

Dairy lobby must prepare for compromise in trade negotiations with Europe

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By all accounts, Canada-European Union trade negotiations are reaching their climax.

As the narrative goes, Canada inks a deal with Brussels this year or it loses its chance because the EU is increasingly focusing on its nascent negotiations with the much bigger fish, the United States.

And as fish go, the EU with 500 million consumers is the biggest in the tank.

So what are the obstacles to a Canada-EU deal four years in the negotiating?

There are many, from local procurement rights and intellectual property to investment rules.

But for many trade watchers with an instinct for the simple and a grudge against protectionism, a key issue is Canada's supply management protections.

Europe wants access to Canadian dairy markets, particularly cheese. To stop them and to protect a backward and small dairy industry, Canada is prepared to sacrifice a deal that would benefit Canadian exporters by billions of

dollars.

Of course, that is a gross exaggeration, which ignores the fact that the EU on many fronts, including agriculture, is far more protectionist than is Canada.

But arguments based on ideology (and the free trade argument against supply management is far more ideology than economics) do not always care much about the facts.

Still, the fate of Canada's supply management protections is clearly an issue at the talks and this is where Canadian ideology and political requirements trump the likely facts.

No political party hoping to win seats in much of rural Canada could say that supply management is negotiable. Ontario, Quebec, Maritime and British Columbia rural voters would not react well.

So the Canadian government (as did previous governments) insists it will defend supply management in negotiations. Defending doesn't mean it is a deal breaker, as world trade negotiations in 1993 proved when Canada defended to the end quantitative import quotas but ultimately was isolated and compromised.

Since then, Canada "defending" supply management has worked in trade deals.

However, the European negotiation is different. The EU dairy industry wants more cheese access in return for better access for Canadian beef into their incredibly protected market.

Supply management is a bit player in the negotiation but more important than usual.

At last week's federal-provincial agriculture ministers' meeting in Halifax, several provincial ministers briefed on the Canada-EU negotiation suggested that change may be coming.

The issue is whether Canada can preserve the essence of supply management's tariff system, which ensures stability for production quotas by restricting imports while allowing an increase in controlled over-quota imports that would satisfy some of the European demand.

Trade negotiations are a give and take.

The EU will surely not receive all the dairy access it wants.

Canada surely will not receive all the beef access it wants.

The compromise will be to add a bit of water to the wine on both sides of the Atlantic.

If there is a deal with the EU this year, Canada's dairy industry should expect some increase in export competition.

The government's political calculation has to be that despite initial dairy lobby outrage, it can live with it as the best of the alternatives.