

Recasting a Robust Vision for Supply Management



Policy Concepts Paper

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1.0 Introduction

Supply management as an approach to marketing milk, poultry and eggs has proven robust in important respects. Regulating production, restricting imports and offering stable returns to producers at a favorable level are the foundational pillars for supply management. Consistent with this, the Canadian dairy industry has avoided drastic drops in milk prices, followed by prolonged low milk price periods and associated financial stress that has repeatedly occurred in much of the global dairy market. Poultry and egg supply management has facilitated a market environment that allows for an independent, decentralized farm segment, and yet has accommodated forward integration of some producers, while pricing at the cost of production. Supply management has not proven particularly frail or fragile in the face of trade liberalization under past trade agreements. Supply management continues to attract periodic attention from newspaper op-ed columnists, but there is no indication of the imminent public catharsis over supply management and high food prices that they have long envisioned.

This situation has been managed through a willingness to adjust elements of supply management to a changing market, policy, and technology context. It is evident in the adjustments made to change from binding import quotas to tariffs and tariff rate quotas over 20 years ago. It is evident in how the concept of “cost of production” in pricing has changed over time, shifting from broad producer surveys to models and formulas, and even in what aspects of supply managed markets are actually covered by cost of production pricing. It is also evident in marketing adjustments made to accommodate new technologies, such as whey recycling in cheese manufacturing and the use of concentrated skim products, and in the growth in further processed poultry and egg products.

Adjusting these instruments can be difficult. Smooth adjustment is typically not an attribute of complex systems modulated by regulation. Significant changes to rules and regulatory mechanisms threaten secondary changes that can have adverse and sudden unintended effects.

But a more basic question is, what objective(s) are we pursuing in adjusting the instruments of supply management? The instruments of supply management we see today are artifacts of a past, honed over time, in which complements of technology, market conditions, and policy created an environment which motivated collective action at the farm level in supply managed industries, based upon past aspirations and fears. It also reflects somewhat of a local orientation and associated fragmentation that existed at the time supply managed institutions were created, and served as the basis for agreements on national supply management.

This environment, in turn, generates the baseline or *status quo* conditions for supply-managed industries of today. These define the relative price levels in Canada versus elsewhere, quota values, and economically feasible scales of operation in Canada versus elsewhere. Canadian farm prices in supply managed commodities are relatively high, by a significant margin (especially versus the US), and are broadly more stable than prices elsewhere. Quota prices are high (in the context of price:earnings ratios) and stable to increasing in value as a capital asset,

and quota assets are commonly the highest valued among a farm's assets. Canadian farms in supply-managed products are relatively small in scale versus benchmarks elsewhere (notably the US). The number of farms in Canada producing supply managed products is declining at a similar rate to that in other countries, at least in comparison with those in which the farm segment has not already been vertically integrated with processing and/or feed.

What are today's aspirations and fears in supply management? By default they appear to be protection of the *status quo* in supply managed industries- both a weak and probably untenable objective. However, as market, technology, and policy factors continue to evolve, a renewed set of objectives for supply management is required to interpret its legacy instruments, and identify positive direction for change.

The purpose of this paper is to identify key change drivers in supply management, to develop the case that a renewed vision for supply management is required, and to highlight the risks/impediments to these changes.

2.0 Drivers of Change in Supply Management

2.1 Federated, but Provincially Fragmented Systems

Supply management is primarily provincial agricultural policy, federated to the national level in poultry and eggs by agencies established under the federal Farm Products Marketing Agencies Act¹, and in dairy under the facilitation of the Canadian Dairy Commission with representation of producers at the national level by the Dairy Farmers of Canada. Within this provincial orientation, significant cooperation among provinces has been achieved. Provincial milk marketing boards have coordinated in an Eastern Canadian milk pool (or P5) and in a Western Milk Pool to pool farm milk revenues and to coordinate a number of industry standards that derive from provincial authorities. Efforts led by provincial egg and poultry marketing boards relating to sustainability and animal welfare are increasingly occurring on a regional or national basis.

