



FARMING FOR OUR FUTURE: CANADA'S 150TH

OTTAWA, ONTARIO | NOVEMBER 21-23, 2017



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THE GREAT DEBATE: SUPPLY MANAGEMENT – WIN, LOSE, OR DRAW?

Moderated by Lyndsey Smith, RealAg

DEBATER 1

Sylvain Charlebois
Dalhousie University

DEBATER 2

Bruce Muirhead
University of Waterloo



@scharleb @UWaterloo
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MODERATOR
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RealAgriculture



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THE GREAT DEBATE: SUPPLY MANAGEMENT

TIME TO VOTE!

☐ WIN

☐ LOSE

☐ DRAW



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Dairy Supply Management is a Superior System

UNIVERSITY OF
WATERLOO

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Bruce Muirhead

Egg Farmers of Canada Chair in Public
Policy

Associate Vice-President, External
Research and Professor of History

First – let me set the stage: International trade in dairy products is negligible as a percentage of total global production ...

Only about 7%. As Donald Trump might Tweet, “tiny.”

This 7%, about 80% of it is occupied by NZ, the EU-27, the US and Australia.

Dairy is a commodity with all of a commodity’s problems – very cyclical in its peaks and troughs, price usually determined elsewhere and sometimes bearing little relationship to COP, and the market is affected by events far outside of any single country’s control. Unstable.



What is supply management?

Based on 3 pillars:

1. producer pricing;
 2. production discipline; and,
 3. import management.
- Matches domestic demand with domestic supply through a quota based system.
 - Doesn't take a cent of government money.
 - Helps to preserve the (smaller) family farm. Has social license.
 - Provides an intermediary between the farmer and the processor/supermarket to help level the playing field.
 - Has become a part of the narrative unfolding around Canadian food security and sovereignty. Represents a sustainable system.
 - Price is competitive with same in other jurisdictions ~~as later slides will show~~.
 - Creates jobs in the communities in which supply managed farmers operate. Critical to rural sustainability.
 - Environmental impacts are lower vis-à-vis other national systems given that SM supports farmers with an average of 75 cows.
 - US – about 230 cows, but farm growth is in the 1,000+ range.

It is a very sensible and sustainable system. So, why are we having this conversation?

Because of the Western obsession with neoliberalism, dating to the mid-1970s.

What does it entail?

Based on the organizational principle that the corporation is the model through which to best ensure the most effective and efficient method of economic growth.

- Free trade
- The rule of the market
- Deregulation
- Privatization
- Eliminating the concept of a public good as a role for government, in favour of the theory of trickle down economics

**SUPPLY MANAGEMENT VIOLATES
EVERY ONE OF THESE ARTICLES
OF FAITH HELD BY BIG BUSINESS**

So that's the practice, but how does Canada's system compare with others which tout themselves as neoliberal? Keep in mind Jonathan Swift's admonition in *Gulliver's Travels* (1726) ...

“... Nothing is great or little otherwise than by comparison.”

- I will very briefly assess international dairy models – Australia, NZ and the US – with that of Canada.
- Why? Because these 3 are often touted as models Canada should emulate.



New Zealand

“Our dairy industry is under serious stress. For most dairy farmers this is the third consecutive year in which cash coming in is much less than cash going out.”

“Debt to cover working capital is climbing. Average return on equity is negative. Highly geared farmers with high costs are facing foreclosure.”

Debt overhang is about \$50 billion, which greatly worries the NZ Reserve Bank

NZ dairy is also facing incredibly intense competition internationally from the US (and the EU.)

-Tony Baldwin, NZ dairy industry observer, 2016



What about price vis-à-vis Canada?

“I am sure it will ... come as a surprise to many New Zealanders to hear they pay more for their milk than ... even the Canadians.”

-Keith Woodford in the *Fairfax NZ Sunday Star Times*, 30 March 2014.

