Better Than the Rest: The Rationale for Supply Management

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- Take Home Message

- Supply management is as vital and relevant to farmers in the sectors in which it was implemented now as it was 40 years ago.
- Relying on an export boom in agricultural products to make money is not a good long-term strategy.
- Media critics’ denunciation of supply management is based on ideology, and not data.
- Every country in the Western world supports agriculture in some fashion. The one that does not, Australia, is in danger of seriously compromising its farmers.
- There must be a framework/mechanism that gives farmers equal power to that wielded by processors and supermarkets when negotiating price.
- Supply managed commodities are very good value for consumers.
- Supply management is a sane, rational system that works well for all stakeholders.

“As the Agricultural Department had brought the dairying business to a successful point, it was with some regret that I decided to dispose of the business. The chief difficulty, however, was the finding of men who were willing to work the seven days per week and at hours that dairying entails. For many months we were absolutely dependent upon the one man who was employed as dairyman by the Department. The business was offered to him at even easier terms than it has been sold to Mr. Rilstone for, but he did not care to take it up.” (Emphasis added.)
- J.A Gilruth, Administrator, Northern Territory, Australia, to the Minister for External Affairs, Melbourne, 24 May 1915 with respect to the sale of the only dairy farm then in Darwin, Australia.¹

“New definition of insanity: choosing to be a primary producer whilst thinking that you’re something else.” Like being a farmer.²

Media critics of supply management³ have been virulent in their condemnation of it, while Canada’s two national newspapers, The Globe and Mail and the National Post, clearly have an editorial policy designed to undermine it at every opportunity. Their columnists declaim often on its defects as they see them – the paradigm blocks the development of exports in affected areas, it represents an unfair tax on consumers, or it hinders agile and flexible responses in those industries to opportunities that show themselves. In the process, the critics demonstrate their incomprehension of the rationale and effect of supply management, as well as an incomplete and flawed understanding of other country’s agricultural models against which they measure Canada’s. Much of this criticism appears to be based on nothing more than neoliberal ideology – a faith in a deregulated world that will reward the entrepreneurial and the innovative. Supply management they claim, is yesterday’s solution; today we need a new model, one based on untrammelled international trade and completely free markets. As well, they would favour farmers who are remunerated for the smart choices they make in the marketplace and not merely for the quota they own.

Their argument is incorrect on all fronts, but it is this last point on which it truly runs aground. Most farmers are intelligent and entrepreneurial; they would not remain in business if they were not. As Willy Leferink, the chairperson of New Zealand’s Federated Farmers cooperative, has noted in reference to his members, but which applies equally well to Canada’s supply managed farmers, “Having skin in the game keeps you grounded and farmer ownership has aided rather than impeded innovation.”⁴

However, agricultural markets are unforgiving, as will be demonstrated below, subject to natural forces and corporate power far beyond the capability of the

³ These would include, among others, John Ivison, Terence Corcoran, Andrew Coyne, Barrie McKenna, John Ibbotson and Jeffrey Simpson. Regional newspapers like the Ottawa Citizen and the Toronto Star are also opposed to supply management in their editorial policy.
individual agriculturalist. As a result, most farmers over a period of time do not make money and are price takers for their crops or animals. That is the advantage provided by supply management – it gathers together the relevant stakeholders, negotiates a price that factors in farmer profit and allows all groups, including consumers, to share in the benefits.

The columnists’ writing demonstrates their ignorance of agriculture and how it works. Even in the countries they admire because of their apparent commitment to neoliberalism, like New Zealand and the United States, agriculture is supported in some fashion. Or, if it is not, as is the case with Australia, the sector is in serious jeopardy. Agriculture is not like manufacturing where production can turn on a dime and choices can be implemented without regard to factors like weather, soil type or when a cow freshens. Agriculture is also essential to life in a way the manufactured products are not; it stands above the fray in importance, a fact that our grandparents and parents knew, but which has been lost to the present generation as food has become cheaper and more plentiful, at least for those in the global north. In the later 1960s, the average family in Canada spent about 22 percent of its take-home income on food; by 2005, that number had dropped to less than ten percent, one of the lowest figures in the world. The middle class of my generation has never known what it is to be hungry or to be in danger of calorie deprivation should harvests not meet expectations. We are able to buy wheat from Ukraine, soybeans from Brazil, vegetables from the US, kiwifruit from New Zealand and cheese from France. Well-developed trade routes speed it to our local supermarket. There is no need for a national agriculture feeding citizens of country “x” or “y”; if one runs short, more is available from somewhere else. Indeed, for those countries that can afford it, the world is their oyster.

