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Canada's Supply Management System

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CANADA'S SUPPLY MANAGEMENT SYSTEM

1 INTRODUCTION

In Canada, supply management is a way for farmers – and more specifically, those who produce milk, chickens and eggs – to control, through a marketing system, the supply or quantity of their commercial products. In order to market their products, producers must hold a permit, commonly known as “quota,” without which they would not be able to sell their products to a processing plant.

This paper presents the origins of supply management in Canada, the regulatory framework it operates within and its three basic pillars: production control, pricing mechanism, and import control. It also briefly discusses the concerns raised about certain recent international agreements.

2 THE ORIGINS OF SUPPLY MANAGEMENT

Theoretically, in a perfectly competitive market, equilibrium is achieved when the quantity of goods supplied by sellers equals the quantity demanded by buyers.¹ This equilibrium point sets the quantity and price of these goods.

- If the price is lower than the equilibrium price and the equilibrium price is very low, demand for a product exceeds supply. This may result in a shortage, since buyers will be apt to want to buy more of the goods. This tends to lead to rising prices.
- Conversely, when the price is higher than the equilibrium price, supply exceeds demand, resulting in a glut and falling prices.²

During the 1960s, price instability and interprovincial trade disputes were a source of major concern for the poultry, egg and dairy industries.³ At that time, the Canadian agricultural sector experienced overproduction caused by technological advances, resulting in low, unstable prices and disputes between farmers and processors.⁴

Faced with this difficult economic situation, farmers sought to strengthen their bargaining power by asking their provincial governments to create marketing boards. It was this situation – price instability and fluctuations in farmers' incomes – that led to the creation of the supply management system.

The national supply management system coordinates production and demand while controlling imports as a means of setting stable prices for both farmers and consumers. In Canada, supply management encompasses five types of products: dairy, chicken and turkey products, table eggs, and broiler hatching eggs.

3 REGULATORY FRAMEWORK AND THE PILLARS OF SUPPLY MANAGEMENT

In 1972, the *Farm Products Agencies Act*⁵ created the national agencies authorized to establish supply management. The national egg, turkey and chicken marketing agencies were created in 1972, 1974 and 1978 respectively to administer the supply management system for these farm products. The Canadian Milk Supply Management Committee, chaired by the Canadian Dairy Commission, a Crown corporation created in 1966,⁶ is responsible for the administration of supply management for the dairy industry.⁷

The *Farm Products Agencies Act* also established the National Farm Products Marketing Council, which became the Farm Products Council of Canada⁸ in 2009. This federal body oversees the various agencies in an effort to promote an efficient and competitive agricultural sector while ensuring that the marketing system operates well, in the interests of producers and consumers.⁹

To be effective, the national supply management system must follow the three basic rules that are its pillars:

- production control;
- pricing mechanism; and
- import control.

3.1 PRODUCTION CONTROL

To prevent surpluses and shortages that can cause significant price fluctuations, the national agency representing each industry is responsible for setting the national production level based on provincial demand. The *Farm Products Agencies Act* authorizes each national agency to restrict production and set production quotas for each province. Each national agency may also impose penalties for overproduction or underproduction.

The provincial boards are responsible for allocating production among farmers, who undertake to produce within their allotted quota and pay any penalties for failing to do so. The boards are also responsible for negotiating prices with buyers. Lastly, they set minimum quotas and quota transfer rules.

3.1.1 QUOTAS

To operate quota-controlled farms, farmers must hold quota, a kind of licence authorizing them to produce a given volume.

Hobby farmers operating small farms are exempt from supply management. Each provincial commodity board maintains its own exemption criteria. For example, Ontario exempts producers with under 300 broilers, 50 turkeys and 99 laying hens.¹⁰

The provincial marketing boards also set minimum quotas. Currently, under Ontario's supply management system, a farmer-member must have at least 14,000 units of chicken production (one unit corresponds to 13 kilograms [kg] of chicken), which is equivalent to 182,000 kg of chicken production per year.¹¹

Quota sales vary by industry. In the dairy industry, sales are negotiated not in terms of litres of milk, but in terms of daily kilograms of butterfat produced, the equivalent of one cow's production,¹² whereas in the poultry industry, quota is sold by units produced or square metres of floor space. For example, in Manitoba, one production unit is equivalent to the production of one chicken. In Quebec, one square metre of chicken production is equivalent to the production of 7 to 10 birds.

