Stop lying to Canadians on supply management: a response to the Martha Hall Findlay report

By Maurice Doyon[1]

Supply management has been part of Canadian agricultural policies since the 1970's. It is a system that has quite evolved over the years, and improvement is still needed. I more than welcome discussions on supply management—I have myself been quite critical of this system over the years (Doyon 2011). It is therefore with great interest that I have started reading the Martha Hall Findlay (MHF) report.

Unfortunately, I found MHF's report misguided and not fact based. I must confess that after one minute into the report I found a major mistake. This does not help in terms of the credibility of the report. MHF indicates that the price of 4 liters of whole milk in Canada is almost three times more expensive than in the US. In fact, she found that Canadians were paying almost $10 for 4 litres of whole milk. One wonders where MHF buys her milk. She made the rooky mistake of multiplying the price of a 1 litre of whole milk by 4 to get her prices. Then, she compared it with a US gallon of milk. This amounts to taking the price of a beer in a pub, say $5, and multiplying it by 24 to get the price of a case of beer. In this case, $120, is quite an outrageous price, isn't it? Moreover, why use whole milk, which represents less than 15% of the milk consumed in Canada? Two percent fat milk represents roughly 50% of what Canadians drink and the pricing of this milk is different in the US than in Canada at the retail level. This would have been a more useful comparison. The government of Canada publishes detailed statistics on the price of milk by cities[2]; MHF could have found that in 2011, on average, the price for 4 litres of milk in Canada ranged between $4.45 in Regina and $6.95 in Charlottetown, for a city mathematical average of roughly $5.20. These large price variations for the same milk in Canada indicate that things other than supply management impact retail prices; for instance it reflects the impact of retailers' market position or their market power.

Beside the major price mistake, MHF failed to address the real issues such as: what would happen if we were to dismantle supply management? What should we replace it with? More importantly, will the alternative be better for consumers, taxpayers, processors and producers? Deregulation does not always bring benefits, especially in the long run. As an illustration, the deregulation of the banking system in the US is at the root of the recent financial crisis, as opposed to the heavily regulated one in Canada that is now our pride.

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[2] 1 http://www.infolait.gc.ca/pdf/retail_prices_skim4l_f.pdf

It is naïve to think that all will be fine after removing an important piece of regulation such as supply management, especially given the important market power of retailers in Canada2[3]. One must know that the US dairy policies imply major interventions from the government, are quite regulated and might soon include some type of supply control. It should also be noted that in its 2004 bilateral trade agreement with Australia (USAFTA), the US negotiated exemptions for its dairy sector. New Zealand seems to be the example to follow, according to MHF. However, she failed to mention that the cooperative Fonterra, which is a quasi monopoly and a quasi monopsony, is not the result of market forces. Fonterra was created under the pressure of the New Zealand government with, as a reward, the assets of the former single desk institution. Fonterra is a cooperative owned by farmers, it is therefore almost completely horizontally and vertically integrated—this is far from a free market type of situation. In fact, in August 2011, the Commerce Committee of the New Zealand Parliament announced a milk price inquiry following numerous reports that New Zealanders were paying too much for their milk. In spring 2011, New Zealand consumers were paying a price similar to the one in Montreal for 2 litres of 2% fat milk (Doyon 2011). Although MHF described the New Zealand dairy industry, she did not recognize its non competitive nature in a report that seems to be an Ode to free markets.

Another important issue that MHF seems to misunderstand is the trade implication of supply management. Mussell (2012) coined perfectly this issue «First, it really makes no sense to assert that supply management must be dismantled for Canada to enter TPP» (p.6). Mussell explains why in the TPP our potential trading partners do not care much about the presence of supply management but care about their market access, currently limited by high tariffs. These issues do not equate to the dismantling of supply management. In a very pragmatic approach, Mussell writes «Dismantling supply management is not the relevant dialogue regarding Canada's involvement in TPP. The relevant dialogue relates to how and to what extent Canada can or should be willing to reduce trade barriers in supply managed products, given the totality of Canadian interests in the TPP» (p.8). It is no surprise that Canada was invited in the TPP negotiations. Canada is rich in natural resources, politically stable and economically fit. We certainly have a lot to gain from TPP, but we also have a lot to offer. Canada is likely in a strong position to negotiate and, has proven in the past, it is in a position to keep supply managed sectors out of the TPP negotiations. This does not mean that all is good with supply management, but I would strongly argue that not all is bad and advise against dismantling this system, given that at its base it allows to correct for market constraints or imperfections that plagued numerous agricultural sectors. The New Zealanders have Fonterra, we have supply management.

References

Doyon, M. Canada's Dairy Supply Management : Comprehensive Review and Outlook for the Future. Série Discussion CIRANO 2011 DT-01, Montréal 2011.

Mussel, Al. Does Canada Need to Dismantle Supply Management in the Trans-Pacific Partnership? Special Report, George Morris Centre, 2012

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[3] According to CIBC World Markets, Estimated 2010 Food Sales, Loblaws, Sobeys and Metro accounted for roughly 70% of Food sales in Canada in 2010