



**HOUSE OF COMMONS  
CANADA**

**DEFENDING SUPPLY MANAGEMENT  
AT THE WTO**

**Report of the Standing Committee on  
International Trade**

**Lee Richardson, MP  
Chair**

**November 2009**

**40th PARLIAMENT, 2nd SESSION**



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# **THE STANDING COMMITTEE ON INTERNATIONAL TRADE**

has the honour to present its

## **SIXTH REPORT**

Pursuant to Standing Order 108(2) and the motion adopted by the Committee on September 17, 2009, the Committee the Committee has studied the Defence of Supply Management at the World Trade Organization and has agreed to report the following:

## **IN DEFENCE OF SUPPLY MANAGEMENT AT THE WTO**

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On 28 December 2008, the chair of the agriculture negotiations at the World Trade Organization (WTO) circulated the most recent version of the agriculture draft modalities text – a framework document that will form the basis of future agriculture negotiations at the WTO. That document included provisions related to sensitive products that, if accepted, would effectively undermine Canada's system of supply management.

Members of the House of Commons Standing Committee on International Trade are strong supporters of supply management. Recalling that, in November 2005, the House of Commons unanimously adopted a motion stating:

That, in the opinion of the House, the government should give its negotiators a mandate during the negotiations at the World Trade Organization so that, at the end of the current round of negotiations, Canada obtains results that ensure that the supply management sectors are subject to **no reduction in over-quota tariffs and no increase in tariff quotas**, and also ensure an agreement that strengthens the market access position of Canada's agricultural exporters so that all sectors can continue to provide producers with a fair and equitable income

The Committee decided to study the defence of supply management by Canada's negotiators at the WTO. The objective of this study was to ensure that Canada does not make any concessions on supply management during any forthcoming agriculture negotiations.

The Committee heard from the key figures involved in establishing and maintaining Canada's negotiating position: Minister of International Trade, Stockwell Day; as well as Canada's Chief Agriculture Negotiator at the WTO, Gilles Gauthier, and Don Stephenson, Assistant Deputy Minister for Trade Policy and Negotiations at the Department of Foreign Affairs and International Trade (DFAIT). The Committee also heard testimony and received written submissions from stakeholders in the supply managed agricultural sectors.

## **THE WTO AND SUPPLY MANAGEMENT IN CANADA**

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Canada's poultry, eggs and dairy industries operate under a system of supply management. Under this system, domestic production is controlled, and prices are pre-determined and adjusted to reflect farmers' costs of production. Steep tariffs are levied on imports of these goods to prevent foreign suppliers from entering the Canadian market and competing with domestically-produced goods.

From a trade perspective, supply management works in the following way: the WTO requires Canada to offer a certain minimum level of access to its domestic market for

agricultural products. In the case of supply-managed goods, it does so through a tariff rate quota (TRQ) system. Under the TRQ system, Canada allows imports of supply-managed goods, up to a pre-determined threshold, at relatively low tariff rates. Once the TRQ has been filled, however, a special import permit is required for any additional imports and the tariffs levied on those imports become prohibitive, thus effectively closing the Canadian market to any imports exceeding the TRQ threshold.<sup>1</sup>

Witnesses appearing before the Committee outlined the importance of Canada's supply management system in providing fair and equitable incomes to farmers and its contribution to food security and food sovereignty in Canada. In their view, supply management is an important tool to protect the Canadian population from fluctuations in the food supply.

The most recent WTO draft modalities text on agriculture contains three specific provisions that, if accepted, would affect supply management in Canada. These provisions are as follows:

- Paragraph 71 would require all developed country members to designate up to 4% of tariff lines as "sensitive products."<sup>2</sup>
- Paragraph 74 proposes higher tariff quotas for sensitive products, resulting in "new access opportunities equivalent to no less than 4% of domestic consumption."
- Paragraphs 61 and 73 together would require that Canada reduce all its over-quota tariffs on supply managed goods by at least 23%.

## **WHAT THE COMMITTEE HEARD**

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Stakeholders representing the supply managed agricultural sectors, as well as some Members of Parliament, raised concerns about the potential threat that the WTO draft modalities text represents to supply management. Concerns were also raised about Canada's position on supply management at bilateral trade negotiations with the European Union (EU).

In the case of the WTO negotiations, stakeholders and Committee Members were concerned that Canada should have been more vocal in its objections to restarting negotiations on the basis of the draft modalities text – a text which clearly endangers supply management. In the case of Canada-EU negotiations, it was noted that supply management was not explicitly excluded from section 3.1 of the Joint Report on the EU-

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<sup>1</sup> As an example, the in-quota tariff on milk is 7.5%, but the tariff on any additional over-quota imports is 241%.