However, our forebears who developed systems like supply management in Canada, Federal Milk Marketing Orders in the US or the Common Agricultural Policy in the European Union knew what they were doing. They had lived through the appalling human waste of the 1930s with its drought and hunger, and the devastation of the Second World War with millions facing hunger or worse every day. The immediate post-war period was also difficult in terms of food production given the lack of essential fertilizers and equipment, and the coldest winter in Europe since 1790 blowing in during 1946-47. Government’s DNA compelled them to work on making food available and for farmers to share in the benefits that flowed from their work. Australian legislators, for example, demonstrated that mindset in the early 1950s; it has equal relevance today. Then, the question was posed to Sir Michael O’Sullivan, the minister for Trade and Customs, as to when butter rationing would be abolished in Australia. Gasoline rationing had been repealed in early 1950 and the government seemed to be moving in that general direction. The answer was illuminating: “Butter rationing cannot be placed in the same category as petrol rationing … Butter rationing will be kept continually under
observation, but a vital consideration will always be the effect that its abolition would have on the food standard of … working people.\textsuperscript{5}

Food, more broadly, was viewed in the same way. The CAP, too, was designed with that in mind – to ensure a satisfactory caloric intake among the population, while supply management would even out the wild peaks and troughs of Canadian farmer income following its introduction. They would make a living wage and be able to plan rationally for the future. And the lessons that generation had learned the hard way are as relevant today as they were 70 years ago. As noted above, agriculture is not like other industries in its effects and food security and sovereignty are once again entering the vernacular, especially as climate change and environmental considerations are factored into the equation. Food costs are also rising and, in some parts of the world, sustainability of production is in doubt. Domestic agriculture is suddenly back on the agenda as a hot-button issue. The neoliberal paradigm of laissez-faire economic liberalism in play since the mid-1970s is now being questioned, especially in terms of its applicability to agriculture.

Clearly, agricultural neoliberalism is not concerned with the food standard of working people that O’Sullivan so eloquently remarked upon in the Australian parliament. Instead, it emphasizes the importance of economic growth “as the primary, if not the sole goal of agricultural production strategies and presumed … that social justice could be best realized by minimal government interference and free market forces.”\textsuperscript{6} As is becoming more and more clear, that is a bankrupt ideology, not least in the agricultural realm. Rather than realizing social justice, informed critics of neoliberalism have increasingly expressed concern about the social sustainability of rural areas as the effects of trade liberalization bite.

This paper will demonstrate why supply management is relevant today through a comparison with other countries’ methods of agricultural organization for certain products. It will offer an alternative to the vision articulated by the critics, one that is based on data and reality and not on faith that market forces will do the right thing by populations. Supply management must be maintained and strengthened as the best possible means of securing farmer incomes in those sectors in which it operates, while also offering high quality product to consumers at a very competitive price.


**Exports as (Dairy) Panacea**

In a recent column\(^7\), *Globe and Mail* columnist Barrie McKenna has cited former Prime Minister Brian Mulroney as an expert on the intricacies of international agricultural trade. Mulroney weighed in with his thoughts about why Canada should rid itself of supply management in general and dairy supply management in particular. His most trenchant criticism was that Canadian farmers should take advantage of an “enormous export potential” for dairy that exists in the world today, something they are unable to do being constrained by the strictures imposed on them by supply management. Fortunes are, apparently, there to be made if Canadian supply managed farmers could shake off those shackles and release their innate entrepreneurship. Is that possible? Clearly not, based on assessment of global trends today.

McKenna’s column, and Mulroney’s speech, are filled with what Winston Churchill once called terminological inexactitudes, based on a faith in neoliberalism and the ideology that that reflects: “the embrace of international free trade, the associated deregulation of product markets and regulatory systems, and the corporatization and/or the privatization of formerly state or state-owned enterprises or agencies.”\(^8\) McKenna called Mulroney “a strong voice,” noting that the latter “has been out of politics for more than two decades, but when he speaks, people generally take notice.” Perhaps being out of politics for more than 20 years explains why Mulroney is so misguided with respect to the reality of dairy markets, both national and international. But that doesn’t excuse McKenna’s ignorance, or his willingness to quote Mulroney on a subject about which he obviously knows nothing.

What about this “enormous export potential” that detractors of supply management talk about and from which Canadian farmers could reap rewards if supply management could only be consigned to the dustbin of history? It is true that export potential exists, but in a cyclical way as with all commodities and only within the roughly seven percent of total global dairy production that is traded internationally. When it’s good, it’s good, but when it’s bad, it’s very bad. That is no way to conduct a business as vital to human survival as this is. Presently, we are in the bad phase as more dairy producers in more countries jump on the export bandwagon, perhaps spurred on by the rhetoric of endless opportunity in this market, as Mulroney clearly is. And it is set to

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get worse in the near future. Europe is eliminating dairy quotas as of 31 March 2015 and the betting is that many of those producers will ramp up production. Michel Portier of the Agritel consultancy has noted that the end of quotas “will lead to a sharp increase in European production, and as Europe is self-sufficient in milk, the surplus will become completely oriented towards export and will thus be more correlated to the world market.”9 This is presented as good news by Portier, as is the prediction that Germany alone will increase production by 30 percent by 2020. However, global demand will not rise to the same extent and the result will be deleterious in terms of producer sustainability, no more so than for those engaged in the international market. In 2012, dairy farmers had protested at the European parliament in Brussels against low prices, demanding “new laws that will give insurance for our future … The way it is going, we are in big trouble.”10 The EP did not respond to farmer complaints in an appropriate way. Certainly the elimination of EU dairy quotas will not make those farmers more competitive, innovative or entrepreneurial. What it could possible do is put more of them out of business.