3.1.1.1 NUMBER OF QUOTA HOLDERS AND QUOTA VALUE

In 2014, cash receipts for the supply-managed sector accounted for 17% of cash receipts for Canada's entire agricultural sector. There were 16,153 quota holders in Canada, mostly in the dairy industry (see the map shown in the appendix). Most of the quota holders are in Quebec and Ontario.

Farmers initially received quota free of charge. However, quotas acquired market value, which has risen considerably over the years. For example, milk quota in Manitoba was selling for \$27,399/kg in December 2015, compared to \$12,000 in December 1998, an increase of over 100%.¹³ Across the country, the estimated total quota value was \$32.6 billion in 2014, compared to \$14.7 billion in 1998 (see Table 1).

Table 1 – Change in Total Quota Value in Canada, By Province, 1998–2014 (\$ thousands)

	1998	2002	2006	2010	2014
British Columbia	1,025,699	1,779,335	2,877,484	3,555,332	4,192,656
Alberta	1,095,162	1,773,915	2,407,937	2,812,930	3,235,615
Saskatchewan	308,753	524,843	652,485	990,125	1,027,735
Manitoba	457,374	784,883	911,772	1,528,581	1,285,864
Ontario	5,565,246	8,486,010	9,265,146	10,789,265	12,399,935
Quebec	5,477,087	7,446,698	9,775,191	9,997,696	9,028,598
New Brunswick	281,954	398,751	423,451	564,280	377,179
Nova Scotia	361,684	592,286	636,376	662,406	715,212
Prince Edward Island	147,830	234,360	316,667	332,308	261,791
Newfoundland and Labrador	35,761	60,072	98,009	94,158	108,285
Canada	14,756,549	22,081,154	27,364,518	31,327,081	32,632,872

Source: Statistics Canada, "[Table 002-0020: Balance sheet of the agricultural sector, at December 31, and ratios](#)," CANSIM (database), accessed 15 December 2015.

The quota exchange value varies by province. For example, in December 2015, quota for 1 kg of butterfat per day sold for \$42,500 in British Columbia and \$23,000 in New Brunswick.¹⁴

3.1.1.2 QUOTA PRICE

Quota is a major asset for quota-controlled businesses. For example, for a Quebec dairy farm with an average of 60 cows,¹⁵ quota alone represents an investment of \$1.5 million.¹⁶ This does not include investments in other assets, such as livestock, land, buildings and machinery.

Given the steep rise in milk quota prices and fears about excessive debt, the five provinces participating in the *Agreement on Eastern Canadian Milk Pooling*¹⁷ (Prince Edward Island, Nova Scotia, New Brunswick, Quebec and Ontario) established a quota pricing mechanism policy in December 2008.¹⁸ In 2010, Quebec and Ontario capped the quota price at \$25,000 per kg.¹⁹

Other production sectors have also capped quota prices. Quebec has capped the quota price at \$500 per square metre for turkey²⁰ and at \$245 per unit for laying hens.²¹

3.2 PRICING MECHANISM

In addition to production control, supply-managed farmers are guaranteed a minimum price for their products. Through their provincial marketing boards, farmers collectively negotiate minimum farm-gate prices with processors. This minimum price is based on production costs and market conditions, such as consumer demand, inventory available on the market and the price of competing products.²²

Supply management gives farmers a fair price that reflects production costs while preventing significant price fluctuations for consumers. However, not everyone agrees on its benefits:

- Studies by the Montreal Economic Institute,²³ the Fraser Institute²⁴ and the Conference Board of Canada²⁵ argue that supply management is expensive for consumers. Critics say that supply-managed products cost less in the United States.
- In 2014, a Nielsen Company study, commissioned by the Dairy Farmers of Canada, showed that the price of Canadian products compared favourably with prices in other countries.²⁶
- A University of Waterloo researcher found that supply management benefits all Canadians.²⁷