<sup>2</sup> It should be noted that in the text directly below Paragraph 71, it states that Canada has declared that it will not agree to this limitation.

Canada Scoping Exercise – the document that outlines the subjects to be part of bilateral negotiations.

Mr. Gauthier, Canada's Chief Agriculture Negotiator assured the Committee that the Government of Canada has issued a clear directive to the negotiating team to ensure that decisions about the manner in which Canadian agricultural producers market their products continue to be made in Canada and not through international trade agreements. He observed that Canada's position on this issue is extreme and thus challenging to defend, but that most countries understand that in complex negotiations at the WTO, each country is attempting to defend its own interests, both offensively and defensively. Canada is no different; we are attempting to advance our own interests while maintaining a hard-line position in defence of our supply management system.

Mr Gauthier noted that Canada has been insistent that the proposal contained in the modalities text allowing developed countries to designate 4% of their tariff lines as "sensitive" products is insufficient to protect its supply managed industries. For supply management to be adequately protected, the 4% threshold must be raised to 6%. Mr. Gauthier told the committee that a compromise had been proposed that would have allowed Canada to designate 6% of tariff lines as sensitive in exchange for raising its TRQ threshold on those products – effectively allowing more foreign supply to enter the Canadian market. That proposal was not acceptable to Canada's supply managed industries.

Mr. Stephenson also reminded the Committee that the draft modalities text does not represent an agreed-upon compromise or that it threatens supply management. He explained that the draft modalities negotiating text is authored by the current chair of the negotiating group as a possible consensus document and as a starting point for negotiations. It is neither an agreed text nor a text which has received consensus support.

Minister Day reiterated Canada's firm commitment to supply management:

We agree on the very clear, very firm direction the Parliament of Canada took in 2005: we have to protect our supply management system. That's our position, and we're going to continue to maintain it.<sup>3</sup>

He reminded the Committee that Canada will not be forced to sign on to any agreement that it is not happy with. WTO agreements are negotiated by consensus and Canada

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<sup>3</sup> House of Commons Standing Committee on International Trade, 40th Parliament, 2nd Session *Evidence* Thursday 8 October 2009. 11:50am. Available at: <http://www2.parl.gc.ca/HousePublications/Publication.aspx?DocId=4134772&Language=E&Mode=1&Parl=40&Ses=2>

cannot be coerced into an agreement; it can walk away from the negotiating table at any point.

## **CONCLUSION**

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The Committee was pleased to hear that the Government of Canada has instructed its negotiators at the WTO to defend supply management. We acknowledge that doing so in the face of opposition at the WTO is a challenging task and we appreciate the efforts of our trade negotiators in this regard. This Committee continues to support supply management and we thus recommend:

### **Recommendation:**

That the Government of Canada affirm its unequivocal support of, and commitment to defend, Canada's supply management system.

# MINUTES OF PROCEEDINGS

A copy of the relevant Minutes of Proceedings ([Meetings Nos. 28, 29, 31 and 34](#)) is tabled.

Respectfully submitted,

Lee Richardson, MP  
Chair

## Supplementary Opinion from the Bloc Québécois

### Supply management is more relevant than ever

Following a series of doubtful trade positions on the part of the Canadian government that had worried the Québec agriculture community, we are pleased to see the unanimity of the committee members for a report that underlines the importance of defending the supply management system both on the multilateral and bilateral levels. By doing so, the committee members reiterated the all-party support for the unanimous motion adopted in parliament in 2005. Furthermore, we are happy to have obtained the assurance that the Minister for Trade and his negotiators will not sign a trade agreement that does not fully protect the supply management system.

The relevance of supply management has been once more demonstrated when the recent world food crisis, coming from an important fluctuation of food prices, exposed a new challenge to the world food safety. Thus, supply management becomes a model for a solution protecting toe populations and producers against the catastrophic fluctuations of the agriculture goods. As the UN special Representative on the right to food recently raised the limits of the market forces to insure food safety, we must seriously consider new concepts as that of food sovereignty.

The quick conclusion of the current study unfortunately did not allow the committee members to thoroughly analyze matters related to food sovereignty, which might gain in importance in the world discussions on agriculture. This concept rests on a form of agriculture of proximity whose main objective is to allow the populations to define the production and consuming modes that are best adapted to their reality. In that context, supply management is perfectly suited for the imperatives of food sovereignty.

