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## Dairy Policy in Canada and the United States

PROTECTION AT HOME  
OR INTERNATIONAL TRADE?

DANIEL A. SUMNER + JOSEPH BALAGTAS +  
MARTHA HALL FINDLAY

ONE ISSUE  
TWO VOICES



# 2

**From the American authors**  
DANIEL A. SUMNER  
and JOSEPH BALAGTAS

- The long-term impact of maintaining marketing order price regulations has been negative on the growth and prosperity of the U.S. dairy industry.
- To mitigate capital losses from the end of supply management, Canadians must first become competitive with the U.S. dairy industry, which has itself become a competitive supplier in the global export market.
- An integrated North American dairy market will benefit consumers and producers alike, but it requires policy changes on both sides of an open border. To avoid disruptive trade disputes, the United States needs to remove its remaining dairy subsidies in tandem with Canadian reforms to deal with supply management.

**From the Canadian author**  
MARTHA HALL FINDLAY

- Although the Canadian supply management system involves no government subsidy, it is paid for entirely by taxpayers in their role as consumers.
- Canada's maintenance of supply management has damaged its credibility and ability to obtain market access. Supply-management restrictions are causing tensions with Canada's long-established trading partners, the European Union and the United States.
- The future for dairy is in international trade and exports to rapidly growing Asian markets. The Canadian dairy farmers who are efficient and growth-oriented should be pushing to eliminate supply management so that they too can compete in international markets.

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**INTRODUCTION** For several decades, the dairy industry has been regulated and subsidized by governments in Canada and the United States. Dairy management in both countries has included price controls and import restrictions on fresh milk and processed products such as yogurt, ice cream, butter, cheese, and dry milk powder. In addition, to control overproduction of these largely perishable items, Canada since the early 1970s has imposed a quota on every farm—a system of controlled markets known as supply management. The United States, in contrast, has never implemented farm-by-farm production or marketing limits. Instead, it has developed a complex system of pricing based on the end use of the milk: higher prices for beverage milk and soft or frozen products intended for local markets, and lower prices for those that compete on a national or global level. Revenues are divided equally among dairy farms, regardless of the use to which their milk is put.

Critics of government-controlled dairy policy on both sides of the border have been vociferous in their demands for reform, but the powerful dairy lobby groups in each country—the National Milk Producers Federation in the United States and the Dairy Farmers of Canada—have been major obstacles to change. Finally, in February 2014 President Barack Obama was able to sign the *Agricultural Act of 2014* into law after nearly three years of contentious debate. As the cogent summary provided by our American experts Daniel A. Sumner and Joseph V. Balagtas notes, this Act abolished dairy price supports and export subsidies, replaced the Milk Income Loss Contract with a contributory quasi-insurance system in which most farms are expected to participate, but preserved the regulation of milk pricing and the distribution of payments to milk producers.

Canada has yet to implement reforms in the dairy, poultry, and egg sectors, even though government controls in all other agricultural sectors have been lifted. The wine industry, moreover, has provided a model of excellence, innovation, and market expansion in the years since protection came to an end under pressure from the General Agreement on Tariffs and Trade and the Canada–U.S. Free Trade Agreement of 1988. Meanwhile, as our Canadian expert Martha Hall Findlay argues, the supply management system has resulted in two major problems: it creates distortions in the domestic economy that are extremely unfair to consumers, other agricultural producers, and the farmers themselves; and presents major challenges for Canada as it tries to negotiate trade agreements internationally.

In June 2014, members of the National Milk Producers Federation and the U.S. Dairy Export Council said they would oppose the Trans-Pacific Partnership (TPP) negotiations if Canada and Japan continued to maintain their tariffs on dairy. As a trading nation, Canada cannot afford to miss out on international opportunities simply because it won't open the "sensitive" area of dairy to competition from other countries, such as Australia and New Zealand, which have removed all their dairy tariffs. To reform the system, Findlay proposes three concrete steps to the government to end supply management: immediately remove the three pillars of supported pricing, tariff protection, and quota allocation; compensate owners who want to leave dairy farming with a buyout of their quotas and with transition assistance; and help those producers who want to stay in the industry in a way that will enable them to improve their competitive and export capabilities.

In the United States, despite decades of subsidy and heavy regulation, Sumner and Balagtas conclude that the dairy industry has made a remarkable transition to become one of the leaders in the competitive global market. Now that most of the government controls and supports have been lifted, they suggest that the last stronghold—control over dairy pricing and distribution of revenues to producers—should also be abolished and that governments should focus instead on basic research and development, and on facilitating the adoption of innovative technology and new business relationships.

Sumner and Balagtas caution, however, that before Canada can compete successfully in international dairy markets, it must do more than dismantle its supply management system: to be cost-competitive with other large exporting countries, it must also concentrate on overall efficiency and the development of new products and processes. Hall Findlay responds in turn that so long as the United States keeps its subsidized insurance policies for dairy in place, the Canadian dairy lobby will use them as an excuse not to abolish its own protections. Overall, if both Canada and the United States do abandon government controls and support in this area, they could well achieve free trade in dairy products within North American.

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## Daniel A. Sumner and Joseph V. Balagtas

### DAIRY POLICY IN THE UNITED STATES: GOVERNMENTS STRUGGLE TO KEEP UP WITH MARKETS IN THE GLOBAL ECONOMY

Dairy farms in the United States account for farm-level milk sales of approximately \$40 billion per year, or some 10 percent of U.S. farm cash receipts. The U.S. dairy-processing industry turns that milk into consumer products such as butter, cheese, yogurt, ice cream, and fluid milk as well as a variety of dry milk powders that are mainly used in food processing. The United States now exports about \$7 billion in processed dairy products. Although dairy production occurs throughout the country, California, the top dairy state, produces almost 20 percent of the nation's milk, and the next five states produce another 40 percent.

For about eight decades, dairy policy in the United States has been wildly complicated. Federal and state governments have set milk prices, pooled milk revenue for distribution among farms, supplemented dairy farm revenues, bought and redistributed processed dairy products, subsidized dairy exports, imposed import quotas and high

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import tariffs, and bought and slaughtered entire milk cow herds. Some of these measures were temporary, some lasted for half a century, and some are slated to continue.

