

BRIEFING NOTE - SUPPLY MANAGEMENT OF DAIRY IN CANADA

ISSUE:

- Supply management by the Canadian Dairy Commission (CDC) limits competition in the dairy market by preventing imports, thus keeping prices higher for consumers than they would be in an unregulated market
- Lowest income people in Canada are the largest consumers of this product and are the most affected by the high prices

CURRENT STATUS:

- The CDC and the provinces signed to the interprovincial market-sharing agreement form the basis for a Comprehensive Milk Marketing Plan and Market Sharing Quota (foundation for today's system of milk supply management)
- Canada is considering the Trans Pacific Partnership (TPP) free trade agreement and is reviewing the current Canadian supply management system
 - Reduce high tariffs to introduce more competition into the market
 - Increased competition into the market would lead to increased consumer choice

RECOMMENDATION:

- *Option 1 – To eliminate the CDC*
 - Create efficiency standards
 - Ensure the quality of both domestic and imported product
- *Option 2 – Reform the structure of the current milk supply management system in Canada*
 - Expand the quotas and lower price floor on milk production
- *Option 3 – Keep the current structure of the milk supply management system in Canada*

BACKGROUND & ANALYSIS:

- Canada's current milk supply management system is regulated by the Canadian Dairy Commission and provincial supply management boards who set price controls and quotas
 - The producers exclusively benefit economically, while consumers have limited choice in the market structure
- This prevents imports and keeps prices higher for consumers than they would be if the market was unregulated
- The poorest households are the largest consumers, therefore bare the burden of fueling the wealthy producers

IMPLICATIONS:

- Option 1
 - The federal government would need to consult with the provinces so as to eliminate existing milk supply management systems that work in line with the CDC
 - Creating efficiency standards would ensure that Canadian milk producers are producing at the lowest cost
 - Lower cost of production would ensure lower prices of dairy to consumers
 - Quality standards to be enforced on all domestic and imported dairy products
 - Increased competition in the market
- Option 2
 - Expanding the quotas and lowering the price floors would ensure lower prices of dairy to consumers
 - Dairy producers may receive lower profit than they currently receive
 - Maximize social welfare by decreasing prices for the most marginalized and vulnerable sectors of society, while still maintaining protection for producers

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- Option 3
 - Protection of dairy producers would be maintained
 - Consumers will continue to suffer from artificially high prices in the market
- Option 2 is the recommended direction to move in