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# The Case for Supply Management

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by Alan McIsaac, MLA

*For nearly fifty years the price for certain agricultural products including milk, eggs and poultry have been regulated under a system known as supply management. This article describes the origins of supply management and argues that it continues to be in the interest of both producers and consumers.*



Food is making the news these days. Pick up any newspaper or listen to any news broadcast and we read and hear about controversies over our food supply. Food riots in Asia and Mexico. A North American recall of tomatoes. The debate over food versus fuel. Significant increases in the costs of imported food in many countries. Questions about the safety of some food products that are imported to Canada. Concerns about how the food needs of a growing global population can be met. And, on top of all that, many of the farmers who produce our food are facing their most serious financial crisis since the Depression.

## What is Supply Management

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Supply management had its origins in the 1960s when farmers were increasingly facing volatile markets, losing control over their markets, and being squeezed by processors and retailers. They were vulnerable to one of the fundamental problems of agriculture — the risky roller coaster ride of prices associated with the unregulated boom and bust cycles of over and under supply.

In a “free market,” price is established by supply and demand. Agricultural products are produced by a relatively large number of farmers acting independently. This resulted in oversupply relative to demand and low

prices. The cycle would be followed by reduced production, periods of short supply and higher prices.

Years of fluctuating prices were responsible for bankrupting farms and rural economies. Efficient long-term planning was virtually impossible. Still, these price swings for primary commodities had little effect on the final costs to consumers as processors and retailers take such a large percentage. For taxpayers, the consequent farm financial problems meant millions of dollars in subsidies or bailouts.

There are three basic ways to meet these problems. One is do nothing, thus continuing with taxpayers subsidization and bailouts. The second strategy would be to allow or encourage the vertical integration of agriculture by larger interests who are able to withstand market instability, resulting in our food production being in the hands of few. The third strategy would be to give farmers more control over production and pricing.

So it was that in the 1960s, farmers began demanding their governments establish marketing boards to give them more control over their own affairs. To do that, they needed control over three vital functions, control of production, control of imports and control of prices. A national consensus emerged that the best way to achieve stability was to match supply and demand. That was achieved through the delegation of federal and provincial powers that permitted producer-controlled marketing boards to control production, pricing and marketing on the basis of individual farm production quotas and single desk selling. Governments provided further support by providing import protection through a system of tariff rate quotas. Those are the basic elements of what has become Canada’s supply management system.

In 1970, the dairy industry became the first in Canada to operate a national supply management system. Over

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the years, the supply management approach has provided a stable environment within which the dairy industry has evolved to meet the challenges of changing domestic markets and international trade rules. As a former dairy producer, I can personally attest to the vital importance of supply management to the success of the dairy industry.

The poultry industry - producers of eggs, chicken and turkey also benefited from adopting supply management. Today, supply managed commodities remain among the most successful of all farm commodities in this country.

Let me briefly outline what supply management means for farmers, for processors and for consumers. In brief, supply management means that farmers get a fair market price for their products. The price is established according to a cost of production formula so that farmers are able to receive a fair return on their investment and labour. That means they are able to achieve their returns from the marketplace, not from government subsidies or other supports.

Processors also realize the benefits of supply management. They know how much product they will receive and at what price. The products they receive are of the highest quality. This kind of predictability allows them to invest in their plants, equipment and the development of their markets.

For consumers, the benefits of supply management include access to a safe, tested and reliable supply of high quality products at affordable prices. Despite the criticisms that supply managed commodities have built-in higher costs, retail prices for dairy products, are highly competitive and have in fact on average been lower than in the United States for the past decade.

With the increased amalgamation in both the processing and retail sectors, the need for supply management is even more critical than it was when supply management was first introduced. When a small number of buyers face a large number of sellers, buyers enjoy enormous clout. In Canada, the three largest retail food chains control 60 percent of the market. The three largest processors account for 75 percent of the dairy products processed in this country. We have seen imbalances created in other non-supply managed commodities because of increased amalgamation of retail processors. That is why producers of supply managed commodities are able to act collectively and provide balance in an increasingly concentrated marketplace.