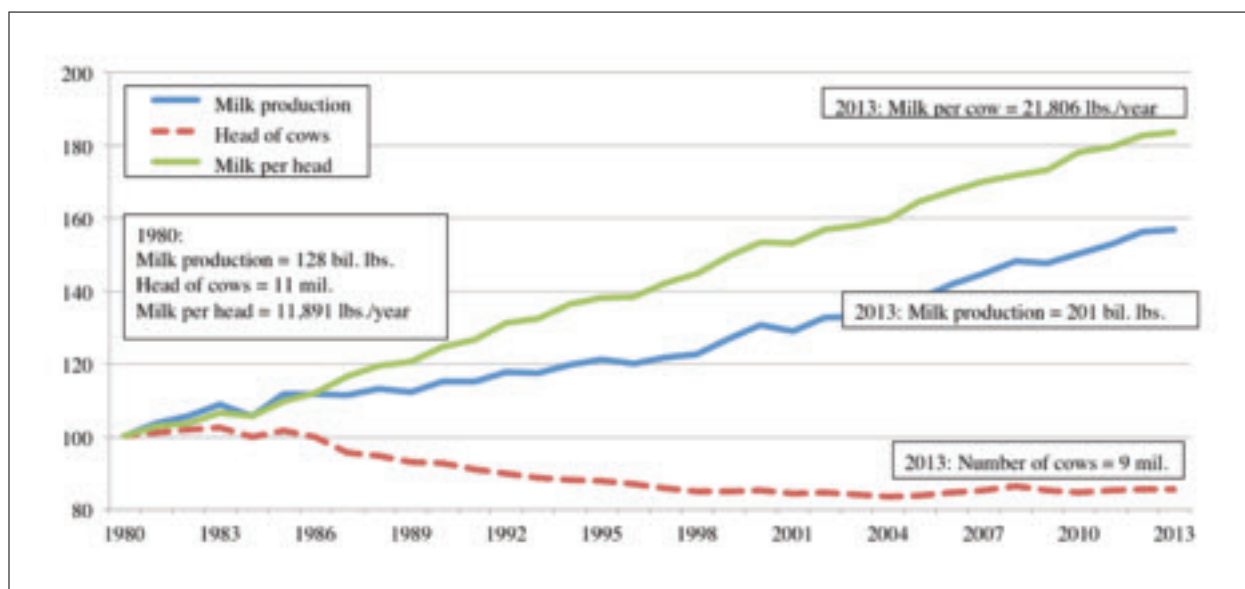
Now is a propitious time to reevaluate dairy policy in the United States: the *Agricultural Act of 2014*—what was to have been, in the regular five-year review, the 2012 Farm Bill—was signed into law by President Barack Obama on February 7, 2014.<sup>1</sup> The final form of this bill came together after three years of disagreements within Congress and repeated delays in fashioning a bill that could pass both the House of Representatives and the Senate. Disputes over dairy policy ranked among the most contentious roadblocks to consensus. Although there was surprising convergence in favor of a few policy changes, dairy interest groups and their champions in the Congress expressed fundamental differences about some of the new proposals, especially about what proponents called “market stabilization” and opponents called “supply control.” Some industry participants believe that dairy markets are inherently unstable and that governments need to exercise control over these market to avoid undue supply and price disruptions. Others think that governments are not well suited to control farmers’ production decisions.

Going into this Farm Bill cycle, all observers agreed that U.S. dairy policy was a mess of outdated and, in some instances, self-defeating policies. Differences came in diagnosing the causes and prescribing solutions. In the end, as we will discuss, the *Agricultural Act of 2014* removed some outmoded programs, layered on a new “margin protection program,” dodged government-run supply management, yet missed the opportunity to allow domestic and international markets to fully drive dairy supply and demand.

#### OUTMODED PROGRAMS REMOVED

The *Agricultural Act of 2014* removed three programs of differing significance.

Figure 1: U.S. Milk Production and Productivity Indexed to 1980 = 100



Source: United States Department of Agriculture, National Agricultural Statistics Service, *Milk Production, Disposition and Income Annual Summaries, 1980–2013*, <http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1105>

### Price Supports

The basic dairy support programs date back to the New Deal during the 1930s. Since 1949 the dairy product price support program has provided price guarantees and government purchases of dairy products.<sup>2</sup> The essence of this program was to support the farm price of milk with a government promise to buy processed dairy products whenever prices for these products fell below a level set by Congress. These support prices were cut in the 1980s: by providing an effective floor-price for more than three decades, they had stimulated excess milk production and created massive government stocks of cheese, butter, and milk powder. In the years since, productivity growth in dairy farming and processing has occasionally caused short periods of government purchases, but the program has been largely irrelevant to the price of milk. Moreover, once feed prices rose sharply almost a decade ago, to remain relevant the price support would have been obliged to rise accordingly.

Given the size and growth of the dairy industry in the United States, it was impossible to raise farm milk prices significantly through government purchases (see fig. 1 for the key U.S. dairy trends since 1980). Not only did the massive costs of such a policy preclude any serious consideration of

raising the support price but dairy farm interest groups recognized that raising the effective government support would price U.S. products out of world markets just as U.S. dairy exports were becoming increasingly significant. The removal of dairy price supports in the *Agricultural Act of 2014* marked a historic, although largely symbolic, abandonment of one of the main pillars of federal dairy policy.

### Export Subsidies

The recognition that U.S. dairy products could compete in global markets lay behind the repeal of the Dairy Export Incentive Program—the elimination of export subsidies and the further distancing of the U.S. government from the dairy commodity markets.<sup>3</sup> The program had become irrelevant as the United States gradually became a commercial dairy exporter and as trade agreements constrained the use of targeted export subsidies. However, dairy products still remain eligible for export support under export credit guarantees and through international food-aid purchases.

### Milk Income Loss Contract

The Milk Income Loss Contract (MILC) program—a deficiency payment program—paid milk producers a

**Table 1: Evolution of Dairy Farms: United States and the Four Best States**

	1992	2002	2012	% CHANGE 1992–2012
<b>UNITED STATES</b>				
Cows per dairy	57	99	187	226
Number of dairies	171,560	91,990	49,331	-71
Milk per cow (lbs.)	15,423	18,571	21,697	41
<b>CALIFORNIA</b>				
Cows per dairy	276	659	1,080	292
Number of dairies	4,200	2,500	1,650	-61
Milk per cow (lbs.)	19,071	21,180	23,457	23
<b>WISCONSIN</b>				
Cows per dairy	53	71	111	108
Number of dairies	31,000	17,800	11,490	-63
Milk per cow (lbs.)	14,643	17,367	21,436	46
<b>IDAHO</b>				
Cows per dairy	96	408	1,027	966
Number of dairies	1,900	950	565	-70
Milk per cow (lbs.)	17,148	21,018	23,376	36
<b>NEW YORK</b>				
Cows per dairy	63	95	118	87
Number of dairies	11,800	7,100	5,150	-56
Milk per cow (lbs.)	15,463	18,019	21,633	40

Source: United States Department of Agriculture, National Agricultural Statistics Service, *Milk Production*, February Reports 1992, 2002, and 2012, <http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1103>

subsidy based on the difference between a milk price set by Congress and the actual price determined in dairy commodity markets.<sup>4</sup> Since 2008 MILC payments have been calculated as a portion of the difference between a target price and an indicative milk price, with an upward adjustment when an index of feed costs exceeded a particular threshold. The program concentrated on smaller dairies—those with fewer than the average of 500 cows.

Payments were made to farmers based on actual production up to an annual total of about 3 million pounds of milk—the annual output of about 150 dairy cows (see table 1 for a summary of recent farm-size dynamics).

Payments under the MILC program have been significant in recent years—approximately \$400 million in fiscal year 2012 per month, or about 1 percent of milk revenue at its peak. The Department of Agriculture (USDA) paid

out regularly for much of 2012 and the first part of 2013. The dairy industry criticized the program on two grounds. First, the indexing of the payment rates to feed prices was inadequate in the face of high feed prices during the 2012 drought in the Midwest. Second, MILC provided little help for large commercial dairies, which supplied most of the milk in the United States and periodically experienced major losses following the feed-price rise in 2007. The *Agricultural Act of 2014* replaced MILC with a quasi-insurance program meant to address these shortcomings.

