Empowering Farmers

The Canadian Supply Management Experience

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Hello, everyone. I am David Fuller, Chairman of Chicken Farmers of Canada. I am here with Mr. Bruce Saunders, First Vice-President of Dairy Farmers of Canada. We are here representing the over 23,000 producers which operate under supply management in Canada. I would like to begin by thanking you for the opportunity to present the Canadian supply management experience.

Over the past 30 years, five commodities in Canada have elected to implement a supply management marketing structure. For the dairy, poultry and egg producers, supply management has proven an effective tool in the growth and development of our industries.

This presentation is broken into 2 sections. I will begin by explaining the fundamentals of supply management. My colleague, Mr. Saunders, will follow and use an example taken from the dairy industry to demonstrate how supply management works in practice to empower primary producers.

Economic Snapshot of the Canadian Supply Managed Industries

Canadian supply managed industries:

- **Add a net $12.3 billion to the GDP**
- **Support $39 billion of economic activity**
- **Sustain more than 214,400 jobs:**
  - **On-farm: 75,100**
  - **Farm suppliers: 47,900**
  - **Processing sector: 91,400**
  -

1 out of 5 jobs in Canada's food industry

Before getting into the fundamentals, I would like to provide you with a snapshot of why supply management is so important to Canada. Two recent economic impact analysis studies, one on the Canadian Dairy Industry1 and another on the Canadian Poultry and Eggs2 industries, provide powerful economic arguments in support of the maintenance of supply management in Canada.

The contribution of the Canadian supply management industries is impressive as it adds a net $12.3 billion to the GDP, sustains more than $39 billion of economic activity, and over 214,400 jobs in Canada.

1 Dairy Economic Impact Study, Dr. Maurice Doyon, Laval University; based on 2002 data
2 Poultry and Eggs Economic Impact Stud, George Morris Centre; based on 2003 data

Economic Snapshot of the Canadian Supply Managed Industries

- **Dairy, poultry and egg sales: $6.7 billion**

- **Processed dairy, poultry and egg products sales: $15.0 billion**

Sales are also significant with milk, poultry, and egg sales of approximately $6.7 billion and sales of processed dairy, poultry and egg products of approximately $15 billion.

Fundamentals of Supply Management

Why Supply Management?

- **Supply management addresses:**
  - **Market volatility**
  - **Market concentration**
    - **Multitude of farmers**
    - **Few buyers**

Agriculture products are characterized by strong market fluctuations. In order to minimize those fluctuations, we felt it was essential to organize ourselves collectively in an effort to stabilize the production level in order to reduce price fluctuations.

The creation of this collective organization to market our products also ensured that all farmers would receive the same price for similar products. Therefore, farmers grouped their supply through a collective marketing channel giving them a stronger negotiating power when selling production of a multitude of farmers to a small group of buyers.

Supply Management Objectives

1) **Balance supply with demand**

2) **Balance the negotiating power between stakeholders to obtain fair prices for the producer**

3) **Ensure that consumers have access to adequate supplies of high quality products**

The Canadian supply managed industries pursue 3 fundamental objectives. Milk, poultry and eggs producers seek to match their production with the demand for their respective commodities. This is done through consultations and negotiation with other stakeholders. Production controls discourage production surplus. Collective negotiation allows producers to reduce the distortion in market power caused by the concentration at the retailer and processor levels. The goal is to negotiate prices and supply levels that give farmers a fair return for their labor while ensuring that consumers consistently have access to adequate supplies of high quality food.

Supply Managed Commodities

- **Dairy**
- **Chicken**
- **Eggs**
- **Turkey**
- **Broiler Hatching Eggs**

The five supply management groups are: dairy, egg, turkey, chicken and broiler hatching eggs. We each have associations at both the provincial level and national level which co-ordinate the operations within our respective industries. The organizations are financed by producers and are mandated to uphold the producers' interests.

Once the production levels required have been determined, these organizations administer the national allocation system, which is a quota based system. The national allocation system has enforceable production controls which avoids surplus production.

Supply Management Objectives

Operates under proper legislation:

- **National Farm Products Council**
  - **Poultry and Eggs**
- **Canadian Dairy Commission**
  - **Dairy**

It should be understood that without a proper legislative framework, the system could not function efficiently.

