Greener Grass for a Sacred Cow

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Much has been written about the need to dismantle supply management, our archaic controlled market system that applies to the production of dairy, poultry, and eggs in Canada. Only in these three areas, merely 6% of Canada's farmers, do we continue to fix prices, impose extremely high tariffs to keep those prices high, and control production. It is a regulated cartel.

It hurts consumers – the average family pays over $300 a year more than they should for basic nutrition. Worse, it hurts the most vulnerable the hardest - low-income single parent families with small children, those who need access to affordable nutrition the most.

It hurts Canadian manufacturers and other exporters because Canada's insistence on protecting supply management puts Canada at a disadvantage in every trade negotiation, hindering access to international markets. Even in those trade deals that Canada has been able to sign, we have had to give up far too much at the negotiating table.

We lose Canadian food processing jobs, because the food processors who sell internationally locate their plants outside of Canada because our milk is too expensive.

Ironically, it also hurts the majority of Canadian farmers. Barely 6% of Canadian farmers are supply managed. By far the majority of farmers produce beef, pork, grains, oilseeds and pulses – all products that

Canada could sell more of to the rapidly-growing Asian markets, if only we stopped harming our trade options by insisting on protecting supply management for a tiny minority.

Most frustrating, it hurts many dairy farmers – certainly the most efficient ones, as highlighted in "Reforming Dairy Supply Management: The Case for Growth", a new report by the Conference Board of Canada. 25% of Canada's dairy farmers produce half of Canada's milk. These more efficient, growth-oriented farmers could be reaping significant profit from exporting to international markets, particularly the rapidly-growing Asian markets. Unfortunately it is they who are denying themselves these extraordinary growth and profit opportunities. The report also analyzes how the better farmers are subsidizing the less-productive ones, and how the whole system costs several hundred million dollars a year in debt servicing costs, capital that could be better used to fund tangible and productive assets.

How did we get here? In the 1960s, there were about 145,000 dairy farmers in Canada. At the time, they were facing real challenges in market fluctuations – and because there were so many of them, their fortunes affected a lot of communities. Implementing certain protections may therefore have been laudable at the time, but the circumstances have changed dramatically. The number of dairy producers has dropped a staggering 91 percent -- there are barely more than 12,000 left. There are fewer than 3,000 poultry farmers and fewer than 1,000 egg farmers. Yet governments in Canada continue to protect this small segment – less than one-half of 1 percent of Canada's economy – even though these regulations adversely affect much larger parts of the economy.

Why? Why do Canadian politicians still support supply management for such a tiny group? Because, thanks to the high prices consumers pay for their milk, butter, cheese, and yogurt, the dairy lobby has lots of money to spend – ***an estimated $80-$100 million a year*** – persuading politicians to keep the system. It is arguably the most powerful lobby in Canada. Frustratingly, the lobby lobbies its own farmers, too, spreading fear of any change. After all, if a solution is found to moving forward in a win-win way for both consumers and farmers, it is those employed by the lobby who stand to lose because they won't be needed anymore.

How ironic that Canadian consumers pay extra for the privilege of being persuaded that they should keep paying extra -- for basic nutrition.

So what is the answer? Fighting a powerful lobby is a tough challenge, and too many politicians lack courage when it comes to votes. The answer is reform that will actually BENEFIT the majority of dairy farmers. And it IS possible -- reform that would (i) help the more efficient, growth-oriented dairy farmers add capacity, generate more profits from exciting new export markets and make more efficient use of capital; (ii) compensate and provide transition assistance to those dairy farmers who wish to continue to operate their farms in what will, post-reform, be a more competitive environment; and (iii) facilitate, with proper compensation, the exit/retirement of those dairy farmers who choose to leave.

Imagine also that this reform can be paid for, not from already-pinched government coffers, but by using the system itself, over time – and spread out over enough time to be relatively painless.

It can be done. ***It can be win-win for consumers and farmers alike***.

The Australians did it a decade ago – and the majority of the dairy industry there is thriving, thanks in large measure to big increases in exports. We provide it ourselves here in Canada, with great success, when we removed protection for our wine industry for free trade with the US. At the time, the hue and cry was enormous – "We can't compete with big volumes and better climates and soils," they said. Yet they certainly could compete, and have, and the growth and success of Canada's wine industry since operating in an open market have been immense – not to mention the improvement in the quality of the wine.

An increasing number of academics, economists and analysts are recommending a solution similar to the Australian one: ***1. Buy out the dairy quota from the farmers.*** This will need a formula that addresses the differences between those who 'received' quota for free in the 1970s, those who recently acquired quota at $30,000 a cow, and those in between. (The new Conference Board report recommends using book value of quota instead of market value, which is a much fairer approach and much less costly at an estimated $3.6 - $4.7 billion, rather than $23 billion market value.) ***2. Eliminate all tariffs.*** This will immediately benefit consumers, who will pay closer to the lower world prices, even with the following proposed levy. ***3. Add a small, temporary levy on wholesale milk to pay for the buy-out.*** This is what will fund the farmers' compensation. (In Australia the levy was 11 cents a litre for 8 years.) Consumers will still pay less than they do now, as the levy would be significantly less than the current difference between Canadian and world prices. They will pay even less once the temporary levy is removed. The beauty of the proposal is that the compensation for the farmers will have come, not from already-strained government coffers, but from the system itself. The net result: Consumers will pay less than before – and even less a few years from now. Farmers will be appropriately compensated and assisted in transition. The efficient, growth-oriented farmers will be able to consolidate, make more efficient use of their capital, and be able to take advantage of extraordinary export opportunities. For those who choose to exit, this will provide their retirement fund – an appealing option for many, whose capacity would then be taken up by those who stay in.

This approach will also allow Canada to go, immediately, to the world trade tables with open arms, instead of with one hand tied behind its back.

Most observers believe that transition is inevitable, that it's just a question of time. It would therefore behoove the dairy lobby to help craft what that transition looks like, to work with legislators to get the best deal for its farmers. Continuing to fight the inevitable risks having something less beneficial forced upon them. The farmers should be asking their lobby why.