Simple logic dictates that when more competitors enter a market with more, say, butter or iron ore or oil, prices will go down as market share becomes more cut-throat, all other things being equal. In a market as restricted in terms of the volume of total global production traded internationally, it becomes even more damaging as prices plunge more quickly. Perhaps that is good for consumers in the short term, assuming that processors and supermarkets pass those savings on, but definitely not for farmers as many will continue to leave the sector, unable to sustain themselves during predictable downturns. When that happens, prices will rise until the next tsunami of milk washes across the globe reflecting the hope springs eternal mind-set of many farmers, reducing prices again. In short, the commodities cycle is entirely foreseeable. What is not so clear are the depths to which commodities’ prices plunge at the bottom of the cycle and the damaging effects they have on farmer and broader rural populations.

That is now affecting New Zealand, the world’s largest dairy exporter, controlling about 32 percent of total cross border trade in dairy products. It is suffering. The NZ economy and the stability of its currency are largely based on dairy returns, with that sector contributing about seven percent to the country’s GDP and comprising approximately 33 percent of NZ’s annual merchandise exports. To put that country’s worsening situation in context,

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Morgan Stanley pointed out in October 2014 that its currency may drop to “a more than two-year low … as a 50 percent slide in milk powder fuels speculation that the central bank will delay interest rate increases. The price of whole milk powder fell [in October 2014] to a five-year low.” As a result, the New Zealand currency is “the worst performing major currency after the Brazilian real.” To make matters worse, according to Morgan Stanley strategist, Geoffrey Kendrick, “the milk story globally is very soft.” Analysts at INTL FCStone, a Fortune 500 financial services company specializing in commodity trading, underscore that assessment: Near term milk contracts, into early 2015, “took the elevator lower, while March and April jumped off the cliff.”\(^\text{11}\) The report goes on to note that the dairy trade “is collapsing under its own weight” with no early return to the price levels that characterized the first half of 2014.

And why is that? Because as Chinese growth slows to a revised 7.1 percent (or lower), the country is buying much less dairy from its regular suppliers of which NZ is the most important. In fact, the signing of a free trade agreement between the PRC and NZ in 2008 was almost exclusively focused on dairy – the latter would supply the former with all that it could absorb, or so Wellington hoped. It has worked, more or less, as planned since that time, although there have been disturbances in the force relating to food purity scandals. An unknown for NZ will be the effect of a China-Australia FTA that came into force on 12 December 2014, with dairy cited as one of the big potential winners. The Chinese market is definitely finite, but Australia’s Noel Campbell, chairperson of the Australian Dairy Industry Council, noted that his sector “believe[s] that we got what we’ve asked for.”\(^\text{12}\) Australia’s $13 billion dairy industry can only win, or so he believes, as tariffs are phased out over 4 to 11 years. Win at whose expense?

For the foreseeable future, however, neither NZ nor Australia would win in the PRC. Beijing’s imports of milk powder have fallen from a peak of about 160,000 metric tons in January 2014 to approximately 26,000 metric tons nine months later. That huge reduction has dropped the price that Fonterra, the massive New Zealand cooperative, pays its members from last year’s NZ$8.40 per kilogram of milk solids to this season’s NZ$5.30. And the slide has not stopped there: Fonterra “has slashed its forecast farmgate milk price for the 2014/2015 season to $4.70 per kilogram of milk solids … citing the crash of global dairy trade prices to the lowest levels since 2009,” a year of


very low food prices.\textsuperscript{13} That represents a drop of about NZ$6 billion in dairy industry income from last year.

Reflecting that downturn, rural spending has slowed. According to NZ farmers union chairperson Andrew Hoggard, “the Fonterra payout reduction has put ‘real pressure’ on dairy farmers with a large debt load. ‘Sharemilkers who bought into the industry on a budget structure around $6 [per kg of ms] will find the going really hard, because they are not getting any returns from last year either.” [Kumar] Nor does the rather sobering news stop there, at least in terms of forecasts. Dominik Stephens, Westpac’s chief economist, has said that “we are now forecasting a fairly low farm gate milk price of just $6.20 for the 2015/2016 season, and that is assuming that global milk prices rise rapidly over 2015,” which is unlikely to happen.\textsuperscript{14} As noted above, analysts at INTL FCStone do not see that happening, at least to extent implied by those from Westpac. If that is the case, there will need to be more dramatic changes in farmers’ cost structures and trimming of capital and operating expenses. Critically, New Zealand’s central bank issued a warning in November 2014 “about the potential risk of default for dairy-sector loans should milk prices continue to decline this season,” which they are.\textsuperscript{15} Farmer debt is more than NZ$32 billion, triple what it was a decade ago and increasingly unsustainable. Indeed, “the average debt for New Zealand dairy farms has increased faster than the growth in milk solids since the mid-1990s … the structure of dairy debt could also give cause for alarm.”

