

# Trade Truths

## Canadian consumers enjoy world's best milk and food values

Canadians spend only 1.5 per cent of their disposable income buying dairy products.

We have the world's best value for some of the world's highest quality milk and dairy products.

These simple truths are ignored by critics of orderly marketing. Supply management continues to adapt to serve Canadian milk markets more than 45 years after it was first introduced.

Recently, media criticism and outright attacks have been frequent, resulting in increased frustration and concern on our farms.

Reading and listening to pontificating pundits is painful, knowing full well these ideologically driven, self-acclaimed experts have little or no interest in hearing reasonable answers to their legitimate questions.

The purpose of this publication is to put things into perspective, separating ideology from reality, to reassure you that the future of the Canadian dairy industry is bright, despite the gloom and doom stories we have been exposed to in recent months.



## INSIDE:

- Why the WTO talks really failed
- Wheat and milk—very different
- Dairy deregulation a mirage
- Fair prices without subsidies

## Free Trade Agreements – an oxymoron?

It may surprise many that there are some economists and journalists who actually believe free trade exists or could exist.

In reality, what does exist is a provision that defines Free Trade Agreements within the rules of the World Trade Organization (WTO).

This provides what are technically called Free Trade Area Agreements, whereby all member countries agree to abide by the WTO rules and provisions. In accordance with the Free Trade Area Agreement provision, if two or more countries decide to liberalize trade beyond their WTO obligations, they are rightfully entitled to call it a "free trade agreement".

### But they aren't about free trade

Such an agreement may include any number of options, ranging from tariff reduction or elimination to increased duty-free access or the development of an enhanced dispute-settlement process. However, it is important to understand there is no free trade area agreement that completely opens any country's borders, and it is incredibly unlikely there ever will be.

Media pundits may lobby for their ideological positions, but the Canadian government has an excellent grasp of the dirty realities of international trade. Ninety-three per cent of global milk production is consumed in the country where it is produced. The thin trade in milk is mainly the dumping of subsidized surpluses. It's a losing game that Canada wisely avoids.

### It's about fair prices for dairy farmers without subsidies

Canadian consumers get stable supplies of high-quality milk products at fair prices without government subsidies.

It is in Canada's interest to protect this successful approach and the Government understands and is committed to continuing that success.

Dairy farmers in Canada are simply compensated for the true cost of producing milk. Consumers don't pay less at the grocery store if the farm price of milk goes down. Only the farmer suffers.

Pundits argue that the problem of low incomes for some Canadians would be solved by lower farm milk prices. It is not true and it would not work.

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**Canadians only pay about 11.5 per cent of their disposable income for food and less than two per cent of their income is needed to pay for milk and dairy products**

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## Why have the WTO talks failed again?

The existing WTO negotiations are comprehensive, meaning either everything is agreed to or nothing is agreed to.

There are multiple negotiating areas: agriculture, non-agriculture market access, intellectual property (copyrights, etc) and rules.

In 2009, in Geneva, when the negotiation clearly derailed, there was only a text for agriculture, which was not supported by many countries. There are still no texts for the other negotiating groups.

There are three types of countries at the table at the WTO. There are countries willing to give up something in agriculture if, for example, they gain something in goods and services.

There are countries willing to make concessions in goods and services if they gain something in agriculture. There are other countries whose primary objective is to gain in all areas.

So, with no progress in the other negotiating areas, very few countries were willing to sign onto the agriculture text.

There were also elements that were blatantly unfair and obvious. An example is "sensitive" products, which most countries have, including Canada, the European Union, the United States, Japan and most others. Many countries agreed that special consideration for sensitive products must be included, but there was no agreement on how to do it, so it didn't happen.

*Continued on page 3.*



## What Canada's bid to join the TPP talks really means

**Canada won't abandon its successful dairy policies. The U.S. won't give up its multi-billion dollar Farm Bill**

Many irrational arguments about Canada's request to join negotiations under the TransPacific Partnership (TPP) have been made by the likes of the *Globe and Mail's* columnist, Jeffrey Simpson, and Andrew Coyne, former national editor of *MacLean's Magazine*, who has very recently left *MacLean's* to return to the *National Post*.

Simpson, Coyne, and a few others have concluded, absolutely incorrectly, that Canada's willingness to participate in trade negotiations and expand the membership of the TPP was a clear signal that the Canadian government had put supply management on the table, or maybe even worse.

The TPP is a negotiated agreement among nine countries that now want to expand. The country member that is leading the charge against supply management is New Zealand, which says, "Canada cannot join the TPP unless Canada is prepared to give up supply management."