### NEW DAIRY SUBSIDIES: MARGIN PROTECTION

To understand the appeal of the new Milk Margin Protection Program, it is useful to compare the recent history of milk prices and dairy feed prices. Feed prices represent most of the cost of production for a typical dairy farm, and the importance of feed costs rises as a share of total costs when feed prices rise. As a result, there have been wild swings over the last decade in the margin between milk prices and the feed costs to produce that milk (see fig. 2). The margin started and ended above \$10 per hundredweight and was far over that price from early 2007 to early 2008. The average margin during the period was \$8 to \$9, but the periods of severely low margins, dipping below \$4 per hundredweight in 2009 and 2012, drove the agitation for a margin insurance policy. During these low

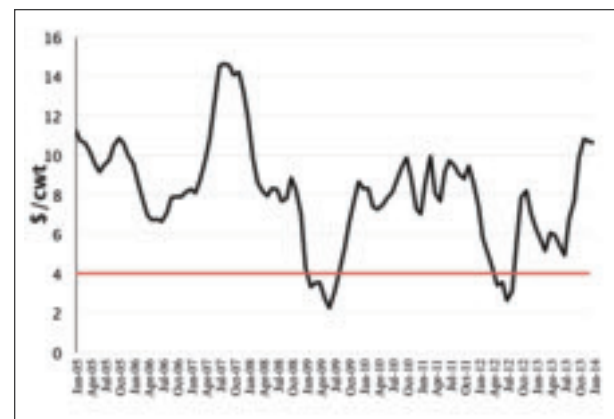
**The new insurance-like program is voluntary: farms may insure between 25 and 95 percent of their recent production history. Almost all farms are expected to participate because premiums are free for coverage of the \$4 per hundredweight margins—and premiums for higher margins are available.**

periods, even well-managed and efficient dairy farms lost equity, and many farms left the industry. Overall, however, the dairy industry has maintained its size and growth and has expanded in several parts of the country (see table 1).

When dairy farmers sought margin protection, they did not envision access insurance that would charge actuarially fair premiums to cover the full costs of potential indemnities. A government-sponsored margin insurance program for dairies offered through the USDA's Risk Management Agency has been available since 2008, but participation rates have been extremely low despite subsidized premiums. Rather than government payments when margins fell below prescribed levels, as dairy farmers wanted, they got an insurance-like program run by the government, with highly subsidized premiums.

The new insurance-like program is voluntary: farms may insure between 25 and 95 percent of their recent production history. Almost all farms are expected to participate because premiums are free for coverage of the \$4 per hundredweight margins—and premiums for higher margins are available (see table 2). Eligibility is not limited to smaller farms, but those with annual production over 4 million hundredweight (from about 200 cows) pay higher premiums, with the differential increasing as premium rates increase for higher margin coverage. Overall, these premiums carry substantial subsidy, except for the highest

**Figure 2: Dairy Producer Margin (Milk Price–Feed Cost)**



Source: "June 2013 Senate Farm Bill Feed Costs" and income over feed costs, accessed at <http://future.aae.wisc.edu/tab/costs.html#16>

**Table 2: Premium Schedule for the Milk Margin Protection Program**

INSURED MILK PRICE MINUS FEED-COST MARGIN	PREMIUM	
	PRODUCTION HISTORY Up to 4 million pounds	PRODUCTION HISTORY: excess of 4 million pounds
	\$/hundredweight	
4.00	0.000	0.000
4.50	0.010	0.020
5.00	0.025	0.040
5.50	0.040	0.100
6.00	0.055	0.155
6.50	0.090	0.290
7.00	0.217	0.830
7.50	0.300	1.060
8.00	0.475	1.360

Note: Premiums for the first 4 million pounds of production history are discounted by 25 percent for 2014 and 2015.

margin coverage for the larger farms. Given that the program applies to these larger farms, subsidized margin insurance provides more dairy farm income assurance than could have been achieved by MILC. It also provides more subsidy than the old price support program, without interfering directly in milk prices.

By reducing the probability and severity of periods of negative net revenue, the subsidized margin insurance will likely raise U.S. milk production and drive prices lower. So far in 2014, milk prices have been high and are projected to remain at their present level, even though feed prices have fallen. There is little chance, then, that margin insurance will pay any significant indemnities in the coming year.

Despite the popularity of subsidies among dairy farmers, it is hard to rationalize them for two reasons: dairy farmers are generally far wealthier than the average American; and there is no evidence of market failure in milk supply and demand.

### A CLOSE CALL WITH SUPPLY MANAGEMENT

The most powerful dairy lobby group, the National Milk Producers Federation (National Milk), and their

main legislative agent, Minnesota Congressman Collin Peterson, spent several years developing and pushing for a policy that would combine farm-by-farm supply management with payments whenever the margins were low. Their goal was straightforward: much larger premium subsidies, with budget costs held in check by government-set production limits that would kick in whenever low margins triggered insurance indemnities. The supply management part of the package was controversial even among dairy farmers. Farms confident about their growth prospects opposed supply management, while farms that were less efficient or located in regions less favorable for growth, such as Minnesota or the urban fringe of Southern California, favored higher subsidies that they thought would accompany supply management.

In the final battle, just before passage of the bill, John Boehner, the speaker of the House of Representatives, prevailed, keeping supply management out of the 2014 Act and dealing a rare defeat to National Milk. Boehner, who himself spent many years as a member of the House Committee on Agriculture, has been an outspoken critic of U.S. dairy policy. During this Farm Bill debate he declared in a letter to House members, “our Soviet-style dairy programs are in dire need of reform.”<sup>5</sup>

Unlike the European Union and Canada, where dairy policies have imposed detailed farm-by-farm production limits, the United States has never employed production or marketing quotas for dairy policy. U.S. tobacco and peanut programs used quotas for many years until, beginning in the early years of this century, they were gradually removed. These quotas were tradable within small geographic areas, and they transferred revenue (up to about 20 percent of market values) among quota owners. The quotas inhibited quality and other supply innovations and, by raising production costs, harmed the industry as a whole. The U.S. government paid farmers more than the market value of the quota they owned to buy out the programs.

Introducing such programs for the U.S. dairy industry, even if they were binding only intermittently, would have been a major step toward entangling the day-to-day management of dairy farms with government-set restrictions that would favor some while penalizing others. In the end it proved to be too far a step to take, and the *Agricultural Act of 2014* included the subsidy without the supply management.<sup>6</sup>

## MISSED OPPORTUNITIES

Boehner's reference to "Soviet-style dairy programs" applies in particular to the one major part of dairy policy that was not modified significantly in the 2014 Act. The California Milk Marketing Order (CMMO) and the Federal Milk Marketing Orders, which operate in most of the rest of the United States, have since the 1930s regulated milk pricing and the distribution of payments to milk producers. Although producers and processors have adapted their operations to milk

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marketing orders, policy has struggled to adapt to modern market relationships that are both domestic and international.

The marketing orders attempt, as a first step, to generate additional revenue for producers by setting higher prices for farm milk used to make products for which these prices cause smaller reductions in the quantity demanded. Milk used for beverages and for soft and frozen products such as yogurt and ice cream cost more, for instance, because transport costs mean that buyers have little alternative but to accept higher local prices. In contrast, prices for milk used for products such as butter, cheese, and dry milk powder, which are sold in national and global markets, cannot be raised above market-clearing levels without creating excess supply. Under these programs, the government tells buyers what they must pay, based on the products for which the milk will be used, and audit processors make sure that governmental rules are followed.

