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More EU cheese please. Shoppers - and farmers - will benefit

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Last Friday's episode of *CSI: NY* was called "White Gold," and featured a man smuggling cheese from the U.S. into Canada. Sound familiar? In this case, truth informed fiction. Last year, three men were arrested as part of a massive cheese-smuggling ring – they allegedly smuggled U.S. cheese across the border and sold it to Canadian restaurants at a six-figure profit. And Canadian restaurateurs regularly call mozzarella cheese "white gold."

Canada's more-than-40-year-old policy of dairy supply management is responsible for these drama-worthy activities. But this week, Canada may move closer to taking actions that would start to reform this long-standing policy. According to [The Globe](#), the Canadian government is prepared to admit more European cheese into this country in return for greater access to EU markets for Canada's beef and pork.

The European Union trade commissioner is now in Ottawa to hopefully complete Canada's most significant free-trade deal since the Canada-U.S. agreement in the late 1980s. Negotiators are now getting into the toughest issues, one of which is cheese.

Canada applies 200-300 per cent tariffs on dairy products. Aside from cheese smuggling, holding "import quota" is currently the only way to import dairy products into Canada duty-free. The EU wants, at a minimum, to increase the amount of cheese it can export to Canada duty-free.

Why wouldn't Canadians welcome more, say, French cheese? Many consumers no doubt would, but cheaper European cheese imports undercut farmers' milk prices, so Ottawa has prohibitively high tariffs to keep imports out. If Canada allows more cheese imports, it will be hard to sustain farmers' milk prices without having to limit production more and more each year. (For those that want to understand how the system works in more detail, see this [2009 study](#) by the Conference Board of Canada.)

This trend could erode Canada's long-standing system of dairy supply management over time, especially if it sets a precedent for other trade negotiations, such as the Trans-Pacific Partnership trade talks, which Canada recently joined. Participants in those talks, such as Australia and the U.S., have long been pushing for more access to Canada's dairy market.

Opening doors to EU cheese could pose complications. For one thing, the EU subsidizes its dairy farmers. However, EU subsidies have been cut back, and EU dairy policy is becoming more market-oriented. For another thing, if Canada were to offer the EU a greater share of imports, it would risk irritating partners in its other trade negotiations, such as the TPP.

So, should Canada's policy-makers continue to support this policy, or should they welcome greater openness, starting with the EU?

All political parties in Canada have traditionally supported supply management (though Liberal leadership candidate Martha Hall Findley has proposed getting rid of it). Recently, Quebec Premier Pauline Marois reiterated how vital supply management was for Quebec in the context of the Canada-EU talks.

To be clear, the policy has largely succeeded at its initial goal: boosting traditionally low farmer incomes. But a 2012 Conference Board study, "[Canada's Supply-Managed Dairy Policy: How Do We Compare?](#)" shows that Canada is the only country among its peers that has stagnating dairy production – and the only one with dairy supply management policies. Farmers are unprepared for even a partial opening of Canada's dairy market, and are unable to seize opportunities in fast-growing markets.

Much more than the dairy industry's well-being is at stake. Buyers of dairy products – processors, restaurants, retailers, and consumers – effectively subsidize dairy producers by paying higher prices. The Organization for Economic Co-operation and Development estimates the subsidy at \$175,000 per dairy farm. The poorest in our society are the hardest hit, as dairy products form a larger share of their budget.

The EU deal is an opportunity for Canada to embark on reform of a policy that doesn't meet the interests of the broader public or, arguably, even the dairy sector.

Lowering dairy tariffs, or raising our import quota for dairy from all countries, could allow the industry to gradually adapt to increased competition. At the same time, doors would be opened for Canadian businesses to sell in, and from, the EU, and to have freer access to the best EU technologies, goods, and services.

Canada should take this opportunity to say, "More cheese, please."