Supply management faces some critical big picture challenges that will require broader and deeper interprovincial cooperation. These are especially evident in dairy, where the structural surplus of skim milk combined with export limitations has caused the (limited) dumping of milk, with ongoing concerns regarding a shortage of adequate processing capacity. Canada's dairy export limitations will further tighten when the Nairobi protocol comes into full effect in 2021, greatly exacerbating the impact of the structural surplus of skim- unless milk pricing accepted as non-subsidized is implemented for dairy exports. Differential growth- among provinces, and also among primary, further processed, and niche products- is an ongoing challenge in chicken, despite a landmark federal-provincial agreement reached in 2014 that acknowledges these factors

¹ Chicken farmers of Canada, Turkey Farmers of Canada, Egg Farmers of Canada, Canadian Hatching Egg Producers

in adjusting allocation. Managing differential growth in table and processed eggs is also a challenge, especially where processing is concentrated in specific provinces and in which there are pressures to limit levies used to implement sustainable breaker egg pricing. The magnitude of these various issues will challenge provinces to cooperate effectively at the national level, even when their significance is much greater than on other matters in which they have cooperated quite effectively.

The effect of these issues is to create inefficiencies and lost growth opportunity in supply managed systems, as well systemic risks. The tangible costs of delayed action on the structural surplus in dairy is evident in the creation and growth of milk class 4(m) over time, in which skim solids are marketed at well below world price into the feed market. Recent changes in Class 4(m) to allow competitive pricing for milk protein concentrates only occurred after Ontario launched its own new milk price class (Ontario Class 6- and national Class 7). While a broad agreement on a national milk Ingredient Strategy similar in nature to the Ontario Class 6 initiative has been reached, implementation has been delayed as operational details are sorted out that, among other things, attempt to preserve equity among existing provincial structures. The process of reaching a national agreement appears to have strained relations across provinces' dairy producer groups, even as it achieved an historic producer-processor agreement and has facilitated impressive growth in industrial milk quota.

The chicken industry has experienced delays in its growth planning as individual provinces occasionally resort to filibuster tactics in order to force desired changes in allocation levels and revised shares under periodic federal-provincial agreements. At the same time, investments in chicken farm and processing segments are organized around existing provincial shares, and changes to these provincial market shares are inherently disruptive- even as they accommodate and facilitate overall chicken market growth.

2.2 Consolidating Value Chain

The risk of descent into provincialism and a consequent failure to address the big, strategic issues in supply management is real. Markets downstream from the farm are not provincially fragmented in supply managed products, with the possible exception of fluid milk. The retail and foodservice customers for dairy, poultry, and egg products operate at the national level, and expect their suppliers to grow with them to the appropriate scale. Processors in supply-managed products are thus pushed toward increased scale by the demands of their anchor customers. At the same time, processors have managed significant market consolidation, departing from a provincially fragmented past, under the benefit of protection from imports under supply management. The result is a value chain reoriented toward a more national scale. Attempting to break this value chain up into provincial segments, or maintain a provincial structure when the market has shifted to a national scale, creates important inefficiencies and costs.

Some Canadian processors in supply managed products have invested in multi-national operations, apparently to obtain more rapid growth than they found possible in the Canadian

market due to large existing market shares, or due to export limitations faced by Canadian operations. For these processors, provincial fragmentation is a legacy of the past and an inefficiency, perhaps made tolerable only by strong margins in their protected Canadian operations.

The apparent stability and permanence of the current situation regarding provincial fragmentation is likely a façade. Small and medium scale processing operating at provincial scales will continue to be under pressure. A recent example is the announced closure of Scotsburn ice cream facilities in Newfoundland, followed by the acquisition of Scotsburn by Agropur. Another example is the ongoing rationalization of chicken processing in the Maritimes, with the past closure of chicken processing in Nova Scotia coupled with new processing investments in New Brunswick, significantly supplied with live chicken based on allocations made to Quebec and Nova Scotia. The prospective threat of rationalization in processing facilities to the point at which some provinces face no realistic or economically viable access to processing for their allocation of farm production is real. An illustration is the proposed changes to Canadian livestock transport regulations that limit the duration an animal can be transported for slaughter. It is unclear what would occur regarding a province's allocation if it has no processing plant of its own and livestock transport (or other) rules were to effectively prevent it from accessing processing plants elsewhere.

