

**National Farmers Union Submission to
House of Commons Standing Committee on International Trade on**

**BILL C-216 – An Act to amend the Department of Foreign Affairs, Trade and
Development Act (supply management)**

June 7, 2021

The National Farmers Union **supports** [Bill C-216 An Act to amend the Department of Foreign Affairs, Trade and Development Act \(supply management\)](#) , which would ensure that in all future trade agreement negotiations, the government of Canada would not commit to any further foreign access to Canadian supply-managed markets and would not lower or eliminate tariffs on supply-managed goods that are imported over and above existing Tariff Rate Quota (TRQ) levels.

Supply management is a unique Canadian institution that provides stability in five perishable food sectors -- dairy, broiler chickens, laying hens, turkeys and hatching eggs -- by controlling the amount produced, preventing shortages, and keeping imports from flooding our market. As a result, Canadian consumers have a reliable supply of wholesome milk, chicken, eggs and turkey. Processors have predictability so they can operate near full-capacity year-round, supporting good jobs and avoiding the cost of idled plant space common in other jurisdictions. Canada does not experience wide fluctuations in supply and prices, and our system does not require massive government subsidies that are used by other countries to support farmers' incomes in these sectors.

Our supply management system embodies democracy, good jobs and fair livelihoods. Each province has its own set of marketing boards run by farmers who are elected by their peers. The parameters of these boards' authority are defined by overarching federal legislation along with each province's corresponding law and regulations. Supply management offers farmers a decent, predictable livelihood, allowing them to invest in environmentally-friendly technology, use sustainable management practices, and employ local workers at good living wage rates. Each province has its own processing facilities for supply managed commodities, reducing the amount of transportation (and associated greenhouse gases) required to provide these foods to consumers across the country. When the COVID-19 pandemic hit, our supply managed sectors demonstrated resilience by responding to the crisis better than their counterparts in countries and sectors, resulting in less food waste and an equitable sharing of the burden.

Strong Communities. Sound Policies. Sustainable Farms.

Des communautés solidaires et des politiques sensées pour une agriculture durable.

nfu.ca

Supply Management's three pillars

The supply management system stands upon three pillars and requires all of them to function together:

- **Production discipline** – ensures farmers produce no more or less than the market needs;
- **Cost-of-production pricing** – ensures that farmers receive a fair income; and
- **Import controls** – provide for predictable and adequate supply.

Bill C-216 is in the national interest because it supports the continuing positive function of supply management in the Canadian economy by preventing erosion or collapse of the third pillar – import controls.

Production discipline is accomplished through the use of quota – which both allows and requires the farmer to produce a specific volume of the product. The total supply needed for each commodity is determined annually based on the previous year's consumption trends, and a share of total quota is allocated to each provincial marketing board for distribution to individual farmers. Each marketing board also decides upon quota exemptions and minimum quota amounts for its own province.

Cost of production pricing is accomplished by applying a formula to set the minimum price processors must pay to farmers to cover the cost of running an efficient operation. The cost of production pricing mechanism only applies to farm-gate pricing – not grocery store prices.

Import control is accomplished by using “Tariff Rate Quotas” (TRQs) that allow a limited amount of imports to Canada at low or zero tariff rates, but above the TRQ threshold, very high tariffs are applied, making further imports uneconomic. The World Trade Organization rules allow countries to restrict or prohibit imports of a product if they do so to enforce government restrictions on the domestic production of the same or similar product.

Need for Bill C-216

Bill C-216 is needed in light of the outcomes of the Comprehensive Economic Trade Agreement with Europe (CETA), the Trans Pacific Partnership (TPP), and the Canada-United States-Mexico Agreement (CUSMA). Each removed a significant portion of Canada's supply managed market from our system.

CETA negotiators gave additional access for 17,500 tonnes of European cheese in the Canadian market, shifting 185,000 tonnes of milk production from Canada to Europe. Production for this lost market could have supported 400 new entrant dairy farm families in Canada. TPP negotiators gave away access to over 3.25% of our domestic market in the supply managed dairy, poultry and eggs sectors to the 11 countries then involved. After the USA left TPP, Canada concluded virtually the same deal with the remaining 10 countries. Under CUSMA Canada's negotiators gave the USA an additional share that comprises over 3.25% of our market.

Canada is now involved in trade agreement negotiations with the United Kingdom as a result of Brexit taking it out of CETA, with the Mercosur countries -- Argentina, Brazil, Paraguay, Uruguay, and Venezuela -- as well as with numerous smaller countries and trading blocks. The UK and Argentina are



dairy exporting nations. Brazil is the world's largest broiler chicken exporter. The UK is one of the ten largest turkey exporters. It is likely that these countries will seek access to our supply managed markets.

Trade agreement negotiations are done behind closed doors, with the text made public only after the agreements are finalized. Thus, it is critical that ground rules to uphold our supply management system are set now by our elected representatives voting openly in Parliament.

Damage to date

Though our supply management system survives, it has been damaged by CETA, TPP and CUSMA. With the TPP and CUSMA, Canadian farmers are losing market share in stages¹ so the full impact has not yet been realized.

In the first five years of the TPP agreement, the other countries gained tariff-free access to 3.25 per cent of Canada's current dairy market, 2.3 per cent for eggs, 2.1 per cent for chicken, two per cent for turkey and 1.5 per cent for broiler hatching eggs. In subsequent years tariff-free access to these markets increases.

