

Toward a Pathway for Renewed Canadian Dairy Exports



Policy Concepts Paper

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Preamble

This paper was originally prepared in late June 2015. Its public release was delayed pending the completion of the Trans-Pacific Partnership negotiations. The paper was not commissioned and was initiated independently by Agri-Food Economic Systems, with the intent of generating discussion regarding alternatives for reform in milk supply management.

Introduction

Canada faces some stark prospects for its dairy industry¹. Canada's border is increasingly porous for imports of milk solids non-fat (SNF). Additionally, Canada faces caps on dairy exports established by Canada's commitment on limiting dairy export subsidies in the WTO agreement (and confirmed in the challenge by USA and New Zealand) preventing expansion of the dairy industry in Canada through exports. As a result, it has a growing trade deficit in dairy products (especially SNF products without tariff protection), a growing domestic surplus of SNF that is a costly disposal problem, and these effects will be exacerbated by the recently concluded trade agreement coming into force (Canada-EU Comprehensive Economic and Trade Agreement, or CETA) and likely extended through the Trans-Pacific Partnership (TPP) currently in negotiation. It is also worth noting that the WTO Agreement committed members to work toward the elimination of all export subsidies; this objective was one of the agreed elements in the draft modalities WTO members agreed on nearly ten years ago in the Doha Round.

At the same time, industrial milk quota has been expanded. This is driven by increased demand for butterfat, and a draw down in national butter stocks. Formally, the Canadian dairy market is regulated on the basis of butterfat. However, increases in quota facilitate increases in both butterfat and SNF as these are produced in essentially fixed proportions. Thus, while addressing demand in the butterfat market, quota increases exacerbate the structural surplus of SNF and associated marketing/disposal issues.

As this situation has developed, there have been important developments in domestic dairy policy in Canada. Chief among these is the development of a proposed Ingredient Strategy (IS) by dairy producers. It represents important prospective changes to milk supply management, to be negotiated with dairy processors. The IS, as articulated by producers, represents very significant changes in Canadian dairy policy. These changes are sufficient in nature and magnitude to warrant reconsideration of Canada's subsidized export limitations.

The purpose of this paper is explore the prospects for renewed growth in Canadian dairy production that allows more effective competition with imports and enables exports without export subsidy based on changes in domestic policy, and the urgency presented by increasing imports of SNF products.

¹ For a complete discussion of the current trade challenges facing the Canadian dairy industry, see "Canadian Dairy Exports: The Knowns, Unknowns, and Uncertainties", Independent Agri-Food Policy Note- June 2015, Agri-Food Economic Systems

<http://www.agrifoodecon.ca/uploads/userfiles/files/dairy%20export%20briefing%20note%20june-15.pdf>

The Dairy Ingredient Strategy

The IS was developed under the auspices of Dairy Farmers of Canada and provincial milk marketing boards, and first communicated in early 2014. Its objectives are:

- To add value to the structural surplus of SNF
- To encourage value-added growth in dairy ingredients for both domestic and export markets
- To fill domestic markets by stimulating growth of dairy products
- To protect producer incomes
- To provide for a win-win outcome for all parties

To meet these objectives, the IS has the following major elements, put forward as a package:

1. A dairy ingredients and milk components class at world price
2. A new end-use billing system
3. Modifications to the Canadian Dairy Commission (CDC) Surplus Removal Program (SRP)

There are other elements to the IS that act in a supporting role, such as a permanent growth allowance in industrial milk quota, national milk to plant allocation rules, and new labeling regulations dealing with product origin.

Under the IS, pricing of SNF in Class 4(a)² would be set at world price levels, and allocation of milk/SNF in Class 4(a) would be on-demand. It is anticipated that at these price levels increased processor demand would reduce the need for the SRP in a market clearing function, and that the SRP would be phased out and eventually eliminated.

The purpose of the end-use billing provision is to prevent or control milk/SNF purchased at world price in Class 4(a) from spilling over into higher priced classes and eroding producer revenue. One mechanism of implementing this limitation is to use compositional standards, such as exist for cheese and yogurt, to limit the extent to which SNF purchases made in Class 4(a) at world prices could displace milk/SNF in higher priced classes in manufacturing these products.

Thus, the IS presents three important prospects. First, it could improve the competitiveness of Canadian origin SNF products versus imports. Second, it presents the prospect of increasing exports. These potential increases in exports would be focused on SNF products, especially Milk Protein Isolates (MPI), which lacks subsidized export limits and can be freely exported on a non-subsidized basis. Other SNF products such as skim milk powder have established subsidized export limits, but if the IS meets the criteria of non-subsidized, these should be freely exported as well.

² Class 4(a): All types of butter and butteroil; All types of powder; Concentrated milk as an ingredient in the food industry; All other products not elsewhere stated.