A similar situation pertains in the US which has experienced higher production as producers raced to tap into elevated export prices, but who now face a slowing of dairy exports and higher rates of imports, which have pushed prices down. Bloomberg News has noted that “Milk is flowing like never before in the US, where dairies have expanded output enough to send wholesale prices plunging from an all-time high in September … At the same time, global supplies are expanding with increased output from top producer New Zealand and the European Union, sending US dairy exports in


\textsuperscript{15} For a speech given in May 2014 by the governor of the Reserve Bank of NZ, when dairy was still flying high, see Graeme Wheeler, “The significance of dairy to the New Zealand economy,” 7 May 2014. Accessed on 16 December 2014 at http://www.rbnz.govt.nz/research_and_publications/speeches/2014/5721595.html

Then, Wheeler suggested that “The future looks bright.”
September to a 19-month low."\(^{16}\) As with the NZ situation, prices received by farmers have also dropped. The November Pennsylvania all-milk price fell by US$1.30 from the October price to US$24.80/cwt, but as production has ramped up, the betting is that prices will continue to sink. As has been pointed out, “prices are very sensitive to rather small changes in milk production, domestic sales and exports ... there is considerable risk with milk prices in 2015.”\(^{17}\)

Is Australia, filling about 13 percent of the total global cross border trade in milk products and often cited as a success story in a neoliberalized dairy world, doing better? The quick answer is no. The Australian Broadcasting Corporation has noted that “Milk supply is up and demand, especially from China, is down, leading to a drop in global dairy prices.”\(^{18}\) Dairy Australia’s Norman Repacholi uses the word “uncertainty” to describe the state of the market. A year ago, as Canada’s Saputo was purchasing Warrnambool Dairy in a hotly contested bidding war as a launching pad for dairy exports to China, the smart money was on the continued rise of export markets that would “change the face of the domestic industry.”\(^{19}\) However, that has not happened. Instead, “Australian dairy farmers are exporting live dairy cattle to overcome poor [domestic and international] milk prices.”

Incredibly, one-third of all Australian dairy farmers are exporting parts of their herds overseas, primarily to China. As Australia’s Agribusiness Elders, Cameron Hall, notes, “China is probably the most influential market for dairy [cow] exports at the moment ... That’s being driven by a really strong commitment from the Chinese government and in China to increase the amount of domestic fresh milk available within the market place.” The CEO of the Australian Livestock Exporters’ Council places the number of dairy heifers exported to China at 60,000 while Holstein Australia notes that its members have exported about 78,000. As the Chinese ramp up their domestic production, dairy imports will inevitably decline to the disadvantage of those countries that pinned their hopes on an ever-expanding Chinese market for milk products.


As well, American competition for those markets is worrying Australian exporters as it also must those from the European Union and New Zealand. For example, Glen Fisher, a Dairy Australia analyst, has highlighted the effects of US involvement in what were relatively secure Australian markets. Given that American milk consumption has plunged since 1970, due, according to Fisher to a perception in the United States that hormones are used to induce greater milk flows in cows, producers and processors are looking abroad to find new markets. And that spells trouble for competitors doing likewise given that Washington and the Cooperatives Working Together program “have effectively subsidized a lot of product that goes into markets from America. There’s (sic) some real competitive advantages that will make it difficult for Australia [and others] to continue to sell to particular markets.”

He cited the South Korean market as particularly problematic where the Australian share has been “really eroded” by US competition bolstered by subsidies and the free trade agreement between the two that came into force as of 15 March 2012. Subsidization works largely through the Cooperative Working Together (CWT) Export Assistance program, as member cooperatives are helped to gain and maintain market share, “thus expanding the demand for U.S. dairy products … in rapidly growing world dairy markets. This, in turn, positively impacts U.S. dairy farmers by strengthening and maintaining the value of dairy products that directly impact their milk price.”

Australia and South Korea now have their own FTA as of 12 December 2014, and its effect on dairy exports from Australia will become clear in the fullness of time. At a minimum, however, the Australians hope to increase the 196,000 tonnes of dairy they exported to South Korea in 2013, which was nine percent of that market. So, whose share will they eat into?

