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A balancing act between free trade and supply management politics

By Laura Payton

As negotiators prepare to begin talks with the European Union on the biggest economic agreement Canada has undertaken in decades, the government has already taken a big bargaining chip off the table. The message seems clear: supply management is not up for debate.

Only a handful of Canadian agriculture sectors—dairy, eggs and egg-hatching, chicken and turkey—are supply managed. Supply management assigns quotas to producers, managing production and keeping farmers profitable. However, it also keeps prices high for consumers and, most importantly from a bargaining perspective, represents a major barrier to foreign imports.

For a government that champions free trade and lowering barriers, the position seems dissonant. But because the farms that benefit from supply management are concentrated in Ontario and Quebec, where the majority of House of Commons seats are also concentrated, politicians of all stripes are loathe to mess with it. In fact, in 2005, members of Parliament went as far as to adopt an all-party motion instructing Canadian negotiators at the World Trade Organization not to budge on supply management.

Yet opponents say Canada's intransigence is hurting the country as it seeks to ink not only bilateral trade deals with partners like the European Union, but make headway on the vitally important World Trade Organization Doha round. Experts, however, say the government will have to soon choose what is more important, promoting open markets or protecting a few politically sensitive agricultural sectors.

The price of politics

The politics of supply management are so fiery that even academics are reluctant to talk about the issue, turning down interview requests because of industry anger over any criticism.

"Economists see both the goods and bads of supply management," one academic told *Embassy* on condition of anonymity. "Economists who in the past have emphasized the bads have had to bear the wrath of industry.... Similar to the [Canadian] Wheat Board debate, the small number of agricultural economists in Canada who work on supply management issues tend to publish their views in academic journals rather than risk problems by discussing their concerns with the media."

Supply management has existed in Canada in various forms for decade. In its present form, farmers and producers of supply managed products benefit greatly. According to a National Farmers' Union presentation to the Commons' Trade committee last week, farmers in supply-managed sectors have seen their incomes fare much better than their counterparts dealing in non-supply managed products. In addition, those who have bought or been allocated quota can see the value of their farms' assets double.

All of this makes producers in these areas reluctant to give up supply management. And with the vast majority of dairy and poultry farms located in Ontario and Quebec (the two provinces share almost 80 per cent of Canadian dairy quota), there's no incentive for legislators to go near the issue.

Jean-François Minardi, an economist at the Fraser Institute who has written about supply management in Quebec, says it's in the Liberals and Conservatives best interests to win seats in Quebec. That scares free-trading MPs out of trying to change the current system.

Yet with Ontario and Quebec farmers in supply-managed sectors getting most of the quota, it pits them against farmers in the rest of Canada and in non-supply managed sectors, where many producers believe they would benefit from lower trade barriers in other countries. Mr. Minardi says the government is trying to balance the two contradictory interests.

"At one point, it's impossible to manage both interests, so we'll have to choose between these two. I think that eventually they'll choose free trade," he said.

David Emerson, a former trade minister under Mr. Harper, says many countries around the world have similar sensitivities, but that not budging on supply management could be a significant barrier to completing agreements.

"It's got political sensitivity, it's a political and social institution in Canada," Mr. Emerson said, adding that supply management is also strongly guarded in British Columbia. "It's significant in Quebec and Ontario, and if Quebec and Ontario are of one mind on it, that's a majority in Parliament.

"I'm increasingly coming to the view that we can't keep stopping trade deals from going forward because many, many countries in the world have agricultural sensitivities. We're going to have to find ways of transitioning or excluding or doing something to ensure that the 90 or 95 per cent of the economy that can proceed and benefit from trade deals can do so," Mr. Emerson said.

Canada's official position

Canada opposes any reduction in tariffs or expansion in tariff quotas for products subject to supply management. How strict is that position? According to our chief agricultural negotiator, the strictest in the developed world.

"This position is stronger and stiffer than any other WTO member," Gilles Gauthier told the House of Commons International Trade committee on Oct. 6.

"For this reason, we can expect to continue to be pressured in this area, both from other developed countries—because they have agreed to make concessions in their area of sensitive products—and from developing countries, because they feel that these types of exceptions to the developed countries do not meet the development goals that are the basis of the Doha Round.

"Nevertheless, we maintain our firm position of bargaining," Mr. Gauthier said.

While EU officials say they expect any and all topics to be up for discussion during talks for the Comprehensive Economic and Trade Agreement, the ministers in charge of the file insist supply management won't be one of them.

"Our government has made it very clear that it strongly supports supply management, and that it will continue to strongly defend interests which are important to these industries in all international trade negotiations," Méliisa Leclerc, a spokeswoman for International Trade Minister Stockwell Day, wrote in an email Oct. 6.

Agriculture Minister Gerry Ritz echoed that position, saying supply management is an issue Canada wants protected.

"When you begin discussions, everything is on the table. You slowly reveal your hand as you move along," he said. "You don't begin negotiations by taking away half of your marbles. Everything is there, and as they move something to the side, you move something to the side and so on. That is the nature of negotiations, but we have also let them know right upfront that we have no intention of any major changes to our supply managed sector."

For producers eyeing the European market, that response is frustrating. They see lowering Canadian barriers to imports as the way to convince other countries to drop barriers to Canadian exports.

"In the comprehensive trade agreement with Europe, basically what we're interested in is tariff-free, quota-free access for Canadian beef and beef products into Europe," said John Masswohl, director of government and international relations for the Canadian Cattlemen's Association.

Right now, Canadian beef exporters share an 11,500-tonne quota with the US, a fraction of the amount they export every. For any exports over and above the 11,500-tonne quota, the tariff and duties work out to about 140 per cent of the price of the beef. Lowering EU tariffs for beef producers and other agricultural exporters would open a high-value market for them.

But right now, "It's a prohibitively high tariff," Mr. Masswohl said.

Until negotiators are allowed to open up Canadian supply management, it's uncertain whether Canada and the EU will be able to reach the wide-ranging deal they're aiming for. Those involved in previous trade negotiations and in setting up this round of talks are already predicting that agricultural issues may have to be set aside for discussion under a broader WTO mandate, possibly including the US.

The Canada-EU agreement is to be a second-generation agreement, where both governments want to go beyond previous deals that lower tariffs and barriers, and set up a template for future talks between developed nations. Mr. Minardi says he worries supply management controversy on both sides of the Atlantic will force negotiators to stop short of their goal.

"My fear is they won't go anywhere as far as agriculture is concerned because of the political price in Canada and in Europe," he said.

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