All five Canadian supply management industries operate under a proper regulatory framework: the National Farm Products Council (NFPC) supervises the poultry and eggs sectors. The dairy industry is also supervised by the Canadian Dairy Commission which is responsible for providing efficient producers of milk and cream with the opportunity to obtain a fair return for their labor and investment while providing consumers of dairy products with a continuous and adequate supply of high quality dairy products.

Fundamentals of Supply Management

Pillars of Supply Management

Depends on three pillars:

1. **Import controls**
2. **Producer pricing**
3. **Production discipline**

All equally important

The effectiveness of the Canadian supply managed industries depends on three pillars:

Import controls: import control measures allow domestic production to be planned to meet Canadian demand by limiting imports to the level of access agreed to at the World Trade Organisation. The level of access is equivalent to the size of tariff-rate quotas, and over-quota tariffs limit imports beyond this threshold.

Producer pricing mechanisms (or collective marketing): this provides the farmers with the opportunity to obtain fair market returns. The right to collective action allows producers to counterbalance the much stronger market power of other agri-food chain players.

Production planning: it allows supply and demand to be balanced, thereby promoting price and market stability.

These three pillars are equally necessary and equally important for the system to function. Also essential is a proper legislative framework that ensures all producers participate in the system. Without a proper legislative framework, the system could not function efficiently.

Myths and Realities of Supply Management

Myth:

Supply Management Blocks Imports and Limits Consumer Choice

Reality

Canada's market access exceeds commitments offered by many other countries:

Canada:	**5% eggs and turkey, 7.5% chicken**
E.U.:	**0.5% poultry**

I would like to end my section of this presentation by addressing two of the most common myths about supply management. The first misconception about supply managed industries is that they block imports and limit the selection of products available to consumers.

The reality is that under supply management, Canada provides as much access to its market and in some cases even more than other countries. Canada currently imports about 4% of the market for dairy products consumed in Canada and 7.5% for chicken. Canada gives import access of 5% for eggs and turkey and 21% for hatching. In contrast, the United States gives 2.75% access for dairy products, and Europe provides only .5% for poultry.

Myths and Realities of Supply Management

Myth

Supply Management Industries are static

Reality

The system is *responsive* and *sensitive* to market demand.

It is *dynamic* and *evolving* ensuring adequate supplies of high quality products.

A second common myth is that supply managed industries are static.

The reality is that while prices remain stable for Canadian producers, production rates are regularly adjusted to meet market demand. In times of unforeseen crisis, such as the Avian Flu which affected a large portion of Canadian poultry industry, the Canadian government can meet the demand by issuing supplementary import permits to make up the difference until the industry can recover.

This also means that stable prices does not equates to guaranteed income at the end of the year.

I will now turn the podium over to my colleague, Bruce Saunders, who will use a dairy example to illustrate the Canadian experience of supply management.

The Canadian Experience:
<u>A Dairy Example</u>

- **Increased market concentration not unique to Canada's supply management industries**
- **Demonstrates the benefits of supply management**

In the Canadian experience of increased market concentration, supply management has given dairy, chicken and egg producers effective mechanisms to counteract the stronger market power in other sectors of the food marketing chain. As the Canadian experience shows, when primary producers have collective power in the marketplace, it allows for a balance between stakeholders to be achieved, ensuring that market power is not exercised at the producer's expense.

An overview the dairy marketing chain is used to illustrate the phenomena of market concentration. This situation is not unique to the dairy industry in Canada. Producer organizations such as The International Federation of Agricultural Producers (IFAP) are also concerned by this phenomenon and brought this question to the forefront last June, at the time of 36Th World Farmers Congress.

The Canadian Experience: A Dairy Example

Marketing Chain – Milk

Farm level

17,000 dairy farms

Processing level

- **3 largest dairy processors have 70% of sales of approximately $11 billion**

Retail level

Largest retail chain has 35% of sales
Top 10 have 90% of sales

Increasing market concentration as one moves through the marketing chain is evident.

At the farm level:
In 2003, total net farm cash receipts from 17,000 dairy farms generated approximately $4.5 billion.