It is sometimes suggested that supply management, because of the level of protection and stability it affords to producers, creates less efficient operations. Nothing could be further from the truth. Since 1971, the average

herd size in Canada has tripled. Over that same period shipments of milk per farm have increased 5 fold. The productivity gains of Canadian dairy producers are comparable to or better than those made by producers in the rest of the world. The level of milk produced per cow increased by 120 percent in Canada. That compares to an increase of 91 percent in the United States, 69 percent in the United Kingdom and 39 percent in New Zealand, where supply management does not exist.

As well, because of the stability afforded by supply management, Canadian dairy producers have developed stringent testing, milk recording and genetic evaluation programs. This has resulted in a cattle population with the best genetics in the world. Because dairy producers receive a fair return, they are not being forced into the kind of factory farming model that has become increasingly common in some areas of the United States. Cows are given greater individual attention, meaning healthier herds and safer milk. Stable incomes means that Canadian dairy farmers can invest in long-term care, feed, housing and equipment to preserve the health of their herds. And when it comes to measures to protect the environment, dairy producers are second to none, investing in good stewardship and sustainable production practices.

Canadian supply management also provides benefits for other countries. In a global trade environment which is increasingly characterized by dumping and export subsidies, it is worth noting that because supply management is concerned primarily with the domestic market, it does not distort or disrupt production in other nations, including the developing nations.

In short, supply management has been good for producers, good for processors and good for consumers. Today, producers of supply managed commodities are some of the most efficient and self-sufficient producers in Canada.

At a time when government across this country have invested billions of dollars, since the year 2000, in farm support payments, producers of supply managed commodities have not asked for any support from taxpayers. At a time when producers of many other commodities are facing a real crisis, producers of supply managed commodities continue to enjoy stability. That's the real difference that supply management has made in this county.

Producers of supply managed commodities are able to realize a greater share of the food dollar.

When compared to the returns received by producers of other commodities, it is not hard to understand why they look at supply management with some degree of envy. By way of illustration, over the past 20 years, the

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average retail price of beef has increased by \$5.67 per kilogram. During that same period of time, farm prices for beef increased by just 14 cents. In the case of pork, average retail prices have increased by \$3.51 per kilogram while the average price received by producers actually declined by 15 cents.

With dairy products, on the other hand, producers have been relatively better off keeping up their share of the consumer price. Over the same 20 year time period retail milk prices have increased by 110 percent and dairy producers have seen a 44 percent increase in their returns.

Canadians are fortunate in that we enjoy some of the lowest food prices in the world. At the present time, the cost of food accounts for just under 10 percent of total incomes. Ten years ago that was 12.5 percent of income. In the past 20 years food production has increased by 13.8 percent, while farm incomes, including support payments from governments (and tax payers) have gone up by just 2.1 percent. It is little wonder that we are experiencing a crisis in many sectors of the agriculture industry in this country.

That is why it is so important that our system of supply management be maintained and protected during the

current round trade negotiations under the World Trade Organization. In past rounds, Canada was able to achieve protection for its dairy and poultry industries. I remain confident that in the current round, Canada will continue to defend its position. I am pleased to note that the leaders of our four national political parties have also publicly endorsed supply management.

Supply management has demonstrated its benefits for close to 40 years now. It has worked, it continues to work, and I have every confidence it will work in the coming years. Ensuring farmers receive a stable income in exchange for producing high quality food, while not costing tax payers a penny, has been the major success of supply management. The system of supply management also ensures stability of prices and supply, and also ensures consumer prices. I believe as well it is time that the marketplace provides greater recognition and rewards to all producers in Canada who work hard and long to bring us safe, high quality food products.

I urge all parliamentarians to support supply management. If there was ever a time when this country needed to defend its farmers and the security of its food supply, the time is now.