

Supply management under fire

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The invisible hand is strangling the market to death...

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In August, the British Columbia-based Fraser Institute launched another missile in their anti-supply management campaign, once again aimed at Canada's dairy sector. The second in less than a year, it was perhaps fueled by the fact that the Dairy Farmers of Canada had the temerity to question Revenue Canada concerning the appropriateness of the Fraser Institute's charitable-tax status (which supports their fundraising) after release of the first report.

In it, the Fraser institute again alleged that Canadians pay more for dairy products than do American consumers and that milk policies in Canada are costing consumers money.

With 13 research divisions (from "Economic Freedom" to "Trade and Globalization"), 9 senior research staff, 5 administrative staff and a 47-member board of trustees, you would expect Canada's (self-billed) "leading public policy research organization" would know the difference between a niche and a mainstream market, wouldn't you? I would...

So too would the Dairy Farmers of Canada, who quickly pointed out that the Fraser Institute's allegation of higher Canadian retail prices was based on a one-litre container of "full-fat" milk, that Canadians overwhelmingly purchase 2% milk, mostly in 4-litre units, and that DFC market surveys consistently found this and most other retail dairy products lower-priced in Canada than in the United States.

Most independent studies agree. In 1999, an AC Nielsen market basket survey of dairy products found prices in Canada were 17% less than in the United States. The Fraser Institute's own report found butter, cheddar cheese and processed cheese prices — in fact all products sampled *other than* one litre full-fat milk — to be lower in Canada than in the U.S. In 2001, The International Farm Comparison Network studying farm and retail prices for milk and butter in North and South America and Europe found Canadian retail prices to be lower than U.S. retail prices despite the fact that Canadian producers receive more at farm-gate.

This is not surprising to Canadians. Higher Canadian farm gate milk prices reflect the relative success of Canadian dairy farmers at capturing a fair share of the consumer dollar compared with their US counterparts. Instead of criticizing, Dr. William Stanbury, author of the report, should be applauding.

When estimates of total consumer and taxpayer support to milk producers in Canada and the US are compared for the period 1998 to 2000, they are virtually identical: 58% and 55% of total gross farm gate receipts respectively. Producer support to milk producers throughout all OECD member nations also averaged 58% during the same period. (Agricultural Policies in OECD Countries, OECD. 2001.)

And while comparing OECD producer support estimates between Canada and the United States is revealing, both likely overstate considerably the magnitude of transfer to dairy producers. In a comprehensive and independent report on the subject produced last year, University of Laval

economists found OECD reliance on New Zealand fluid milk prices in the calculation of producer support estimates for dairy “has the effect of overvaluing the transfer from consumers and taxpayers to milk producers... [and] is therefore not an adequate measurement of that transfer... given the wide resource to PSE both at home and internationally, it would appear to be a good idea if Canada’s dairy sector were able to identify where the limitations lie...”

The Fraser Institute’s own data shows American prices have increased by 33% over the last 5 years while Canadian prices have risen by only 10%. Much of this “margin capture” by the processing, packaging, distribution and retail sectors is attributable to increased economic concentration in the marketplace post farm-gate. Margin analysis by the Dairy Farmers of Canada supports this: the spread between farm-gate and retail milk prices in the US jumped by 30% over the past decade. In Canada, this increase was less than 10%.

Which is not to say that Canadian dairy farmers have anything to feel complacent about, indeed they are appropriately wary.

Prepare for globalization, get bigger and we will all prosper was the battle cry of the 1990’s. Suddenly, Canadian dairies that were once run by and for area farmers are owned by two multinationals. Keeping one eye on the processors and the other on the regulators, Canadian dairy farmers shake their heads at how things could have come to this in such short order and fear for their quota investment. Parmalat and Saputo may be “internationally competitive” but in the local markets, where it counts (and hurts), they are oligopolists (bullies).

There just ain’t no competition. And that hurts the public interest.

The Fraser Institute’s report concludes: “Canada’s dairy policy is an example of the ‘logic of collective inaction’ under which the well organized few can exploit the dispersed many by persuading government to create the appropriate policies.”

Horsefeathers. Sounds more like the Fraser Institute’s mantra to me....

Without strong supply management legislation, the market power acquired through barriers to entry and structural impediments to competition (not the least of which is retail concentration) will allow the multinationals now in firm control of Canada’s dairies to reach into the pockets of Canada’s farmers and steal tomorrow.

At the bottom of every page of the Fraser Institute’s website is an advertisement for Adam Smith ties. Designed especially for the Fraser Institute - so much the better to recognize you by, my dear – they honour a long dead economist who never intended his theory of competitive markets to be so shanghai’d by the powerful interests of concentrated capital.

The invisible hand (once the impartial arbitrator of Adam Smith’s world of perfect competition; since co-opted by economic concentration to do the bidding of the elite) is strangling the market to death.

SIGN FROM THE DAIRY BARN OF ACTON KILBY, AGASSIZ, BC: *NOTICE TO THE HELP: The rule to be observed in this stable at all times, toward the cattle young and old, is that of patience and kindness. A man’s usefulness in a herd ceases at once when he loses his temper and bestows rough usage. Men must be patient. Cattle are not reasoning beings. Remember that this is the Home of Mothers. Treat each cow as a Mother should be treated. The giving of milk is a function of Motherhood; rough treatment lessens the flow. That injures me as well as the cow. Always keep these ideas in mind in dealing with my cattle.* (Courtesy John Green, Pres, Kilby Museum Historical Society).

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