

WITH Sylvain Charlebois, Associate Professor in marketing, University of Regina



Dr. Sylvain Charlebois is an associate professor in marketing in the Faculty of Business Administration of the University of Regina (Canada) since 2004. He is currently teaching strategic marketing and international marketing to undergraduate and graduate students of the Faculty. His current research interest lies in the broad area of food distribution and safety, and has published many articles in several academic journals. He conducts policy analysis, evaluation, and demonstration projects for government agencies and major foundations focusing on agricultural policies and community development both in Canada and in development settings. Dr. Charlebois is also a faculty research fellow for Viterra. He was interviewed after his November 4th, Breakfast on the Frontier speech in Regina.

Frontier Centre: In your recent address to a Frontier Centre breakfast you said that 80% of Canadians are unaware that the Canadian Dairy Commission, and half of the remaining 20% don't understand how it works. What importance, if any, would you attach to supply management being under the radar for most Canadians?

Sylvain Charlebois: Not very much, Most Canadians are just unaware of our system we have in place, even though the system affects us all, unfortunately. I think we need to work on that aspect. We need to work on transparency. We need Canadians to understand 'what is supply management?' 'How it operates,' 'What is the modus operandi of the Canadian Dairy commission is when it come to Dairy products and how does it benefit Canadians in general? Then it should be up to Canadians to decide whether or not supply management is good or not for them.

FC: That leads into our next question, for the benefit of the 90% who don't understand it, can you give us a very brief précis of the what, who and how of supply management in Canada?

SC: Well basically supply management is a price fixing scheme at farmgate. So what it does is guarantee producers a certain price for their commodities. We're talking here about poultry products, dairy products for milk, and eggs. Those are the three main commodities under supply management in Canada. In order to produce these commodities in Canada you need to buy quotas. Not everyone like you and I can actually go out and start producing milk, you need to buy these quotas which are actually very expensive. Quota prices are extremely prohibitive for many Canadians.

That's the one side of supply management. On the other side, high tariffs for imported products are applied to protect our domestic market from foreign-based products. Tariffs vary between 200-300% in some cases. Of course, these tariffs have attracted criticism from WTO members. So it's a very closed system for Canadians, and it's protectionism at its best.

FC: Can you give us a breakdown of how supply management costs affect farmers, say, for a given farm, how much is invested in quotas compared to the direct practical cost of actually producing food?

SC: Milk is the easiest one, because there are a lot of statistics and studies made on milk and the dairy industry. Right now the average herd in Canada is about sixty-five heads. And in terms of quotas you're looking at a value of between \$1.6 million-\$1.7million worth of quotas per farm. And there are roughly sixteen thousand dairy farms in Canada.

FC: ...About \$30 billion, and that's a one time cost?

SC: Well that's the value of the quotas... now, again, this is on paper but dairy farmers use these quotas as collateral to invest, and develop further, in their business. So it is financially significant for all dairy farmers.

FC: Supply Management is sometimes claimed to have protected the family farm and given a reasonable income to the sectors under the program. Is that a valid objective and accomplishment?

SC: I believe it's an overstatement. If you look at the facts, over the last ten years we've gone from 26,000 dairy farms to about 16,000. I myself, as a child growing up in dairy land, Quebec, worked on three dairy farms and all of them today don't exist anymore. So it goes to show that our current system does not protect family farms. Now again... what is a family farm? What's the average production capacity and scope of a family farm? How many employees? Revenues? We have to ask ourselves what is a family farm, first off. And second, should we protect family farms? What are these farms and where are these farms? That is a debate that needs to occur right now in Canada.

FC: Our next question was 'How would you define the 'family farm' but I guess you've said that is an open question?

SC: It is an open question and I'm not sure. If you had ten people in the same room you would probably get ten different answers, which is a problem when it comes to policy making. When it comes to agriculture and you're deciding whether to protect family farms or not, well, you have to know what's your target. If you don't know what your target is, you've got a problem.

FC: You mention there's been significant consolidation in farming over the past decade, do you have any idea why that's been, in spite of supply management?

SC: Um, economic forces, really. In order to compete you need to create economies of scale, you need to gain capacity for production, be more efficient, and consolidation is a strategy that many companies are embracing right now. It's affecting every function in the supply chain, everyone. Now, at the farming level –the production level- there's been some resistance because of supply management. But at some point something's going to change. There's been some changes already. Like I said before there's 34% less farms [than ten years ago] in dairy right now, and that trend will likely continue. We will continue to lose farms so we have to make a decision here, there's a significant dilemma: Whether we decide to compete, or we just continue to allow uncontrollable economic forces to affect our agriculture.

FC: There appears to be some resistance to changing supply management amongst farmers, do you think it is

possible to convince farmers that supply management is hurting them in the long run, or is the removal of supply management a zero-sum game? If it is possible, what do you believe is the most compelling argument for removing supply management quotas from a farmer's point of view?

SC: On supply management I am quite pessimistic at this point. I don't believe that supply management will go away on our own terms. We will probably be forced to get rid of supply management because we will have to comply to new global regulations. Many believe that nothing will occur at the WTO level, I'm one of those that really believe in free markets, in free trade, and the DOHA round is a good source of hope for many nations including Canada. At some point, once Europe and America and the G20 countries agree to terms on subsidies and tariffs, Canada will have to comply and supply management will fall. So we will be forced to change, and that being said, if we all agree on the fact that the end of supply management is inevitable, we should start changing right now.