Third, several options for changes in milk supply management have been espoused in studies and the media. These options include eliminating all aspects of supply management, increasing quota to force prices down, and importing butter, all of which treat symptoms rather than the underlying pressures on the industry. The IS enables producers and processors to retain a significant degree of control over the initial and iterative reforms. The other options do not allow for the same degree of control.

The IS proposal represents potentially significant, and far-reaching changes to Canadian dairy policy. The nature of secondary changes extending from the IS are yet to be determined. With the CDC no longer involved in market clearing under a phase-out of the SRP, apparently a different price mechanism will be required to establish domestic butterfat and SNF prices. This is because without the demand pressure from CDC purchases of butter and skim milk powder, support prices for butter and skim milk would no longer be credible or effective. In turn, the cost of production- currently used as the mover of support prices- would no longer have its formal role in milk pricing without the SRP operated by the CDC. Class 1 milk pricing is formally a provincial matter (although there is a national fluid milk cost formula) and in principle is unaffected; however, significant changes in pricing industrial milk relative to fluid could shift processor margins in fluid bottling versus dairy product manufacturing, ultimately pressuring fluid milk pricing. Pricing in sub-classes 2 and 3 have been formally linked to support prices for butter and skim milk powder; without effective support prices a new pricing mechanism for these classes will be required.

In many ways the IS merges subclasses 4 and 5³, with important exceptions. If successful, it would eliminate the need for Class 4(m)⁴ entirely, as it is used for domestic surplus disposal of SNF (there is very little butterfat in Class 4(m)). The subclasses within Class 5 are already at or near world price levels. The important caveat is that the IS does not envisage world pricing of butterfat in Class 4(a). Thus, while there would be alignment among Classes 4 and 5 in SNF pricing under the proposal, butterfat pricing would remain at the higher domestic prices.

The IS also contains a critical aspect, apparently unintended, that could prove instrumental in easing the caps on Canadian dairy exports, at least of SNF products (specifically MPI). That is, as described below, it will make Canadian dairy policy very much an analogue of US dairy policy. As developed below, this could provide the leverage to address dairy export restraints.⁵

³ *Under Class 5(a), (b) and (c) (Special Milk Class Permit Program), industrial milk is classified and made available for use in dairy products and products containing dairy ingredients at prices which vary according to end use. The volume of dairy components accessed under this class is monitored through permits issued by the Canadian Dairy Commission. Sub-class 5(d) represents planned exports.

⁴ Class 4(m): Milk components for marginal markets as established from time to time by the CMSMC.

⁵ It is clear from the panel reports that Canada could maintain export subsidies for dairy product exports as well as additional exports without subsidy. From: WTO. Canada – Measures Affecting the Importation of Milk and the Exportation of Dairy Products: Second Recourse To Article 21.5 Of The DSU by New Zealand and the United States. AB-2002-6. Paragraph 70 “However, merely exporting a product in quantities that exceed the quantity

Policy Alternatives

Reforms to milk supply management must proceed with the long-term objective of growing the revenue base for the Canadian dairy industry. In the immediate term this means mitigation of the revenue decline due to increased imports and export restrictions. Thus the focus on reforms to facilitate improved competition with imports and on expanding exports.

The IS represents a bold attempt to engage this objective. But it should be understood that there are other approaches. One approach touted by many would be to dismantle the system to facilitate export access by eliminating tariffs and/or expanding tariff-rate quotas (TRQ's), and concurrently remove the federal/provincial regulatory measures that support supply management.

Another approach would be to reduce quotas proportional to increases in imports- essentially capitulating from the domestic dairy manufacturing market and retaining higher milk prices for fluid and a much smaller dairy manufacturing market, along with the existing export entitlement. A third approach has been suggested: increasing quota to force domestic prices down over several years, until domestic prices reflect world prices. These are extreme alternatives; all of them destroy immense amounts of capital value and provide no guidance for structuring the marketing arrangements to manage the fallout during the transition and the industry organization thereafter. The IS represents a middle ground in which the existing system is reformed materially to enable producers and processors to compete effectively with imports and lay the ground for expanding exports without export subsidies.

The middle ground, as illustrated by the IS, may represent the preferred pathway and is really the only alternative that could hold the promise of acceptance by producers and processors acceptable. Complete deregulation in a short period to facilitate exports will not be supported by producers due to the sudden onset of much lower ongoing operating returns, with the implied loss of quota equity, and difficulty of compensation for this lost equity. In part, the difficulty is that if deregulation were pursued it would need to be relatively rapid, as the growth in imports and loss of domestic market share has been (and could continue to be) rapid. Rapid change could also throw milk quota markets into chaos, and badly pressure farm finance and quota financiers. Processors would also find this unacceptable, due to the dramatic change in operating environment and stability of supply that has evolved with structuring their operations. The resulting uncertainty in milk supply would increase the uncertainty in future processing investments as well as current investments. This approach would also leave a vacuum in terms of future dairy policy. Policy instruments and milk market regulations exist in virtually every developed country with a significant dairy industry, to protect the price premium of the fluid

commitment level is not inconsistent with the commitment [on export subsidy commitments]. The commitment is an undertaking to limit the quantity of exports that may be *subsidized* and not a commitment to restrict the volume or quantity of exports *as such*.”

milk market, facilitate adjustment to periodic surpluses, price pooling, and other market enhancements. Rebuilding these from scratch, assuring the equity of treatment accorded to producers under the current system could be an onerous and potentially polarizing process.

