

# CANADA'S CURRENT AGRICULTURAL SUPPLY MANAGEMENT SYSTEM—NOT WORTH FIGHTING FOR

by Steven Globberman

In one of his continuing stream of complaints and threats to dissolve NAFTA, President Trump recently took aim at Canada's dairy industry stating that the US. can't let Ottawa "take advantage" of the trade relationship, and that what Canada has done to US dairy farm workers is a disgrace.

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As is typical, Trump's hyperbolic complaints, in this case targeting Canada's dairy supply management system, are short on details. While the focus of his concern is the broad set of supply management policies surrounding Canada's dairy industry, including extremely high tariffs, the apparent impetus for his recent

outburst is the rage expressed by US dairy farmers about Canada's decision to reclassify ultra-filtered milk, a protein liquid concentrate used to make cheese more efficiently, as a dairy import. This reclassification makes the product potentially subject to the high tariffs that Canada imposes on imported dairy products to protect Canadian dairy farmers against more efficient foreign suppliers.

While US farmers are apparently continuing to sell ultra-filtered milk in Canada duty-free, in February 2017, a number of US dairy industry trade associations called on President Trump to discuss Canadian pricing policies for milk during the president's forthcoming meeting with Prime Minister Trudeau. Their complaint is that farmers in Ontario, under the auspices of the provincial marketing board, dramatically cut the prices of ultra-filtered milk followed by farmers in other parts of Canada. US farm interests complain that Canadian

farmers sell this milk below their costs of production, thereby curtailing US sales of milk in both Canada and other US export markets.

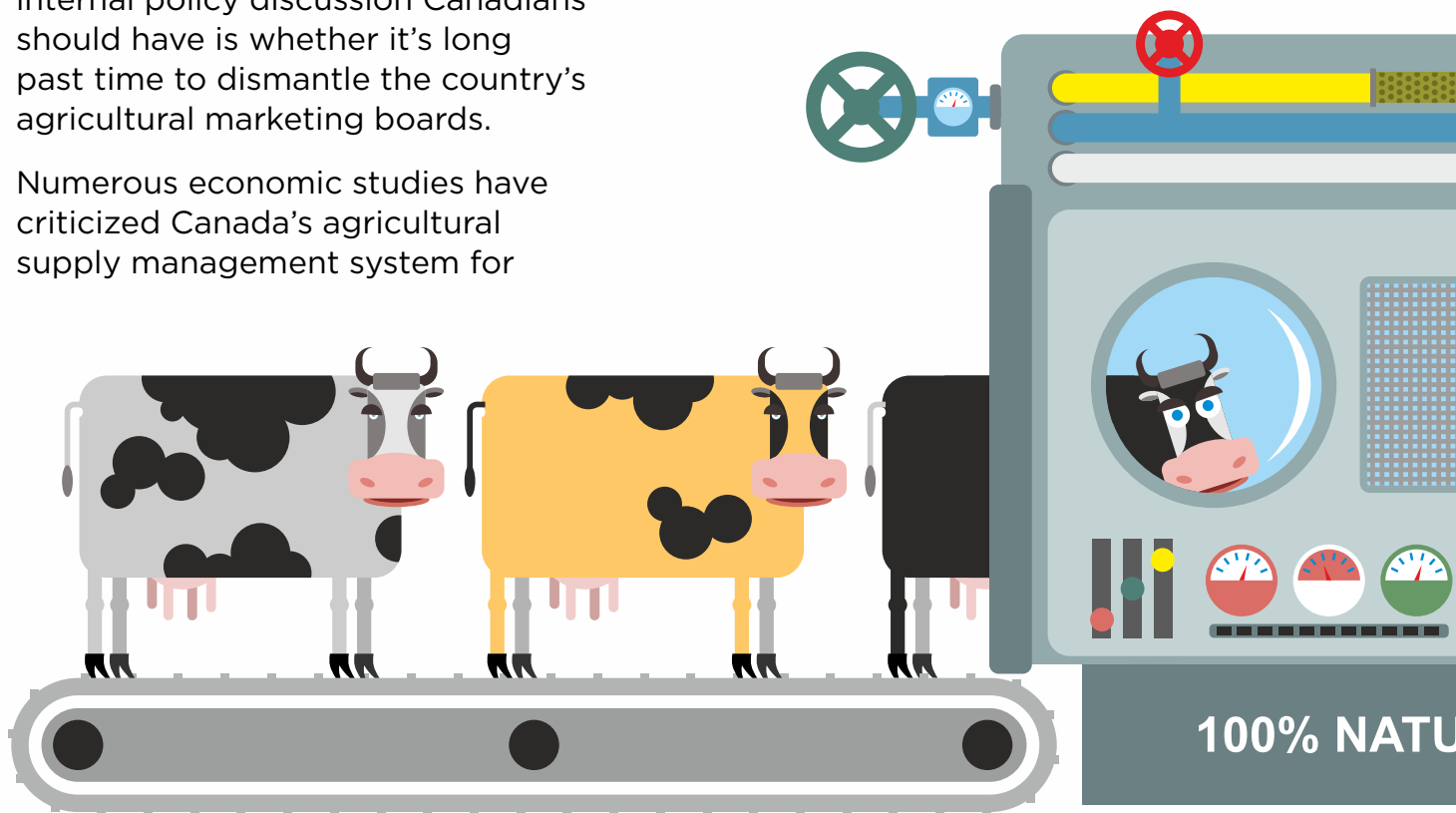
**Numerous economic studies have criticized Canada's agricultural supply management system for substantially increasing the prices of food products.**

Unsurprisingly, Canadian government officials have denied that Canadian milk marketing boards violated any NAFTA rules regarding agricultural trade. Some argue that US farmers are the cause of declining milk prices through their overproduction. Whether or not these claims are valid might become the focus of a trade dispute panel if NAFTA holds together long enough. However, the broader and more fundamental internal policy discussion Canadians should have is whether it's long past time to dismantle the country's agricultural marketing boards.

Numerous economic studies have criticized Canada's agricultural supply management system for

substantially increasing the prices of food products, particularly dairy products, which are paid by all Canadians to benefit a relatively small number of Canadian farmers who enjoy above-average income and wealth levels, in any case. The policy implication is that it would be cheaper for Canadians as taxpayers to buy out the production quotas held by Canadian dairy farmers—that are the basis for determining who will produce what quantities of output and which necessitate protective tariffs—rather than paying above-competitive prices for dairy products in perpetuity.


The argument that supply management is necessary to assure farmers predictable and economically adequate income levels is specious. For example, insurance providers



could offer policies that compensate farmers for the difference between actual market prices and “break-even” prices when the former falls below the latter. Indeed, the US government backstops a Margin Protection Program for Dairy, which is an insurance program in which US dairy producers enroll and from which they receive payments when the difference between the price of milk and the cost of feed falls below a level of coverage selected and paid for by the dairy farmer.

Canadian dairy industry representatives will likely make patriotic appeals for Ottawa to defend national sovereignty against the demands of a very unpopular American president;

however, Canadian consumers have long put their financial welfare before their loyalty to Canadian-bred cows by shopping for dairy products south of the border. Indeed, a major US retailer, Costco, found it necessary to build a much larger store in Bellingham, Washington—some 90 kilometres south of Vancouver—to serve Canadians flocking to buy cheaper US milk and cheese. The congestion created by Canadian shoppers was driving away local customers when Costco was operating in its smaller premises.

There may certainly be principles and institutions for which the Canadian government should fight to preserve in any NAFTA renegotiation process, but the country’s agricultural supply management system, in its current form, is not one of them. 

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