Conversely, the potential that the engineering and financial thresholds for the scale of new or renewed investments in processing could exceed a province's allocation of farm production, and thus require volume from neighbouring provinces (and pressure neighbouring provinces' processing facilities for volume) is equally real, especially for small provinces. Growth or loss in provincial processing capacity must eventually be met with corresponding adjustments in provincial allocation or credible commitments from other provinces to share in adjustment, leaving the prospect of perceived inequities and lost economic activity among provinces. However, failing to make these adjustments could create large costs and inefficiencies to supply managed industries.

2.3 Legal Challenges to Interprovincial Trade

Canada has recently concluded a *Canadian Free Trade Agreement*, that will replace the existing *Agreement on Internal Trade* (1995). As intended, it will reduce a range of barriers to trade among provinces. However, supply managed products have been set aside as part of the "negative list"², as was the case under the Agreement on Internal Trade. This would appear to lend stability to existing provincial structures in supply management.

² Article 812: Collective Marketing provides that "Article 301.2 (Right of Entry and Exit) does not apply to: (a) any measure relating to collective marketing arrangements for poultry and eggs regulated pursuant to the Farm Products Agencies Act (Canada), as amended, and milk and dairy products regulated pursuant to the Canadian Dairy

However, New Brunswick has requested that the Supreme Court of Canada rule on the so-called New Brunswick Beer Case³ under Section 121 of the Constitution Act⁴. The case relates to rules under provincial legislation limiting movement of liquor into New Brunswick; analogous rules exist in other provinces limiting interprovincial movement of wine and spirits. The complainant in the case successfully argued that the New Brunswick legislation was contrary to Section 121; the Supreme Court of Canada has recently agreed to hear the case⁵.

If the New Brunswick rule is struck down as unconstitutional by the Supreme Court of Canada, a precedent and broader interpretation is possible that could weaken provincial authorities in (among other things) regulation of agricultural products, and perhaps undermine the negative list established in the Canadian Free Trade Agreement. A prospective example relates to rules under which provincial marketing boards regulate the supply of farm product to processing plants- under an alternative interpretation of Section 121 it is possible that processing plants could have greater freedom to source raw product from other provinces, if the pertinent provincial legislation and regulations constituted under Section 121 are interpreted as trade-restricting.

There is much to be clarified here, and few certainties- but the implications are potentially game-changing for provincially fragmented marketing systems. National supply management is bound together by federal-provincial-producer agreements, spelling out fundamental elements- such as agreements to abide by shares of national quotas and the process that generates national market shares for individual provinces. A reinterpretation of Section 121 could undermine the legitimacy of these, and effectively supplant them with a reference to the pertinent federal legislation- the Farm Products Marketing Agencies Act, the Canadian Dairy Commission Act, and likely others. Thus it could be highly disruptive, and potentially open the door for a more national market in supply managed farm products. This, in turn, could open the door (and the desire) for national marketing boards in lieu of provincial marketing boards to match national purchasing power of processors under a reinterpretation of Section 121. Previously national marketing boards have been viewed as an incursion on provincial authorities.

The fear and entrenched interests associated with these situations create the potential and the perverse incentive for provincialism to take hold. This will logically erode the benefits of supply management. The key symptoms are reduced willingness to invest in primary processing (and conversely even disinvestment), and an increased vulnerability to policy pressures that act at the

Commission Act (Canada), as amended, and the Agricultural Products Marketing Act (Canada), as amended, adopted or maintained by a Party that restricts or prevents the movement of an agricultural good and relates to the good's entry into or exit out of that Party's territory"

³ Comeau vs. New Brunswick

⁴ Section 121 states that "All Articles of the Growth, Produce, or Manufacture of any one of the Provinces shall, from and after the Union, be admitted free into each of the other Provinces". Extensive past litigation on the meaning of this clause has resulted in the narrow interpretation that there can be no duties on product moving across provincial boundaries, but that it does not prevent provinces under other sections of the Constitution Act to impose what can be effective provincial barriers to trade- through regulation or other means

⁵ <https://scc-csc.lexum.com/scc-csc/news/en/item/5517/index.do>

national level- notably through trade policy. When provinces, through their marketing boards or provincial governments, are prepared to withhold support for initiatives with other provinces (or nationally) that develop supply managed industries as a whole or protect them from external pressures- on the grounds that they disadvantage their own province in either absolute or relative terms- provincialism genuinely places supply management at risk.

