

A Brief History of Supply Management in Canada

Evolution of the Canadian Dairy Commission

Since the appointment of the first Dominion Dairy Commissioner in 1890, the federal government has played an active role in the development and implementation of policies and programs in support of the Canadian dairy industry. Early federal initiatives included an iced butter railway car service (1895), funding for cool cheese curing rooms (1902), cow testing programs (1902) and the grading of butter and cheese for export (1923). The Government of Canada introduced a temporary subsidy on cheese and butter in 1935. Further programs to support prices, export surplus products, and limit imports were in effect throughout the 1940's and 1950's and were extended with the establishment of the Agricultural Stabilization Board (ASB) in 1958.

Although it provided the necessary structure for price stabilization operations, the ASB was not in a position to tackle two major problems affecting the dairy sector:

- a lack of coordination between federal and provincial policies, and;
- the absence of an effective mechanism to control milk production.

It became clear that a mechanism was needed to ensure reasonable support prices for storable dairy products to underpin producer returns. New mechanisms were also needed to control costly surplus production. The federal government convened the 1963 Canadian Dairy Conference, which led to the creation of the Canadian Dairy Advisory Committee the same year. In its 1965 final report, this Committee recommended the creation of the Canadian Dairy Commission.

The CDC continued the government's earlier price support programs for butter, skim milk powder, and cheese which had been administered by the ASB. From its inception, the Commission also assumed responsibility for administering the subsidy payment to industrial milk and cream producers.

In order to control the production of industrial milk and to generate the funds required to cover the cost of exporting surplus products, it was necessary for provincial milk marketing organizations with statutory powers over prices and quotas to work with the CDC, which operated the price support, subsidy and export programs.

Subsidy Eligibility Quota's (SEQ's) established in the early years of supply management were the precursor of the present day Market Sharing Quota (MSQ) system. SEQ's, however, did little to control milk production. Producers could ship milk in greater volumes than their respective SEQ allocation, and producers without quota were free to enter the market at any time they wished. Since the levies to support exports were deducted from the federal subsidy that was paid on production up to each producer's SEQ level, these additional shipments could be made without the possibility of collecting funds for the disposal of the milk surpluses which resulted.

This situation led to the development of an Interim Comprehensive Milk Marketing Plan in 1970 and the subsequent establishment of the Canadian Milk Supply Management Committee (CMSMC). Ontario, Quebec and the federal government were the original parties to this Plan. All the remaining provinces except Newfoundland entered the Plan by the end of 1974. Since Newfoundland does not produce significant amounts of milk for industrial purposes and is not a signatory to what is now known as the National Milk Marketing Plan, it maintains an observer status in national milk marketing activities.

Under the Plan, provinces agreed to collect the monies necessary to offset the costs of disposing of surplus dairy products from their producers and remit these funds to the Canadian Dairy Commission.

As one of the CDC's legislated objectives is to ensure a fair return for efficient producers (see side-bar, *What is the CDC?*), much of its work has been directed toward refining the price support program. In 1975, a Returns Adjustment Formula was devised to bring a more realistic estimation of producer costs into the determination of the support prices for butter and skim milk powder which underpin the returns that

producers receive. This formula was replaced in 1988 by a pricing mechanism which captured cost of production data at the farm level.

In July 1990, the federal government mandated that the CDC establish support prices for industrial milk. And in 1991, the Task Force on National Dairy Policy recommended that the Commission continue to exercise this authority. The CDC announces the producer target and product support prices as well as the assumed processor margin after consideration of the advice of a Consultative Committee and through consultations with other dairy stakeholders.

In addition to its price support programs, the Commission works with industry stakeholders to develop and implement other initiatives aimed at helping the dairy sector meet the changing needs of the marketplace. Such initiatives have included the provision of producer-financed assistance payments for exports of dairy products, and rebates which encouraged the increased use of Canadian dairy ingredients in products sold both domestically and abroad. These two approaches to competitive marketing were terminated on July 31, 1995.

In August 1995, the use of producer levies to finance the cost of planned exports and surplus removals was also terminated. In its place, the dairy industry adopted a new system of pricing and pooling of market returns. Under this system, industrial milk is classified and made available for use in dairy products and products containing dairy ingredients at prices which vary according to the end use of the milk. The pooling agreements, which the CDC administers on behalf of the industry, ensure that revenues are shared (or pooled) among provinces.

The Commission's key role is to facilitate the design and implementation of major dairy policies and programs. In fulfilling its facilitative role, the Commission works closely with the major stakeholder organizations including the National Dairy Council of Canada, Dairy Farmers of Canada, the Consumers' Association of Canada, provincial milk marketing boards and agencies, and provincial governments as well as organizations representing further processors of dairy products.

source: <http://www.cdc.ca/indexen.html>

What is the CDC?

The Canadian Dairy Commission is a federal crown corporation which plays a central coordinating role in the Canadian dairy industry. Funded by the federal government, producers and the marketplace, the CDC's legislated objectives are to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers with a continuous and adequate supply of dairy products of high quality. Specific activities of the CDC include:

- administration of the federal subsidy to dairy producers (expires 31 January 2002);
- calculation of the national production target for industrial milk (Market Sharing Quota - MSQ);
- administration of pooling agreements on behalf of Canadian producers (e.g. Western Milk Pool);
- determination of the support prices at which it will purchase butter and skim milk powder;
- working with the private sector to balance the seasonal demand and supply of products for the domestic market through storage programs and facilitation of their use in times of low milk production;
- acting as first receiver of butter imports required to fulfil Canada's international trade obligations and selling that butter through primary dairy processors to further processors;
- selling Canadian dairy products on the export market either directly on a government-to-government basis or through Canadian exporters;
- administration of the permit system which provides further processors and exporters with access to milk components priced according to the market of destination of the finished dairy product;
- providing technical support to provincial boards and the Canadian Milk Supply Management Committee (CMSMC);
- acting as chairman of the CMSMC, the CDC acts as the national facilitator and mediator in helping build the consensus which characterizes Canada's approach to orderly marketing.