

Safe for Now, Canadian Dairy Farmers Fret Over E.U. Trade Deal

By IAN AUSTEN OCT. 31, 2016



George Thompson feeding dairy cows at his family's farm in Thames Centre, Ontario. Without supply management, Mr. Thompson warned that those large dairies and milk processors would control milk prices.

THAMES CENTRE, Ontario — On both sides of the Atlantic, many of the people who are most upset about the new free trade deal between [Canada](#) and the European Union are dairy farmers. But they have opposite worries.

The deal was [nearly derailed](#) by enraged farmers in the Wallonia region of Belgium because of how much they had been struggling. In Canada, by contrast, farmers are anxious because they have been doing so well.

The way the country's "supply management" system works now, Canadian dairy farms are almost guaranteed to prosper. Milk production is controlled by quotas, marketing boards keep prices high and stable, and import duties of up to 300 percent largely shut out competition from abroad.

But after the deal, the Comprehensive Economic and Trade Agreement, [which was signed on Sunday](#), comes into effect, much more imported cheese will be allowed to enter Canada duty-free from the Continent. And farmers worry that this one dent in their defenses could be

“It affords us a good income,” said Rhonda Thompson, whose husband, George, comes from a family that has been dairy farming on its homestead in this rural [Ontario](#) municipality since 1837. “Is there something wrong with that?”

The Canadian dairy farmers have organized occasional protests against the trade deal, including parades of tractors and cows on Parliament Hill in Ottawa. But their opposition has been fairly muted, in part because the government has promised to compensate them if the deal hurts their business.

Before the federal election last fall, the Conservative former government of Stephen Harper dangled a figure of 4.3 billion Canadian dollars, or \$3.3 billion, for dairy farmers and others who enjoy special market protection, to cover both the agreement with Europe and the larger proposed Trans-Pacific Partnership. The new Liberal government of Justin Trudeau has not committed to a specific figure, but it has backed the concept of subsidies, and may not have much political leeway to move too far from the original amount.

At Caddedale Holsteins in Thames Centre, in a rolling stretch of southern Ontario countryside, Steve Caddey said he and other dairy farmers were not willing to see supply management abandoned.

“It’s the best system in the world, and it’s definitely worth defending,” Mr. Caddey said over the steady thrum of a mixer preparing feed for his 40 cows. “It really keeps the rural economy going.”

To its critics, supply management — which is also used to control Canadian poultry and egg production — is a legalized price-fixing cartel that inflates Canadians’ grocery bills and hinders exports for the benefit of an elite group of farmers.

“It’s not the best system for consumers; it’s not the best system for the 92 percent of farmers who are not supply managed,” said Martha Hall Findlay, a former Liberal member of Parliament and the chief executive of the Canada West Foundation, a policy research group in Calgary, Alberta.

The Conference Board of Canada, an economic research group in Ottawa, estimated in 2014 that Canadian families [paid an extra](#) 276 Canadian dollars, or \$206 at the current exchange rate, a year for dairy products because of the system.

While supply management has come under criticism almost from its start in the 1970s, few politicians have dared to challenge it while in office, partly because of a widespread belief that dairy farmers can easily rally public support. All of Canada's previous trade agreements in recent decades have staunchly defended the system.

But in a break from mainstream Canadian political tradition, Maxime Bernier, a Conservative lawmaker from a mainly rural part of Quebec, has been campaigning for the leadership of his party on a promise to scrap supply management.

Photo



Prime Minister Justin Trudeau of Canada, center, on Sunday during the signing of the Comprehensive Economic and Trade Agreement with European Union leaders in Brussels. CreditFrancois Lenoir/Agence France-Presse — Getty Images

Under the system, only farmers who own a dairy quota — in effect, a license — can legally produce milk for sale. Dairy marketing boards set limits on production volume, and they sell the milk on the farmers' behalf at prices that the boards are allowed to fix, based on the farmers' average costs and with a markup.

That means the average dairy farm operates at a profit margin of almost 23 percent, compared with 6.4 percent for beef farms and cattle ranches, according to Conference Board estimates.

The system has placed Canada's dairy farmers among the haves in the global economy. The board estimates that the average dairy farmer has a net worth of about two million Canadian dollars, one-third more than the average for all types of farms. And with dairy quotas valued at about 30,000 Canadian dollars per cow, a farmer with a herd of 80 could expect to assemble a nest egg of 2.4 million Canadian dollars by selling the milk production rights at retirement.

About two hours west of Toronto, Highway 401, Canada's busiest expressway, slices through one of Canada's most prominent dairy regions, including Thames Centre. A museum in the neighboring community of Ingersoll celebrates the 7,300-pound "[Mammoth Cheese](#)" that was made there in 1866 and sent on an American and European tour.

Many of the dairy farms in Thames Centre remain comparatively small, and are often still in the hands of families who settled the land 180 years ago. At Caddedale, Mr. Caddey, 51, is the third generation of his family to run the dairy operation at that site.

The stable prices made possible by the supply management system make it easier for him to invest in new equipment, Mr. Caddey said, and most farmers in the area spend their investment capital at businesses in nearby towns and villages.

Without supply management, Mr. Caddey said, smaller family dairy farms could not compete, and would be swallowed up by large corporate operations disconnected from the community.

That consolidation already seems to be happening. Ms. Hall Findlay, one of Canada's most prominent critics of supply management, said that by her count there were 12,000 dairy farms in Canada, down from 145,000 when the system started. Indeed, a sprawling commercial dairy farm with several hundred cows lies just northwest of Mr. Caddey's farm.

The Thompson family's tidy, well-kept Cavanaleck Farms is also nearby. Inside its long, low barn, George Thompson said he had noticed a different kind of consolidation.

The number of companies buying the farm's milk has shrunk to a handful, he said, and none are local. He does not even know which companies own the two suburban Toronto dairies where his farm's milk is now trucked.

Without supply management, Mr. Thompson warned, the large dairies and milk processors would control milk prices, and they would cut what they pay

farmers, keep charging consumers high retail prices and pocket the difference.

“Supply management has been good for the Canadian dairy farmer,” he said. “It’s kept us on an equal footing with the processor.”

For the moment, the system remains largely intact, and any direct harm from the new trade deal may not be great. Mr. Caddey said he thought that small cheesemakers in Canada might be hurt by new competition from Europe, but that dairy farmers would not see large losses and his farm would probably receive no more than \$10,000 in compensation from the government.

Still, in the long run, he said, pressure at trade negotiations will probably doom supply management.

“Eventually, it will have to come to an end somehow, just for the reason that there’s so much pressure from the world,” he said. “We found ways to deal with changes in the past — that’s part of doing business. We’ll tread the rough waters and come out the other side on the smooth waters.”