Time to tell the truth about supply management

IN NOVEMBER'S COLUMN, I recapped global outlook presentations made at Agropur's Forum on Cooperatives and the Consolidation of the Global Dairy Industry. This seven-hour forum spanning two days was one of many concurrent sessions at the 2014 Quebec International Summit of Cooperatives, held in Quebec City in early October and attended by 3,000 delegates from over 90 nations

As characterized by the speakers, the global dairy outlook was expansive.

Tim Hunt, Global Dairy Strategist with Rabobank, described a future where milk consumption by the rapidly growing middle classes in emergent nations – most dramatically China - will result in increased import demand, fueling a new era of dairy trade expansion. As regulations continue to change - e.g. the removal of EU quotas in 2015 – milk supplies will grow significantly larger in some regions.

Noting the dramatic convergence of milk prices in the three major supply regions (Western Europe, US and New Zealand) since 2007, Benoit Rouyer, Chief Economist at France's CNIEL, feels shortages of water and arable land in many regions will fuel price increases. His presentation focused on the growth strategies of 11 international dairy cooperatives jockeying for position with 16 private sector firms to divvy up the global market.

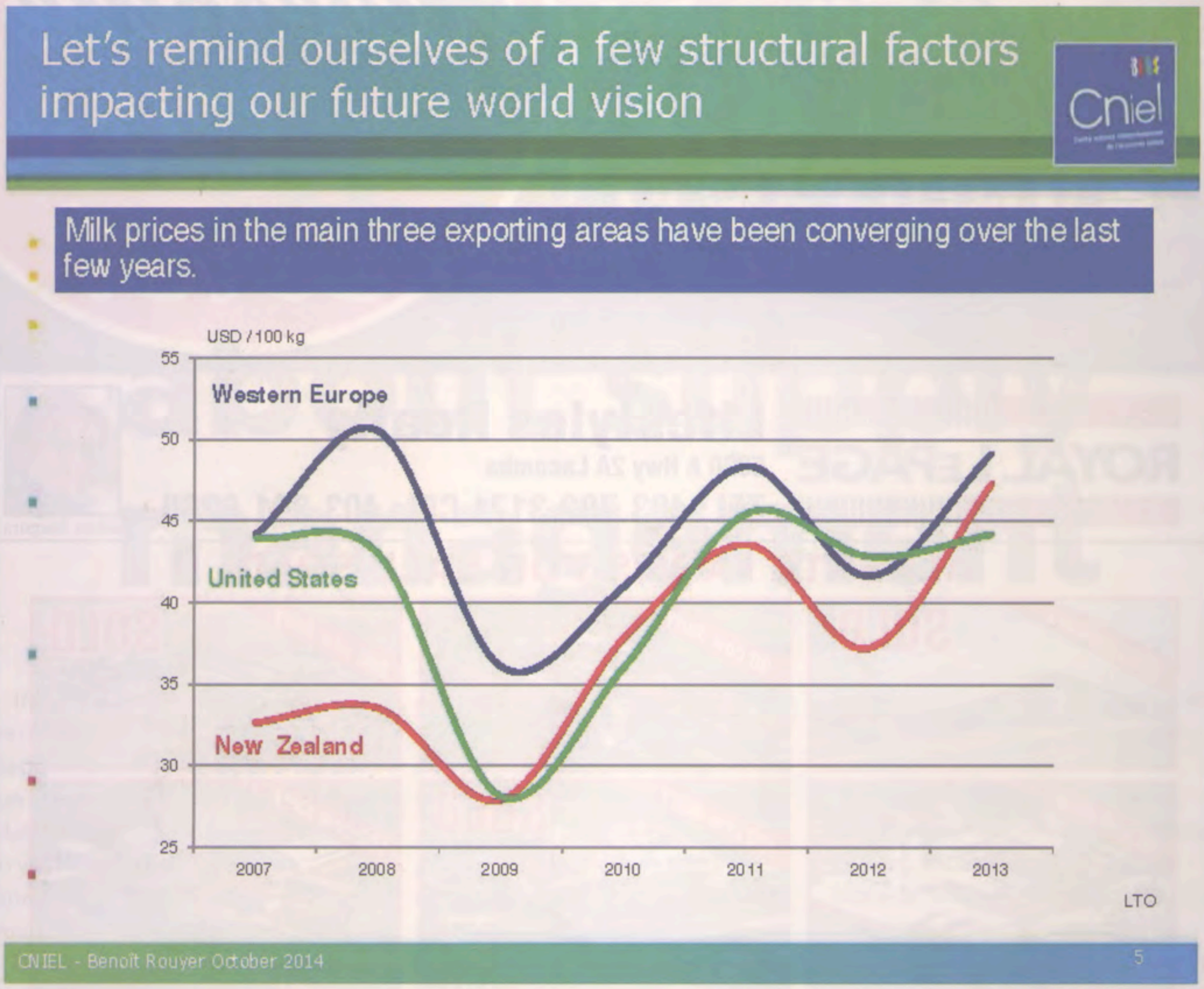
It's easy to understand what's in it for investors – profit. And it's also easy to understand, with international raw milk prices averaging 40 to 60 percent of production costs, what's in it for farmers – survival. What's in it for Canada's farmers? Nothing but risk.

