually rather awful. But with free trade with the US looming, the wineries knew that they would soon be forced to compete. Despite the cries of doom and gloom at the time, with transition assistance, the wineries were able to change to better grapes – and the Canadian wine industry has become a global success. Good Canadian dairy products – including the great artisanal cheeses we produce -- should be able to do the same.

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Canadians should insist that their government have the courage to tackle sacred cows that no longer make sense. When politicians say we want evidenced-based policy, we should walk the walk, because the evidence overwhelmingly says this must be done.

What People Have Said:

"Martha Hall Findlay ... has done the cause of clear thinking a favour by challenging one of the sacred cows of Canadian politics: the protectionist system that keeps the price of milk, eggs and poultry in this country much higher than it needs to be." The Toronto Star Editorial, June 24, 2012.

<http://www.thestar.com/opinion/editorialopinion/article/1216133--time-to-end-canada-s-milk-egg-and-poultry-protectionism>

"On this file... [Hall Findlay] has shown a quality I'll venture to suggest might be desirable in a leader: leadership." Andrew Coyne, The National Post, June 22, 2012

"Martha Hall Findlay ... has written an excellent paper on why it's time to phase out the marketing boards that restrict Canadians' access to foreign dairy and poultry products and keep domestic prices for these basic foodstuffs regressively high." William Watson, The National Post, June 27, 2012.

"Most farmers hate the quota system. I grew up on a small dairy farm and know dozens of dairy farmers. Most of them can't stand the quota system as it breeds inefficiencies and excludes competition amongst farmers making new entry into farming just about impossible no matter how good you are at it. There is no question it enriches those who have accumulated large quotas but it forces many more farmers into subsistence living conditions. ... but in this instance [Martha Hall Findlay]'s bang on. For those who are concerned about food quality... That's a total pile of cow dung. The health and safety inspections are totally separate from the quota system... And you can get the best raw milk cheeses in the world from Europe. A little competition would broaden choice and make dairy products more affordable. I'm presently in Europe right now and have been shopping as Joe consumer for the past 4 months. They pay about half what we do and have twice the choices. Big dairy has a big spot on the shelves but so do the smaller specialty producers. We should be so lucky." "mapsonburt", commenting online in The Toronto Star, June 25, 2012.

“Martha Hall Findlay’s paper, *Supply Management: Problems, Politics — and Possibilities*, makes the most compelling economic and political case for dismantling supply management.” Terence Corcoran, *The National Post*, June 25, 2012.

“Martha Hall Findlay made a brave move when she defied Liberal party custom and urged that special protected status be removed from the milk and egg industries. It was a brave precedent and a good start if, as seems to be the assumption, Ms Hall Findlay decides to run for the leadership.” Kelly McParland, *The National Post*, June 25, 2012.

“Good for [Martha Hall Findlay], and better for the [Liberal Party]. It is exactly the kind of bold break with the status quo the Liberal party needs to make. Certainly it is the kind of debate it needs to have. For that matter, it is the kind of debate, the kind of politics, we all need, which is perhaps the greatest import of Hall Findlay’s initiative. We have grown used to a politics in which no one ever says or does anything the least bit risky, and no one ever tells the truth unless by accident. Our politics has become, quite literally, a fantasy world, and nowhere more so than with regard to supply management. The unwillingness until now of anyone, literally anyone, to speak out against such a clearly indefensible policy points to a deeply entrenched culture of falseness and opportunism. ...If you cannot bring yourself to say it is wrong to make poor families pay three times the market price of milk to prop up a handful of wealthy farmers, you are not in the business of serious politics.” Andrew Coyne, *The National Post*, June 22, 2012. <http://fullcomment.nationalpost.com/2012/06/22/andrew-coyne-martha-hall-findlays-attack-on-supply-management-is-good-for-her-better-for-the-liberals/>

Related video clips:

Martha Hall Findlay on BNN: <http://watch.bnn.ca/headline/july-2012/headline-july-11-2012#clip718888>

Larry Herman on BNN: <http://watch.bnn.ca/headline/july-2012/headline-july-11-2012#clip718887>