Intelligence MEMOS

From: Lawrence Herman

To: Trade Watchers

Date: December 2, 2024

Re: **Shooting Ourselves in the Trade Foot**

Just when the Americans have elected an aggressive president and just before the Canada-US-Mexico Agreement (the old NAFTA) is due for re-negotiation, the Liberal government, with all-party agreement, supports an egregiously protectionist piece of legislation that will only make Canada's political problems with the Trump administration that much worse.

As a self-inflicted injury, little surpasses Bill C-282, a Bloc Québécois member's private bill that sailed through the House of Commons last year. The bill, helped along by the well-financed dairy lobby, would embed Canada's supply management system in law, prohibiting any trade agreement from allowing as much as one additional gram of imports of dairy products, eggs or poultry, all of which are protected under our Soviet-style system.

In its exercise of sober second thought, however, the relevant Senate committee made changes that eliminated the Bill C-282's protectionist provisions – though whether the full Senate will agree to them is doubtful. The Trudeau government, go figure, continues to support the original bill.

This sorry episode has at least turned the spotlight on supply management and the many inequities and inherent conflicts of interest pervading it.

Supply management began back in the 1970s when Eugene Whelan was Canada's agriculture minister. Whatever justification may have existed back then for protecting producers from market exigencies has long passed. Supply management is an outdated aberration that makes Canada an outlier, offside our major allies and trading partners.

The name says it all: it's a system that "manages" the supply of dairy, poultry and eggs, guaranteeing prices paid to those producers. What other industry in Canada (or any other western market economy) operates under a such a system? As Senate committee testimony made clear, and voices such as Martha Hall Findlay have long **argued**, supply management protects a small number of producers at the expense of tens of millions of consumers and the agricultural sector as a whole.

There were a little over **9,400** dairy farms in Canada in 2022. Compare that with 40,000 canola farmers, 60,000 beef farmers and almost 200,000 grain farmers, none of whom get this kind of state-sponsored guarantee. No wonder western Canadian agriculture producers have nothing good to say about the eastern dairy, egg and poultry sectors and their protective cloak of supply management.

Shielded from public attention, successive federal governments have constructed a complex supply management bureaucracy, consisting of federal and provincial agencies, several more sub-agencies and a virtually impenetrable decision-making structure. Several years back, when the Competition Bureau investigated and exposed how major supermarkets were conspiring to fix bread prices, there was public outrage. Yet when it comes to our milk price bureaucracy that works behind closed doors, all is calm. The trouble is the public is unaware of how the system really works. Here's a sampler:

In the case of dairy products, the Canadian Dairy Commission (CDC) runs the business in collaboration with milk marketing boards in every province. It administers the "national pricing formula," setting the farm-gate price, which is determined by the dairy industry itself. Producers in other sectors of the economy would love to operate under arrangements that allowed them to set prices so they recover their costs and make a profit.

The CDC's board is made up of only three people: Chair, chief executive and commissioner, all appointed by Ottawa, which means a select group of insiders runs the system. The current chair is a dairy farmer, while the commissioner is simultaneously head of a private company that supports the dairy industry. Together with the CEO, they are in charge of the CDC bureaucracy, which is made up of dozens of employees. The CDC's all-important Canadian Milk Supply Management Committee – a group unknown to the public – is the key body.

This bureaucracy sets Canada's maximum allowable milk production and, through provincial boards, parcels out production allowances to a select group of farmers. Quite apart from the potential conflicts in such a system and the artificial inflation of quota values, what could be more Soviet?

To sustain the high prices that legal supply restrictions create, the federal government has to restrict inflows from other countries – severely. That complicates our trade relations with the US and other countries, like New Zealand, that would like to sell us dairy products. Our non-cooperation in this sector leads them not to co-operate with us in sectors, such as canola, grain and beef, where our farmers stand ready to export more as soon as foreign markets can be pried open. But, thanks to the vast, complex, non-transparent and potentially conflict-ridden supply management system that serves to protect just a few thousand farmers, their exports are blocked while Canadian consumers pay higher prices than they need to for milk, cheese, eggs and chicken.

If US pressure is the only way we'll unwind this system, well, so be it.

Lawrence Herman, a former Canadian diplomat, is counsel at Herman & Associates and senior fellow of the C.D. Howe Institute in Toronto.

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