The Bloc Québécois considers that the integration of the concept of food sovereignty in the Canadian trade policy would allow Canada to be more coherent in its defense of supply management. Finally, since most of the Québec farm production is aimed at the internal market rather than exports, the concept of food sovereignty is well adapted to our reality.

**DEFENSE OF SUPPLY MANAGEMENT AT THE WORLD TRADE ORGANISATION**  
**Supplementary Opinion of the New Democratic Party**  
**Peter Julian MP**

The NDP believes that Canada's supply management sector and state trading enterprises represent an important dimension of fair trade. This dimension is central to Canadian food sovereignty and security in addition to being pivotal to the sustained vitality of our rural communities. This proper and orderly management of Canada's high quality agri-food products has vastly benefited Canadian communities and consumers from coast to coast to coast and globally.

At the hearings of the Standing Committee on International Trade, Stewart Wells, President of the National Farmers Unions (NFU), provided evidence showing that, unlike other agriculture sectors, the supply management sector, which is based on cost of production recovery, was able to stabilize prices and the net operating income of dairy, poultry and egg farmers. The data presented by the NFU illustrates how Canada's supply management and orderly marketing systems ensured a more stable, consistent income share to the sector, in spite of the crisis. At a time when Canadian farmers have to pay down a \$60 billion debt on a long term average net market income of \$125 million, maintaining the integrity of the supply management sector and the Canadian Wheat Board becomes even more critical.

The NDP reiterates its unconditional and long standing support of Canada's Supply Management sector and state trading enterprises and thus fully supports the Committees' recommendation to press the government to defend Canada's supply management sector.

However, The NDP is concerned by the fact that the text of the Committee's recommendation is not as comprehensive as the Motion which was unanimously passed by the House of Commons in 2005 to support Supply Management. The motion is highlighted in the Committee's report. A recommendation incorporating the critical elements of the 2005 Motion would have provided a clearer, more comprehensive directive to Canada's negotiators at the WTO with respect to Canada's position, with most importantly a firm commitment not to reduce over-quota tariffs and increase tariff quotas.

The NDP is especially concerned by the fact that the Conservative government has failed to take steps to remove provisions that undermine Canada's State Trading Enterprise system. Chief among these failures is seen with the Wheat Board from the most recent version of the agriculture draft modalities text circulated at the WTO. To help address this glaring shortfall, the NDP proposed a motion to be included as the key recommendation in the report of the Standing Committee. The Motion would have provided clear unambiguous instructions to Canada's negotiators at the WTO to correct the fault contained in the current text drafted by the previous WTO Agriculture Chair.

The NDP Motion called on the Committee to recommend that **"the government immediately instruct Canada's negotiator to indicate clearly and formally by way of the appropriate means at the World Trade Organization, that the text currently circulating at the Agriculture working group undermines and weakens Canada's ability to maintain State Trading Enterprises and Supply Management systems, and that consequently, the text as currently before the working group on agriculture will not be signed by Canada as part of the negotiations on the Doha round of the WTO, and that this be reported to the House"**.

The NDP Motion was voted down by the Conservative members of the committee; yet another case in point illustrating the long standing ideological hostility of the Conservative government to Canada's State Trading Enterprise system, and its lukewarm support of Supply Management.

Unfortunately, the evidence provided by past government policies directed at Canada's supply management system and the Wheat Board clearly demonstrates that both Conservative and Liberal governments have tended to prioritize the interests of large multinational agri-businesses, which have not directed their business activities to provide the same benefits supported by the supply managed sector and state trading enterprises to communities.

Despite the Conservative government's repeated claim that it shall defend supply management, no clear communication of the importance of our supply managed sector has occurred prior to the WTO negotiations resuming. Clearly, the government had also been unwilling to take the very firm steps that other countries such as New Zealand have taken to defend their state trading enterprises.

In other words, the Conservative government is talking the talk, but it's not walking the walk.

# APPENDIX LIST OF WITNESSES

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<b>Organizations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
<b>Department of Agriculture and Agri-Food</b> Gilles Gauthier Director General and Chief Agriculture Negotiator, Negotiations and Multilateral Trade Policy Directorate	2009/10/06	28
<b>Department of Foreign Affairs and International Trade</b> Don Stephenson Assistant Deputy Minister, Trade Policy and Negotiations		
<b>House of Commons</b> Stockwell Day Minister of International Trade	2009/10/08	29
<b>National Farmers Union</b> Stewart Wells President		