At the processing level:
During the same period, dairy products shipped from approximately 444 dairy processing plants (278 federally inspected) were valued at more approximately $11 billion.
The 3 largest dairy processors currently have more than 70% of sales of dairy products. (Saputo, Parmalat and Agropur).

Retail
A limited number of grocery chains now control the retail industry.
The Top 10 retailers have 90% of total retail sales. Loblaws has 35% (more than $20 B) of total retail sales.

There is significant concentration at the processing and retail levels of the marketing chain. Since the processing and retailing side of the market is controlled by a small number of companies, they have significant bargaining power compared to the individual farmer. In the absence of a regulatory framework that supports producers' ability to act together and counteract imbalances in market power, the ability to obtain their fair share of the consumer dollar could be lost, requiring the balance to be made up for in support payments from taxpayers' dollars.

Retail level
Largest retail chain has 35% of sales
Top 10 have 90% of sales

The Canadian Experience: A Dairy Example

The Canadian Paradox

- **Canadian dairy producers obtain higher prices compared to their US counterparts and yet all stakeholders (producers, consumers, processors) benefit**

A comparison between dairy industries in Canada and the United States is useful to illustrate how, although producers receive higher prices compared to their US counterparts, supply management benefits all stakeholders.

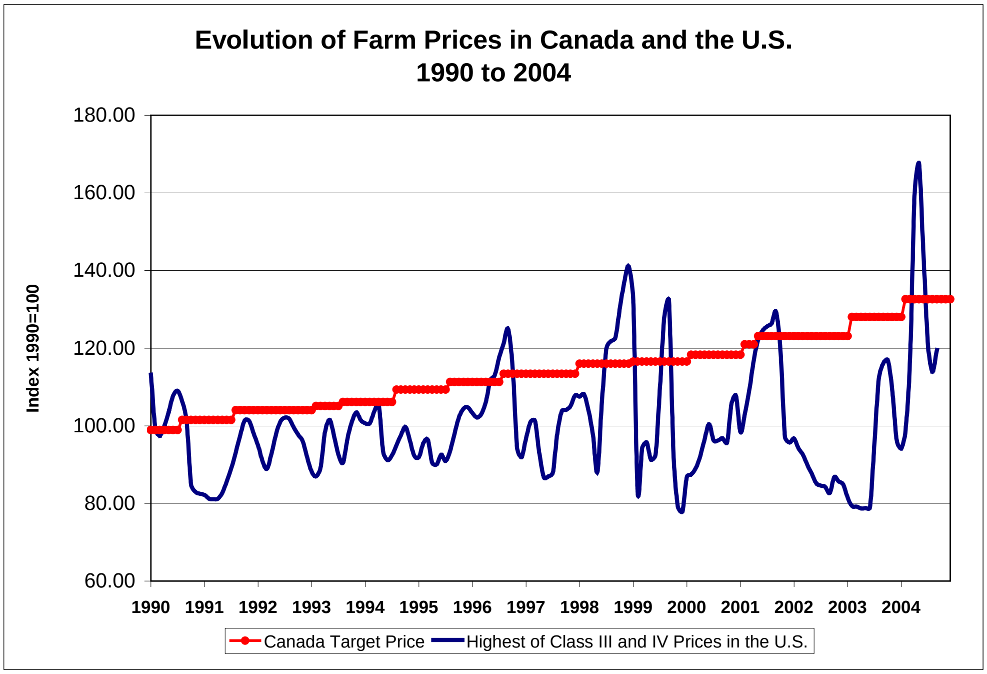
With supply management:

1. Producers obtain a decent income;
2. Canadian consumers get a great deal for high quality dairy products; and,
3. Processors earn profits (Saputo has posted over the years better results from its Canadian operation; Parmalat has decided to keep its most profitable operation based in Canada following the Parmalat scandal).

The next few graphs provide a comparison between Canada and the United States and demonstrate how supply management benefits all stakeholders.

The Canadian Experience: A Dairy Example

Benefits of Supply Management: Producer Price Stability



Canadian dairy producers enjoy the benefits of price stability as demonstrated in this graph.

