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TPP a missed opportunity for truly freer dairy trade

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The Globe and Mail
Published Friday, Oct. 16, 2015 5:00AM EDT
Last updated Friday, Oct. 16, 2015 1:34PM EDT

There were some very disappointed dairy farmers after the 12-country Trans-Pacific Partnership trade deal was struck last week. But the unhappiest milk producers weren't in Canada.

For New Zealand's giant dairy co-operative, Fonterra, the final TPP agreement fell far short of the "original ambition" negotiators expressed at the outset of the talks, as the "entrenched protectionism" of U.S. and Canadian milk producers yielded a deal far short of its potential.

"What's so special about the dairy farmers [in North America] that they get a get-out-of-jail-free card compared to everyone else who works for a living?" Andrew Hoggard, dairy industry chairman at the Federated Farmers of New Zealand, scoffed in an interview with the Australian Broadcasting Corp. "I'm hopeful that consumers and taxpayers in all these other countries will look at their dairy farmers and go, 'Well, hang on, how come the beef farmers and the arable farmers and the pork farmers can all handle the big wide world, and yet you guys are still clutching to the apron strings and refusing to put on the big kiddie pants?'"
So far, consumers and taxpayers here have shown few signs of revolt. And if the Conservatives are falling over themselves to coddle Canada's dairy farmers – promising $4.3-billion in aid to offset the impact of a slight opening of the domestic market to imports – it's unlikely that a Liberal or New Democratic Party government would subject milk producers to any tougher love.

Under the TPP, Canada has agreed to open its market to dairy imports (everything from butter, cheese, milk powder and whey to liquid milk) from the United States, New Zealand and other TPP countries equivalent to 3.25 per cent of domestic production. Producers in other supply-managed agricultural sectors, such as poultry and egg farmers, will face imports amounting to around 2 per cent of the Canadian market.

In exchange for these concessions, which will total about 5 per cent of the Canadian dairy market once the pending Canada-Europe free-trade deal is implemented, Ottawa will pay farmers in supply-managed sectors $2.4-billion in income support and $1.5-billion to prop up the value of their production quotas. Income support will be paid out over 15 years, quota support over 10. An additional $450-million will go to help processors modernize their operations.

For compensation to make economic sense, rather than just good politics, it needs to encourage dairy farmers to increase their competitiveness and prepare for the day when supply management is done away with. But the Harper government insists, on the contrary, that the three pillars of supply management – regulated prices, production quotas and import controls – will remain fully intact under the TPP.

"The irony is that [under the auspices of a free-trade agreement,] we seem to be spending a very large amount of taxpayer money to support a system that is the antithesis of free trade," says Martha Hall Findlay, an executive fellow at the University of Calgary School of Public Policy. She argues for phasing out a supply-management system that forces the average Canadian family to pay about $300 a year more than necessary for dairy products.
The small market share allotted to dairy imports under the TPP and European deal probably will not be enough to meaningfully drive down prices here, Ms. Hall Findlay adds. "So, this

would mean a double hit for taxpayers. They'll still be paying far too high, virtually unchanged consumer prices, yet be stuck paying a huge $4.3-billion bill to a very small number of already relatively affluent farmers."

The common refrain that opening Canada's market to more imports would subject farmers here to unfair competition from subsidized U.S. producers is no longer valid, Ms. Hall Findlay says. The U.S. Agricultural Act of 2014 eliminated the three main dairy-support programs. And while it maintained a subsidized margin-insurance program, the latter is only minimally used.

In a note for the Institute for Research on Public Policy, economist Dmitry Lysenko and Carleton University professor Saul Schwartz also slam the $4.3-billion compensation package for farmers as inefficient and inequitable. "These programs effectively stifle incentives for the sector to change … [They] should be seen as unfair to workers and firms affected by economic developments other than trade agreements. Such ad hoc assistance is better understood as a political strategy to mitigate opposition to trade liberalization by specific groups, rather than a serious effort to facilitate economic adjustment and minimize social consequences."

Of course, Canada could not end supply management overnight. But a long-term plan to phase out quotas and open our borders would be in everyone's interest. The TPP could have been that opportunity. Not only did the politicians fail to seize it – they're making taxpayers pay for their failure.