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In 2014, CWT assisted member cooperatives in selling 102.545 million pounds of cheese, 53.383 million pounds of butter and 34.384 million pounds of whole milk powder to 45 countries on six continents. These are the equivalent of 2.401 billion pounds of milk on a milkfat basis.
Better Than the Rest: The Rationale for Supply Management

Given the above, when Canadian critics of supply management urge Canada to grab a share of the “exploding global market for food protein” via increased exports of dairy as Mulroney recently did, is that a realistic possibility, even without supply management? At a minimum, it would be very, very difficult. Alan Levitt, the US Dairy Export Council’s vice president of communications, noted that the increased output from the world’s top five dairy suppliers – Australia, Argentina, the European Union, NZ and the US – was not in the best interests of the industry in terms of sustainability. It increased by 1.7 billion pounds a month during the 14 months to September 2014. Levitt stated the obvious when he pointed out that “This increased volume of milk turned out to be more than importers can consume … Our competitors have more product to sell and they are willing to sell at a lower price.” It is, as Yogi Berra said, déjà vu all over again. Farmers were sold on the promise of perpetually increasing milk exports and prices, and those promises are now facing an uncertain future. This is not to say that dairy exports will not recover – merely that, as history confirms, commodities production and higher prices cannot be sustained indefinitely. There has never been an example of this happening. Inevitably, new actors get involved in the market with additional supply, which drives prices down with a resultant destabilizing shake-out in the sector. That is no way to run a business, a sentiment with which farmers in all countries readily agree despite the fact that it is the experience of many.

As is clearly shown above, exports are problematic over a certain term – one of the major advantages of supply management is that it gives farmers hope for the future and that their expenses will not overwhelm income, regardless of a wildly fluctuating export market. The rationale for supply management when it was introduced in the 1970s was to even out the peaks and troughs of farmer income while providing an affordable, high quality product to consumers.

Certainly, farmers in those countries like NZ can make money when markets are robust but when they collapse, so do those farmers. Agribusiness could well take their place, which is an anxiety in New Zealand, where the Timaru Herald News worried that “Concerns have been raised that New Zealand’s farms are increasingly being snapped up by corporate ventures and syndicates.” While Canadian critics of supply management, which encourages the maintenance of the family farm, might applaud this development and view it as a sign of progress, it is not. There is a problem

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“with the growing might of agri-food based transnational corporations and their impacts upon regional farming structures.”23 As well, the Europeans (and others) value a concept, multifunctionalism, which denotes that land has more than one use, that it can also provide environmental and social benefits, that it can be used for recreation, eco-tourism, sightseeing or holidays – anything we can imagine. Multifunctionalism rests uneasily alongside industrial agriculture, and populations lose out when 5,000 or 20,000 head herds become the norm. The environmental impact of these behemoths is also crippling.24

And what about the structure of Fonterra, the massive NZ cooperative of which Canadian critics of supply management write so glowingly? It is of the same character as the old Canadian Wheat Board, a monopolistic single-desk exporter of dairy products. This is a good thing and NZ farmers who generally benefit from its operation should be congratulated for creating such a creature. However, that is not at issue here – this debate is focused on the utility of supply management, which I believe characterizes some aspects of the Fonterra operation. Farmers sell to the cooperative if they own shares – the Fonterra website notes that “farmer suppliers are required to hold a minimum of one Share for every kilogram of milk solids supplied - this is known as the share standard” – and Fonterra markets that product internationally. A farmer must own at least 1,000 shares before milk will be collected by the cooperative and in December 2014, shares sell for NZ$6.16 each. Most often, farmers in New Zealand own hundreds of thousands of shares. Willy Leferink, Federated Farmers chairperson, has publicly raised the issue that “Fonterra needs to recognize that banks and farmers will find it hard to justify the millions [of dollars] needed just to belong” as the cooperative goes through some structural change.25

24 For an excellent example of this, see Kirk Kardashian, Milk Money: Cash, Cows and the Death of the American Dairy Farm, (Lebanon, NH: University of New Hampshire Press, 2012) 104-109. The abstract reads: “There’s something un-American and illogical about a market system where the price of a product bears no relation to the cost of its inputs. Yet we have lived with such a scheme in the dairy industry for decades: retail milk prices have stayed the same, while milk prices paid to farmers have plummeted. Kardashian asks whether it is right that family farmers in America should toil so hard, produce a food so wholesome and so popular, and still lose money. This gripping investigation uncovers the hidden forces behind dairy farm consolidation, and explains why milk—a staple commodity subject to both government oversight and industry collusion—has proven so tricky to stabilize. Meanwhile, every year we continue to lose scores of small dairy farms.”
Critics of supply management in Canada are the same as those who did not like the Canadian Wheat Board in its monopoly days, so why do they like Fonterra? Certainly the US National Milk Producers Federation does not. It has told the US Trade Representative’s office that if NZ does not dismantle this unfair advantage, as Fonterra is perceived to be, then they will insist that New Zealand be excluded from any polite conversation about dairy in the Trans Pacific Partnership negotiations. Perhaps a larger majority of wheat and barley farmers in the Canadian West than the 62 percent who voted in favour of it in a plebiscite would also like to revisit the CWB decision. That will not, of course, happen.

