Here's Canada's way forward on supply management

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The Globe and Mail
Published Wednesday, Jun. 10, 2015 3:00AM EDT
Last updated Wednesday, Jun. 10, 2015 3:00AM EDT

Read the online edition here: *http://www.theglobeandmail.com/report-on-business/rob-commentary/heres-canadas-way-forward-on-supply-management/article24878498/*

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Much has been written about supply management of Canadian dairy, poultry and egg production, the system that artificially supports a tiny consortium – barely 6 per cent of our country's farmers – by fixing prices, imposing high tariffs and controlling production by way of quotas. The small number of farmers who remain do very well, but at a significant cost to virtually every Canadian, through high consumer food prices, lost processing jobs and reduced export opportunities due to trade barriers.

The good news is that there is a win-win solution, one that uses part of the system itself.

First, reform must treat the farmers fairly with adequate compensation and transition assistance. Canadian winegrowers had help in moving to free trade with the United States; so did tobacco farmers in moving to different crops. But in a time of zero tolerance for tax increases, where will this money come from?

The answer lies in using part of the system itself to raise the funds. Australia successfully dismantled its own supply management system more than a decade ago. At no cost to government, its reforms provided compensation and transition assistance to dairy farmers while still benefiting consumers. Compensation and transition payments were funded by maintaining and collecting a small portion of the system's existing price supports for a limited period of time. Some farmers cashed out for a decent retirement; those who stayed in the business became more efficient and more productive. Consumers immediately paid less for dairy products – and then less still at the end of the transition period.

Although Canada has its own complications, we can do the same here. But price-fixing, tariffs and production quotas are like three legs of a stool – you can't just take one away. You need a solution that deals with all three simultaneously.

First, tariffs must be removed, all at once, so that Canada can immediately participate in robust, international trade deals, including the Trans-Pacific Partnership. A more gradual approach would also delay Canadian farmers' ability to begin exporting, and allow competitors from Australia, New Zealand and the United States to secure and consolidate their export-market shares. However, once the tariffs are removed, the price received by our farmers will drop to U.S. price levels, and the value of quota will disappear – hence the need for immediate compensation and transition assistance.

Before dropping the tariffs, therefore, we must determine the amount needed to compensate farmers for their quota and for transition assistance. It is critical that farmers be a part of this process. Let's call it the Fairness for Farmers Fund.

The big question is how to value quota. Some suggest using full market value, currently about $23-billion for all of dairy, based on current average quota value of about $30,000 a cow. Yet many farmers were allocated quota for free or at little cost decades ago, whereas new entrants have paid dearly. The Conference Board of Canada has suggested using book value, which it estimates for dairy as being somewhere between $3.6-billion and $4.7-billion. The actual number would likely be somewhere in between, to address historical differences, interfamily transfers, use of quota as collateral for borrowing and other factors.

Either way, the fund would be large, but it could be paid for over time, using the mechanics of the price-support system.

For dairy, the system would maintain a small price supplement per litre on retail sales (the Transition Price Supplement, or TPS), but only for a limited transition period, paid at retail into the fund. (In order to pay compensation immediately, governments would borrow against the TPS to be collected over the transition period.)

For consumers to benefit immediately, the TPS must be low enough that the retail price (the transition price) is still lower than current supply managed prices. The lower the TPS, the longer the transition period – and the higher the TPS, the shorter the transition period.

In Australia, the milk-price supplement was just 11 cents a litre, for eight years. Nearly three billion litres of fluid milk are consumed annually in Canada; if the fund totalled $5-billion (for dairy), the TPS would need to be just 17 cents a litre if spread over 10 years. If the fund were $15-billion, the TPS would be 50 cents a litre over 10 years – or 25 cents a litre, if we chose to spread it out over 20 years. (Remember that this supplement would be on the new, lower, non-supply-managed milk prices.)

In 2012, when the U.S. and Canadian dollars were on par, the average Canadian retail price for four litres of milk was $6.48, or $1.62 a litre. In the United States, the average retail price for a gallon (3.8 litres) of milk was $3.50 – $0.92 a litre. As soon as tariffs are eliminated, the Canadian retail price would drop to compete with U.S. prices, likely below $1 a litre. Even with an additional 25-cent supplement per litre, the price to consumers would still be significantly lower than it was under supply management. (In April, 2015, although in a different exchange environment, prices were $0.89 U.S. a litre and $1.68 Canadian.)

At the end of the transition period, the TPS would be removed and consumers and processors would then reap the full benefits of the even lower North American price for milk.

Right away, consumers would pay less for basic, important nutrition. Farmers would be immediately and appropriately compensated and assisted in transition. Some would take advantage and retire comfortably, while the efficient, growth-oriented farmers who remained would consolidate, make more efficient use of their capital and expand with exports to what are now rapidly growing markets.

Finally, Canada would be able to go to trade talks – including the TPP – with clean hands, unencumbered by supply management and ready to benefit from global opportunities.