Intelligence MEMOS

From: Daniel Schwanen

To: Chrystia Freeland, Minister of Global Affairs

Date: April 17, 2018

Re: NAFTA: Butter's Last Stand?

Canadians are accustomed to paying more for milk and dairy products than consumers, bakers or restaurateurs in other countries. Canadian prices are kept high under a government- supported cartel, called supply management, which sets the price of milk at levels that amply cover even less efficient farmers' costs, and then ordains that no one can sell below that price. Such restrictions encompass enormous tariffs at the Canadian border, meant to shut out dairy imports above a set, tiny amount.

This system has kept Canadian milk prices at between 15 percent and 133 percent above equivalent US prices for all but a very short period in the past 15 years. This difference typically costs Canadian families hundreds of dollars per year: an authoritative 2011 study, for example, documented prices in Toronto for milk, cheddar cheese, butter and yogurt that were between 50 percent and 120 percent higher in Toronto than in nearby upstate New York. According to the OECD, Canadians subsidized dairy farmers to the tune of 44 percent of the value of the value of milk production in 2016, compared with 13 percent and 5 percent support accorded to US and European Union dairy farmers respectively.

Most Canadians who have spent time outside big cities likely understand the importance of thriving rural communities to the fabric of this country. However, forcing Canadians to surreptitiously pay more than they should for farm products hurts the broader economy. The European Union, he United States and others have found ways to support their dairy farmers in ways that do not shut out competitive products from other jurisdictions. As a result, residents and small business owners in these other economies do not pay the heavy price that Canadians pay in terms of food costs and lost business opportunities in world markets.

For make no mistake, this system is preventing Canada's other industries, and indeed Canada's own dairy industry, from earning good incomes from exports. Because Canada so egregiously closes its own market, WTO rules prevent it from participating in the booming world market for dairy products. And as we have seen in the CETA, the TPP and other trade negotiations, Canada's insistence on preserving supply management means a price to be paid at the negotiating table, in terms of more open access to export markets for other Canadian industries.

The NAFTA renegotiations seem to have entered a more hopeful phase, but there is little doubt that Canada and Mexico will still have to yield on some of their negotiating objectives in order to persuade the US side to give up on some of its more costly demands. One of the most sensible things Canada could propose to help preserve Canadians producers' access to the US market, while modernizing the agreement to take new and emerging technologies, sectors and occupations into account, would be the removal of our own barriers to trade and investment.

In this light, Canada should stop sacrificing the welfare of middle-class and less well-off families and the future of high-paying export sectors, for the sake of protecting Canada's dairy farmers from competition. With so much at stake in NAFTA renegotiations, it is time to find less trade-killing ways of supporting our dairy farmers.

Daniel Schwanen is Vice-President Research at the C.D. Howe Institute.

To send a comment or leave feedback, email us at blog@cdhowe.org.