In turn, allowing domestic production to shrink by decreasing quota, but retaining relatively high domestic milk prices, is not a satisfactory solution. It would represent a direct loss of economic development in parts of rural Canada due to the impact on dairy farming, as some farms would be forced to exit and others to operate below capacity, at much higher unit production cost. It would also be opposed by processors whose processing investments would be placed at risk. Moreover, the dynamic of matching decreases in farm milk production to reduced processing capacity could be somewhat unpredictable, leading to perilous risks of overshooting of targets and unintended consequences. Increasing quota to force domestic prices down would suffer many of the same effects, and fails to recognize the stark reality of Canada's export caps that do not adjust concomitantly as Canadian milk prices decrease relative to world prices.

Finally, this approach is at variance with Canada's favorable natural resource base that supports dairy production. Canada's climate, geography, and water resources are well suited to cultivation of forages and grains, and to supporting populations of ruminant livestock; by backing away from these resources, in addition to the direct economic losses the world would lose significant production potential from an efficient and environmentally sustainable source.

Thus, the clearly preferred approach is the middle ground: taking on the difficult process of searching for reforms and mechanisms initiated from within the current system. This must proceed from the understanding that Canada's existing dairy policy and trade is under intense scrutiny due to past trade disputes and resolutions, and that clearly the *status quo* is not an option. Additionally, strategic consideration of significant change is urgent with the passage of the Trade Promotion Authority in the USA, allowing to Trans Pacific Partnership (TPP) to proceed rapidly to a conclusion.

Policy Concepts and Strategy

There are two apparent approaches that Canada could draw upon in reforming dairy policy in the interest of expanding its exports in a manner compliant with WTO. The first is to review the concepts clarified in the WTO export case and use these concepts to guide the redesign of the Canadian milk marketing system to include mechanisms that can facilitate exports beyond existing caps. It is assumed that this approach has been drawn upon on an ongoing basis by dairy stakeholders, and probably facilitated the development of the IS by producers. The disadvantage of this approach is that it is complex, technical and time consuming, and will tend to minimize the urgency of the Canadian position and the need to take risks.

An alternative approach, not entirely different from the above, is to reform Canadian dairy policy in a manner such that it mirrors dairy policy in other countries that are active and growing dairy exporters that do not declare or report their exports as subsidized. Under this approach reforms

can be more targeted and focused as the elements are more clear, that are necessary in the reformed Canadian dairy policy. This approach is employed here.

As is explained below, in the period of time since the conclusion of the WTO dairy export dispute, the US has grown to be a major dairy exporter. It reports subsidized exports only under the Dairy Export Incentive Program (DEIP), and while DEIP is an authorized program it has not been drawn upon significantly for several years. Thus, US dairy exports have grown but its reported subsidized exports have not. The IS offers a significant step moving Canadian dairy policy toward a system analogous to that of the USA.

Canadian and US Dairy Policy and Milk Marketing Systems

Both Canada and the US have regulated and protected milk marketing systems. Specifically, both have mandatory classified end-use milk pricing and pooling. In Canada, provincial milk marketing boards administer mandatory classified milk pricing schemes, harmonized across provinces, and pooled across end-use classes and among provinces in regional pools - the P5 in Eastern Canada and the Western Milk Pool in Western Canada. In the US, mandatory classified milk pricing schemes exist, harmonized across regions, and are pooled across end-use classes. This is implemented under ten regional Federal Milk Marketing Orders (FMMO's). California operates an independent milk marketing system with distinct end-use milk classes and minimum prices with pooling, and it operates in an analogous fashion to FMMO's. There are regions of the US outside of California that are not covered by FMMO's, however the competitive environment created by FMMO's in regions adjacent to unregulated areas tends to drive milk pricing in these regions.

Canada and the US both have support prices for dairy products. Canada has support prices for butter and skim milk powder administered by the Canadian Dairy Commission. These support prices are based upon farm cost of production references, and the support price for butter directly establishes the Class 4(a) butterfat price and the support price for skim milk powder establishes the Class 4(a) SNF price. Other industrial milk class/component prices are adjusted proportional to component price adjustments in Class 4(a). The support prices are made effective through CDC purchase activity.