2.4 Political Decay in Supply Managed Institutions

The above are all indications of what the political scientist Samuel Huntington called political decay. Political decay occurs when there is more rapid evolution and reorganization due to social and economic development than in corresponding institutions designed to regulate social and economic interactions. Participants begin to use established institutions as a means to fragment interest and block change, rather than to rally collective interests to address change, transition the membership, and to transition the institutions themselves. The result is institutions that are seen as less effective and just, and trust in these institutions erodes. Political decay is costly, and can ultimately undermine the integrity of institutions and peoples' belief in working together collectively.

Political science has taught us that organizations, in order to act effectively in collective action, must be able to identify goals, set objectives and take on tasks, enact structures/institutions that deliver progress toward achievement of goals, and do so in a manner that builds trust. The building of trust relates to the perception held throughout the group that outcomes and participation are distributed equitably, that it is seen as operating with integrity, that leadership is popularly elected and supported, and that a mechanism for recall exists if the group is dissatisfied with its leadership.

In practice, balancing all of these considerations is complex, and requires constant work on an extensive set of fronts. For example, an organization could be very effective at meeting established and broadly supported goals, but if the benefits are seen as flowing primarily to a subset of members, or if the process of establishing or achieving objectives is seen as lacking in integrity, the trust in the organization will erode. Conversely, trust will also erode if an organization's processes are viewed as transparent, appropriate and equitable, but it simply proves ineffective in achieving its collective goals.

The possible sources of political decay are many and several. In supply management, the statutory nature of provincial fragmentation and the capitalization of supply management benefits into quota values makes managing its collective organization all the more difficult. For supply management agencies, the essential way to combat political decay is to engage a dialogue with members on a continual basis regarding the broad objectives of collective action through supply management, the alternatives that could be taken to advance the objectives, the relative advantages and risks of each, and why particular decisions are taken and how they are being monitored. This lends to a culture of humility, a clear understanding of the challenges and risks attached to bold objectives, and one in which new ideas to advance objectives are actively

encouraged and debated. This contrasts with an alternative institutional culture that focuses on pride in past accomplishments, and cultivates fear of failure or change among its members and broader stakeholders.

3.0 Renewal of Vision and Objectives, and Associated Risks

Supply management systems have a strong and proven collection of instruments to achieve the established objectives of generating positive returns to producers and stable prices. Some of these are faced with increased pressure- from limitations on exports (dairy), increasingly porous import barriers (dairy, poultry), disruptions associated with pressure for change in provincial allocation (chicken), pressure toward reductions in price (dairy), and effective accommodation of market growth (dairy, eggs, and chicken). Many of these pressures have been, or are, being addressed through a re-engineering of these instruments at both provincial and national levels. The dairy industry is developing milk price classes that price some components at the same price in export and domestic markets. In chicken, mechanisms are being developed to control the porous border associated with mislabeling of imported spent fowl, and through the elimination of the Duty Relief Program for chicken imports. In eggs, pricing of value-added eggs is being renegotiated.

However, the philosophy behind this re-engineering appears to be, by default, the preservation of the *status quo*. This is unlikely to be sufficient to provide adequate guidance for progressive policy shifts in supply management out into the future- with rationales as outlined below. It also serves to maintain the existing balance of provincial interests in supply management, even where these should be viewed as historical artifacts of past market structures. Maintaining the status quo when the broader market, policy and technology context is changing may not be feasible, or even desirable, for the range of stakeholders involved. Thus the risks are both from changes to supply management systems, and from lack of change to them.

A renewed vision for what can and should be accomplished through supply management needs to be articulated, for a range of reasons:

- The period of protracted difficulty in terms of product surpluses, low producer returns, and concerns over processor market power leading to supply management is now 40-50 years ago. The philosophy guiding supply management to remedy these problems is thus a legacy of the past. This philosophy should be renewed, citing current conditions, constraints, opportunities and the prospect for the feared historical conditions to return. Most importantly, it could illustrate what future dairy, poultry, and egg industries could look like through renewed supply management- and not simply retention of the status quo.
- Certain elements of supply management have changed that are outside of industry control (e.g., limits on dairy exports, expansion of production and exports by other countries). Given these changes, what desirable directions should be pursued,

understanding that any change is a departure from the status quo and can disrupt interests encrusted around it?

