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Why Supply Management in Canada can Co-exist with the Prospective Doha Round Result

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The Canadian supply management system could continue to function under the prospective Doha Round result. The main change the industry would face would likely be the replacement of the present pricing system in dairy and eggs with a system of negotiated prices between producers and processors (paralleling the existing situation for chickens and turkeys) which still would reflect very substantial protection via the remaining over-quota tariffs. The main adjustment would be that Canadian producer prices would start to more closely track world prices which should be less volatile and higher as a result of the phase out of export subsidies and the creation of new market access opportunities. The impact of a Doha Round result on the production quota values created by supply management is hard to judge and would depend heavily on the adjustment policies adopted by the Canadian federal and provincial governments chosen to facilitate a “soft” rather than a “hard” landing for producers. Given the political influence of the supply managed industry at both the federal and provincial level, it would appear safe to assume that every effort would be made to assure a soft landing and a continuation of most of the main elements of the supply management system.

Increased import competition from a Doha Round result would impact the supply managed sectors in different ways. The greatest impacts would be expected for dairy, turkey, and egg producers, while the impacts on producers of chicken and broiler hatching eggs and chicks should be considerably less, reflecting the fact that for these latter products Canada's NAFTA market access obligations already provide considerably more low in-quota tariff access than Canada's existing WTO commitments. For example, Canada is obliged, under NAFTA, to provide low duty access for chicken equivalent to 7.5 per cent of the previous year's production. This compares to Canada's existing WTO commitment to provide low duty access for an amount equivalent to five percent of consumption in the 1986-88 period. Given that Canadian broiler production has grown considerably since then, this means that the NAFTA rather than Canada's WTO commitment is the binding import access obligation. In the case of broiler hatching eggs there would be no new market access under a Doha Round Agreement since Canada's existing NAFTA access obligation (21.1 percent of the anticipated current year's production) already greatly exceeds its current and prospective WTO obligations.

The situation for dairy, turkey, and eggs would differ in that much of the increase in WTO quota volumes would represent new access. However, even for these products, the actual import increase will be moderated by the fact that in a number of cases the supplementary import permit system already allows in more imports than the current WTO commitment levels (however, it would not be permitted to count imports for re-export against in-quota obligations).

The upshot is that a Doha Round outcome along the lines of the Chair's draft modalities would imply that Canada will need to increase the volume of WTO in-quota imports to something in the order of five to eight percent of domestic consumption in exchange for only having to reduce its 200-300 percent over-quota tariffs by less than one-quarter (instead of around 70 percent if there was a full application of the tiered tariff reduction formula). Thus, the remaining over-quota tariffs still should be high enough to allow a slightly modified supply management system to survive

The most vulnerable sector, dairy, would still retain sufficiently high over-quota tariffs to enable it to compete against low cost suppliers, such as New Zealand and Australia – even if the US dollar continues to be depressed relative to other currencies. However, Canadian supply managed prices would have to increasingly reflect the landed, duty paid cost of imports. This would mean less price stability than that provided by a fully insulated administered pricing system. Moreover, to the extent that a Doha Round result would contain caps on trade-distorting domestic support, any remaining administered prices would be subject to a cap and roll-back to the average prevailing in the 1995-2000 period – which, in effect means a move to negotiated pricing.

On the export side, a Doha Round export subsidy phase out would force a parallel phase out of Canadian supplied managed exports priced at below the administered domestic price, particularly in dairy. Dairy product exports would virtually cease, but processed food exports incorporating dairy products could continue, provided the milk used was priced the same, irrespective of whether the processed food was exported or sold on the domestic market (as is already the case for milk sold for the manufacture of chocolate confectionaries).

As noted earlier, the precise impact on the value of production quotas for dairy (by far the most important supply managed sector) of a Doha Round result is difficult to predict. Currently, strong international dairy product prices, reinforced by the Doha Round results, will make it more difficult for imports to enter Canada even over reduced over-quota tariffs and this will help moderate the impact of increased import access into the Canadian market. The only thing which appears sure is that asset values could fall more than necessary; unless the adjustment game plan is known early, all stakeholders are given time to adjust, and appropriate adjustment assistance is provided. The manner in which the EU has managed its reform of the Common Agricultural Policy demonstrates that even the most politically sensitive policies (e.g., EU sugar and grains) can be modified to make them compatible with a more open trading system.

Questions of political influence aside, there are valid reasons why governments need to consider adjustment assistance. Most current supply managed producers had to purchase their production quota and make other long-term investments in the context of an ongoing supply management system. These investments were made in good faith on the basis of long-standing policies

supported by virtually all political parties at both the federal and provincial levels. If the rules of the game are to be changed as a result of a multilateral trade agreement, it is only fair that governments provide appropriate financial adjustment assistance.