

Intelligence MEMOS



From: Sylvain Charlebois
To: Canadians Worried About Inflation
Date: February 3, 2022
Re: CANADA'S DAIRY MACHINERY STRIKES AGAIN

The Canadian Dairy Commission's record-breaking price increases for milk and butter took effect this week, granting dairy farmers 8.4 percent more for their milk, and more than 12 percent for butter.

It is the highest increase since the commission was created in 1967. For consumers, this is certainly not great news. Milk, butter and yogurt prices will likely skyrocket.

Canadian milk was already the most expensive in the world, has been for many years. The Canadian Dairy Commission, or CDC, is the centrepiece of our supply management system for milk products. In Canada, we produce what we need, and dairy farmers get a fair price for their work. Sounds reasonable.

Only a privileged few can produce milk in Canada, making milk itself almost a public good. Most people are willing to pay extra for good Canadian milk and dairy products. Even without supply management and our quota system, milk prices would likely still be high, perhaps even higher, but it is sensible to believe Canadians still want domestic quality.

But recently Canadians have seen that quality may not always be there. "Buttergate," which shone light on the practice of feeding cows with palmitate, a palm oil derivative coming from other parts of the world, affecting our butter's hardness, made many Canadians scratch their heads. Why would we import an ingredient from abroad to produce butterfat when the Blue Cow brand is all about local, thus compromising quality?

The Dairy Farmers of Canada banned the practice in the spring and created a working group to investigate the matter. Its [report](#), released late last month, did not set any specific strategy for better quality assurance practices the industry, instead recommending further study and consultation.

Raising farm gate prices so farmers can make a decent living is not really the issue. What's problematic is the way the CDC does it.

The Crown corporation, owned by all Canadians, is controlled by three people, all with dairy connections. Processors, retailers and, most importantly, consumers, are not represented. To be clear, the 72 people working for the CDC in Ottawa are working for the Canadian public, not dairy farmers. We set dairy prices, not farmers themselves as supply management is a regime owned by all Canadians.

However, 91 percent of Canadians don't even know the CDC exists or how it operates, even though its decisions affect the lives of most Canadians. Again, the CDC has not shown any interest in being transparent and forthcoming with information. The CDC's press release about the price hikes, dropped late on a November Friday in a posting that was never shared further by the Crown corporation. (Tellingly, the CDC website contains no news releases since a pair were issued in 2018.)

Another concern is the CDC's methodology. It produced an elementary seven-page report last month, no longer available on its website, explaining its increase calculations. Raw data was not provided, and there is no indication of competent outside validation of the pricing formula.

From what we know, all the data are self-reported by a group of randomly selected dairy farmers, so reports state. The sophistication of these reports barely meets the work of a young university student at best. Each has identical wording, every year, with a few exceptions. Numbers do change, but that would be the extent of it. Meanwhile, the commission rejected our Access to Information request for the pricing rationale in a hasty-seeming letter dotted with typographical errors.

Higher milk prices won't be good news for consumers, but it won't be good for the dairy industry either. With this decision, we're expecting more illegal milk from the United States to enter the Canadian market, as was the case a few years ago with diafiltered milk. Goat milk and other alternatives on the market will become more financially attractive as prices for milk and dairy products continue to rise. But dairy farmers won't care. Most will cash out and exit the industry while others continue to do well under a regime that guarantees their revenue.

Great for them, but we're on pace to lose half of our dairy farms in Canada by 2030. We could have fewer than 5,000 farms within the next decade. If that's what Canadians want, fine. But if we want to really help our dairy industry, a good starting point would be to reform the CDC and address its questionable governance and opaque processes.

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A version of this Memo first [appeared](#) in The Globe and Mail last November and has been revised to include the release of the Dairy Farmers of Canada report.