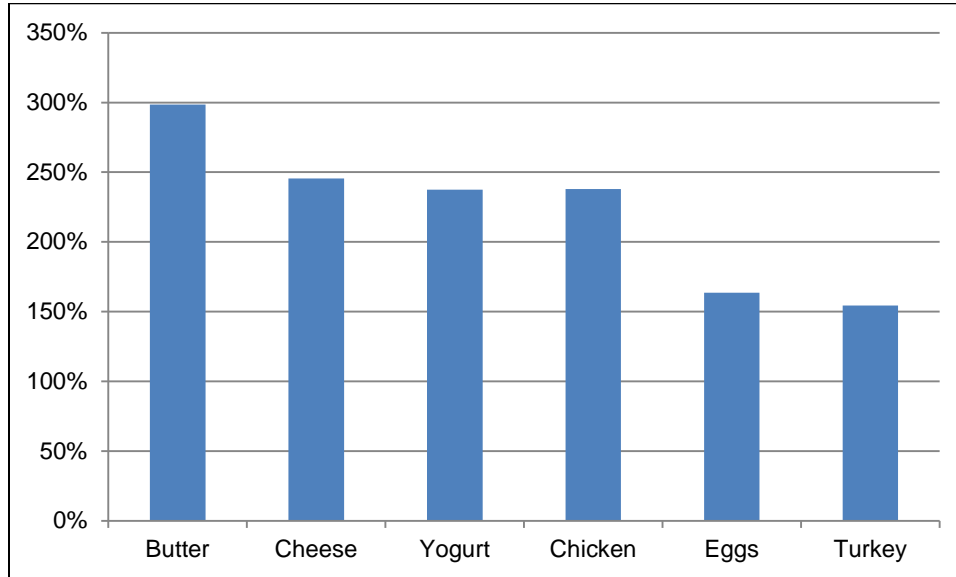
3.3 IMPORT CONTROL

In addition to relying heavily on production control and pricing mechanism, the supply management system also relies on import control to function properly.

In accordance with various trade agreements, Canada restricts imports by setting tariff-rate quotas. This means that it grants its trading partners a “minimum level of access” to imports and imposes a high customs tariff on imports over a certain amount to prevent foreign products from flooding the Canadian market.

For example, the import quota for yogurt is currently set at 332,000 kg,²⁸ and for chicken, it is 39,900,000 kg or 7.5% of domestic production,²⁹ whichever is greater. Imports within these quotas are not subject to customs tariffs or, if they are, the tariffs are low. However, high tariffs – as high as 300% in the case of butter – are imposed on over-quota imports (see Figure 1).

Figure 1 – Customs Tariffs on Selected Over-Quota Products



Source: Canada Border Services Agency, [Departmental Consolidation of the Customs Tariff 2015](#).

4 SUPPLY MANAGEMENT AND INTERNATIONAL AGREEMENTS

Canada has always been able to protect the supply management system when concluding a number of trade agreements, including the *North American Free Trade Agreement* (NAFTA), as well as bilateral trade agreements.

However, the recent Trans-Pacific Partnership (TPP) and Canada–European Union *Comprehensive Economic and Trade Agreement* (CETA) agreements-in-principle, signed 5 October 2015 and 5 August 2014³⁰ respectively, are cause for concern for supply-managed industries. Under the CETA agreement-in-principle, Canada would grant access to roughly 17,000 tonnes of cheese from the European Union. TPP member countries would have phased-in limited access to the market for supply-managed products.

Several supply management stakeholders fear that these agreements-in-principle will open a crack in this marketing system and weaken one of the pillars of supply management in Canada.