The standard result of this price discrimination across end-use markets is higher overall industry revenue. The amount of additional revenue hinges on just how high governments are willing to raise prices, as well as the share of farm milk that can be sold in the high-price market. The impact of these policies is to take money from milk consumers and transfer it to milk producers, who have traditionally been favored politically.<sup>7</sup> The income transfer differs by region. In California, which has a low share of milk production used in the high-price market, price discrimination transfers about 1 percent to farm milk revenue, or about \$800 million per year. In other states, where a larger portion of milk production is used for beverage and soft perishable products, the percentage is higher.

The second step in the marketing order policy is to share the policy-generated revenues among producers. Under the rules, milk revenues from the government-set minimums are shared among producers regardless of the use to which their milk is put and of the processors or marketers to which they sell their milk. In California or Idaho, where 80 percent of the milk is used for the products competing in national and global markets, the scope for generating additional revenue through setting higher prices for some uses is small, especially given political limits on how high the price of components used





in beverage milk are allowed to rise. Indeed, in these two states as well as Wisconsin, the scope for farm revenue increases is only a few percent. That is one reason why Idaho producers rejected the marketing order system.

While these detailed pricing and revenue distribution rules have attempted to raise revenue for dairy farms, the result has been government regulation of prices for farm milk that enters each product category. These rules dampen incentives: first, for producers to adapt their supply of milk components to those products and markets in greatest demand; and second, for processors to create new products. For example, a producer of whole milk powder pays the same regulated minimum prices as a producer of non-fat dry milk and butter, and it is difficult to attract milk to one set of products or the other when market incentives are restricted. New products are not included in regulated price calculations, so variations in prices of the innovative products are not reflected in prices paid for milk components. Moreover, by setting regulated prices that vary monthly, the policy restricts creative contracts that would allow risk sharing (such as forward contracts) and added profit incentives (such as payments contingent on market outcomes). For these reasons, the long-term impact of maintaining marketing order price regulations has been negative on the growth and prosperity of the U.S. dairy industry. As with many

government programs, however, change is hard, there are winners as well as losers, and uncertainty discourages policy innovation.

## MARKET OPPORTUNITIES AND CONCLUSIONS

Despite decades of subsidy and heavy regulation, the U.S. dairy industry has made a remarkable transition to become one of the leaders in the competitive global market. Exports, which used to be heavily subsidized, are now commercial and account for about 6 percent of milk production. The United States maintains tariffs on some dairy imports, but those are mostly irrelevant as the competitive position of the industry has improved. Now the United States competes effectively with New Zealand and Australia in Asian markets. Dairy exports from the United States have been increasing rapidly into China, Korea, and Southeast Asia. Reflecting its growing confidence, the National Milk Producers Federation has shifted positions to favor international agreements that will open dairy markets globally. That said, the current Trans-Pacific Partnership negotiations have little prospect of improving dairy sales significantly because most of the nations taking part in the agreement either have small markets or are already open. Larger partners, such as Japan and Canada, have resisted lowering trade barriers for dairy products.

Despite decades of subsidy and heavy regulation, the U.S. dairy industry has made a remarkable transition to become one of the leaders in the competitive global market. Exports, which used to be heavily subsidized, are now commercial and account for about 6 percent of milk production. Reflecting its growing confidence, the National Milk Producers Federation has shifted positions to favor international agreements that will open dairy markets globally.

Dairy farms have become remarkably more efficient as they have grown, and U.S. dairy farmers are now managers rather than just milkers (see fig. 1 and table 1). Given this competitive edge, opportunities abound for innovation and growth at home and for exports to Asia and other countries where trade in dairy products is allowed.

U.S. dairy policy changed with the *Agricultural Act of 2014*. From a historical perspective among dairy policy aficionados, the change may seem large. Considered from a broader perspective, however, the programs removed had become irrelevant, and dairy farms kept their subsidies. On the trade front, some dairy product imports continue to face tariffs, and some dairy exports continue to be covered by small credit and food-aid subsidies. Most important, the intricate regulation of milk pricing continues unabated.

It seems clear that the era of dairy subsidy and heavy price regulation is coming to a close. Milk production is increasingly in the hands of farmers who want to respond to market signals, not government mandates. The most important public policies and issues for them involve environmental regulations, immigration policy, financial markets, and general economic policy to stimulate growth both in the United States and globally. For these farmers, the heavy hand of government in dairy pricing is simply a weight slowing their adaptation to market forces.

Inevitably, sometime soon U.S. dairy policy will catch up to the modern industry it now regulates. When that happens, governments will focus on basic research and development, facilitating adoption of innovative technol-

ogy and allowing new business relationships. But, mostly, governments will simply get out of the way.

## NOTES

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- 5 “Boehner Urges Reform of Federal Dairy Programs in Farm Bill,” press release June 20, 2013, <http://www.speaker.gov/press-release/boehner-urges-reform-federal-dairy-programs-farm-bill>
- 6 Joseph V. Balagtas and Daniel A. Sumner, “Evaluation of US Policies and the Supply Management Proposals for Managing Milk Margin Variability,” *American Journal of Agricultural Economics* 94, 1 (February 2012): 403–23.
- 7 Farmers tend to be favored over food consumers in most wealthy countries. There have been many hypotheses for why this has been true for 80 years, but nowadays it may simply be a residual of a long-established pattern. For a calculation of the implied rate by which farmers are favored see Byeong-il Ahn and Daniel A. Sumner, “Political Market Power Reflected in Milk Pricing Regulations,” *American Journal of Agricultural Economics* 91, 3 (August 2009): 723–37.



## Martha Hall Findlay

### SUPPLY MANAGEMENT: TIME TO PUT CANADA'S MOST SACRED COW OUT TO PASTURE

Supply management is a system of controlled markets that applies to the production of dairy, poultry, and eggs in Canada. Although I will focus on dairy in this article, the same general principles apply to the smaller poultry and egg sectors. The system evolved over time and was implemented in its current form in the 1970s, primarily to ensure a fair return for farmers and price stability for processors and consumers. These goals were laudable at the time, but the circumstances have changed. No other Canadian agricultural products are similarly controlled today: beef, pork, pulses, and oilseeds are subject to an open market, and the last vestige of market control in grain—the Canadian Wheat Board—has been dismantled.

#### THE THREE PILLARS

The supply management system is determined by supply, not demand. It is based on three pillars: price, tariffs, and quotas. The price for milk paid to the producers (the farm-gate price) is based not on what the market is willing to pay but on the costs of production. High protective tariffs prevent competition from outside. And production is controlled through a regulated quota system.

*Price Setting:* Milk prices (for consumers as well as processors of butter, cheese, yogurt, and ice cream) are suggested by the Canadian Dairy Commission, which is composed mostly of dairy farmers, and the provincial boards use this price to set their own. The commissioners arrive at the target price by analyzing production costs, market conditions, and what they determine is a fair profit to the producers.

