

## **BRIEFING NOTE - Supply Management of Dairy in Canada**

### **ISSUE:**

The Canadian Dairy sector runs a system of supply management that is too costly for taxpayers. In order to provide access to the health benefits of milk and milk products, the supply management system should be eliminated.

### **KEY MESSAGES:**

- Supply management was a successful program that ensured access to nutritional dairy products across Canada.
- This program has outlived its usefulness - consumers are now paying an unfairly inflated market price.
- Small number of farmers receive large benefits due to merging of small farms into large dairy chain.
- Effective communications/public relations is a critical component of the success of this transition.

### **BACKGROUND:**

- Supply management of the dairy sector was a successful program that achieved excellent outcomes of ensuring equal access to nutritional dairy products during the middle of the 20th century.
- The Canadian Dairy Congress (CDC) was created in 1966 to implement subsidized eligibility quotas.
- Dairy industry was deregulated in United Kingdom in 1995 and Australia deregulated milk market in 2000.
- Public sentiments leans towards the farmers. Just over half of Canadians would rather protect Canadian Dairy farmers, even at higher prices.
- The TPP allows for increased trade with dairy products. Eliminating the protectionist policies of the CDC is a requirement.
- The supply management policies disproportionately affects the poorest households with children, while subsidizing large dairy producers.
- Canada extended the Growing Forward 2 is in place to aid dairy suppliers. Eliminating the supply chain would not affect this program.

### **ANALYSIS:**

Option 1: Remove restrictions on the issuing of dairy supply tickets, and the requirement for suppliers to use the supply chain.

Pros	Cons
<ul style="list-style-type: none"><li>● This removes the conditions for new suppliers to enter the marketplace.</li></ul>	<ul style="list-style-type: none"><li>● Subsidies to farmers would stop.</li><li>● Protest to changes from dairy farmers</li></ul>

<ul style="list-style-type: none"> <li>● Suppliers retain the option of using the supply chain system, if it is their preference.</li> <li>● This is a similar process to the decommissioning of the the Canadian Wheat Board</li> <li>● Public sentiment may be similarly in favour of such a disbandment of the supply chain.</li> </ul>	<p>would be severe.</p> <ul style="list-style-type: none"> <li>● Public sentiment generally on side of farmers - would likely be seen as an attack on local producers in favour of foreign producers.</li> <li>● Unlike wheat board, there are not currently many marketing options for dairy farmers.</li> <li>● No noticeable short term effects for consumers</li> </ul>
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Option 2: Disband Supply Chain immediately.

Pros	Cons
<ul style="list-style-type: none"> <li>● Immediately opens markets to competitors.</li> <li>● Price effects can be seen immediately - this will help address public sentiment.</li> <li>● Messaging would focus on benefits to consumer.</li> <li>● Aligns with TPP.</li> </ul>	<ul style="list-style-type: none"> <li>● Severe opposition from dairy farmers.</li> <li>● Current public sentiment is on the side of farmers. This would be an unpopular option</li> <li>● Could put Canadian dairy farmers at a server market disadvantage immediately.</li> <li>● Loss of government jobs.</li> </ul>

Option 3: Phase out the Canadian Dairy Commission over 5 years: years 1&2 participation not required, markets open to competitors, but subsidies remain in place. Years 3, 4, & 5. Subsidies reduced year over year to zero by year 5. Would likely require a short term additional tax on Canadian-produced dairy products.

Pros	Cons
<ul style="list-style-type: none"> <li>● OECD recommends phase out</li> <li>● Canadian dairy farmers maintain competitive advantage in short term</li> <li>● market prices will not shift dramatically, giving suppliers and consumers time to adjust.</li> <li>● Market access increases to competitors.</li> <li>● Aligns with TPP</li> </ul>	<ul style="list-style-type: none"> <li>● consumers pay more in short term, but less in long term</li> <li>● taxes unpopular policy</li> <li>● Communication is difficult.</li> <li>● some Canadian dairy suppliers may be muscled out of the market.</li> </ul>

**RECOMMENDATION:**

It is recommended that supply management is phased out over time. An aggressive communications strategy should be implemented to address public misperception about the number of dairy farmers receiving subsidies.