Supply Management of Dairy in Canada[1]

The federal Minister of Agriculture is interested in eliminating supply management in the Canadian dairy sector.

Background

Canada's system of supply management, which supports and stabilizes prices to farmers for some specific agriculture products, has a long history. The first supply marketing board was established in 1927 in British Columbia, which four years later was declared unconstitutional by the Supreme Court of Canada because it restricted interprovincial trade. Today's system of supply management for the dairy (milk, cheese, butter, butterfat products) sector was created in the 1960s and 1970s. Its origins date back to the Second World War. At that time, the scale of the dairy industry was designed for an export market, as Canada became a major supplier of dairy products (primarily cheese) to the United Kingdom when the European supply chain was disrupted by the war. When the war ended and European dairy production recovered, the Canadian dairy industry had to refocus on supplying the domestic market, which was growing due to both population and income. But even with a growing domestic market, there were significant surpluses due to the loss of the U.K. market and resulting low returns for producers.

Gradually, federal and provincial governments responded to reduce chronic dairy surpluses to provide more stable returns for producers. What emerged by the 1960s was a patchwork system where provincial governments introduced measures to support prices, such as offer-to-purchase programs, deficiency payments and the imposition of import controls. Most provincial governments created producer agencies or marketing boards that sought to stabilize production and prices.

Over time, these policies began to coalesce and by the mid-1960s formed what became Canada's system of dairy supply management. In 1966 the Canadian Dairy Commission (CDC) was established and implemented subsidy eligibility quotas (SEQ), which linked dairy support to the size of the domestic market. In 1971, an interprovincial market-sharing agreement was put in place between the CDC and the governments of Ontario and Quebec. Most other provinces joined the agreement by 1972, which formed the basis for a Comprehensive Milk Marketing Plan and Market Sharing Quota, which became the foundation for today's system of milk supply management.

Today, the CDC mandate states that the commission is: "in charge of two of the three pillars of the system: support prices and market sharing quota. Once a year, the CDC sets the support price of butter and skim milk powder following consultations with industry stakeholders. These prices are used as a reference by the provincial milk marketing boards to establish the price of industrial milk in each province. The CDC also monitors national production and demand and recommends the necessary adjustments to the national production target for industrial milk.

[1] Case prepared by Dale Eisler and Dionne Pohler for use at the 2015 JSGS Internal Case Competition. Please do not cite or distribute without permission.

"It is mandated to provide efficient milk producers with the opportunity to get a fair return on their labour and investment, and to ensure that Canadian consumers are provided with adequate supplies of quality dairy products."[2]

The use of supply management results in a number of effects. They include:

- By supporting prices for producers, supply management limits competition by preventing imports, aligning production to demand, thus keeping prices higher for consumers than they otherwise would be in an unregulated market.
- Provincial marketing boards' use of a limited and controlled number of quotas available to producers, results in quotas having significant value to producers who have a quota. In effect dairy producers profit from a system designed to keep prices stable by maintaining higher prices to consumers than would most likely be the case in an open-trading, freer market.
- By severely limiting access to the Canadian domestic market through high tariffs on imports, supply management is seen by many as inconsistent with free trade. The Canadian supply management system has been a point of friction in recent negotiations seeking to create the Trans Pacific Partnership free trade agreement between 12 countries, including Canada.
- According to various studies that compared prices for consumers in Canada and the U.S., prices in Canadian supply managed sectors were consistently higher. The website Daily Finance, which tracks international prices, reported in October the average price for a gallon of milk in Canada was $3.92 USD. In the U.S., the price ranged from $1.99 USD to $2.49 USD.[3]
- A 2014 University of Manitoba study by Ryan Cardwell, Chad Lawley and Di Xiang concluded Canada's supply management policies are highly regressive, imposing a burden of approximately 2.3% of income ($339) per year on the poorest households, which is almost five times as large as the 0.5% ($554) burden imposed on the richest households. The burden is larger for households with children.[4]

[2] Canadian Dairy Commission website: http://www.cdc-ccl.gc.ca/CDC/index-eng.php.

[3] Food Price Comparisons Around the World. Retrieved on November 1, 2015 from http://www.dailyfinance.com/photos/food-price-comparison-around-the-world/#!fullscreen&slide=988840.

[4] Cardwell, R., Lawley, C., & Xiang, D. (2014). Milked and Feathered: The Regressive Welfare Effects of Canada's Supply Management Regime. University of Manitoba.

- The Consumer Support Estimate (CSE) done by the OECD measures the costs to consumers of the price increase due to the supply management scheme for milk.
    - Easily accessible statistics are dated, but the OECD estimates that the total income transfer from Canadian consumers to dairy farmers in 2000 was $2.47 billion CDN (including $987 million for fluid milk alone).
    - OECD figures indicate that between 1980 and 2000, Canadian consumers transferred $50 billion CDN to milk producers, i.e., an average of $2 billion per year in current (year 2000) dollars.
    - In 2000, the CSE amounted to an average of $119,903 per farm for each of Canada's 20,600 dairy farms. Thus, each of 30.75 million Canadians paid directly an average of $80.33 in 2000 so that each "member" of the average "dairy family" could receive $29,976.
- From 1990 to 2000, the Consumer Price Index rose by 21.7 percent while food prices rose by 17.1 percent. Yet the retail price of fluid milk rose by 37.7 percent at the same time as the estimated cost of milk production fell by 8.1 percent between 1994 and 2000.

Supporters of the supply managed system maintain that U.S. farmers are equally or even more heavily subsidized through other government support programs in that country. Elimination of supply management in Canada would put Canadian dairy producers at an unfair disadvantage.

Task

Devise and propose a policy and approach to implementation of the plan to eliminate supply management for the dairy sector. You will make your presentation or prepare your written brief for the Minister, Deputy Minister, and Assistant Deputy Minister of Agriculture.