Regulated Markets Work

The reality of the dairy sector does not match neoclassical theoretical prescriptions (market self-regulation). In recent years, significant world price volatility has led to dairy crises in Europe and the U.S. Fixed resources in the dairy industry and lags between the time a decision is made to respond to a market signal and the time it takes to alter production, as well as the perishable nature of milk are important characteristics of the dairy sector that limit the straightforward applicability of static economic theory. Dr. Maurice Doyon explains this is why some form of coordination in the dairy value chain is found in most countries, including New Zealand.[1]

Less than 7% of total world milk production is traded. Yet, trade liberalization advocates are trying to develop rules for traded goods and services that limit intervention tools for all production. Other policy makers around the world try to coordinate markets to alleviate price volatility in agriculture. Limiting intervention is likely causing volatility to increase!

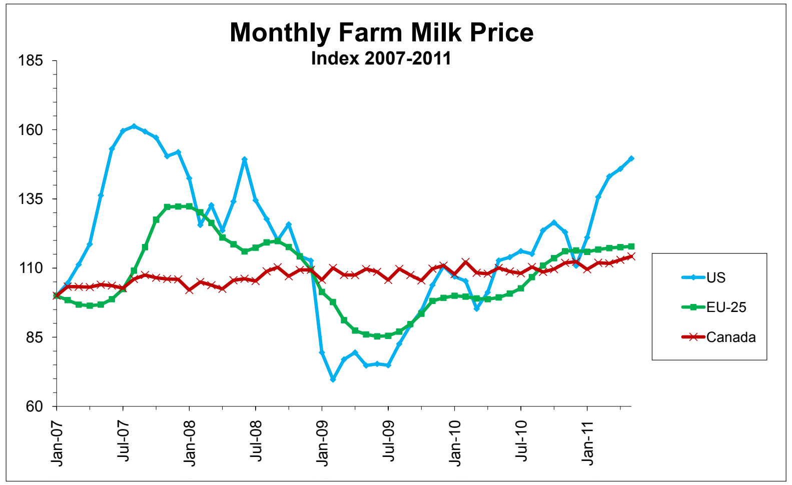
Trade rules should recognize the specific and strategic role of agriculture and allow for policy measures that promote stability of food supplies and prices and allow flexibility for countries to address their own challenges—climate, price volatility and others—through appropriate market regulating mechanisms.

The Hyper Volatile Global Dairy Market

Milk prices are some of the most volatile in the food sector. This volatility is exacerbated by speculation on markets and it threatens food security, sustainability and market stability. As an illustration, following a period of unprecedented high dairy prices, world prices fell to $20 (US) per 100 kg of milk in 2008/2009. At that price, the cost of production of only 10% of the world's milk supply is covered.[2] During that time, Canada was among the few countries that saw stable milk prices and supply without direct government financial assistance, thanks to supply management.

1 An Economic Rationale for Supply Management, Dr. Maurice Doyon, Laval University, 2011 (dairyfarmers.ca)

2 IFCN, 10th IFCN Dairy Conference 2009



Sources: UW Madison, Canadian Dairy Commission, Europa

The Failed Promises of Deregulation and Free Trade

Although conventional wisdom asserts deregulation and free trade lead to lower consumer prices, evidence in the UK, the EU and Australia suggests deregulation and lower—but highly variable—producer prices have not led to proportionally and significantly lower retail prices.[3] This failure is largely the result of excessive concentration at both the retail and processing levels, which has perpetuated "asymmetric pricing" where retail prices rise quickly when producer costs rise but respond only sluggishly when producer prices drop.

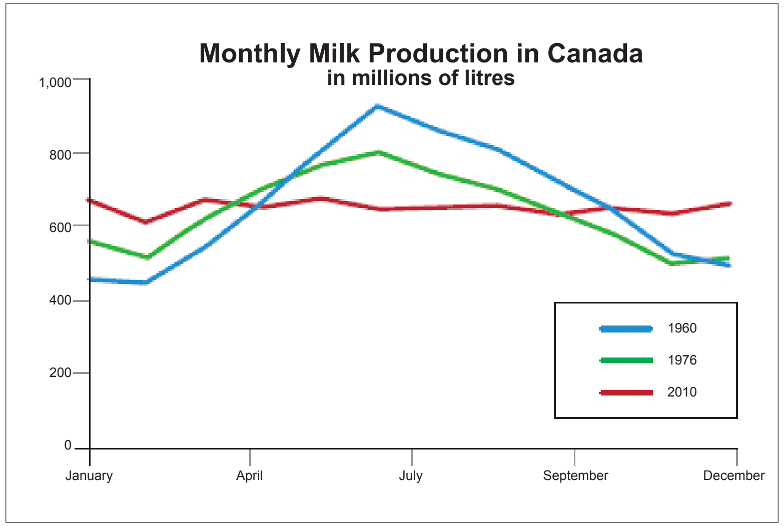
Supply management achieves equilibrium through volume adjustments rather than through price adjustments. It adapts to evolving market conditions by balancing supply and demand, as well as market power among the supply chain stakeholders. This avoids situations where the market is flooded with excess milk that would in turn end up on the world market at depressed prices. Adjustment costs on volumes are orders of magnitude smaller than if price alone is used as a market indicator to balance supply and demand.[4]

3 Supply Management in the Dairy Sector, Still an Appropriate Regulation Method, D. Mercier-Gouin, Groupe Ageco, February 2008

4 DFC analysis (dairyfarmers.ca)

A Canadian Solution

In Canada, supply management, a unique form of market coordination, has been the answer to market imperfection for more than 40 years. The Canadian system has delivered stability to the entire dairy supply chain by coordinating supply and demand and adapting to the constantly evolving market conditions.



Source: Statistics Canada

Some of today's positive results of supply management include:

- Canadian consumers spend less than 1.5% of their disposable income on dairy
- Consistent supply of high quality, nutritious food for Canadian consumers at stable and reasonable prices
- No government money to compensate farmers for unsustainable world prices
- Significant contribution to the Canadian GDP and tax revenues
- Constant year-round supply for processors improve plant efficiency and profitability
- Fair and stable prices for farmers
- No surplus production
- Among world leaders in milk per cow productivity

As the world struggles to address market failure in global food prices, dairy supply management continues to be a proven solution in Canada.

Economic Contribution of the Canadian Dairy Industry

The Canadian dairy industry, focused on supplying the Canadian market, is the second largest food sector in Canada and does not rely on government handouts.

The Economic Impact of the Dairy Industry in Canada
ÉcoRessources Consultants, 2011

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REGULATED MARKETS WORK

Supply Management: A Canadian Success Story