



August 2009:

Interview on the Canadian supply management system with Marcel Groleau, Chairman of Dairy producers of Quebec

The federation of dairy farmers of Québec (FPLQ) ist the strongest member of the umbrella organisation „Dairy Farmers of Canada“.

How long does the supply management system already exist? What makes the Canadian system of the milk market so different from the European system?

Supply management is the mechanism by which milk, poultry and egg farmers in Quebec and Canada adjust their production in order to meet local consumer needs. Supply management was implemented in Canada in the early 1970s. The government had come to the realization that, without production discipline, the Canadian market would regularly have an overabundance of agricultural products, which would, in turn, trigger a sharp decline in producer prices. To ensure the survival of Canadian farms, the federal and provincial governments and agricultural producers implemented a supply management system, a production management model based on collective marketing and production planning adjusted to the needs of the Canadian market. Products are mainly intended for the domestic market and not as exports, so supply management doesn't create imbalance on international markets.

The major difference with the European system is that producers are the key players in the Canadian model. It is the Canadian producers who make the final decision regarding the required level of production, and they also bear the costs if production exceeds supply. In addition, producers jointly sell their milk to processors based on the conditions negotiated by their provincial board. Therefore, all processors enjoy the same conditions. Finally, the Canadian government, contrary to the European government, doesn't pay any subsidies to dairy producers, doesn't buy back any surpluses and doesn't support exports. Exports represent only 3% of our production.

Have there been significant changes since the system was first introduced?

The biggest adaptation to our model occurred in 1995 with the new WTO accord. Canada's negotiators at that time failed to preserve exemptions from tariffication that allowed use of import quota by countries which regulate their production. The conversion of import quotas into tariff equivalents, a 15% reduction in tariff levels added to the 5% minimum market access (taking effect in 2001) compelled producers to make major adjustments such as the introduction of milk classification and changes to plant invoicing and producers' collective payments.

Some farmers in Europe are afraid that the high quota prices might lead to unefficient milk production. How does this work in Canada?

The efficiency of the dairy production sector compares favourably to that of other productions in

the world, whether in terms of milk production per cow, herd size or cash costs. All countries support or regulate their dairy production. The United States and the European Union are doing it through subsidies. Do such subsidies encourage efficiency?

Production quotas are an important tool in production management and are responsible for balancing milk production with demand, avoiding overproduction and providing producers with equitable and stable revenue directly from the market.

As for quota prices, it is a marginal situation because the vast majority of quotas are given or sold at a very low price in family transfers. Still, in 2007, producers implemented a maximum price on the Quebec quota exchange system, which has since brought the price down significantly.

How about Imports? Are they not a problem for domestic production?

To date, tariff quotas (TRQs) and import tariffs have been efficient in controlling imports. Import control is a very important pillar of supply management. On average, Canada allows 4% of dairy products and up to 8% of cheese demand to be imported. Knowing the level of imports in advance is essential to efficiently plan Canadian production and ensure that Canadian demand is met and large surpluses are avoided. Weakening import control by greater market access or lower tariffs would compromise the entire system.

What does the system mean for dairy farmers, dairies, the retail and consumers?

Supply management benefits producers by ensuring stable income from the market alone. It benefits consumers by providing a supply of local, quality products at affordable prices. We compare our retail and farmgate prices on a regular basis with those of the United States and, over the long term, the comparison has always been in Canada's favour. Retail prices have risen faster in the United States than in Canada. U.S. farmgate prices have been declining, whereas they have remained stable in Canada.

Our model benefits governments since they do not have to pay subsidies to support the income of their farmers. While it provides farmers with a better share of the consumer dollar, it also ensures the agri-food industry of a stable and predictable supply. Society as a whole enjoys thousands of jobs created locally by local family farming that respects the environment. In addition, developing countries are not subjected to the dumping of surplus products by Canadian supply management farmers and are using this model as a basis to develop their local agriculture.

How are production costs and the producer prices right now in your country and how can farmers live with them?

Production costs have been going up since 2007, but farmgate prices have been adjusted accordingly. Both farmgate prices and retail prices have remained stable, with increases close to the rates of inflation.

Do you mean that supply management has protected Canadian dairy producers against in the face of the crisis that is affecting world dairy production?

The surge in input prices has pushed up the price of dairy products around the world. With these prices, producers in Europe and the United States naturally increased their production, and domestic and world supply quickly exceeded demand. In the end, what goes up must come down: dairy producers worldwide are now facing unprecedented falling prices. And the American and European governments have no other choice but to start supporting prices and subsidizing their exports once more. Quebec and Canadian dairy producers have not been affected by the fall in world prices, and the Canadian government did not have to give billions of dollars in support, as it

has apparently already done for other sectors of the economy. Supply management prevents price fluctuations on domestic markets, because it protects us from world market fluctuations. In the same way, we ensure price stability for customers.

Do you maintain that the World Trade Organization (WTO) has gone off course by promoting agricultural trade liberalization?

It is time to revise the negotiation premises of the Doha Round, which started eight years ago, because the world has since changed. The food crisis has hit hundreds of thousands more people in 2008. The number of people suffering from hunger in the world now exceeds a billion, and 70% of them are farmers and farm workers. The countries most affected are those that have liberalized their agricultural trade, under pressure from the IMF and the World Bank, at the expense of abandoning their subsistence crops. We can no longer negotiate opening up international agricultural trade without taking into account the hunger and food-related problems in the world.

In concrete terms, what do you suggest as a solution?

There needs to be an international organization where agricultural exception will be recognized, for agriculture is the larder of humanity. The WTO deals with trade-related issues, while the FAO examines those that are food-related. A single forum should be defined to address these issues. Countries have recognized cultural exception and cultural exchanges between countries are developing, but governments have the tools to protect their cultural heritage. We should use a similar approach for agriculture. The economic and food crises have shed light on the legitimacy of market regulation.

Marcel Groleau, we would like to thank you for the interview.

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