When the price of milk at the farm gate is set by an international market, local farmers have little hope of receiving an equitable return that covers production costs and allows for investment in the future. As concentrated dairy titans with deep pockets duke it out for emerging markets, farmers who still own and ship through their cooperatives can only hope their boat stays afloat in an increasingly tumultuous sea.

In the US, only 58 percent of farm-gate returns from 2006-2013 came from the market. The rest (42 percent) came from government (taxpayer) subsidies.

And while American farm price subsidies in place for the past 70 years have been replaced with

[The writer is an award-winning agrologist based at Bowen Island wendy@wendyholm.com]



margin protection under the new (2014) US Farm Bill, the story is still the same: US dairy farmers will continue to depend on hidden subsidies to cover production costs. These include government-subsidized risk mitigation insurance (the new Margin Protection Program for Dairy Producers pays out when the spread between raw milk and feed prices falls below an insured level that can range from $4 to $8 per hundredweight of milk) and "surplus" removal programs (under the 1949 Milk Price Support Program the Dairy Product Donation Program buys products at prevailing market prices for donation to domestic feeding programs when the dairy margin falls below $4/cwt or less for each of the immediately preceding two months).

Continuing are The Dairy Forward Pricing Program (allows proprietary plants to forward contract with dairy producers for Class II, III and IV milk without being subject to Federal Milk Market Order price minimums), the Dairy Indemnity Payment Program, and the Dairy Promotion and Research Program.

Interestingly, in response to pressure from US dairy farmers that they "needed a way to balance supply and demand so they could get a reasonable price for milk and stay in business" (Milwaukee Wisconsin Journal Sentinel), the draft US 2014 Farm Bill contained a provision that sought to limit milk production when supply levels rose and depressed price. It was struck down in the House before going to the Senate.

Even so, the five-year bill, which preserves "generous crop subsidies", got the thumbs up from US milk producers. According to Karen Gefvert, Wisconsin Farm Bureau Federation government relations director, "Wisconsin farmers, especially dairy farmers, will fare well under the new system."

Under Supply Management, Canadian dairy farmers do not need subsidies because they have the market clout to demand fair raw milk prices from the highly concentrated processing sector. Under supply management, Canadian dairy farmers do not have to battle oversupply because the market is well-managed.

Despite the aggressive (and uninformed) attack of Martha Hall Findlay, Senator Colin Kenny and others, balanced research shows retail prices are closely equivalent in both markets. When the true cost of milk in the US is calculated (adding in the cost of taxpayer subsidies), milk in Canada is actually cheaper. If you were to add in the bureaucratic costs of administering complex American subsidy programs put in place to ensure a fair price to producers, Canada's supply management system would be revealed as the far superior public policy tool to ensure sustainable production, sustainable farms and sustainable communities.

And if you were to go on to measure the negative externalities of the US dairy system – the environmental impact for example of 10,000-cow dairy herds – the true sustainability benefits of supply management would be exquisitely evident.

A rapidly consolidating global dairy sector is thirsting for new markets. Canada is on the hit list. It is critical that Ottawa stand in unwavering support of supply management. To ensure this, we have to educate the consumer. Time to tell the truth about supply management. Before it becomes just a page in the history book of what Canada once had and lost because we let it slip away. Ⓓ