Explanation of the graph: evolution of producer prices in Canada and the US over the period 1990-2004

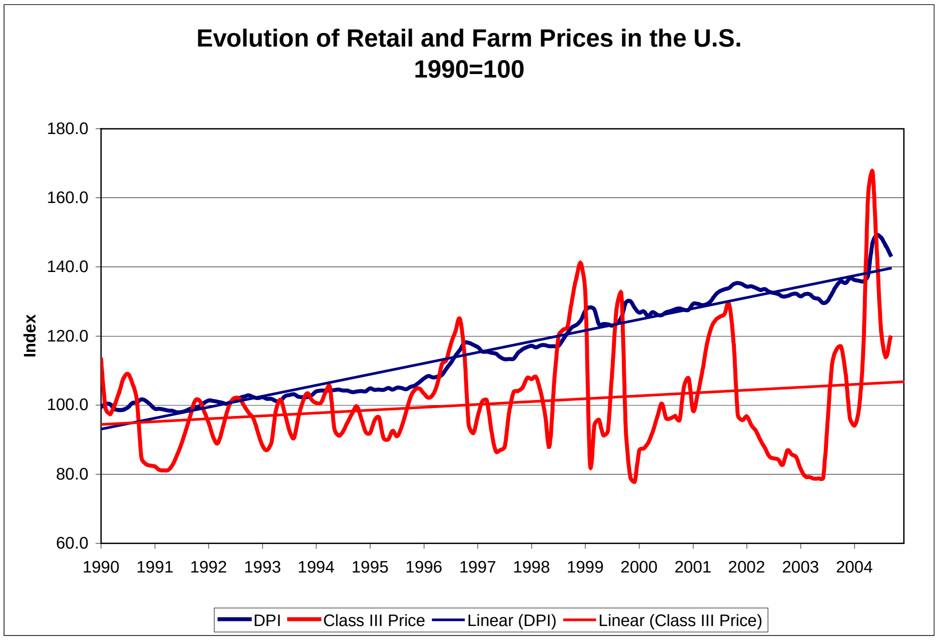
Red line: Canada – target price

Blue line: US – Highest of Class III (cheese) and Class IV (butter and powder)

Source: Class III and IV Price: USDA
Target price: Canadian Dairy Commission

The Canadian Experience: A Dairy Example

Price Instability in the U.S.



In the United States, retail prices are more stable than producer revenues. Since 1995 (the year when the so-called "Freedom to Farm" Bill was adopted), there have been wider fluctuations in farm prices that do not correspond with what happens to retail prices.

Retail prices have risen and have a tendency to remain high, while producer prices have been extremely volatile.

Most of the time, U.S. producers are receiving about 70% to 80% of what they got 10 years ago (in 1990) while retail prices are 30% higher than a decade ago. The recent rise in 2004 prices, like previous increases in producer prices, came to an abrupt end when the price for milk going into cheese fell by overt $US 6.00/ cwt (about $Cdn 20/hl) in a period of four months.

Explanation of the graph: evolution of producer prices and retail prices in the US over the period 1990-2004

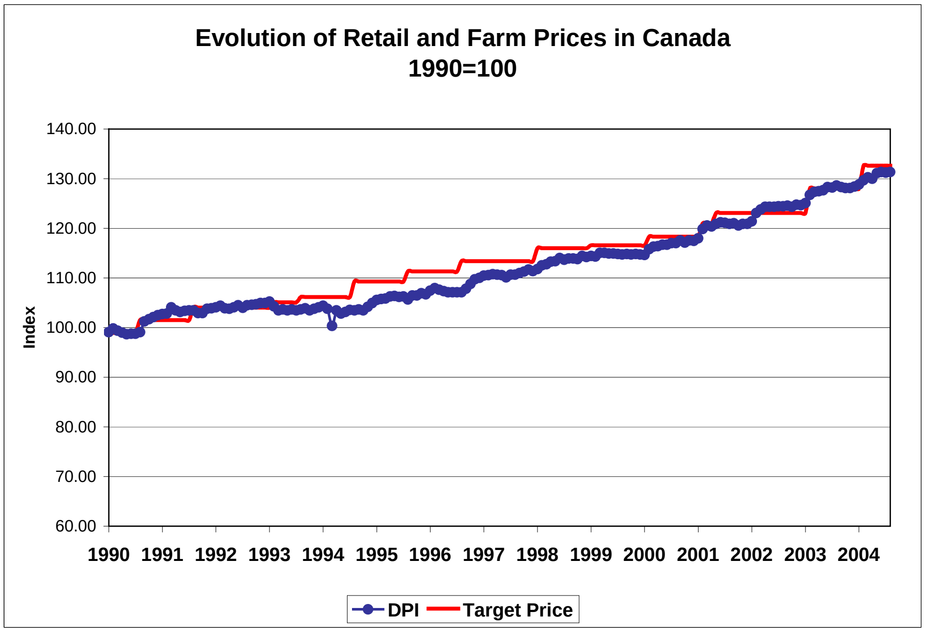
Red line: US – Highest of Class III (cheese) and Class IV (butter and powder) – Index

