How consumers are being milked by Canada’s opaque dairy supply management system

While milk prices in Canada and the U.S. are roughly on par, writes Gary Sands, of the Canadian Federation of Independent Grocers, in past years when cost pressures ease, the non-supply managed market in the States has responded with lower prices for consumers. Not so for Canadians.

https://www.thestar.com/business/opinion/2022/06/18/how-consumers-are-being-milked-by-canadas-opaque-dairy-supply-management-system.html
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Sat., June 18, 2022timer4 min. read

It seems inevitable that Canadian consumers will soon be paying even more for dairy products and in turn, grocers across the country will be left holding the proverbial bag of milk, trying to explain to their customers why, yet again, prices are going up.

On May 27, the Dairy Farmers of Canada (DFC) submitted a request to the Canadian Diary Commission (CDC), asking for another hike in the price of milk, on top of the 8.4 per cent regulated increase they had already received on Feb. 1 under Canada’s supply management system. To date, that February hike was the highest increase ever approved by the CDC.

Inexplicably, the CDC kept this latest request in cold storage for a week before making it public on June 2. A relatively small group of designated stakeholders were then given less than two weeks to prepare for “consultations” on the proposed increase. As well, the percentage increase being requested has not been divulged. Which means the CDC is asking industry stakeholders to respond to a proposal, but are not allowed to know what the actual proposal is. This opaque approach to decision making is probably only possible because more than 90 per cent of Canadians have no idea what the CDC is or its mandate.

Suppose however, for a moment, that the federal government had just announced additional imports of dairy products to compete with domestic products. Most assuredly Canadian dairy farmers would howl in reflexive protest, demanding iron clad commitments on financial compensation for protection against competition.

Try to imagine their collective reaction if the government response was along the lines of not divulging by what percentage import quotas would be increased coupled with an assurance that there would be financial compensation, but would not say exactly by how much. It would be safe to presume that someone would have to keep the car running in the parking lot whilst some hapless government representative sprinted into the DFC offices to share that news.

Of course, regulated increases under supply management are just one component of pricing. As retail grocers are well aware, with both dairy and egg products, companies selling eggs and milk will frequently join the herd with their own price hikes on top of the regulated increase. Not surprisingly, this somewhat disingenuous approach means the consumer has no way of distinguishing what part of the increase is regulated and non-regulated.

Both the producers and companies in supply managed sectors, cite increased inflationary costs and current challenges in the supply chain as justification for ongoing price increases. But those costs and challenges are being felt by all sectors of the food supply chain — from gate to plate.

Even according to the CDC, “comparing the period of February to April 2021, with the same period in 2022, producer revenues increased by 12.1 per cent.”

As well, in 2019 the Government of Canada announced it would provide approximately $1.75 billion in compensation to dairy producers to offset the effects of competition from trade agreements. Conversely, Canada’s independent community grocers operate on overall margins of about 1.5 per cent. Nor did they receive any compensation when multinational e-commerce monoliths began competing in the retail grocery market.

Grocers are the supply chain sector that is the sole point of contact with the consumer and for that reason have a heightened sensitivity to the concerns around affordability. A study released this year by the Beef Farmers of Ontario underscores that point.

Its findings showed that while the price of beef has risen significantly, the farmers share of profits fell from 41 per cent in 2016 to 39 per cent in 2021, but “grocers and butcher shops fared worst of all, earning an eight per cent share of the profit margin in 2016, to just over two per cent in 2021.

An important industry context for the CDC to also consider is that while some 6,900 independent retail grocers can be found across Canada, many of them are in semirural, rural and remote communities and are often the only grocery store in smaller towns or villages.

Those diverse municipalities are part of the storied tapestry that makes up our Canadian identity. But food security in those areas is very much predicated on their ability to access fair supply at affordable prices. Those small and mid-size retailers, the backbone of those communities, are feeling the squeeze of increased inflationary costs just as much as dairy producers, particularly around skyrocketing fuel surcharges. Yet those retailers do not have the refuge of a supply managed regulatory body in which they can seek relief.

Another question for governments, both federal and provincial, is how can we build more flexibility into the supply management system? When inflationary cost pressures currently cited by dairy and egg producers as “exceptional circumstances” — such as rising inflation, the COVID pandemic or the Russian invasion of Ukraine — provide in their view, justification for additional price hikes, why then, when those pressures recede, can bodies such as the CDC not reduce regulated prices, to give consumers a break?

So while milk prices in Canada and the United States are currently roughly on par, in past years when cost pressures ease, the non-supply managed market in the States has responded with lower prices for consumers. Such a benefit has never been afforded to Canadian consumers.

Canada’s independent grocers have always understood the rationale for supply management and have never opposed this system. That does not mean we believe it cannot be improved. Grocers value their Canadian dairy and egg producers as important partners in the supply chain. But at present, supply management rests on three pillars: national production planning; price administration and import controls. Bearing in mind that milk and eggs are essential staples, it’s time to add a fourth pillar to its mandate — the interests of consumers.

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