- **Pricing: Supply Managed Commodities and Others**

Perhaps most importantly, what about price for supply managed commodities in Canada? Critics often raise supply management as constituting an unfair tax on the poor given that it is designed to assist the farmer as well as the consumer, and providing product that is artificially inflated in cost as a sop to the former. However, that is refuted by data. As the latest consumer price index in Canada points out, dairy, eggs and chicken are quite a bargain. Contrary to claims that that chicken cost consumers big bucks, in the past two years, beef prices rose by 23.1 percent, pork was up by 18.1 percent, and chicken, the only supply managed commodity among the three, increased by only 5.1 percent. Restaurants Canada, a lobby organization for its members, has noted that reality, despite its open hostility to supply management: “In August [2014], beef and pork prices were a hefty 13.6% higher than a year ago, according to Statistics Canada’s Consumer Price Index. In particular, ham and bacon prices have soared 18.7% on a year-over-year basis, while fish prices have increased 6.3%. *Chicken prices have been the least offensive, rising 1.6%.*”\(^{26}\) The dollar figures associated with certain products in those categories are telling – sirloin steak over the year from October 2013 to October 2014 rose from C$18.37 per kilogram to C$21.40. A kilogram of pork chops went from C$11.28 to C$13.05. In the case of supply managed dairy over that period, a litre of partly skimmed milk increased in price from C$2.28 to C$2.33, while eggs, another supply managed commodity, went down, from C$3.24 to C$3.22.\(^{27}\) Unfortunately, the Stats Can figures do not pull out what of the increase goes to the retailer, the processor and the producer for the non-supply managed foods. Of course, it is simple to determine that for eggs and milk; those numbers are in the public domain.


Supply management, with its moderating effect on price increases in the sectors in which it prevails, will become more important as the Organization for Economic Cooperation and Development (OECD) forecasts continued significant increases for global meat prices until at least 2020. As well, it predicts that by that year, world exports will have gone up over the 2010-2020 period by only 1.7 percent per year as compared with 4.4 percent rise per annum over the period from 2000-2010, a reflection of higher meat prices and slowing population growth. The report goes on to suggest that “growth in meat trade for the next decade is anticipated to be slow due to the combined effect of slowing production and firm world prices that discourage imports” which, if true will also discourage exports. As for poultry, those exports, too, will grow at a slower annual increase as compared with the 2000-2010 period and be, at least in the forecast, captured by US and Brazilian companies. However, not all poultry producers will survive: “During the first part of the projection, exports will stagnate due to the demand response to high poultry product prices, as well as a tight supply situation created by expensive feeds. Nevertheless, the adaptation of producers to higher feed and energy costs is expected to induce structural changes in the industry, boosting production and exports, most notably during the second half of the projection period.”

Those contemplated structural changes are anybody’s guess, but they are sure not to benefit the producer if history is any indicator. The farmer will take all the risk, while the processors/supermarkets will receive the bulk of the benefit. Again, in Canada with supply managed commodities, that cannot happen – the model is predicated on cooperation and negotiation between producer and processor, with both keeping the consumer in sight.

The OECD report raises a question with respect to price increases – why in Canada are beef and pork rising relatively quickly while dairy, chicken, eggs and turkey are not? Do exports of animal protein play a role in this rise? Judging from the American experience, they do. Lance Zimmerman of Cattlefax, an information and analysis service, notes that “a record-high 11 percent of U.S.-produced beef is being exported this year, while around 20 percent of U.S. poultry and pork ends up overseas.” It is no coincidence that Canadian prices match the US beef and pork index, but not that for chicken; beef and pork are export-dependent Canadian industries with 60 percent of pork production and 40 percent of beef production sold overseas.

29 OECD-FAO 140.
to judge beef and pork organization – merely to note that exports in sufficient volume do have an impact on domestic pricing.

There is also another factor at work – that farmers, responding to their own best interest, slaughtered thousands of cattle in 2008-09 when feed prices spiked and those for beef and pork plummeted, a result of the Great Depression. The very dry words of the OECD report tell that story: “Faced with high production costs, restricted access to credit, high energy costs and a subdued demand during the financial crisis, cattle farmers culled their herds. This initially resulted in a sustained supply of meat products, and prices fell sharply. Prices started to recover as economies pulled out of recession. The red meats sector had liquidated breeding animals and was unable to rapidly satisfy the increasing post-recession demand. As a result, prices recovered strongly in 2010 [due to a shortage in supply.]”

That has had seriously adverse implications for Canadian beef producers as stocks were more rapidly drawn down although the food crisis merely exacerbated and already poor situation. Costco, for example, cannot source enough Canadian AAA beef for its Canadian stores, purchasing significant quantities of USDA Choice and Australian Wagyu instead. Economic pressures had already forced many Canadian producers out of the business and those who have departed are unlikely to return at least according to Saskatchewan beef producer, Garret Hill. As he laments, “the last 10 years have been pure hell. We have lost a lot of people in this industry ... The message we heard [from Costco] is we have to produce it cheaper. That is why you don’t have anybody left producing. If you are going to pay for it, fine. We have to get paid before you get any beef on the shelves.”

