BRANDISHING A LIMP, 13-PAGE SWORD AND CALLING FOR BLOOD...

DAIRY FARMERS, WHO know a lot about the effects of market chain concentration, would be forgiven for expecting more from the recent CD Howe Institute report titled Sticker Shock: The Causes of the Canada-US Price Differential.

Instead of a thoughtful analysis of the factors impacting consumer prices – including Canada's increasingly concentrated food processing sector - they were served up yet another deregulation omelet: it's not the industry's fault, it's supply management – get rid of it and all will be well.

Tell that to the residents of the southern Alberta community of Glenwood, trying to figure out how they will pay the bills after Saputo's March announcement that their milk powder plant would close, a loss of 25 jobs and fully half their municipal operating revenue.

Tell that to the residents of Wetaskiwin, Alberta, who will lose 67 jobs this year when Saputo closes its condensed and powdered milk plant.

From the time they took over Dairyland at a reported 50¢ on the dollar, market concentration has been the name of Saputo's game. The further shutdown of two US cheese plants, (a Swiss cheese facility at New London, Wisconsin and a mozzarella and provolone plant at Hancock, Maryland) will result in a loss of 180 jobs to local communities and a gain of $4.8 million to Saputo's bottom line. This follows last year's closures of a former Dairyland plant in Winkler, Manitoba and a manufacturing facility in Warwick, Quebec that cost 100 community jobs.

In its March media release, Saputo claimed the recent plant closures would allow them to "pursue additional efficiencies and decrease costs while strengthening...market presence." To do this, Saputo recently doubled production in its Argentina facility, snapped up Australia's Warnambool Cheese & Butter in a $500 million-plus takeover battle and are eyeing production facilities in New Zealand and Brazil. Currently, Saputo is the third largest cheese maker in the US and one of the top 10 dairy processors in the world, generating about $9.3 billion of annual salesand employing 13,000 people.

According to Gary Helou, CEO of Murray Goulburn - Australia's largest dairy food company and a co-op to boot - the number of dairy processors in that country can be expected to drop from 8 to 4 over the next three years as industry consolidation occurs.

Why are they doing this?

Global demand for dairy products is projected to grow by four to five percent a year - two to five times faster than the one to two percent projected increase in global milk supply.

As a result, prices are expected to rise, and processors want to make sure the lion's share goes to management bonuses and shareholder's pockets to fuel expansion. Backward-integration (through ownership or contract) enhances the ability of processors to influence supply. Market concentration in the food chain means processors (moving towards becoming both oligopolies and oligopsonies) can increase wholesale margins dramatically over what would occur in a "competitive" market.

Standing in the way of the transnational dream of a borderless market is Canada's supply management system. 'Off with its head' shouts the business community. And there, right on queue, is the CD Howe Institute – brandishing a limp, 13-page sword and calling for blood.

While acknowledging that increased concentration in Canada's processing, manufacturing and retail sectors over the past decade has contributed to widening Canada-US wholesale and retail price gaps, Sticker Shock: The Causes of the Canada-US Price Differential observes that the magnitude is difficult to determine and in any event the blame lies not with concentration per se but with government regulation, and – are you ready; it is mentioned 10 times! - supply management.

"Rising wholesale price gaps over the 2004-2007 period are positively associated with Canadian government regulations (high tariffs and supply management) and negatively associated with competition in Canada. There is less competition among manufacturers in Canada."

(It would take much more than this simple column to go over

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

the errors in the CD Howe report. In the above, for example, since tariffs and supply management policies remained constant from 2004-07, how can they be "positively associated" with "rising wholesale price gaps"? How do higher wholesale prices implicate farmers, who have nothing to do with wholesale price setting?)

The solution to widening Canada-US price gaps is, according to the Institute, to get rid of supply management, increase duty-free limits for cross border shopping and reduce the impact of taxes (including fuel, property, income) and regulations (including labeling) on the cost of doing business for manufacturers, distributors and retailers.

The institute's condemnation of Canada's supply management system begins in paragraph five and repeats itself nine more times in the slim, 13 page report: "The easiest thing Canadian governments can do if they want to reduce the Canada-US wholesale price gap is eliminate existing tariffs and supply management policies that are responsible for the largest price gaps..."

Suggesting increasing price gaps between Canada and the US (as measured at the wholesale and retail level) can likely be explained by "higher costs of doing business in Canada due to government policies, the lower density of the Canadian market and other cost factors", the Institute then places the blame at the feet of Canada's supply management system.

This, despite the fact that the price gap is measured at wholesale and retail. This, despite the fact thatfarm gate prices are never mentioned, let alone tracked. This, despite the fact that the Institute notes "the rise in wholesale price gaps accounted for about three-quarters of the increase in retail prices over the (2004-2007 study) period" coincident with increased concentration in Canada's processing sector.

In great Operatic tradition, the "fat lady sings" line is nicely tucked in at the end: "If the federal government is serious about reducing prices for Canadians, it might want to first look at some of its own policies before tasking the Competition Bureau with investigating companies charging higher prices in Canada relative to the US."

A reshuffling of milk truck routes and destinations in the face of upcoming closure of two Saputo plants will allow Alberta Milk to maintain its commitment to efficient delivery to the processors.

The relentless attacks on supply management by investor-driven "think tanks" like the CD Howe Institute, who wish to create a borderless world for their "benefactors", is all the more pervasive when left unchallenged.

Circulate this. Time to speak up and fight back. Ⓓ