- Markets have evolved considerably. An important aspect of supply management has been the protection of producers from their customers; however customers increasingly want more intimate relationships with producers to serve more segmented markets. How this can be facilitated, with satisfactory protection for producers, will need to be determined. The opportunity costs of these improved value chain relations in supply management are simply too high to ignore or suppress.
- With the above acknowledged, the broad analysis by Sexton (2012) complicates the challenge. Sexton observes that in modern agricultural markets, market power- through processor concentration and/or through preferences for specific, differentiated product attributes- exists in virtually all marketing relationships encountered by farmers. The marketing arrangements facing farmers, increasingly through contracts with processors, can be structured to maximize efficiency and benefit both producers and processors. However, in this process there is an inherent bias on behalf processors to procure product from fewer, larger producers capable of supplying specific processor demands. This is based on the transactions costs faced by processors in procurement (the costs of contracting are invariant to volume), and processor product lines, brands and/or physical plant investments demand specific farm product attributes and associated investments made by farmers. This creates the prospect of restrictions of producer market access, although the producers successful in establishing contractual arrangements with processors benefit. Equity of market access is a fundamental tenet of supply management, yet the realities of modern agricultural markets and farm product marketing/procurement raised by Sexton cannot be ignored.
- Technology changes have buffeted supply managed industries. Improvements in technology leading to chronic oversupply were a concern leading to the development of supply management. Today, the ability to fractionate animal proteins, such as egg albumins and milk proteins, and more functional use of products such as fowl meat threaten circumvention of trade and regulatory provisions intended to protect supply managed products. In other cases, advances in technology boost the demand for supply managed products.
- Competitors have evolved considerably. In the early days of milk supply management, the size and structure of US dairy farms resembled those in Canada. In the interim, and especially over the last 25 years, the structure of US dairy farms has shifted to greatly increased farm sizes relative to Canada, even as Canadian dairy farms have increased in size. Similar trends are even more evident in the structure of farms in poultry and eggs, Canada versus US. Even if little interest exists in replicating these US scale trends in the future structure of Canadian farms, the associated economies of scale in a competitor country located next door cannot be ignored, especially when Canada and the US have free trade in almost all other farm and food products. It also gives pause in considering

provincial interventions to encourage new entrants in supply managed products. These new entrants are provided entry at a small scale of production and represent an artificial shift away from the well-established trend toward fewer, larger operations.

- More is being learned about marketing of dairy, poultry and eggs under alternative marketing structures. Some evidence is indicative of pitfalls experienced in markets elsewhere that are not supply-managed or similarly regulated. For example, in the US, dairy industry regulated marketing appears not to have been successful in mitigating egregious volatility in farm milk prices, nor in dampening rates of farm structural adjustment⁶. In December, 2016, the USDA Grain Inspection, Packers, and Stockyards Administration issued proposed rules for poultry supply contracts using grower ranking systems (or “tournament contracts”)⁷. Among the main concerns motivating the proposed rule is that US poultry processors provide the inputs and purchase the outputs under these arrangements in a manner that causes egregious inequities among producers operating under these arrangements. These types of arrangements are not an element of poultry marketing in Canada, and it seems unlikely that they would be accepted.
- New ideas to complement or enhance supply management exist in other markets. Marketing of hogs, cattle, grains/oilseeds, and fruits and vegetables in Canada operates very differently than in dairy, poultry, and eggs. Supply management organizations sometimes present the view that these and other more market-based approaches to marketing have simply failed, but this is plainly an exaggeration. Some producers have effectively leveraged positive returns from supply management to expand into more market-oriented farm products, so an ideological opposition of supply management to a market orientation does not map to the level. individual farmers. Surely the down periods in the hog cycle and in cattle pricing are not viewed favorably by hog and cattle producers, but a more balanced view of more market-based approaches is warranted. The predominant view in Canadian red meats, grains, oilseeds, and horticulture is that freer markets have served these industries well and facilitated growth. Greater use of markets as instruments of adjustment could improve the effectiveness and increase efficiencies within supply-managed systems.
- Cost of production in pricing is a core element of supply management. However, cost of production prices are not market clearing prices (by design). Increasing pressures on market clearing functions can be anticipated. In dairy, support prices for butter and skim milk powder are tied to the Surplus Removal Program (SRP) operated by the Canadian Dairy Commission. Under the Ingredient Strategy, the dairy industry is moving away from SRP, and support prices for butter and (especially) skim milk powder will be decreasingly relevant- as will the cost of production underpinning support prices- leaving other elements to clear markets. In eggs, the breaker market provides the market