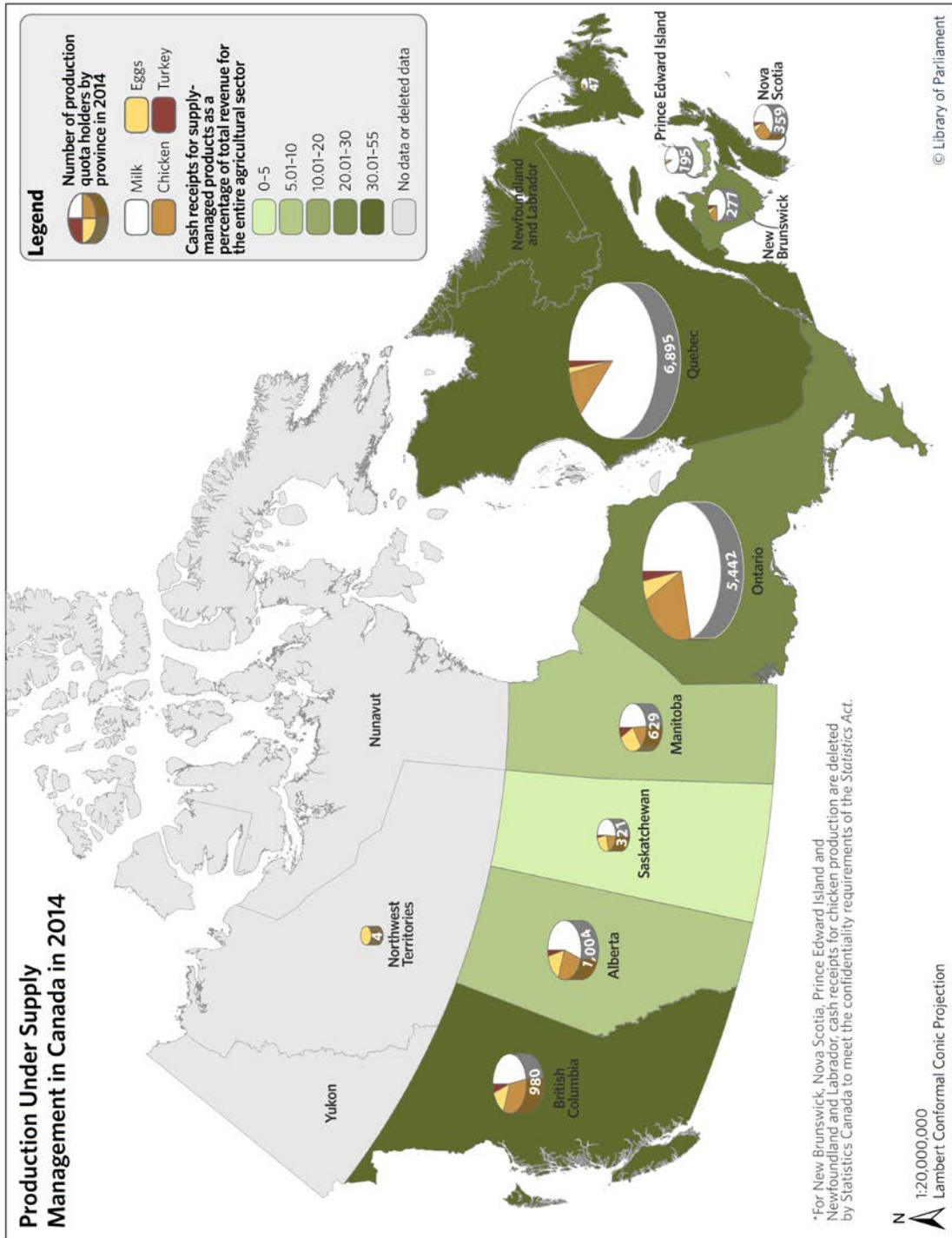
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12. A dairy production cycle or calving interval is 410 days – 345 days of production and 65 days of rest. A cow produces milk 307 days per year (345/410 × 365 days/year) on average. The standard composition of a hectolitre of milk with 3.6 kg of butterfat is 103.2 kg of milk (see Government of Canada, [Statistics of the Canadian Dairy Industry](#), 2012). However, average butterfat content in Canadian milk production is over 4%. Annual production per cow is estimated at 8,800 kg (see Canadian Dairy Information Centre, [Average Milk Production by Breed \(Milk Recording\)](#)).
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APPENDIX – PRODUCTION UNDER SUPPLY MANAGEMENT IN CANADA IN 2014



Source: Figure prepared by the Library of Parliament, Ottawa, 2015, using data from Statistics Canada, [2011 Census – Boundary files](#); Canadian Dairy Information Centre, [Report D056 – Number of Farms with Shipments of Milk by Province](#); Turkey Farmers of Canada, [Canada's turkey industry: By the numbers](#); Egg Farmers of Canada, [Annual Report 2014](#); and Chicken Farmers of Canada, [Chicken Data Booklet 2015](#). The following software was used: Esri, ArcGIS, version 10.3.1.