Intelligence MEMOS

From: Lawrence Herman

To: Canadians concerned about trade

Date: August 30, 2023

Re: **Only the Senate Can Rescue us from the Latest Dairy Power Play**

Bill C-282 is a terrible piece of legislation. Yet it sailed through the House of Commons and is now in the Senate, the last hope for bringing some sanity to the matter.

Indications are that key senators, including Senator Peter Boehm, chair of the Senate Foreign Affairs and International Trade Committee, have serious problems with the bill.

The bill amends the *Department of Foreign Affairs, Trade and Development Act* to insert a provision that prohibits the government from concluding any trade agreement that would increase foreign access to Canada's supply managed agriculture sector.

This is an unprecedented effort that further protects the dairy, poultry and egg producers from foreign import competition. But putting on these constraints seriously weakens Canada's trade negotiating capacity, unlike anything we have seen before.

It means Canada comes to the negotiating table demanding that a specially favoured part of the agriculture sector is off limits. In the back and forth of offers and compromises that are part of any trade negotiation, Canada will have to sacrifice positions in other areas in return for perpetuating supply-managed protectionism.

Bill C-282 was a private member's bill, introduced in the House of Commons by Luc Thériault, the Bloc MP from Montcalm. It has gone surprisingly far for an opposition private members' bill, which usually don't go anywhere. After going through the committee stage, the bill was reported out last May and adopted by the House – without change – at third reading on June 21, getting 262 yea and 51 nay votes, with most Conservative MPs voting against the bill.

What is of interest, though, is how the votes broke down. A handful of Conservatives from Eastern Canada who actually supported the measure were in ridings with dairy farms. Almost every Western Canadian Conservative, on the other hand, voted against.

That is because Western Canada has few dairy producers but is dominated by the cattle industry, a sector that functions on the open market, unprotected by guarantees of price and market share, putting western farmers at odds with their protected dairy counterparts in Eastern Canada.

Bill C-282 shows how lobbyists for the supply managed industry, already the beneficiary of a Soviet style system, exercise undue influence over Canadian trade policy. Interest groups lobby the government on many different levels to continue or change policy measures.

But getting an amendment inserted into existing legislation that actually prohibits Canada from agreeing to increasing foreign access to these protected sectors in future trade deals, no matter how modest, is without precedent.

Some might say C-282 is not problematic because Canada has already concluded major free-trade agreements with its most important trading partners, such as the United States, Europe and Asia-Pacific countries. Fair enough. But there are other trading partners where Canada has yet to conclude an agreement, most notably Britain, an important exporter of cheese products. If C-282 enters into force, it means Canadian negotiators will be hamstrung in those negotiations, throwing a monkey wrench into the exercise.

Then there is the much critical issue of the US. Even though the Canada-US-Mexico Agreement (CUSMA) includes a modest degree of US dairy access, many US exporters remain vocally unhappy. It can be expected that the American side will continue to push for increased dairy access when the CUSMA comes up for review in 2026.

Bill C-282 means Canada will be telling them to go fly a kite when the teams sit down across the table. It is not a good omen for these talks.

There is also a much broader trade policy issue in all of this. Bill C-282 reflects the lobbying power of the dairy industry to get even more import protection for this highly protected sector. This in a Canadian market where milk consumption has declined in recent years, hitting a new low in 2022 of around 58.2 litres per capita, a decrease of more than 10 litres since 2015. It means Canada is going to the wall to safeguard a shrinking domestic market.

But more significantly, by trying to keep supply management inviolate, Canadian producers are unable under our trade agreements to export their products, missing out on the world's huge and expanding markets. New Zealand, a fraction of the size of Canada, has become a major global player, exporting 95 percent of its milk, almost half in the form of milk powder.

In 30 years, New Zealand dairy exports have grown from just over $1.6-billion per year to almost $20-billion in 2022. In comparison, Canada dairy exports were a mere $500-million in all categories.

What all this shows is, thanks in no small part to political influence, Canadian agricultural trade policy is way off course. It's another example of poor strategic thinking, staying small instead of looking expansively to global opportunities.

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A version of this Memo first **appeared** in the *The Globe and Mail.*