*Tariffs:* To maintain these high domestic price levels, the federal government limits competition from other countries. Initially it allowed no imports at all, but in recent years has applied exorbitant tariffs to any

imports over the small exempt amount agreed upon—in the case of yogurt, for example, 1 percent of total consumption, or one rounded teaspoon per Canadian per year.<sup>1</sup> These tariffs, ranging from 168 percent for eggs, 238 percent for chicken, 246 percent for cheese, to almost 300 percent for butter, ensure that the domestic industry remains almost completely protected. The recently announced Comprehensive Economic and Trade Agreement (CETA) between Canada and Europe will, after much negotiation, allow 18,700 more tons of cheese into Canada under the tariff—barely 3.5 percent of Canadians' total cheese consumption—adding to the mere 22,000 tons (barely 4 percent) currently available in the aggregate to all foreign suppliers.

*Quotas:* This guaranteed price, based on costs rather than market forces and competition, makes for a no-lose, profitable, and thus attractive enterprise. To prevent overproduction, the government established a quota system that, in 1971, was based on each farmer's existing production and is now transferable. Quota is currently worth about \$30,000 per cow—over \$2 million per average farm. Market value for all dairy quota is about \$23 billion—add poultry and eggs, and it's in excess of \$30 billion.

**Supply management is a system of controlled markets that applies to the production of dairy, poultry, and eggs in Canada. This system is determined by supply, not demand, and is based on three pillars: price, tariffs, and quotas.**



## WHAT'S WRONG WITH SUPPLY MANAGEMENT?

The supply management system has resulted in two major problems: it creates distortions in the domestic economy that are unfair to consumers, other agricultural producers, and the farmers themselves; and it presents major challenges for Canada as it tries to negotiate trade agreements internationally.

### **The Domestic Economy**

Over the last 40 years the number of dairy producers has dropped a staggering 91 percent, from about 145,000 in 1971 to only 12,746 in 2011.<sup>2</sup> This decline is not unique to Canada—in every country, consolidation has been the norm across all agricultural sectors.<sup>3</sup> Yet governments in Canada continue to protect this small segment—less than one-half of 1 percent of Canada's economy—even though these regulations adversely affect much larger parts of the economy.

### *Consumers*

Although the Canadian supply management system involves no government subsidy, it is paid for entirely by taxpayers in their role as consumers. A family that buys an average of 4 litres (just over a gallon) of milk a week will pay close to \$150 a year more than it should, not to mention the much higher prices it also pays for cheese, yogurt, and ice cream, plus chicken and eggs.<sup>4</sup> Canadian consumers are paying a major premium, estimated at well over \$300 for the average family a year, to benefit barely 16,000 farmers. Their choice of products is also limited and the extra cost is regressive: the relative price burden is higher for those with lower incomes—including single-parent families with young children, the very people for whom basic nutrition should be most accessible.<sup>5</sup> And households without a secure supply of food are more likely than others to substitute cheaper and less-nutritious food in place of higher-priced nutritional food.<sup>6</sup>

**Other countries, particularly those that have been reducing their own system of supports, rightly ask why they should open up their markets to competition from Canada when Canada refuses to open its markets in what it calls the three “sensitive” areas of dairy, poultry, and eggs.**

#### *Food Processors*

Companies that make butter, cheese, yogurt, and ice cream are forced to pay milk prices that exclude them from competing anywhere outside Canada. True, they have a captive Canadian market, but it is tiny compared with global opportunities. The system dissuades processors from expanding their plants in Canada, let alone from setting up any new ones; instead, they take their capital investments abroad, along with the jobs that result from them.<sup>7</sup> The recent expansion into Australia by Saputo Inc., Canada’s largest dairy processor, is just one example, providing it with a platform from which to move into the rapidly increasing Asian markets—a development our supply management system prevents it from doing from plants in Canada.

#### *Dairy and Poultry Farmers Themselves*

The system is unfair to efficient farmers in these sectors whose opportunities to expand and become more productive are hemmed in by constraints.<sup>8</sup> The top 25 percent of dairy farmers produce about half of Canada’s milk—yet these more efficient producers, well poised to compete internationally, cannot do so. The value of these lost opportunities is huge, as is demonstrated by the success of recently liberalized dairy exporting countries such as New Zealand and Australia.<sup>9</sup>

In 2013, for example, Glengarry Cheesemaking and Dairy Supply of Lancaster, Ontario, won the Supreme Grand Champion Award at the Global Cheese Awards—the first time since 1854 that a cheese from outside Europe had taken the prize—but the company’s ability to export to other markets is severely hindered for two reasons: the World Trade Organization (WTO) has ruled that Canada’s supply management system creates a subsidy, which means that the country’s exports cannot exceed the WTO export subsidy limit; and even

if the exports were within the limit, Glengarry, like all Canadian producers, would find it difficult to compete internationally because of the artificially high prices it is forced to pay for milk.

In an ironic twist, dairy farmers are also losing sales to less-expensive (and less-nutritious) dairy substitutes such as butteroil/sugar blends (49 percent milk fat, 51 percent sugar). These products circumvent import tariffs and are brought into Canada by processors of ice cream and other products. The loss to farmers is estimated at more than \$70 million per year.<sup>10</sup> For dairy farmers, the high cost of purchasing quota (in addition to the cost of land, cows, barns, and operations) has also created inefficient uses of capital and a prohibitive barrier to entering the industry and achieving economies of scale.<sup>11</sup>

#### **International Trade Implications**

Canada is a trading nation, and international trade is vital to its prosperity, yet in these areas too, supply management is having a negative effect. Other countries, particularly those that have been reducing their own system of supports, rightly ask why they should open up their markets to competition from Canada when Canada refuses to open its markets in what it calls the three “sensitive” areas of dairy, poultry, and eggs. For the manufacturers and exporters of other goods and services across Canada, along with the hundreds of thousands of farmers in other sectors, Canada’s insistence on defending supply management has inhibited greater access to lucrative export markets as well as the jobs they create and maintain.

International trade experts at the Organisation for Economic Co-operation and Development (OECD) and the WTO confirm that mandated consumer-paid support distorts trade just as much as direct government subsidies do. The calculations for the OECD producer subsidy equivalent (PSE) reflect real support given by governments,

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whether directly or indirectly through regulations such as supply management. Canada does not compare well. In 2013 the PSE for the United States was 8 percent (mostly for sugar); for Australia, 3 percent; for New Zealand, 1 percent; for the European Union, 19 percent; and for Canada, 15 percent. Almost all of Canada's number is attributed to supply management for dairy, poultry, and eggs—the other 94 percent of Canadian farmers do not share in this largesse.<sup>12</sup> In a similar vein, a report prepared for the International Dairy Foods Association shows farm-gate prices consistently higher in Canada than in the European Union, New Zealand, and the United States over the period 2001–10, with the difference increasing in recent years. In January 2010 relative farm-gate prices (in U.S. dollars per hundredweight) were approximately \$15 in New Zealand and the United States and \$17 in the European Union, compared to \$32 in Canada.<sup>13</sup>

Many countries still protect or subsidize parts of their agriculture, but far less than they did before. Canada's maintenance of supply management has damaged our credibility and our ability to obtain market access. With negotiations currently under way for the Trans-Pacific Partnership (TPP) among the Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, and Vietnam, it is critical for Canada to be part of the process. The rapidly expanding markets of the Asia-Pacific region for butter, cheese, whole milk powder, and other Western dairy-based foods present enormous opportunities for every country that can participate there and enlarge not only its markets but its competitive position. The other negotiating countries are pushing for an ambitious trade agreement, but some of them have made it clear that

Canada's insistence on maintaining supply management is a major stumbling block. Over a decade ago, New Zealand removed all of its dairy tariffs and is now the world's largest exporter of dairy products; Australia dismantled its own supply management system for dairy and is now exporting far more than before. Those two countries alone make a very good case against Canada's objection.

