



# WHAT NOW?

## Supply management myths, busted



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Martha is a thought leader whose career has been diverse, spanning law, business, technology, politics and public policy.

” *Average Canadian families with children pay almost \$600 more per year for basic nutrition than they should.*

### Dairy's Alternative Facts

#### Facts matter

Good public policy is impossible without facts. Poor information leads to poor decisions, and people suffer. Our job at the Canada West Foundation is to determine the facts – real ones – and conduct thorough analysis. Unfortunately, supply management of our dairy, poultry and egg production in Canada is an issue where “alternative facts” dominate the debate.

Because of this, before we start our overall myth-busting, there are a couple of facts we feel obliged to note: No group, person or organization with any interest in dismantling supply management funds our work on this issue. We recommend practical public policy directions which are non-partisan, non-ideological. We don't get paid by anyone to support dismantling supply management. We have great respect for the hard work done by ALL of Canada's farmers and we want fair treatment for all.

However, the dairy lobby is one of Canada's richest and most powerful. It spends more than \$100 million every year on lobbying and marketing – aimed at politicians, the public, trade negotiators, and, most frustratingly, farmers. The myths they tell have their own producers scared, the public injured to exorbitant dairy prices, and politicians completely cowed. We believe that some myth busting is needed.

# WHAT NOW?

SUPPLY MANAGEMENT MYTHS, BUSTED

There is not a single voice in Canada that supports supply management that does not have a vested interest – financial, political or otherwise – in seeing it preserved. And there is a lot of money at stake.

But where does all that money come from? It comes from average Canadian families with children, who pay almost \$600 *more per year* for basic nutrition than they should.\* Farming can indeed be hard work, but so is teaching, mining, nursing, construction, and many other Canadian jobs. Why then, should dairy producers – not even a mere 6% of Canadian farmers – each be worth, according to Statistics Canada on average, *net*, almost \$5 million dollars? We don't know too many millionaire teachers, miners, nurses or carpenters. Also according to Statistics Canada, the average Canadian dairy farmer earns a profit – “after all family salaries have been paid” – of an *extra* \$150,000. Imagine a teacher, miner, nurse or carpenter pocketing, “after all family salaries have been paid,” an *extra* \$150,000.

Meanwhile, we are under tremendous pressure on NAFTA, and we have tariffs on steel, aluminum and possibly soon, cars. Yet while dairy is a huge irritant for Donald Trump, we continue to defend it, in doing so sacrificing many of our other economic sectors. Every Canadian who works in the auto sector; in a steel mill or aluminum plant; or in any factory that manufactures goods using steel or aluminum should be furious as the Canadian government risks their jobs, continuing to defend supply management, to the benefit of what is now a small number of wealthy producers, purely for domestic politics.

## MYTH

**Canadian prices aren't that high.**

## BUSTED

Nonsense, of course they are – that's why we have tariffs ranging up to 300%; cheese smuggling rings busted; and Canadians all along the border driving over to the U.S. on the weekends to buy cheap milk, cheese, butter and eggs. Less than 10%, globally, can come in without the tariffs.

## MYTH

**Supply management systems provide high quality, locally produced food at stable, reasonable prices for consumers.**

## BUSTED

This is not due to supply management. The same is true for our locally produced beef, corn, pork, grain, pulses, none of which get this rich protection. And to call dairy prices “reasonable” is simply wrong – see above.

## MYTH

**We can't compete with the heavily subsidized U.S. dairy producers.**

## BUSTED

It is true that the U.S. *used* to subsidize dairy heavily – but no more. In fact, the U.S. has in recent years dramatically reduced its own subsidization of dairy. According to the Organisation for Economic Co-operation and Development (OECD's) 2017 Market Price Support Estimates (MPSEs) for Milk, Canada's dairy subsidy is seven times greater than in the US.<sup>1</sup> Another measure is the OECD's “per cent producer single commodity transfers” (%PSCT). This reflects the annual monetary value of gross transfers from consumer and taxpayers to agricultural producers, measured at the farm gate level. This includes, therefore, all types of “support from a wide variety of sources.” (In the U.S. for example, this would include product bought by the government for school lunch programs, etc.)

Ten years ago (2007), the %PSCT for Canada for milk was already almost twice that for the U.S. (40.04 versus 24.32). But even more important is that since then, the level of U.S. %PSCT for milk was cut almost in half – to only 12.85 (2016) – whereas the Canadian %PSCT *increased* to 44.13.