The contrast with supplied managed commodities is stark, as are the implications of this scenario for Canada’s food security and sovereignty. Again, this is not to suggest that beef farmers should adopt a supply managed model – merely that the free market in which they operate does not always respond to their interests. It remains an interesting issue that has echoed across generations – should not farmers receive an adequate living from their labour, and not a decade at least of hell?

Critics of supply management must welcome the beef and pork examples and the steep increases in price, given that they reflect free market principles. But in a more objective, data-driven and less ideological world how does the cost of Canadian production for various supply managed sectors compare in the supermarket? As well, Canadian consumers pay the entire cost of production in those sectors, not mediated by subsidies or other mechanisms. Certainly, in the dairy area, the cost of production is higher than that in, say, Australia,

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NZ or parts of the US, but that’s largely because Canadian farmers need barns and winter feed for their cows which are housed inside during brutal winter months. It is no coincidence that the US industry has moved significantly westward, to California, where the weather is more amenable to dairying, and that NZ enjoys a geographic advantage in terms of climate and grassland that is stunning. This said, milk in New Zealand is priced higher than in Canada – the weighted average cost of a litre in the former is the equivalent of C$1.65 and in the latter, C$1.45. The weighted average national price in the US for a half gallon of fluid milk, equivalent to 1.9 litres, is C$2.78 in December 2014. Despite lower production costs and in the case of the United States, government programs to assist dairy farmers, all of these prices fall within a similar range. However, based on Canada’s higher costs of production, it speaks forcefully to the competitiveness of Canadian supply managed milk on an apples-to-apples comparison. As well, ceteris paribus, eggs in Australia are more expensive than in Canada. The cost for a dozen in Canberra in December 2014 is the equivalent of C$4.47 as compared with C$3.18 in Elmira, Ontario. The national weighted average price in the US for a dozen grade A eggs is C$2.49. Importantly under the Canadian system the producer receives the negotiated supply managed price of C$2.04 making their operation completely sustainable.

Again, that last point is most important – the Canadian price is negotiated among the producer, the processor, the restaurant sector and the Canadian Consumer’s Association. The case of dairy is emblematic of the sensibleness of supply management in terms of price determination. Using Australia and the UK as comparators, the results are revealing, not because Canadian milk is cheaper, but because it is competitive even given the distorted pricing systems operative in those two jurisdictions. Both work on similar principles, and the farmer does not necessarily benefit. Nor are they unique; Germany, Switzerland and France, for example, have similar issues with respect to dairy pricing that compare poorly with Canada when the producer, as well as the consumer, is considered.

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35 For example, in the case of Germany, a report prepared for the MEG Milch Board pointed out that the cost of production in October 2013 was 43.06 euro cents a kilogram in northern regions and 51.03 euro cents per kilogram in the south. The average price farmers received was 31.50 cents a kilogram. The European Milk Board insists that a farm-gate price of 50 euro cents a kilogram is essential. However, supermarkets are not willing to offer more. See Whitney McFerron, “German milk farmer prices fall below cost, European Board says,” Bloomberg News, 18 January
In the case of Australia, dairy producers receive a price for milk domestically that is controlled by the two large supermarket chains in the country, Coles and Woolworths. Clearly, this connection is characterized by “asymmetrical power relationships that [have] marginalize[d] … producers … and rural communities.” That is a complaint made often by Australian dairy farmers. The A$1 cost per litre on Coles branded milk, while perhaps advantageous for consumers, is not living remuneration for farmers, who are leaving the land in number or, as noted above, selling parts of their herds overseas to make up the gap. Farmers in the state of Queensland received A$0.40 per litre following Coles unilateral decision in 2012 to cut the price paid by A$0.08; Queensland farmers say they need a minimum price of A$0.55 to remain in business over the long term. There is no intermediary between producers and supermarkets and the price offered is on a take-it-or-leave-it basis. As the CEO of Australian Dairy Farmers (ADF) pointed out in a letter to the country’s Competition Policy Review Panel Secretariat, “The inequality of market and bargaining power means that farmers are largely price takers in the market and susceptible to, at times, questionable business practices of large corporate businesses with significant market power.” Similarly, in the United

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Kingdom, supermarkets have unilaterally reduced the amount paid to farmers for milk from 30p a litre to 25p. That, according to the Royal Association of British Dairy Farmers, will force many British farmers into bankruptcy. Nick Errington, RABDF’s CEO, points the finger at supermarket greed: “In 1996, retailers were making a margin of about 2.3p per litre, but today it stands at around 15p a litre and has been as high as 26p a litre. The margin the retailers are making is just too high and they do not deserve it.” Indeed, up until October 2014, UK dairymen had received a lower price each month over the previous four months. Given that the average cost of production of a litre of milk is just over 30p and the typical price paid is now around 28p, down from around 35p in April, dairy farmers are taking a significant hit on revenue. British dairy, according to Errington, cannot survive on such meager compensation, at least not in a form that is recognizable to Britons when they travel to the countryside.