Under CUSMA, US market share increases for each TRQ every year for the 19-year duration of the agreement, except for whey, which will become entirely tariff-free in Year 10 of CUSMA. While this phase-in process may seem like a gentler approach by allowing farmers to adjust, it functions to muddy the political impact of these significant structural changes. Furthermore, the CUSMA agreement provides for a "joint review" of the agreement in Year 6, which opens the door to potential changes in its terms in each subsequent year. The current schedule of increases to TRQs for supply managed sectors are thus not guaranteed to continue, and market loss could accelerate.

Market concessions are expressed in terms of separate TRQs for processed products such as butter, powdered skim milk, ice cream, etc. The farmer, however, sells a whole product to processors – broilers, eggs, turkeys or milk. With dairy, processors' ability to separate milk into differently priced components means that as certain imported products gain market share in Canada, the cost-of-production pricing formula will be pressured downward, with a direct and negative impact on the financial status of farm families from coast to coast. High-protein dairy components, such as whey products, will be devalued due to market glut from US imports, creating an imbalance between domestic demand for dairy product types and the composition of milk as naturally produced by the cow. There are limits to what feed or genetics can do to adjust the dairy cow's output to adapt to the trade deal's TRQ categories, thus waste and/or price discounts occur.

The brunt of trade agreements' removal of market share from our supply managed sectors falls upon young people who aspire to become dairy, egg, chicken or turkey farmers. They are not compensated, but their future is compromised. Without the market to support new entrants they are being denied the opportunity, and Canada is in danger of losing its next generation of farmers in these sectors.

¹ CUSMA Chapter 2 - National Treatment and Market Access for Goods <https://www.international.gc.ca/trade-commerce/assets/pdfs/agreements-accords/cusma-aceum/r-cusma-02.pdf>



Fallacies

When trade negotiations are in the news, media often present agricultural producers in different sectors as competitors for concessions or market share, both within Canada and between Canada and trading partners. The idea of a zero sum game is promoted: if dairy farmers win, grain farmers lose; if supply management wins, beef producers lose; if Canada gives up some market share it will solve the other country's farm crisis. In fact, these claimed trade-offs are false.

When CETA was being negotiated, media stories suggested that Canada had to concede to the EU's demands for dairy access in return for beef and pork access to Europe. In our 2015 *Submission to Trade Committee on Bill C-30, CETA Implementation Act*, the NFU highlighted that Canada was not using its existing European market quota for beef and pork. We pointed out that Canada was entitled to sell 23,000 tonnes per year of hormone-free beef tariff-free, yet in 2013, sold only 1,000 tonnes of beef (carcass weight equivalent) into the EU; Canada then had WTO-wide tariff-free quota of 7,000 tonnes of pork, and additional access to a WTO-wide quota of 70,390 tonnes at low tariff levels, yet exported only 100 tonnes of pork (carcass weight equivalent) to the EU.

Today, we see that in 2020, Canada exported just 1550 tonnes of beef² and 144 tonnes of pork³ to Europe. Canada negotiated away the equivalent of the entire Nova Scotia dairy market for increased access to Europe's beef and pork market that was not being used, and is still not being used. It is patently false to say that lack of other countries' access to Canada's supply managed sectors is a barrier to Canadian exports of other agricultural commodities.

Most countries protect and support their domestic dairy markets and subsidize their farmers, and do not participate in export markets. Dairy farmers in export-oriented countries, including TPP participants New Zealand and Australia, as well as the USA, UK and several European countries under CETA, and Mercosur's Argentina are suffering from their countries' failed export-oriented policies. "World" prices are dump prices because of dairy's perishability – any price is better than zero (or incurring the cost of disposal as waste). When domestic prices are set at, or strongly influenced by world prices, farmers are paid less than the cost of production. To compensate for lower per-unit prices, farmers increase production if they can. Others must exit. This further drives down prices, creating a vicious circle. Losses abound, quality suffers, environmental stewardship and animal welfare practices are reduced as farmers seek to cut costs to pay bills and their communities decline. Sacrificing our farmers and undermining a system that works for Canadian farmers, consumers, processors and taxpayers will not solve these countries' over-production problems. We encourage other countries to adopt our system instead.

Canadians support supply management

Every consumer dollar spent on products that are imported as a result of trade agreement concessions on supply managed, is a dollar that leaves the Canadian economy. It is not available to provide an income to a Canadian farmer or support a job in a Canadian processing plant. It is not contributing to

² European Union Statistics – Annual Beef Trade Data, carcass weight in tonnes
<https://agridata.ec.europa.eu/extensions/DashboardBeef/BeefTrade.html>

³ European Union Statistics – Annual Pigmeat Trade Data, carcass weight in tonnes
<https://agridata.ec.europa.eu/extensions/DashboardPigmeat/PigmeatTrade.html>



agricultural research in Canada. It is not being multiplied in local communities where farmers and plant workers spend their incomes. It is not generating needed economic activity in rural communities, or enabling their prosperity. Supply management relies on its three pillars to function, and it is also a powerful element that supports Canada's economic viability, environmental health and social fabric. It is good policy.

Canadians have strong values that support our supply management system, and these values should be respected and upheld. We urge you to pass Bill C-216 as a matter of national interest.

All of this respectfully submitted by
The National Farmers Union
June 7, 2021