Using either measure, Canada's subsidization of milk production is far higher than that of the U.S.: Canadian MPSE at seven times greater than the U.S.; or the Canadian %PSCT at 3.5 times greater than the U.S. It is nonsense for Canada to complain that we cannot compete with U.S. subsidization.

## MYTH

**Supply management isn't a government subsidy.**

## BUSTED

It most certainly is. Government regulation is what protects the cartel, ensuring a subsidy that is paid for by *all* Canadians, as consumers instead of taxpayers, via artificially high dairy prices. All international trade authorities, including the World Trade Organization (WTO), confirm that our supply management system is not only a subsidy, but a huge one. Worse, several studies have shown<sup>2</sup> that it is regressive and hurts poorest Canadians (often single parent families with small children) the most.

\* Cardwell, R., Lawley, C. and Xiang, D. “Milked and Feathered: The Regressive Welfare Effects of Canada's Supply Management Regime,” *Canadian Public Policy* 41(1) (March 2015).

# WHAT NOW?

SUPPLY MANAGEMENT MYTHS, BUSTED

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## MYTH

**The U.S. maintains a large surplus in dairy trade with Canada.**

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## BUSTED

Actually, this isn't a myth, but it is extremely misleading. *It is a useful soundbite for supporters and politicians.* Between 2010 and 2016, U.S. exports into Canada of ultra-filtered milk did indeed increase. This was because the Americans developed a new dairy protein product that could be used in processing butter and cheese, which was not covered by the original high tariff rules. Our own Canadian processors (including Agropur, one of our largest which, ironically, is a co-operative owned by a third of Canada's dairy farmers) ramped up their purchases of the cheaper product from the U.S., and bought correspondingly less from Canadian producers. Under pressure from the dairy lobby, Ontario and then Canada reacted with the establishment of a new "Class 7" to displace these cheaper U.S. imports with heavily subsidized pricing of milk for processing. To be clear, the U.S. dairy farmers are no angels in this debate. Their complaint of having to cut production is only because they had ramped it up in recent years to fill this loophole. They are only cutting back to the levels they were at a few years ago. But what happened with Class 7 is a symptom of the larger problem of supply management. Issues related to ultra-filtered milk and the imposition of Class 7 for Canadian milk are complex – they are symptoms of our system. And it is key to remember that the amount of dairy traded between the two countries is tiny compared to overall production. *Most importantly, we do not sell much dairy to the U.S. simply because our system's inflated prices aren't competitive.*

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## MYTH

**Supply management "protects" the family farm.**

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## BUSTED

This is sheer nonsense. In Canada, the rate of consolidation has actually been higher in the supply-managed dairy, poultry and egg sectors than in most other agricultural sectors. Whereas in the 1970s there were approximately 145,000 dairy producers, today there are only about 9,000. Recent scare tactics include noting that "Wisconsin lost 500 dairy farms in 2017 and we don't want that to happen here." Yet Wisconsin and Canada have about the same number of dairy farms – and Canada has also "lost" on average about 500 dairy operations, per year, for the last three years. *The same level of consolidation as Wisconsin. Facts matter.*

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## MYTH

**Supply management helps "Canadian agriculture."**

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## BUSTED

Wrong again. It actually hurts the majority of Canadian farmers, including beef, pork, grain, oilseed and pulse producers, who would benefit from more global trade – many of whom right now are very worried about NAFTA.

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## MYTH

**It doesn't affect Canada's trade negotiations – see how many trade deals we've signed?**

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## BUSTED

Of course we have signed trade deals, but in protecting supply management we have always had to sacrifice on other things. As is abundantly clear with the U.S. right now, every trade negotiation is exactly that – a negotiation, with gives and takes. Everyone working in our steel or aluminum industries, our auto sector, and the other agriculture sectors, should make their voices heard. *Why are we sacrificing those sectors, those jobs, those Canadians, for a small number of now wealthy producers?*

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## MYTH

**The dairy and poultry industries in Canada will not survive without supply management.**

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## BUSTED

Not only do the fact that all other agriculture industries in Canada manage just fine without supply management, it is possible for an industry to transition away from heavy protection and for it to thrive in doing so. When Canada signed the original free trade agreement with the U.S., it agreed to end what had been huge protection for Ontario's wine industry. While originally winemakers were worried about what would happen to their industry (and lobbied extensively to prevent opening up the market), a smart transition plan (including government assistance) took the wine industry from protected to competitive – and the industry took off, reaping far greater success in terms of sales, profit AND quality.