Blue line: US Dairy Product Price Index (DPI)

Source: DPI: Bureau of Labor Statistics
Class III and IV Price: USDA

The Canadian Experience: A Dairy Example

Benefits of Supply Management: Price Stability



In Canada, retail prices have remained in line with producer prices.

Explanation of the graph: evolution of producer prices and retail prices in Canada over the period 1990-2004

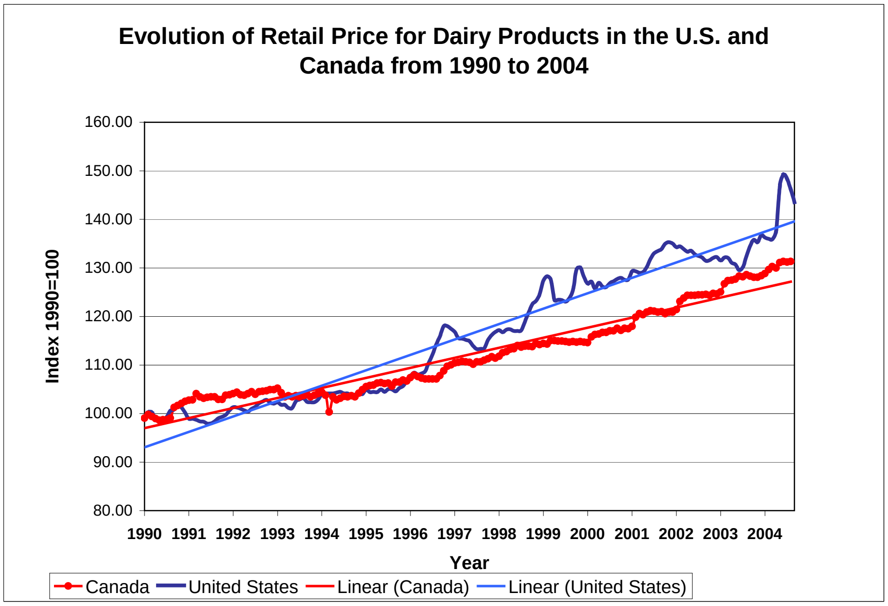
Red line: Canada – Target Price Index

Blue line: Canada - Dairy Product Price Index (DPI)

Source: DPI: Statistics Canada
Target Price: Canadian Dairy Commission

The Canadian Experience: A Dairy Example

Comparison of Canada-U.S. Retail Prices



The end result is that retail prices have increased at a much slower rate in Canada compared to the United States.

Explanation of the graph: evolution of retail prices in Canada and the United States over the period 1990-2004