The attitudes expressed either implicitly or explicitly by processors and supermarkets toward farmer suppliers suggest, as the ADF CEO did, questionable business practices that are more intense in the ultra-competitive, razor-thin profit margin, highly concentrated supermarket sector. They happen in every Western country in which producers are faced with this asymmetric power relationship but Australia’s Coles presents an especially relevant example. The supermarket was caught by the national regulator in illegally pressuring 200 suppliers, including dairy farmers, to reduce price. Its conduct was judged to be “contrary to the prevailing business and social values which underpin business standards that apply to dealings with suppliers,” leading Coles to eventually plead guilty. The judge hearing the case was scathing in her indictment, noting that the “company [was] worth A$22 billion on one side and the smallest supplier worth less than 0.1 percent of that on the other.”

Clearly, for farmer suppliers, that context, as well as that articulated in the UK example, is unsustainable and one of the explanations as to why supply management was introduced in Canada in the early 1970s. Then, farmers were completely at the mercy of large processors and/or supermarkets. Primary agriculture was not on a level playing field with those who bought farm products and processed and marketed them. The story was the same everywhere – for dairy, eggs, meat and pretty well every other commodity, the (very low) farm gate price was set by business, allowing it to amass substantial profit through its processing and retail operations. Supply management, when introduced in its five sectors, made negotiating more equal.

This does not happen with supply managed commodities.

Importantly, supply management is now also being twinned with food security and food sovereignty. These concepts are more important in the world today as we face an increasingly problematic food future. As well, that had been the case confronting many countries in the aftermath of the Second World War – for example, Europeans had faced starvation. The lesson learned was the necessity to be food self-sufficient, which resulted in 1962 in the implementation of the Common Agricultural Policy by the European Economic Community Six, which led to the subsidization of more than 400 different agricultural commodities. In Australia, too, government had considered the importance of food security; cabinet had noted in 1952 “that increased food production like coal production is a matter of defence preparations, and should therefore be accorded a high priority commensurate with this importance.”

Canberra went so far as to dictate that bank interest rate policy should not restrict agricultural production and that State governments should give necessary assistance to farmers. As well, the federal cabinet noted that “adequate increases of food production beyond the immediate future require the establishment of many thousands of new farms, and that the Commonwealth should state a willingness to confer in due course with the State Governments on the policies necessary to achieve this objective.”

Cabinet also raised the issue of legislation to set aside “some income untaxed to permit [farmer] cash reserves to be built up against wide fluctuations in income.” That government was very close to its rural constituents and knew well the pressures placed on farmers. Reflecting the importance of this developing policy a food security committee was struck, to be chaired by the prime minister, Sir Arthur Fadden, and comprising Sir John McEwen, minister for commerce and agriculture, the minister of defence, Sir Philip McBride, Senator William Spooner and Sir Paul Hasluck.

Some counsel is timeless, and what seemed so obvious to government 62 years ago is now beginning to be reconsidered, the result of a growing realization that the food crisis over the period from 2005 to 2009 was perhaps “not a blip, but creeping normality.” In some quarters, that has also led to the belief that the (neo)liberalization of certain sectors of agricultural trade is no longer an appropriate international policy project.

Some governments, Canada’s included, are slow to come this conclusion but it will be forced upon

them eventually through the destabilization of international markets in particular agricultural commodities.

**Conclusion**

Supply management as a system meets so many of the requirements of good management; it is inclusive of all stakeholders, it represents producer interests as well as those of the consumer, the processor and the supermarket, it is transparent, it is not a subsidy and it has become a part of developing discussion of Canada’s food security and sovereignty. Media critics rely on ideology and not data, a fact that this paper has drawn out. And as the old saying has it, “if it ain’t broke, don’t fix it.” The examples of other countries’ various agricultural sectors should provide a warning to Canadian governments.

McKenna’s piece in the *Globe and Mail*, cited at the beginning of this paper, is not based on data and is not a reflection of the objective reality facing dairy farmers around the world today as has been made clear in this paper. The fact that Mulroney supports his position is irrelevant. What does he know about foreign markets for milk, or about farming, for that matter? Where is the export explosion that he talked about? It certainly does not exist now, and by the time the market settles, many thousands of dairy farmers around the world will be out of business. The column is based on nothing but ideology and an abiding belief in the sanctity of markets that are subject to global forces must be better. How, he does not say. But then, ideologues never do. Faith-based arguments do not require data or proof. One can, apparently, assert something and it will be true if said with enough passion.

Finally, McKenna noted that Mulroney got “a standing ovation” for his remarks about supply management; Kelsey Johnson in *The Western Producer* had an entirely different take. The speech, she thought, received “cautious applause.”43 There is quite a difference between a standing ovation and cautious applause, one that cannot be put down solely to perception. Given that Mulroney followed that comment up with a joke, I believe Johnson.