Similarly, the supply-management restrictions are causing tensions with Canada's long-established trading partners, the European Union and the United States. As noted above, in October 2013 Prime Minister Stephen Harper finally signed the CETA with Europe. Although the additional quota for cheese represented a tiny fraction of the Canadian market, the powerful lobby group, the Dairy Farmers of Canada, immediately decried the "CETA giveaway." Then, to placate former Quebec premier Pauline Marois, the government closed a loophole that had allowed Pizza Pizza Ltd. and other restaurant chains to import low-cost mozzarella from the United States duty free as "food-preparation kits." Within a few weeks, however, the office of the U.S. Trade Representative complained to Canadian officials, and the company that had been selling the kits threatened legal action. Already more than a dozen members of the U.S. Congress from the dairy-producing states of New York and Wisconsin are calling on the Obama administration to respond to trade violations by Canada.

The concession to fresh pizza chains provides a fine example of the cascading domestic economic distortions caused by supply management. It came in response to an earlier lower-price exemption for cheese given to Canadian frozen pizza manufacturers in order for them to compete internationally—an exemption that gave them an advantage over fresh pizza restaurants.

The system that protects a small number of Canadian farmers has a major negative impact on the vast majority of farmers. More than 210,000 Canadian farmers (92 percent of the total) are not under the supply-management system; rather, they are directly dependent on export markets. They either export their products or sell them domestically at prices set by international marketplaces. Producers of export-dependent commodities constitute a majority of farms in every province in Canada—including 88 percent in Ontario and 75 percent in Quebec,



the two provinces where the political influence of dairy farmers is assumed to be strong—and they are harmed every time our support for supply management limits access to other markets, particularly in Asia. In the words of the Canadian Agri-Food Trade Alliance, “Increasing access to these key—and growing—markets is essential for Canada’s grain and oilseed producers.”<sup>14</sup> Canada’s beef, pork, and pulse producers would similarly benefit.

### HOW HAS SUPPLY MANAGEMENT SURVIVED SO LONG?

Many politicians acknowledge, privately, that supply management should go, but they say that they must continue to support it because there are too many votes at stake. As a result, all three major parties in Canada support maintaining this obviously flawed system. The well-funded dairy lobby (ironically paid for by the higher milk prices consumers pay) has for years been extremely effective at leaving both federal and provincial politicians with the impression that supply management for

dairy farmers is very good for Canada (“supports the family farm,” “ensures food security”) and, because these farmers are so numerous, that doing anything to upset them would be political suicide.

Both arguments are fallacies. A study completed in 2012 analyzed the number of supply-managed and non-supply-managed farms in each of the 308 federal electoral districts along with the results of the 2008 and 2011 federal elections.<sup>15</sup> It concluded that dairy farmers are far less numerous than is generally believed and that the remaining farms are concentrated in electoral districts predominantly supportive of one party or another. Even if a proposal to dismantle supply management did cause some people to change their votes, they would not be sufficient to change the electoral results.

Put simply, if the Harper Conservatives dismantled supply management, they would still have a majority government. But what about the people in these same districts who would support this move? Canada has more than 200,000 farmers who are not supply managed and who are directly dependent on trade—more than 10 times



the number of dairy, poultry, and egg farmers combined. They represent far more votes across the country—and in every one of these particular districts too—than do the dairy producers. Although they lack the political organization of the dairy, poultry, and egg lobbies, that also is beginning to change.

### THE FIX: SUCCESSFUL MODELS TO FOLLOW

#### Canadian Wine

Canada already has a model to fix this problem. The removal of protection from the wine industry has had spectacular results for both producers and consumers. While under protection, the wines produced in Ontario and British Columbia were of poor quality and had only a small market. With pressures from the General Agreement on Tariffs and Trade (GATT) and the signing of the Canada–U.S. Free Trade Agreement in 1988, however, the wine industry could no longer be protected. Assisted by some transition funding from the federal and the two provincial governments, many growers began a major program to replace the low-quality native grape varieties with European vinifera grapes and to improve their product.<sup>16</sup> The success of these efforts is

clear. The removal of protection prompted major growth in many areas in Canada, not just in producing high-quality wines but also in spinoffs for tourism. “Rationalization of the industry has accelerated, productivity has increased, and the industry has become more export-oriented,” even as everyone associated with the industry has benefited—farmers, vintners, importers, and consumers.<sup>17</sup>

#### The Australian Experience

In the 1920s, Australia became the pioneer in supply management as a way to cope with volatile markets, inconsistent supply and pricing, and the welfare of farmers. In 2001, however, in the face of domestic and international market pressures and opportunities, the government dismantled the system—with considerable success all around.

The government devised a formula to determine the amount of compensation and transition support each farm would be entitled to, with payments to be made over eight years. The program was funded not from government money but by a levy of 11 cents a litre on all retail milk sales during that period. Although this levy kept dairy prices somewhat higher for consumers and processors than international free-market prices, they were lower than the previously administered prices. The levy was then discontinued, and consumers and processors received the full benefit of the lower international prices. Savings to consumers were estimated at more than A\$118 million annually.<sup>18</sup> Yields also rose, and the Australian dairy industry improved its international competitiveness. Total dairy product exports increased 200 percent in the years 1990–2002, correlating with the decline in industry support. Removing protection had a dynamic effect on productivity and reoriented the Australian dairy industry to a globally competitive export industry.<sup>19</sup>

Canada, which originally borrowed from the Australians in creating its supply management system, should once again follow their example. According to the Australian government, “As Australia liberalised agriculture, farmers and processors pursued their common interest in the productivity gains that made them competitive, including in growing export markets in Asia. Collaboration of this type



was the catalyst for deregulation of the dairy industry—a sector Australians expected to be difficult to reform.”<sup>20</sup>

## CONCRETE PROPOSALS FOR REFORMING THE SUPPLY MANAGEMENT SYSTEM IN CANADA

Supply management needs to go—but how? Politicians won’t act because of their fear of the dairy lobby. The answer, then, is to develop a plan that the dairy farmers will support—or at least enough of them to turn the political tide. Many have legitimate concerns, but their fears can be addressed with fairness, appropriate buyouts, and transition assistance. The following plan would accomplish two key goals at once: help the efficient, growth-oriented producers to generate even greater success through exports, economies of scale, and more effective use of capital; and assist those who cannot or do not want to compete with a fair and appropriate buyout option and transition assistance that would make exiting the system economically viable. The right approach can provide a well-earned, secure retirement to those keen to exit, while consolidating the industry under the more efficient and competitive producers.

