

We Stand Alone, Because of Cheese

(National Post – John Ivison)

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The Conservative attack ads unveiled Monday suggest one front of the election campaign, whenever it comes, will be fought in the fields of rural Quebec. In this theatre, victory will be determined by whichever party shouts loudest of its love for Quebec's dairy industry, in the form of the government-mandated but consumer-funded supply-management program that inflates the cost of milk, butter and cheese for all Canadians.

At the same time as they promise to protect protectionism, Conservatives and Liberals claim to be ardent free-traders.

In last year's Speech from the Throne, the Conservatives pledged "aggressive pursuit of free trade" to provide more competition, more choice for Canadians and more economic growth. For their part, the Liberals claim their trade strategy will secure Canada's future as an "Asia-Pacific Nation." This is what Goethe meant when he described politicians as visionaries and charlatans.

The next major international trade deal is likely to be the Trans-Pacific Partnership (TPP), a nine-country trade negotiation that includes the United States, Australia and New Zealand. Canada wants in, even if it is playing coy publicly, but has been denied entry because it is not prepared to consider fundamental reforms to supply management. This should be a pivotal moment in Canada's irrational defence of supply management. There are signs that Japan and Korea are prepared to undergo structural reforms to their agricultural sectors, in exchange for a seat at the TPP table.

If all the members of the Asia-Pacific Economic Cooperation organization sign on, it would mean a free trade deal encompassing half the world's economy. Yet Canada, an APEC member, remains hostage to 7,500 dairy farmers in Quebec and 5,000 in Ontario, accounting for less than 1% of the Canadian economy.

Their ability to veto reform comes at a cost to the export-oriented grains and meat sector, which is seeking more access to Asian markets.

That price is in addition to the drain on the pocketbooks of ordinary Canadians, who pay twice the world market rate for dairy produce, according to the Organization for Economic Co-operation and Development. A survey of farm-gate prices by the International Dairy Foods Association estimated prices for the past three years at \$16.40 in the United States, \$19.19 in the European Union, \$14.49 in New Zealand and \$29.87 in Canada (all prices in U.S. dollars per hundredweight).

On Feb 1, milk prices will rise another 1.5%, taking the price increase to 59% in the past 15 years, almost twice the rate of inflation.

The Dairy Farmers of Ontario's defence is that the Canadian government does not subsidize milk, which is true – it just ordains how much farmers can gouge consumers. Studies suggest the average dairy farmer generates a 25% operating profit, three times the average for non-farm businesses. No wonder dairy farmers are so militant when the

prospect of ending this mass transfer of wealth is raised.

Canada is involved in trade negotiations with the European Union, which is keen to see a reduction in tariff rates that reach nearly 300% for butter and cheese. Yet because the EU has its own subsidies, it is less insistent on structural reform than such TPP countries as Australia and New Zealand, which have eliminated their own supply-management programs.

Australia provides a case study in how a government that believes in free trade could introduce reform. As in Canada, domestic demand there was predicted and the market divided among farmers. Quota and prices were set to cover production costs plus profit. As in Canada, the production quotas came to have market values – in Ontario today, about \$27,000 per dairy cow.

But in 1999 the Australians decided to phase in the elimination of quotas. Farmers were helped to adapt or leave the industry by a temporary consumer tax. The results were positive: The industry rationalized and efficient producers were able to export to overseas markets.

Prime Minister Stephen Harper has defended supply management since he united the right – one presumes for political reasons. He has told his APEC partners that reforming supply management would be political suicide. He may also be put off by the cost of adjustment assistance.

At the same time, he has hitched Canada's star to the spectacular growth occurring in the Asia Pacific region. As he said when he announced a \$600-million federal contribution to a dozen Pacific Gateway projects: "Canada should be the crossroads between the massive economy of the United States and the burgeoning economies of Asia."

Yet, if a Trans-Pacific Partnership deal is concluded without Canada, we could end up resembling not so much a crossroads, but a dusty side road.