When Prime Minister Harper announced in Honolulu that Canada had agreed to participate in the negotiations to expand the TPP, the likes of Simpson and Coyne raced to their keyboards to announce supply management may be sacrificed to gain membership in the TPP, despite repeated government assurances to the contrary. Regardless of what you may have read or heard about the TPP, Canada played it smart. First of all, it was not the members of the TPP who demanded that Canada scrap

supply management as a pre-condition for joining the negotiations – it was only New Zealand.

When key players such as the U.S., Japan, South Korea and Mexico indicated an interest in joining the TPP, they all stated they wanted Canada to participate.

There is no question that if the choice is to placate New Zealand, and leave Canada out, New Zealand should brace for disappointment.

Canada is an economic powerhouse with greater natural resources than any country on earth, with the possible exception of Russia. Canada also has infrastructure and political and economic stability.

Canada used to act like the Boy Scouts of world trade. Indeed, we are still responsible, but Canada now

recognizes it is dealing from a position of strength.

Canada also understands that every country has a right to keep some products out of trade negotiations.

In addition to heavy protection and subsidies for sugar and cotton, the U.S. protects rice, dairy, peanuts and a range of other products. Those agricultural commodities have never been on the table in any trade negotiation in over 70 years, but the U.S. still proclaims itself to be the freest trading nation on earth.

Pundits may tend to repeat the political spin of other countries because it is a better theoretical or philosophical fit with their own ideology.

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## Wheat and milk - very different commodities need very different marketing solutions

The government is moving to remove the single-desk selling powers of the Canadian Wheat Board (CWB), so the question comes up, why the CWB and why not supply management?

It's a complex question, but there are at least two major factors. It's really the exact opposite of what some pundits suggest when they say that other countries are interested in our market, not our resources.

There has been pressure over the years from some other countries to dismantle the CWB. Other countries don't like competing with the CWB in the export market. As well, with the CWB, there is a limited role for private interests

like Cargill and Archer Daniels Midland (ADM) to play in grains controlled by the CWB in Canada.

This is in contrast to the dairy (and poultry) sectors. Our dairy products are not exported to other dairy-producing countries or to countries where they might compete against dairy exports from another country.

As well, corporate dairy interests are not constrained in Canada. Nestlé, Unilever, Arla, Lactalis (Parmalat), Kraft, Danone and Yoplait are all major multinationals that have significant stakes in the Canadian dairy industry.

As well, Canadian companies, Saputo and Agropur (a co-op) have grown to be among the largest dairy companies in the world.

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## Canadians get a better deal because they only pay once Subsidies in U.S. give illusion of lower milk prices

There are several reasons why prices for milk are higher in Canada. First, it's a fact that prices paid to farmers are higher in Canada than in many countries. A primary objective of the marketing system is to ensure that the farmer doing the work gets a fair share of the consumer dollar. Milk prices paid to farmers are based on a cost-of-production formula.

You can make a case dairy farmers in Canada are probably the only producers who get paid the actual cost of producing the product ... without any subsidies from tax dollars.

It is not true that prices paid to farmers translate into higher retail prices or vice-versa. The pundits like to argue that Canadians pay more for milk. They seem not to recognize or ignore the fact that milk includes a wide range of dairy products. Milk is often a loss leader. Critics compare the price of a U.S. gallon of milk converted to a litre equivalent to buying a litre of milk in Canada, instead of comparing the very competitive price of one litre in a four-litre bag, only because it better fits their arguments.

Dairy farmers have said for a long time, we can't compete with other countries' treasuries.

U.S. farm milk prices are lower because of subsidies, plain and simple: subsidized feeds, subsidized water and one, not often mentioned factor, a reliance on undocumented, migrant labour. Large, multi-thousand cow herds in desert states like New Mexico and Arizona and states where the aquifers are being depleted are not sustainable. It's not clear what's going to run out first, the money for the subsidies or the water. There are lots of people in the U.S. who are going to try and prove that prediction is wrong.

The fact remains that Canada has a sustainable model and the government does not and will not subsidize production as they do in the U.S. A recent report by the Advisory Committee for Milk, established by the U.S. Secretary of Agriculture, acknowledges that without a supply of undocumented, read illegal labour, the US dairy industry would look nothing like it does today.

## Supply management not holding up WTO talks

There are many reasons why the DOHA Round is where it is today, but only a few Canadian pundits have the delusion that Canada's supply management system is somehow the issue holding up progress in trade talks.

Called the Doha Development Round, the stated intent was to improve the welfare of roughly one billion of the world's poorest people who try to subsist on incomes of less than \$1 per day. Traditionally, big players such as the U.S. and EU were key to any agreement and, if they reached one, others were expected to sign on. The 40 to 60 least developed countries know they have made no progress and no longer want to play the game where they get a few crumbs that fall off the trade negotiating table.