The Canadian federal and provincial governments should work with the dairy community to finalize this plan, which would be paid for by the system itself (as was so successful in the Australian model). The key points are as follows:

- Remove all three pillars of supported pricing, tariff protection, and quota allocations simultaneously. This decisive approach would allow farmers who want to expand into exports to act quickly and effectively even as it prevented Canada’s competitors from using any delay in implementation to secure or enhance their export market shares.
- Compensate the farmers who want to exit with a buyout of quota and with transition assistance. The current market value of all dairy, poultry, and egg quota is about \$30 billion; dairy alone is about \$23 billion. Recent research shows that using a market-value-based buyout would not only be expensive for Canadians but decidedly unfair. It makes no

**The Canadian federal and provincial governments should work with the dairy community to:**

- **Remove all three pillars of supported pricing, tariff protection, and quota allocations simultaneously.**
- **Compensate the farmers who want to exit with a buyout of quota and with transition assistance.**
- **Provide dual transition assistance along with the quota buyout: assist those producers who choose to stay in the industry, to enable them to enhance their competitive and export capabilities; and ease the way for those who choose to leave the industry, by making it economically viable for them to do so.**

sense to buy the quota that Farmer Jones received for free in the 1970s at the same price as the quota that Farmer Smith recently mortgaged his house to acquire at \$30,000 a cow. A book-value approach would be more appropriate, much fairer, and still lucrative for

the farmers compared with other investment alternatives. Estimates show that the cost of such a buyout would be closer to \$5 billion—a far more manageable amount.<sup>21</sup> This \$5 billion, divided by the 8 billion litres (almost 2.1 billion gallons) of milk produced annually in Canada, would equal \$0.63 a litre—or \$0.06 a litre if spread over 10 years.

- Provide dual transition assistance along with the quota buyout: assist those producers who choose to stay in the industry, to enable them to enhance their competitive and export capabilities; and ease the way for those who choose to leave the industry, by making it economically viable for them to do so.

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## DANIEL A. SUMNER AND JOSEPH V. BALAGTAS RESPOND TO MARTHA HALL FINDLAY

Dairy industries in both the United States and Canada labor under the heavy weight of government assistance and management. Policies have transferred billions of dollars to dairy asset owners while creating deterrents to adaptation and innovation. At the same time, regulations to implement simple policies have become mind-numbingly complicated in both countries.

Yet differences between the two countries are also clear. The Canadian supply management system raises prices to consumers and dairy processors and has, with quota, created huge investment requirements for farmers who want to expand to efficient scale and adapt to evolving market conditions. The U.S. system offers taxpayer support to producers when prices (now margins) are low and micro-manages the prices of milk components. This management of relative prices slows and interrupts market signals and reduces incentives to adapt to market opportunities.

Martha Hall Findlay has written a refreshingly direct critique of the costs of Canadian supply management for milk (and by extension for eggs and poultry). She has explained, as an outsider could never do, how political calculations, miscalculations, and diffidence hinder policy change when political leadership could be effective. Her critique, both economic and political, resonates south of the border, where a similar lack of confident leadership led to failures in the *Agricultural Act of 2014*.

The transition from marketing quotas and import barriers in Canada to a more open system could be quite simple. The main initial consequence is clear: owners of the marketing quotas would lose the capital value of quota. In this case, the threat of losing \$23 billion has provided plenty of incentive for quota owners to block any significant change. Appropriate compensation for losses imposed on quota owners involves economics and politics. Two contradictory notions have some appeal. As Grant, Barichello, Liew, and Gill write, “One line of argument is that farmers, like any business, knew the policy risks when they acquired their quota. Therefore, they should bear the cost of that risk ... Another line of argument is that society should bear the cost, as successive governments made the production quota a legal entry requirement for the dairy industry.”<sup>1</sup>

On the political issues, Hall Findlay makes a strong case that, in Canada, politicians have over-estimated the risk of electoral losses from ending supply management. Still, in a nod to political resistance, she suggests a hybrid transition plan that would provide lower payments to long-time quota owners and higher payments to farmer-speculators who recently purchased quota. We note that when terminating their programs, the U.S. government paid tobacco and peanut quota owners much more than the market price of quota.

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The opportunity for some farms and processors to improve economic efficiency and compete more effectively in global markets may provide a significant economic benefit to removing supply management and opening up the Canadian dairy market. But to mitigate capital losses from the end of supply management, Canadian producers must first become cost competitive with the U.S. dairy industry, which has itself become a competitive supplier in the global export market. Hall Findlay and her Canadian sources seem confident that removing supply management will stimulate substantial Canadian productivity improvements.<sup>2</sup> This outcome is not assured, however, and simply maintaining the size of the industry is the first challenge.

The best evidence that some Canadian dairy farms can compete is the high prices these farms have been willing to pay for quota. Only a low-cost farm could make the economics work at the market quota prices. Ending supply management should free up investment resources and allow the most efficient Canadian farmers to improve productivity further.

Farms with 2,000 to 5,000 cows capture scale and management efficiencies and thrive in several U.S. regions, though they are predominately in California and the Southwest. In the Upper Midwest, successful farms have transitioned to herds of 200 to 500 cows. Everywhere successful dairy farms employ considerable numbers of hired labor, freeing the dairy operator to focus on management and innovation.

For Canadian farms to compete successfully, they should avoid targeting the size or mode of operation of farms that are on their way out. There will always be room for a few niche players, such as the pasture-based organic

dairies and high-priced cheese suppliers, but the bulk of the North American dairy market will go to those farms and processors that can supply high quality at low cost.

The gradual western migration of the U.S. dairy industry has slowed in recent years. Low-cost producers along the Canadian border in Michigan, Wisconsin, and Idaho would welcome the opportunity to compete in the Canadian market. The end of supply management would allow the Canadian dairy industry to compete in the North American and world markets, but success is not assured.

Removing Canadian supply management can facilitate the achievement of North American free trade in dairy products. However, a smooth transition is difficult, as can be seen from the example of U.S. sugar. In 2008, more than a decade after NAFTA was signed, the United States finally opened its doors to duty-free imports of sugar from Mexico. About the same time, world sugar prices reached historic peaks, exceeding even the U.S. support price. In response, world, Mexican, and U.S. production rose until sugar prices receded back to historic norms. U.S. sugar producers responded to the expected price declines by bringing an anti-dumping complaint against their Mexican competitors.

An integrated North American dairy market will benefit consumers and producers alike, but it requires policy changes on both sides of an open border. To avoid disruptive trade disputes, the United States would need to remove its remaining dairy subsidies in tandem with Canadian reforms to deal with supply management. In that way, efficient and creative producers will thrive by offering benefits to consumers in the whole North American market and efficiently supplying growing global demand as well. Market forces are driving a transformation of dairy economics, and policy change is needed to facilitate a smooth transition.

## NOTES

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## MARTHA HALL FINDLAY RESPONDS TO DANIEL A. SUMNER AND JOSEPH V. BALAGTAS

“We can’t compete with the heavily subsidized U.S. dairy farmers without supply management” is the common refrain heard from the Dairy Farmers of Canada (DFC), Canada’s most powerful lobby group, and the farmers to whom they feed their talking points. In the absence of government protection through price setting, high tariffs, and production quotas, they claim, Canadian farmers cannot compete against the Americans.

