Impact of WTO on Dairy Producers

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Supply management in the dairy sector was introduced more than 4 decades ago and history has proven supply management to be a tremendous development tool. For more than 40 years, Canadian dairy producers have shown due restraint and have been practicing unequalled production discipline, without which the system would never have survived. But the longevity of the Canadian system can also be explained by the fact that the other players in the marketing chain benefit from it:

- processors benefit from stable supplies and generate profits year after year;
- consumers have access to products of the highest quality at very reasonable prices; and,
- finally, governments do not pay a cent to producers, who receive their income directly from the market.

Supply management in Canada is also synonymous with stability unlike the world markets where the prices of dairy products have skyrocketed and have reached historic peaks over the past 2 years, only to collapse dramatically in recent months. Canadian consumers have remained sheltered from such wide fluctuations. In the heart of the global food crisis, retail prices have increased by 15% to 20% in European and U.S. markets, while Canadians have seen an increase of roughly 5% in 2008. We are waiting to see the impact on retail prices due to the recent collapse in world prices.

The Canadian system is perhaps not perfect and continues to evolve, and no doubt could benefit from some improvement, but to date it remains the best tool there is; ensuring exemplary stability for the Canadian domestic market. In fact, changes have been made regularly to the Canadian supply management system, making it a dynamic management model. The system adjusts to the changing conditions of the Canadian market and producers are involved not only in managing the system but also in the political and democratic process for making the system meet the needs of the industry.

The objectives of the Canadian system are as follows:

- To ensure the orderly marketing of milk by balancing supply with demand;
- To balance the negotiating power between stakeholders to obtain fair prices for producers; and,
- To ensure that consumers have access to adequate supplies of high quality products.

In order to fulfill the above objectives, the Canadian supply management program depends on three necessary and essential pillars:

Import Controls

Producers must know the level of imports in order to effectively plan domestic production and thereby avoid producing surpluses. Effective import control measures at the border are the only way to effectively plan production, and the only measures allowed under the WTO are tariffs and tariff quotas.

Production Discipline

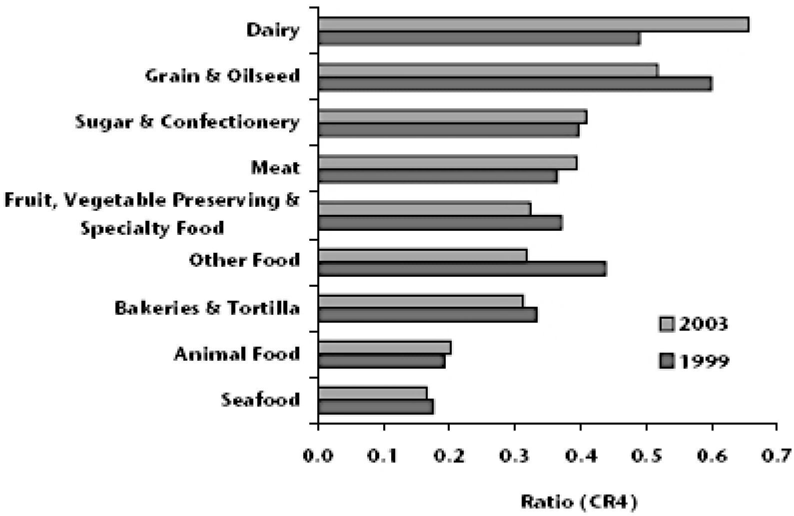
Effective production planning is based on producers' production discipline and ensures a regular supply of high quality products in order to meet Canadian consumers' demand for milk and dairy products. This balancing of supply with demand helps stabilize prices at all levels of the marketing chain, from the farm to the table.

Producer Pricing

Farmers collectively negotiate the price of their milk, which is an important feature of the supply management system in Canada. The prices negotiated are then enforced through regulations. Through this collective action, producers are more likely to obtain prices that cover the cost of producing milk in Canada, including compensation for their work and investments. Collective marketing, in a context where markets are increasingly concentrated, gives producers market power comparable to that held by the very small number of processors. This is particularly true for the Canadian dairy sector where market concentration is greater than any other Canadian agricultural sectors as can be seen in the following graph:

Chart C3.8

Share of Industry Shipments Accounted for by the Four Largest Firms (CR4), 1999 and 2003



Source: Statistics Canada.

For Dairy Farmers of Canada, supply management is and continues to be a logical response to trade liberalization and market concentration, but to be efficient, it requires appropriate legislation.

Supply management is an effective means for adequately compensating producers, who have assumed the responsibility to discipline their production to meet demand, without causing surplus production that causes disruption on the world markets.

Import controls, an essential pillar for the survival of supply management in Canada, are the responsibility of the federal government. Canada is fighting hard to keep import control measures intact, but the WTO could decide otherwise. It must be pointed out that with the collapse of world dairy prices in the last 6 months, Canada's over-quota tariffs are now barely sufficient to limit imports to WTO negotiated levels. Therefore the proposal to reduce them by 23% is a very real threat to the system.

Moreover, DFC finds the debate on sensitive products illogical. The proposals currently on the table at the WTO mean that the so-called sensitive products would be treated **more strictly and harshly** than so-called non-sensitive products. They are now the only products for which additional market access would be guaranteed! For DFC, this goes against the logic that says a sensitive product should receive favourable treatment.