⁶ For example, according to USDA data cited by Brotzman (2015), in 2012 76% of milk produced in the US was from farms with > 200 cows

⁷ <https://www.gipsa.usda.gov/federalregister/fr16/Poultry-Grower-Ranking-Systems-Proposed-Rule.pdf>

clearing function, under the Industrial Products Program and Eggs For Processing. However growth in processing eggs as the “surplus” segment of egg market is actually occurring faster than in table eggs, putting more pressure and focus on sustainable classified pricing of breaker eggs. In chicken, market clearing occurs either through processor competition for live chicken with potential price premiums over the cost of production, or through processor competition for the entitlements for plant supply that allocate chicken (with associated capital asset values). These are increasingly under pressure, a source of past dispute in BC and current issue in Quebec.

- Changes in trade policy anticipated by the US loom large for supply managed industries, if for no other reason that tariff-free Canada-US trade already exists almost all other agri-food products. Based upon its stated commitment to renegotiate the North American Free Trade Agreement (NAFTA), it can be anticipated that the US will fall back on the market access for dairy, poultry, and eggs that Canada agreed to in the Trans-Pacific Partnership (TPP). It is known that some US industries (especially dairy) were not especially satisfied with the Canadian market access that they obtained in TPP, and will surely push for more in a NAFTA renegotiation. There are also specific issues—notably the potential for a trade action against Canada by the US on dairy, related to US perceptions of lost dairy export markets in Canada.
- Sensitivities can exist to virtually any change in the instruments of supply management. In the limit, almost any change suggested can be met with rebuke as “anti-supply management”. But this is counter to the need for new ideas that can help address the many, shifting issues outlined above impacting supply management. The renewal of a forward looking vision will help in identifying changes that are strategic or fundamental in nature and leading toward a desired future, versus those that are really more tactical in nature. This will help differentiate what are really small issues from what are major issues.

A very tangible example of this problem currently exists with regard to transition assistance measures offered to the dairy industry in relation to increased market access for cheese granted to the EU under the Comprehensive Economic and Trade Agreement (CETA). The federal government has announced levels of public investment in dairy processing and dairy farming related to CETA⁸, and is consulting with the industry with regard to the types of investments that could be funded. With regard to farm investments, the stated intent is to “update technology and improve productivity” with automated systems. Some sense is required of what types of technologies and associated scale will be preferred in directing funding. Presumably funding will not be provided for automation of very small dairy herds (say fewer than 30 cows) as these are generally not regarded as cost-competitive.

⁸ <http://news.gc.ca/web/article-en.do?nid=1151379&tp=1>

Alternatively, some of the most highly productive operations, drawing from US examples, could be at scales of 2000 cows or more- far greater than typical existing scale in Canada. Presumably funding will not be limited to, or even targeted at, these types of operations, as some see avoidance of this scale of farm operation as among the benefits of supply management.

Yet, the stated purpose is to use this investment to materially improve productivity obtain a more competitive dairy farm segment under pressure from CETA imports, so a conception of what a preferred dairy farm segment should look like is required. It cannot be the status quo, as this would undermine the rationale for assistance, and it is probably also not the very large dairy farm facilities observed in parts of the US. This then requires a balanced, non-prescriptive, forward looking vision of what Canadian dairy farms could or should look like in designing policy and allocating funds- in terms of housing type, scale, automation, etc. It represents a microcosm and tangible illustration of the need for industry vision in the renewal of supply management, and the positive outcomes in the future that could be achieved through it.