Numbers on the right tell the story →

NZ Anchor Milk Standard Blue in 3 litre container (3 l is the national standard) - C\$6.21 – normalized into 4 litres is **C\$8.28**

NZ Homebrand Milk Standard, 3 litres, is C\$4.72 – normalized into 4 litres is **C\$6.28.**

Cost for 4 litres in most of Canada is about **C\$4.30**

Australia

- Deregulated all dairy in 2001.
- Dairy industry quickly stagnated after. Produced more than 12 billion litres in 2001 – in 2017 will produce less than 9 billion even though there are now millions more Australians than 16 years ago.
- Exports less now than it did in 2001 as they are being cut out of the cutthroat international market.
- Murray Goulburn, oldest farmer cooperative in Aus, sold in Oct 2017 to Canada's Saputo. Threw in the towel – couldn't make go of it.
- Farmer who headed the de-regulation negotiations, Pat Rowley, told me that it had all been one huge mistake, but that they had had no option – John Howard government and its commitment to neoliberalism.



Price in Australia

- Supermarkets are the de facto regulators and are focused on their bottom lines. They have driven down the price paid to farmers to the uneconomic point of \$1/litre. Dairy farmers are leaving the industry in droves.
- “We farm on the margins.”
- A consumer backlash against low prices. Consumers are paying higher prices for milk to help beleaguered farmers.
- Australian consumers are generally on the same page as a NZ dairy farmer who said “the Australian dairy industry is almost stuffed because of [these low prices].”



United States

- As we all know, US is committed and dedicated to free trade. (Cue laughter.)
- Agriculture is heavily subsidized – for example, US\$2 billion annually in subsidies for dairy manure remediation alone.
- Last Farm Bill passed in Feb 2014 promised US\$1 *trillion* over next 10 years. Dairy will get some of this.
- Issue is that US is producing far too much milk. CNBC noted in Sept 2017 that: “There's a domestic dairy glut that's so bad it's led some American farmers to spill milk.”
- 2016 – 43 million gallons 2017 – 76 million gallons (so far.)



US and dairy exports

Not such an easy road. Exports now represent about 14% of US milk production, down from 19% back in 2013-14. (USDA)

US production continues to increase, 2-3% per year as big dairies pump out product, literally.



US price

US Milk Prices, January 2017, normalized for 4 litres and using the current current exchange rate

- Midwest region – US\$2.52 = C\$3.38 normalized for 4 litres is **C\$3.56**
- Mid-Atlantic region – US\$3.61 = C\$4.84 normalized for 4 litres is **C\$5.08**
- Northeast region – US\$ = C\$4.84 normalized for 4 litres is **C\$5.08**
- West region – US\$3.42 = C\$4.58 normalized for 4 litres is **C\$4.84**
- South region – US\$3.57 = C\$4.78 normalized for 4 litres is **C\$5.04**

Source: US Bureau of Labor Statistics. Average retail food and energy prices, US city average and ... region

In every region but for the Midwest, milk prices are cheaper in Canada than in the *US as calculated by the US Bureau of Labor*. And if prices in US supermarkets are cheaper than in Canada, it is the farmer that takes the hit, not the supermarket. Think about that the next time you shop at the Bellingham Costco or the Buffalo Walmart.

To conclude ...

- We in Canada have sorted out the system we want for dairy – SM.
- Certainly, we could adopt the US system and would then be supplied by US producers, too. Canadian dairy would soon be overwhelmed and disappear.
- There would be a regulator of some kind even if SM disappeared, probably supermarkets, who look after their bottom line. Loblaw's? That would not be good for Canada's dairy farmers. 0.76% stocking charge?
- To maintain a viable industry and rural sustainability, producers need sustainable prices which other dairy systems do not provide.



Supply management protects our farmers from rapacious and unfair competition

- Further, with only 7% of total global production up for grabs through exports, they are not a panacea for what ails the global dairy industry.
- The Americans are discovering this which is why they are so intent on moving into Canada's market through the NAFTA renegotiation. There is nowhere else given the intense international competition through subsidized, or cheaper, product. Our market represents profitability to their industry.
- And finally, if you think milk prices would come down with a tsunami of US milk surging across the border, I urge you to reconsider – remember the US Bureau of Labor numbers? That would be our lot. No more need for the border Costcos to use milk as a loss leader.



Thank You



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