Only in Canada you say? *Brilliant!*

ANYONE WHO HAS ever stopped at a red light in the rain knows that raindrops, as they run down our windshields, at times seem to jump sideways – defying gravity – to hook up with an adjacent drop before continuing their downward course.

If pressed to explain why they do this, we would likely attribute it to gravity and – for those of us who remember our Grade 11 chemistry – surface tension. (The smarty-pants among us might point out that this is also called a hydrogen bonding effect…)

What we see on our windshields happens in soils and ditches and streams and tributaries and rivers as water, falling on the land, gathers in larger and larger courses in its inevitable journey to the sea. Collected in our soils and rivulets and tributaries, water is productive and nurturing. As it moves faster and gains volume, it becomes increasingly difficult to control.

Capitalist economics are based on the same immutable principle. In a market-driven economy, money – like water - takes the course of least resistance, attracts (capital bonding effect?), and as it pulls together to itself, increases in volume and velocity, moving from a productive and nurturing force to one with the potential to leave great arid areas in our communities.

As Adam Smith's classically competitive little Main Street mom-and-pop shops morph into small businesses that morph into medium scale businesses that morph into big businesses, the accelerant for acquisitions, mergers and expansion is capital. Attracting and retaining capital requires profits.

To increase profits, firms can either reduce costs (greater efficiency, lower-priced inputs) or increase revenues (returns per unit/sales/market share) or both. As market power increases, competition deceases. The winners are the owners and shareholders of the firms that survive and grow. The losers are small producers and consumers increasingly at the mercy of a market dominated by oligopolists/oligopsonists who serve their own interests first.

Globalization, as it is euphemistically called, began as a GATT-inspired imperative in the mid-1980s to remove trade barriers between nations. Lacking any solid economic ideas of their own and so buying into the neo-classical, investor-driven lust for a borderless world, nations became one another's "besty" in a proliferation of bi-lateral and multi-lateral trade pacts.

Meanwhile, out on the alley, capital began sniffing around for the next big thing. Not too much of a "d-uuuh" to look at population growth, water scarcity, soil degradation and spiking energy costs and come to the conclusion that food is the new plastic.

The international dairy sector is a perfect example of the results of such investment. But so too are the price swings that now characterize the sector.

FAO data shows global milk prices to be volatile and cyclic:

FAO, Milk and Milk Products, April 2014. http://www.fao.org/fileadmin/templates/est/COMM_MARKETS_MONITORING/Dairy/Documents/Milk_and_Milk_Products.pdf

Following a 2008 melamine scandal that killed six children and hospitalized 54,000, China increased its imports of foreign milk products from under 4 million tonnes in 2008 to just under 14 million tonnes in 2013. Today, China is the world's main importer of whole milk powder and

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second largest importer of skimmed milk powder.

Motivated by a botulism scare (Fonterra), bribery allegations (Danone) and price-fixing scandals (milk powder firms) that spiked world milk prices in 2013, Beijing shifted to what some are calling "panic buying" mode, all the while strengthening government incentives to increase domestic milk production.

By the beginning of 2014, mounting Chinese stocks of imported milk plus increased local production resulted in a sharp cutback in Chinese dairy imports. This, combined with a fall in demand from the Russian Federation (the main importer of butter) caused oversupply conditions and a global drop in dairy prices. Further contributing to the drop in global milk prices are supplies out of Europe, New Zealand and the US. During the first half of 2014, Rabobank estimates global exports spiked by an additional 7 billion litres, 25 per cent over year earlier levels.

In the past 6 months alone, global dairy prices have fallen by more than 40 percent.

In their Aug 5th auction, Fonterra reported a further 8.4 per cent drop in dairy prices – to a two-year low - against a surge in volume of almost one-third. After record pay outs to producers last year, Fonterra expects to cut its payout this season by 29 percent; a US$4 billion blow to the country's economy.

American farmers also don't see much relief in sight. The US Farm Bill passed last February axed dairy price supports. American Milk Income Loss Contracts end August 31. Both have been replaced by one-size-fits-all dairy margin insurance or Livestock Gross Margin insurance as long as LGM subsidies are in place.

Little wonder a group of 140 US congressmen from both political parties are petitioning Obama to push Canada to put supply management on the Trans Pacific Partnership table or be tossed from the talks.

Market wags muse "prices will adjust" without realizing what "adjusting" means. Cows aren't widgets. Farm resources cannot move into and out of production depending on market conditions. Costs of unused capacity in times of low prices have to be made up for in times of high prices.

With market concentration at the processing level, farmer margins are pushed back to "a buck more than it would take to make 'em walk away!" Farmers facing fluctuating prices and low margins can't farm sustainably. Is this roller coaster what we want for Canada?

Protected from the vagaries of the "free" market, the stability provided to Canadian dairy farmers under supply management underwrites the fertility of our soils, the sustainability and resilience of our communities and the success of our inter-generational commitment to build a better commons.

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