# WHAT NOW?

SUPPLY MANAGEMENT MYTHS, BUSTED

## MYTH

**Without supply management, we'll get U.S. milk produced with growth hormones.**

## BUSTED

For the recent Comprehensive Economic and Trade Agreement (CETA) trade deal with the European Union, Europe insisted that beef coming from Canada be extra-hormone-free, and we are meeting that requirement. There is no reason why Canada cannot do the same for U.S. milk.

## MYTH

**We can't compete with our colder climate.**

## BUSTED

It defies logic to claim that the climate in southern Quebec is different from immediately across the border in New York or Vermont. Note that most of the major dairy state of Wisconsin is further north than southern Ontario, also a significant dairy region.

## MYTH

**There are no export opportunities; the global milk market is suffering a major glut.**

## BUSTED

As with all commodities, global prices fluctuate. There has been a recent slowdown, due to a number of factors, including a Russian ban on dairy imports from various countries and the discontinuation of milk supply quotas in the European Union in 2015. But dairy exports are already

rising again. Australia's exports are up 14 per cent from last year. U.S. exports increased fourfold in only a decade. But Canada prefers to hide behind our borders, losing out on tremendous opportunities abroad for Canadian dairy. Globally, people with middle-incomes – who want and can afford more and better food – will number almost 5 billion by 2030. In 2016, it was projected that 223 billion litres of milk alone was consumed.<sup>3</sup> Canada represented only a fraction of that – in the 2017-2018 production year, only 1.6 billion litres of milk was sold.<sup>4</sup> Canada is a trading nation. All of our other sectors compete and succeed selling to international markets – why not dairy? Some of the younger farmers want to grow beyond our own small market, but are intimidated into not speaking out. We make good milk; a world of opportunity, and its profits, is going to others.

We should dismantle supply management – not because Trump says so, but because it's in Canada's best interests. But now would be a good time because of the challenges and loss of negotiating leverage this creates for our other economic sectors in a time of trade upheaval.

The Canada West Foundation has proposed a transition plan: *Supply Management: A win-win opportunity for reform*. Liberalization can be a big win for Canada – ironically, for the dairy sector too.

Fair compensation will be needed, for sure. Financial transition assistance as well, of course – our report covers all of that in detail. Ensuring a level playing field with the U.S. dairy producers – absolutely. But for the sake of the rest of Canada's economy, now is the time to finally do what's right.

<sup>1</sup> The OECD's 2017 Market Price Support Estimates for Milk: U.S. – \$4.43 Billion. Canada's – \$2.79 Billion. But the U.S. dairy system is more than ten times the size of Canada's, which means that according to this metric Canada's level of subsidization, pro rata, would be almost \$30 billion in the U.S. – 7 times higher.

<sup>2</sup> This includes: Ryan Cardwell, Chad Lawley, and Di Xiang, "Milked and Feathered: The Regressive Welfare Effects of Canada's Supply Management Regime," Canadian Public Policy 41, 1 (March 2015): 1-14; Mario Dumais and Youri Chassin, "Canada's Harmful Supply Management Policies," Montreal Economic Institute, June 2015,

[http://www.iedm.org/sites/default/files/pub\\_files/lepoint0515\\_en.pdf](http://www.iedm.org/sites/default/files/pub_files/lepoint0515_en.pdf); Michael Grant, Richard Barichello, Mark Liew, and Vijay Gill, *Reforming Dairy Supply Management: the Case for Growth*, March 2014, [https://www.conferenceboard.ca/temp/c3899aff-08d6-4c64-84c8-ba87e97733b5/5955\\_DairySupplyMgmt\\_CFC\\_RPT.pdf](https://www.conferenceboard.ca/temp/c3899aff-08d6-4c64-84c8-ba87e97733b5/5955_DairySupplyMgmt_CFC_RPT.pdf).

<sup>3</sup> "Global milk consumption in 2013 and 2016 (in billion liters)," Statista, <https://www.statista.com/statistics/263955/consumption-of-milk-worldwide-since-2001/>.

<sup>4</sup> "Fluid milk sales," *Government of Canada*, [http://www.dairyinfo.gc.ca/pdf/fluid-ca\\_e.pdf](http://www.dairyinfo.gc.ca/pdf/fluid-ca_e.pdf).

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