The Canadian supply management program does not cause distortions on international markets. Rather than citing Canada as an example, the WTO is preparing to set new trade rules that will doubly penalize Canadian dairy producers, who are in no way responsible for the vagaries of the world market. The WTO should instead recognize the validity of supply management schemes, and therefore of the Canadian supply management program, as suggested and supported by the UN Special Rapporteur on the Right to Food, Mr. Olivier DeSchutter. This is why Canadian producers firmly support Canada's position at the WTO, which requires that no tariff reduction and no increase in tariff quotas be agreed to for supply-managed products (dairy products, eggs and poultry), which Canada intends to designate as sensitive products. But above all, Canadian dairy farmers, just like any other farmers in Canada, are looking forward to a positive outcome coming out of the WTO negotiations, and for dairy, a positive outcome is one that will deliver no negative economic impact.

It is important to understand the above background in order to prepare a presentation whose objective is to provide an overview of the several provisions contained in the draft modalities for agriculture of December 6, 2008 and their potential impact for Canadian dairy supply management, with a particular emphasis on their impact on Canadian dairy producers. At the onset, therefore, it is essential to point out that Dairy Farmers of Canada (DFC) rejects the provisions that are contained in the agriculture draft modalities paper of December 6, 2008. DFC has estimated that the draft modalities, if agreed to, would result in a loss of income of more than $1 billion dollars for Canadian dairy farmers. The presentation will review how the provisions related to tariff rate quota expansion, tariff reduction, tariff cap, TRQ administration, product specific cap and the elimination of export subsidies could all add up to a potential loss of income of more than $1 billion dollars.

In these times of economic and food crisis, the presentation also questions whether supply management remains an appropriate tool to address agriculture production and whether the direction in which the WTO is heading needs to be reviewed. The neo-liberal model is largely responsible for the economic crisis we are currently facing and most international organizations and most governments have recognized the need to implement greater regulation in the financial system. For example:

> "There was massive regulatory failure, massive supervisory failure, and massive corporate governance failures," Angel Gurría, secretary-general of the Organization for Economic Co-operation and Development, said in an interview. "These are all things on which we wrote the book! And by 'we,' I mean we in the West, we in the U.S., we in the OECD," and a smattering of multilateral organizations including the International Monetary Fund that championed free-market solutions for years."
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> *-Globe &Mail, January 30, 2009.*

While there seems to be recognition that greater regulation is needed in the financial system, this message does not seem to resonate at the WTO which persists in pursuing greater trade liberalization. Less regulation eventually leads to greater fluctuations on the world market. The fact of the matter is that greater volatility is already being observed on the world market and many international experts are predicting that we have not seen the worst of it. The magnitude of the ups and downs observed in world dairy markets these past 2 years is highly reflective of this increased volatility.

Furthermore, this presentation aims to point out that while Canada, an export nation, is significantly dependent on the world market, the Canadian domestic market remains the primary market for Canada's agriculture and agri-food sector. In fact, based on the statistics of AAFC, DFC has estimated that approximately 70% of the revenues generated by Canada's agriculture and agri-food industries are derived from sales on the domestic market. While DFC recognizes the importance of trade for Canada, it feels that it is essential to refocus the WTO debate in its true context; and that context rests on the fact that less than 10% of the world total food production is traded on the international markets.

In conclusion, the WTO negotiations remain one of the top priorities of the dairy farmers of Canada in that the potential impacts it can have on our sector are tremendous and could jeopardize the future of supply management. While some have suggested the industry should start planning for a negative outcome, the dairy producers' best plan B is to maintain what they currently have.

Annex A

Importance of the Canadian Market for Canadian Agriculture and Agri-Food Products

Fact Sheet

Both export and the Canadian domestic markets are important for the Canadian agriculture and agri-food sector. According to the Food Value Chain Bureau of Agriculture and Agri-Food Canada (AAFC), the Canadian agriculture and agri-food sector was valued at about $91 billion in 2004. This number can be broken down as follows:

• Primary agriculture:	$31.4 B
• Food processing:	$73.2 B
• Adjustment for primary agriculture going into processing to avoid double counting[1]:	-$13.8 B
Total – primary and processed	$90.8 B

The Food and Value Chain Bureau of AAFC also reports that the 2004 value of Canadian exports is $26.2 B ($10.4 B of primary goods and $15.8 B of processed goods) or 29% of total value of agri-food production.

Table 1. Markets for Canadian Agri-Food Products (% of sales value)

	Primary Products ($31.4 B)	**Processed Products** ($73.2 B)	**Total Markets** ($90.8 B)
Canada	67%	78.5%	71%
Exports	33%	21.5%	29%

The bulk of revenue from Canada's agriculture and agri-food production – about 71% - comes from the domestic market.

The biggest market for Canada's farmers and processors is Canada. The Canadian agriculture and agri-food market is a vibrant one that encourages growth in value-added processing. Canada's farmers are the foundation of that growth.

[1] Calculated using a study by AAFC entitled: "An Overview of the Canadian Agriculture and Agri-Food System". The study points out that 44% of Canada's primary agriculture is shipped/sold to the Canadian food processing. Therefore, 44% of $31.4 B is $13.8 B.

At the tripartite industry-federal-provincial roundtable meeting held in Regina on November 25, 2005, stakeholders and governments agreed that Canadian agriculture needs a policy that leads to growth in farm *profitability*, not just volume. The above numbers show the importance of the Canadian market to achieve this objective.

Moreover, from a global perspective, of all food produced in the world, 90% is consumed locally. Only 10% is exported internationally. Domestic markets are important to farmers around the world.