To convince farmers, really, it's not doable, because... Honestly if I was a dairy farmer today I would certainly be content with my current situation. It is very difficult to blame them at this point, they lobby the government very hard, the public is generally supportive and both the conservatives and the liberals are for supply management for that political reasons. If our elected officials portray themselves as being against supply management they will ultimately lose votes. Farmers, urbanites, and governments have formed a love triangle to prop each other up. Governments offer agricultural subsidies to get votes from farmers. In turn, farmers provide low-priced food products to urbanites so governments can capitalize on more political support from cities. This three-way dependence hampers Canadian agriculture's capacity to prosper on its own.

Until we will be forced to change...

FC: One of those classic political issues where there are a small number of people who care but they care a lot...

SC: That's right, it's an exclusive club but they have a tremendous amount of power, especially in Ontario and Quebec, where 80% of supply management lies. That's where it's happening and we know what's going on at the federal level, we have two parties that are courting for Ontario votes and Quebec votes so the last thing you want to do is present a view that is against a scheme that, according to a lot of people, is creating wealth in local areas. And we need to create wealth in rural areas.

FC: Other things being equal, we would expect the security offered to producers by supply management to encourage complacency. Is there any evidence to suggest that there has been more innovation in products or production technique to come from geographical areas without supply management than those with it?

SC: There's been some innovation, interesting innovation in Canada when it comes to dairy, eggs and poultry, however, it's not enough. We need more. If you travel in Europe, you go to Australia, the United States, it is evident at least to me, that we need more work, we need to work more on innovative products, develop new niche markets. Right now the structure that we have in place, we cannot, we cannot exploit opportunities *domestically*, let alone internationally.

We need to do some more work and the conference board of Canada actually outlined over the summer that in terms of

innovation in general, we do very poorly against other rich countries around the world, so we need to become more strategic about how we market commodities in Canada.

FC: Do you see any dangers in food safety concerns being used for de facto protection?

SC: Yes I do, and food safety is a very important issue here. If you open the gates, if you open borders to foreign based products, I think it is important to protect the sovereignty of our own food safety standards here in Canada. Because standards from around the world, they do differ. I'll give you an example, we are north of a superpower, the United States. They are more well-organized than we are when it comes to dairy farming than we are because they don't have supply management because they don't have supply management. So over the years they've been focusing on efficiency so the day that you open the border they're going to come in with very cheap milk. But, is it good milk for Canadians? We know that in the United States they are allowed to use growth hormones, whereas in Canada we are not. Should we allow them to sell their milk to us using growth hormones? We have to seriously ask ourselves that question.

The concept of 'food sovereignty' is, I think, an oxymoron in 2007. Food sovereignty in Canada doesn't make any sense from a Canadian standpoint; our economic structure is not fit to focus more on food sovereignty. We need to focus on the sovereignty of our food safety standards, and not just food sovereignty.

FC: Maintaining an artificially high price for food creates unnecessary hardship for the poorest members of society. How much more does a basic, no-frills basket of food cost as a result of supply management?

SC: When you look at different studies, when you look at numbers worldwide, either at the World Health Organization level, or at the OECD, they suggest that perhaps consumers are subsidizing farmers under supply management to an amount of about \$3.7b right now. A study I conducted this summer suggests that consumers are paying at least \$300 more than they should each year to buy poultry, eggs, and milk. And of course this is taxing, this is a regressive tax. We are taxing the poor. We're basically asking them to purchase higher priced, essential commodities –these are basics, poultry, milk and eggs. And on the other side they have these two litres of Coke at 99 cents, so if you don't have much money to feed your family, you might actually be forced to go towards that two litres of coke. That's unfortunate, I think, and we need to make sure that poorer families, low income families, do actually have a legitimate nutritious choice that is offered to them. Another situation I think is deplorable is the situation of distribution channels or undeveloped distribution channels. We have Aboriginal people, Aboriginal communities up north, especially in Manitoba, they don't even have access to fresh dairy products on a daily basis, but they have access to Coke and Pepsi on a daily basis. So there are opportunities, domestically, that we can develop over the long run.

FC: The rapid removal of regulation from the agricultural industry has occasionally resulted in major shocks to producers, for example the 1980's New Zealand was forced by external forces to deregulate it's agricultural sector led to dramatic and sometimes harmful social and economic upheaval followed by a sustained 20 year boom in agricultural productivity growth. Are you aware of any

strategies that could allow a 'smooth reduction' of regulation in the industry?

SC: Well, when it comes to supply management the 'whys' are easier to answer than the 'hows.' The hows are still up for debate: How can we get rid of supply management, it's a very difficult question to answer at this point. There's many ways to do it, you can either use grandfather clauses for quotas, buy them out, I would think that whatever we do for farmers, it has to be fair for them. They've been operating under this system for forty years at least, and we need to be fair to them first, and ask them what they think is a fair deal. Even though we're talking about quotas in Canada worth about \$30 billion –it's a significant amount of money. However my belief is that we may want to consider buying the quotas back. In New Zealand

and Australia what they did is they taxed those products at the retail level for a period of several years to get money to fund the purchase of quotas. Is that a good formula for Canada? I have no idea. The solution has to consider Canadian values and our unique topography. I think we need to do some work on that, so that would be the next step. First step, acknowledging that something is wrong. Second step, how do we gradually get rid of supply management?

FC: Thank you very much for your time, we'll look forward to hearing more from you in the future.

SC: Thank you.