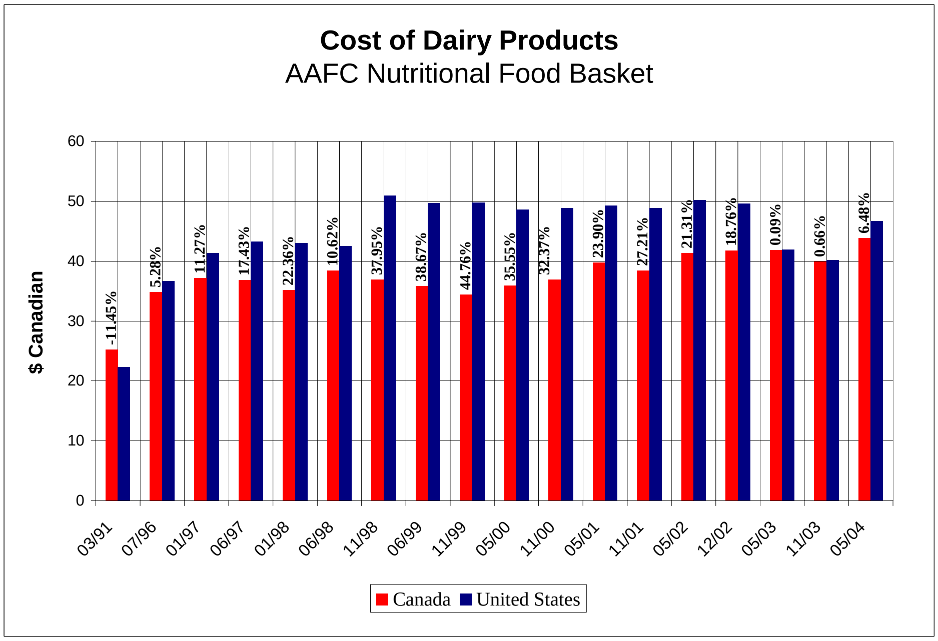
Red line: Canada - Dairy Product Price Index (DPI)

Blue line: United States - Dairy Product Price Index (DPI)

Source: Canada DPI: Statistics Canada
US DPI: Bureau of Labor Statistics

The Canadian Experience: A Dairy Example

Comparison of Canada-U.S. Retail Prices



This graph reconfirms that supply management benefits consumers, who benefit from a stable market while receiving high quality dairy products.

The most recent (May 2004) Dairy Farmers of Canada survey reveals that Canadian consumers pay 6.5% less for a nutritional basket of dairy products in Canada than for the same basket in the United States.

Since 1996, these surveys have shown that the price for a basket of dairy products in Canada is consistently lower than the price of that basket in the U.S. and the consumer price index for dairy products has risen less in Canada than in the U.S., as demonstrated in the previous graph.

Explanation of the graph: Comparison of the cost of a nutritional basket of dairy products in Canada and the United States over the period 1991-2004

Red bar (left): Canada

Blue bar (right): United States

Source: DFC Cross Border Surveys

The AAFC nutritious dairy basket is based on the Linda Robbins' study entitled. Comparison of the cost of a nutritious food basket in border cities in Canada and the united States." The nutritious food basket is composed of: 2 litres of fluid, milk 2%, 500 g of yogurt, 1 kg of cheddar cheese, 250 g of processed cheese, 340 g of mozzarella cheese, 1 kg of powdered skim milk, 385 ml of evaporated, milk and 2 litres of ice cream.

The Canadian Experience: A Dairy Example

No Cost to Government

Milk	US	Canada
Producer Prices	$15/cwt	$21/cwt
Government Payments1	$6/cwt	—
Total	$21/cwt	$21/cwt
1- Preliminary results, 2004 study by Grey, Clark & Shih All price in $US per cwt		

Supply management also benefits the Canadian taxpayers. Canadian taxpayers, unlike their American counterparts, only pay once for their dairy products, when they purchase them.

Conversely, Americans pay twice: first they pay a higher price at the grocery store, and secondly, they pay through their tax dollars which go to subsidize US dairy farmers.

Note: US and Canadian prices are current.

Trade Negotiations

WTO

recognizes the right of Canada to limit imports (through TRQs)

In trade negotiations, the recognition of the right to protect the Canadian domestic market using import control measures is a necessity for the supply management system to survive. For supply management to be effective, all three pillars must be maintained as the loss of one cripples the other two.

Since 1995, when the World Trade Organization was created, Canada’s rights and obligations allowing Canada to maintain tariff rate quotas (TRQs) have been clearly recognized in all bilateral agreements involving Canada.

The establishment of bilateral free trade zones has not been a real threat to supply management. The real threat to supply management is in fact coming from the WTO.