The trade practices of the U.S. and EU have sent a clear message about what the WTO means - rules for some, no rules for others.

The sad irony is that in what is supposed to be the cornerstone of the WTO agreement—a rules-based system so that the rules apply to all countries regardless of size, power or economic influence—the U.S. and EU are arguing in the DOHA Round that the current dispute settlement and trade remedy rules are "too strict", and need to be "relaxed". They do this without shame, without apparent embarrassment.

Yet in the face of what actually goes on, there are those that can trumpet, others who give them a pulpit or a voice to say that Canada, or supply management in Canada is what has paralyzed the Doha Round!

## Paying farmers less than cost as a way to help solve low incomes

When all else fails, the most fervent anti-supply management critics conjure up one of their strangest arguments.

They twist the facts to try and say that farmers should be paid less than fair prices as a way to assist low-income Canadians.

They argue that Canada's retail milk prices are a regressive tax, disproportionately affecting low-income Canadians.

It is hard to deal with this argument mainly because it's so inane. It's hard to know where to begin.

First, getting rid of supply management would not mean lower retail prices. Remember, processors and retailers want higher margins. Orderly marketing is here to balance consumer and processor interests with the interests of the hard-working farmers who milk their cows twice a day, 365 days a year.

Second, how is it conceivable that a societal problem should be solved on the backs of dairy and poultry farmers. That would only make 13,000 farmers poor or unemployed.

Surely, if the media pundits have a genuine concern about poverty in this country, they can come up with better suggestions than lower prices, at the farm. It's a societal issue that should be addressed by all Canadians.

## Canadians get a better deal because they only pay once Dairy deregulation - the mirage in dairy world trade

The pundits often cite deregulation as the answer. After all, they say, it worked in Australia, it worked in New Zealand.

In fact, Australia exports over 50 per cent of the milk they produce today and New Zealand over 90 per cent. It's true, it's factual, but it is not the whole story.

What the free trade ideologues don't tell you is that Australia always exported half of what they produced and New Zealand over 90 per cent. They have more cows and sheep than they have consumers.

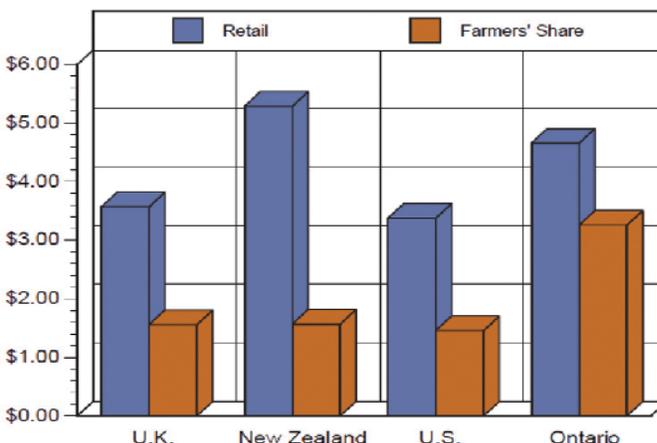
They also don't tell you that, since deregulation, the prices paid to farmers have gone down in Australia while retail

prices have gone up or that retail prices in New Zealand for milk and dairy products are at least as high as they are in Canada, if not higher.

In fact, the New Zealand government has launched a public inquiry into high retail milk pricing in New Zealand.

They also don't tell you New Zealand essentially has a virtual monopoly co-op where shares, required to ship milk, work as a quota or New Zealand farmers receive co-op dividends based on profits earned in South America and Asia from paying dairy farmers in those countries subsistence-level prices for their milk.

### Canadian consumers pay competitive prices and dairy farmers earn more without subsidies



**Prices are for the most competitively-priced package size from each market, converted to comparable 4-litre equivalent and to Canadian dollars.**

*Sources - independent price surveys converted for volume and currency rates..*

## Fair farm prices without subsidies

Farmers who produce under supply management are engaged in a social contract.

They don't take and don't want money from the government.

They want to work hard, produce high quality products that stand on their own merit.

They want to invest in their business and be proud of their farms.

They want the opportunity to earn a middle class income commensurate with what other members of society do when they

work hard with all the requisite skills needed to run an independent business.

Dairy farming in Canada is progressive and has kept up with efficiency gains, comparable to or better than, most countries.

However, when it comes to resources like water, the carbon footprint and perhaps, most importantly, the financial well-being of a country, the Canadian model is sustainable for the long-term.