A number of studies have previously challenged this view, but Daniel Sumner and Joseph Balagtas have now significantly contributed to dismissing this argument. They show that the *Agricultural Act of 2014* has removed three of the major U.S. supplements for dairy—price supports, export subsidies, and the Milk Income Loss Contract (MILC). Even more important is their point that these supports had already ceased to be as influential on the market and on prices as people were saying. First, price supports (government purchases of excess supply) had already been cut in the 1980s, so their removal was largely symbolic. Second, the MILC program, although it provided substantial support to smaller farms, did little for the large commercial dairies which supplied most of the milk in the United States—and sold it at prices based on the market and on their own efficiencies and economies of scale, not the MILC subsidy. Third, U.S. dairy products have already begun competing successfully in global markets, “increasing rapidly into China, Korea, and

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Southeast Asia.” So, the program of export subsidies had not only become irrelevant, but, as a constraint on international trade agreements, was no longer desirable.

Sumner and Balagtas conclude that, although subsidized insurance, some tariff protection, and some continued regulation of milk prices remain in the United States, milk production is increasingly in the hands of efficient farmers who want to respond to market signals, not government mandates.

These U.S. developments should come as a huge warning sign to Canadian dairy farmers. For them, too, the opportunities for growth lie in export markets—yet maintaining supply management will prevent any opportunity in that regard. It’s clear, moreover, that more and more U.S. dairy farmers are pushing for deregulation even as Canadian dairy farmers are being left behind. The New Zealanders and the Australians have figured it out and are exporting far more than before. Now the Americans, even if a bit delayed, have caught on, too. The future for dairy is in international trade and exports to rapidly growing Asian markets. It’s only a question of time before the smart Canadian dairy farmers figure it out—the worry is that, if they delay any longer, the other countries will have established major footholds in those export markets, making it even harder for Canada to break in.

The Canadian dairy farmers who are efficient and growth-oriented should be pushing to eliminate supply management so they too can compete in international markets. Those who are content with supplying Canada alone—a market no bigger than California—must understand and accept that they can no longer operate a protected and privileged system at the expense of Canadian consumers and other Canadian interests.

Before concluding, congratulations are due to the U.S. government for *not* implementing supply management, which the most powerful dairy lobby, the National Milk Producers Federation, was supporting. As Sumner and Balagtas point out, the U.S. experience with quota

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programs for other products—tobacco and peanuts—“inhibited quality and other supply innovations and, by raising production costs, harmed the industry as a whole.” They note that the U.S. government wanted to be rid of the system in those two industries because of the huge economic distortions it caused, so it ended up paying the farmers more than the market value of the quota they owned to buy out the programs. Implementing supply management would have been a major step backward for the United States, just at the time when Canadians are beginning to see the need to dismantle supply management and move forward to a market-oriented approach.

It is unfortunate that the United States is retaining some support in the form of the new Milk Margin Protection Program (subsidized insurance premiums). This program will prove challenging for both the United States and Canada. It will continue to supply the Canadian dairy lobby with ammunition, even though the remaining subsidies pale in comparison to the effect of supply management in Canada. And it's not good for the United States. As Sumner and Balagtas have concluded, subsidies are hard to rationalize: “Dairy farmers are generally far wealthier than the average American; and there is no evidence of market failure in milk supply and demand.” Given the value of Asian and other export markets to both the United States and Canada, we can only hope that the two governments see the strong common interest they have in reducing domestic supports in order to conclude trade deals such as the Trans-Pacific Partnership (TPP) and others to come. It was progressive farmers who helped push reform to competition in Australia. Hope lies with the efficient, forward-thinking, and growth-oriented dairy farmers on both sides of the border who will push for change.

Ultimately, Sumner and Balagtas's analysis reinforces the argument that Canada should move immediately to dismantle supply management. My opinion essay sets out a win-win plan for reform—one that should, and could, be implemented in Canada to assist the many different interest groups in this country who are currently affected negatively by supply management: consumers, including poor, single-parent families with young children, who are, on average per family, paying an additional \$300 a year for the basic nutrition of milk, butter, cheese, chicken, and eggs; food processors, who would keep their operations in Canada if they could and provide additional employment opportunities; beef, pork, grain, oil-seed, and pulse farmers, collectively more than 90 percent of Canadian farmers and not supply managed, who would benefit from access to growing markets that are currently denied them because of supply management; and the dairy farmers themselves, some of whom now understand that major Asian export opportunities are beckoning but that they are prevented from competing because of supply management protection.

I commend my colleagues Sumner and Balagtas for their summary of why Canadian farmers need to wake up and see the future. The message, coming not just from the other side of the world in New Zealand and Australia but right next door, is clear. Politicians, however, will not make changes if they don't believe they have sufficient support. It is up to Canadian dairy farmers who see growth as an opportunity to stop listening blindly to the propaganda of the Dairy Farmers of Canada, a lobby with its own self-interests, and instead to encourage a buyout that will allow the dismantling of the supply management system. Only then can they take advantage of the tremendous growth opportunities that await them.



## About the Authors

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**Joseph Balagtas** is an associate professor of agricultural economics at Purdue University, where he teaches and conducts research on the economics of agriculture and food. His published work includes research on issues of competition and policy in the U.S. farm dairy sector, international development and rice markets, and the performance of agricultural commodity and food prices. One article he co-authored on the market power of U.S. dairy cooperatives won the award for “quality of research discovery” for the Agricultural and Applied Economics Association, and another he co-authored on the dairy provisions of the Australian–U.S. Free Trade Agreement received the award for “best article” in the *Australian Journal of Agricultural and Resource Economics*. In 2011–12 he was a Fulbright Senior Scholar and a visiting scientist at the International Rice Research Institute in the Philippines.

**Daniel A. Sumner** is the director of the Agricultural Issues Center at the University of California, Davis and the Frank H. Buck, Jr., Professor in the Department of Agricultural and Resource Economics, UC Davis. He has written more than 250 professional publications and engages often in outreach activities, including media interviews and public presentations. His research and writing, which focuses on the economics of agriculture, food, and related policy, has won awards for research quality, quality of communication, and policy contribution. He served as chair of the International Agricultural

Trade Research Consortium and testified often before dispute resolution panels and the Appellate Body of the World Trade Organization. Before returning to California two decades ago, Sumner served as the assistant secretary for economics at the United States Department of Agriculture, where he supervised USDA's data collection, outlook, and economic research. He was also a senior economist at President Reagan's Council of Economic Advisers.

**Martha Hall Findlay** is an executive fellow at the School of Public Policy, University of Calgary, where she focuses on Canadian economic, social, and environmental prosperity in a global environment. She was elected twice as a Member of Parliament and served in a variety of positions in the Liberal Shadow Cabinet and as a member of House of Commons Standing Committees. In 2006 and 2013 she was a candidate for the leadership of the Liberal Party of Canada. As a lawyer, senior executive, and successful entrepreneur, Hall Findlay has more than 25 years of domestic and international legal, business, and governance experience with major multinational corporations as well as start-ups, primarily in telecommunications and technology. She has also served as a board director and executive for several policy, environmental, community, and cultural organizations, including the Couchiching Institute on Public Affairs and the Canadian Centre for Responsibility to Protect (CCR2P) at the Munk School of Global Affairs, University of Toronto.

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