WTO – Impending Threat

Each Pillar Can Be Affected:

1 -	**Market Access**	⇨	**Import Controls**
2 -	**Domestic Support**	⇨	**Producer Pricing**
3 -	**Export Competition**	⇨	**Production Discipline**

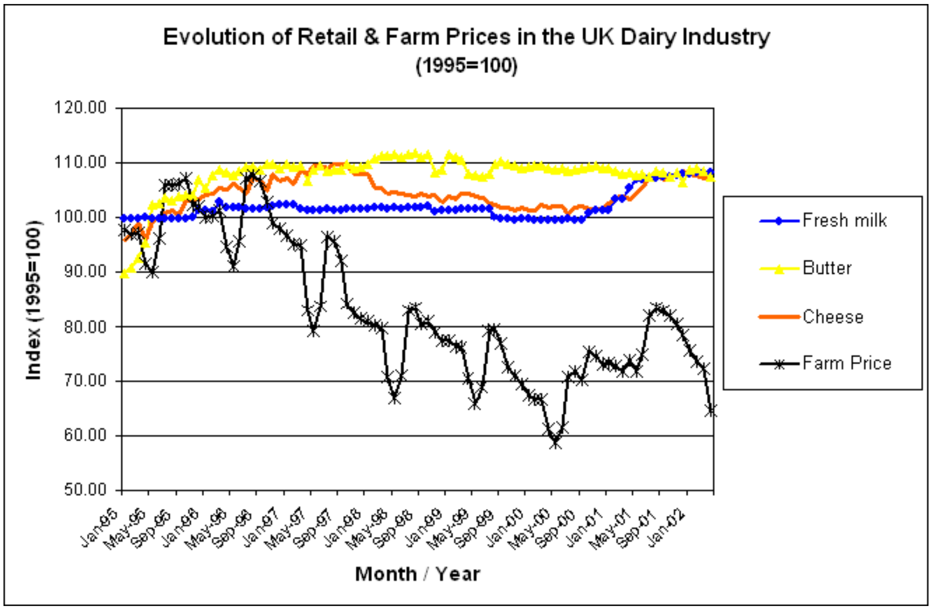
To put things quite simply, the WTO negotiations are focussing on three areas (known as the three pillars of the negotiations) and these three areas bring with them preoccupations for the maintenance of the three pillars of supply management:

1- the market access negotiations could impact import control measures;

2- the domestic support negotiations could impact our ability to retain our collective pricing mechanism; and,

3- we are already being impacted on export competition. The WTO Appellate Body has already forced us to plan our production in a much tighter manner. Future negotiations will result in increased pressure when export subsidies are fully eliminated.

The Canadian Experience: A Dairy Example
Is Deregulation The Way To Go?



And deregulation is definitely not the way we want to go. History has shown that deregulation is disastrous for farmers and that the benefits do not accrue to consumers, despite the claims by the proponents of free trade. This graph demonstrates that UK farmers have been the biggest losers from the deregulation and removal of the UK Dairy Board in the mid 1990s.

Concluding remarks

Supply Management Benefits at Stake

- **Producers' ability to get revenues from the market**
- **No cost to government**
- **Stable and reasonable prices for consumers**
- **Stable and steady supply for processors**
- **High quality products**

If we were to lose supply management, the Canadian society would lose a series of benefits:

Supply management provides:

- Producers with the ability to get a decent income from the market place;
- It doesn't cost a penny to the Canadian government;
- It provides stable and reasonable prices for consumers;
- It provides stable and steady supply for processors; and,
- High quality products.

Supply Management Benefits at Stake

- **Maintenance of family farms**
- **Benefits rural development and environmental sustainability**
- **Production discipline which prevents surplus production that distort both international and domestic markets**

- Supply management has also allowed the maintenance of family farms;
- Milk production in Canada is environmentally friendly and contributes to maintaining a strong rural Canada;
- And finally, by disciplining the level of production to match demand, supply management does not lead to over-production which would have to be exported on the highly distorted world market place. It also prevents surpluses from flooding the domestic market and driving prices to artificial lows. It is therefore non-trade distorting.

Conclusion

- **Domestic legislation empowering producers, like supply management, must be legitimized at the WTO**

- **The WTO must find a balance between public policy and trade liberalization**
