

ELIMINATING SUPPLY MANAGEMENT IN CANADA

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Issue:

Transitioning Canadian dairy to a freer market while helping low-income households afford dairy products.

Background:

- The Comprehensive Milk Marketing Plan and Market Sharing Quota exists to link dairy support to the size of the domestic market.
- The Commission is in charge of two of the three pillars of milk supply management: support prices and marketing sharing quota.
- The Commission sets the price for butter and milk annually based on consultations with industry stakeholders.
- The Commission monitors national production and demand and recommends the necessary adjustments to the national production target for industrial milk.

Option 1: Eliminate Supply Management and Provide Subsidies to Canadian Dairy Farmers

- A cost-benefit analysis will be done to determine what Canadian dairy farmers will lose by eliminating supply management. The Government will subsidize the farmers for their losses.
- Canadian dairy farmers will receive lower prices for their products, but the Government will offset their losses with subsidies.
- This approach is difficult to administer because there is sometimes discrepancies on how to attach dollar values to certain benefits and losses.
- A re-evaluation of the subsidies should be done every 3 years, as farmers' situations may change in unpredictable ways.

Option 2: Let the Free Market Decide

- Eliminate the supply management system in Canada.
- Elimination of supply-management in Canada will produce an over-supply of dairy products, which will drive market prices down.
- In the long-run, Canadian dairy farmers will need to find ways to produce their product more cheaply or shut down and leave the market.
- Canadian consumers will benefit by having a greater choice of product.

Option 3: The Government Purchases Over-Supply and Redistributes it to Low-Income Earners

- The Government will eliminate supply-management, but keep tariffs in place. The dairy farmers will produce an over-supply of dairy products which the Government will purchase from them.
- The Government will sell this over-supply of dairy to low-income earners, through a system similar to food stamps.
- The Government will need to identify low income earners. StatsCanada estimates this amount to be a household income of ~\$42,000 before tax (for a family of 4).
- This will address the regressive impact of the milk price that currently exists in Canada.

Recommendation:

It is recommended that the Government of Canada implement Option 1.

- This will help the dairy farmers exist, while lowering prices for consumers. It will also provide consumers with a greater choice of product.
- Amend the Canadian Dairy Commission Act to fulfill the new requirements.
- Conduct a cost-benefit analysis in order to determine the amount of subsidy.