More generally, Canadian dairy farmers may not aspire to have their industry look more like the California dairy industry and its mega-size herds. The Canadian chicken producers may not aspire to have their industry look like that in Georgia or Arkansas, and the Canadian egg producers may not aspire to have their industry look like that in Iowa. However it must be assumed that these industries will increasingly need to compete with their counterparts in the US and their associated scale economies, as well as those in the EU (dairy), so the status quo is not an option, either.

4.0 Conclusion

Progress in the evolution of supply management requires a vision and objectives for the industries involved, with a focus on the retention, profitability, and future growth of production and processing- rather than a commitment to steadfast preservation of the instruments that maintain existing economic outcomes. It will clearly require strong industry leadership to lay out the rationale and vision for progress, with the profile and determination necessary to take on the interests encrusted around the status quo. It will also require leadership from governments, both provincial and federal, in stepping up to help renew the system and avoid the trap of provincialism.

Without a renewal in the philosophical underpinnings, the dialogue relating to evolution in supply management will occur largely at a technical level, without reference to long run vision, objectives, constraints faced, and what can be achieved, and will occur outside of the scope of many of its stakeholders. As a result, re-engineering of supply management instruments could occur that either overshoots or undershoots realistic and popularly held ambitions for it. Unnecessary conflicts could result, with necessary conflicts left unresolved to fester as the received view of supply management leaves them too sensitive to engage. In this regard, provincialism is the first potential theatre of potential conflict, but absent an overriding and

popularly held vision to guide changes in instruments, other dimensions of conflict are possible- small farm vs larger farm, producers integrated with processing vs. independent, etc. At worst, almost any new idea for how the system could operate will be greeted with hostility and/or written off as being “anti-supply management”.

Today, producers in dairy, poultry, and egg segments are broadly supportive of supply management. Processors have adapted themselves to be profitable in supply managed farm markets; in cases in which processors are multinationals, the Canadian division is typically among the more profitable. Governments- federal and provincial- are broadly supportive of supply management, both as an element of political accommodation to a defined group and in terms of the local economic activity generated in farming, processing, and allied industries.

It can be anticipated that important pressures for change will confront supply management in the near or intermediate term. This appears clearest in milk supply management, with the adjustment challenges associated with the Nairobi Declaration known for 2021, increased access for cheese imports under CETA, and with the prospect of a threatened trade action from the US and others. These pressures could spread broader and deeper, with the US pursuing NAFTA renegotiation.

With these in mind, it is important that stakeholders revisit the vision for supply management. Within each of the supply managed products, the system has highly refined instruments, but needs to rediscover its soul. The philosophy of supply management and where it can and should lead needs to be redeveloped and sold to a younger generation for whom the turbulent period preceding supply management is known only as history, and the tangible elements are in high, stable prices and high levels of quota equity. Greed and self-interest are elements of supply management (as well as other market structures) but these cannot be dominant considerations in a sustainable collective system. Political decay should not be allowed to take hold in supply management systems. On a steady basis, new ideas that flow from a renewed vision are required that are properly researched and debated, and widely shared for to build public consensus among stakeholders.

Looking forward, stakeholders in supply management should engage in a fulsome dialogue that can anticipate and respond to the following questions:

- What can sustainably be achieved through supply management? What can or should the farms look like? How will it attract future generations- in terms of work/lifestyle and as a financial proposition? How does/can it work with the supply chain better? How do people work collectively to obtain this?
- What are measurable future objectives? What can we expect to accomplish by acting collectively in this way? What are the risks?
- What are the internal constraints associated with longer term objectives? What governance structures will be required to implement forward looking objectives?

- A possible resolution to provincialism is national marketing boards- but what would this mean- in terms of winners and losers, what benefits versus the costs of attempting to retain the existing structure? Do provincial governments understand, and are they prepared to accept, that maintaining a provincially fragmented system that generates economic activity in their respective provinces can seriously weaken supply management as a whole- and as such may be unsustainable?

An aspirational view of supply management, popularly held at greater than just provincial levels, and that openly acknowledges gains and past pitfalls that have been prevented, but also opportunities missed, changes in the various stakeholder interests, external constraints, and how supply managed products fit with the broader agricultural and rural community sphere is needed to cope with broader changes in the policy context that can be anticipated.

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