The US has support prices for butter, non-fat dry milk (an analogous product to skim milk powder) and cheddar cheese. These support prices are administratively set, backed by purchases by the Commodity Credit Corporation (CCC) in the US. Milk class and component prices under US dairy policy are established by formulas linked to dairy product commodity markets; thus the influence of the US support prices on minimum milk prices in FMMO's and in California is through their effect on dairy commodity prices. Commodity market prices for dairy products in the US are built upon the established support prices and the latent demand pressure of the CCC. In recent years, US support prices have not had a direct market clearing function as CCC purchases have remained low and market prices have been above support levels. Instead, US

dairy markets are predicated upon the latent demand and market clearing function of the support prices.

Canadian dairy policy includes production restraints through production/marketing quotas. Production and marketing quotas are not an element of US FMMO's. Quotas used in the California dairy marketing system do not limit production; they are used to allocate milk pool revenue.

Both Canada and the US have tariffs and tariff-rate quotas (TRQ's) to protect domestic milk and milk product markets. Table 1 below provides a summary of Canadian and US tariffs in the dairy product categories (HS Chapter 4 and Chapter 35). As indicated in the table, tariff protection levels are material in both countries, and dairy tariffs are at much higher levels in Canada. The US maintains TRQ's on 200 tariff lines of agricultural products; approximately half are in the dairy sector, including milk, cream, butter, ice cream, and cheeses. These are complex as the TRQ is allocated to exporters (in Canada dairy TRQ is allocated to importers). Certain dairy products are subjected to import control by the USDA, regulated through TRQ's.

Both countries have entitlements for subsidized exports that each country established by notifications of export subsidies required under the Uruguay Round Agreement on Agriculture. These are illustrated in Table 2 for the most recent reported period by the Canada and the US. In 2011/12 Canadian dairy exports were essentially at subsidized export limits; this is generally the case. Conversely, the US did not report any subsidized exports in 2011/12. The US has declared exports under the DEIP program as subsidized, and reports only DEIP program exports as subsidized exports. DEIP funding has not been used for US dairy exports since 2009.

Table 1 Dairy Sector Tariff Profile: Canada and US

	Final Bound			Applied rates		
	Average (%)	Duty free in (%)	Maximum (%)	Average (%)	Duty free in (%)	Maximum (%)
Canada	246.9	0	314	248.9	0	314
US	19.9	0.3	93	20.5	0.3	93

Source World Tariff Profile WTO, 2014 (https://www.wto.org/english/res_e/booksp_e/tariff_profiles14_e.pdf)

Table 2 Annual Commitment Levels of Subsidized Exports Dairy Products- Canada, US

	Canada's Commitment			US Commitment		
	Outlays (US \$)	Quantity (tonnes)	Utilization in 2011/12 (% Outlays)	Outlays (US \$)	Quantity (tonnes)	Utilization in 2011/12 (% of Outlays)
Butter and butteroil	11,025	3,500	100%	30,497,220	21,097	0%
Skim milk powder	31,149	44,953	100%	82,463,935	68,201	0%
Cheese	16,228	9,076	100%	3,635,638	3,030	0%
Other milk products	42,781	-	99.92%	20,974	34	0%

Source: WTO. Note: Reporting periods: Canada: 1 Aug 2011 – 31 Jul 2012 and USA: 1 July 2011 to 30 June 2012

Canadian and US Dairy Market Performance

Regulated marketing in Canada and the US is intended to increase returns to producers and provide for more equitable returns among producers. In Canada this is formally linked to cost of production, implemented through price discrimination based on end-use. In FMMO's it occurs through price discrimination, without a formal link to cost of production. In both countries, exports occur at prices that are low relative to average domestic producer prices and to the cost of production. In Canada, exports occur based on milk pricing in Class 5(d), which is acknowledged to be below the blend price and the cost of production. Under the IS, exports of SNF product purchased in Class 4(a) could occur at similar SNF price levels to Class 5(d).

In the US, exports of milk powders occur under FMMO Class 4, and cheese exports occur under FMMO Class 3 pricing. Pricing in these classes is typically below the FMMO blend price or price paid to farmers, and below the cost of production. This is illustrated in Figure 1 below. The figure presents annual average FMMO Class 3 and 4 prices, as well as total milk prices received by farmers, and estimated production costs from 2005-2014. Since the blend prices are regional to FMMO's, the total prices received provide a national representation of the regional blend prices. The figure shows that Class 3 and 4 prices are typically below the total price received by producers, consistent with the benefits of pooling with higher valued classes. It also shows that Class 3 and 4 prices are below the total cost of production, as determined by the USDA. Class 3 and 4 prices periodically fall below operating costs.

Figure 2 presents US dairy exports since 2000. It shows that US dairy exports have expanded greatly over this period - increasing in value about seven-fold between 2000 and 2014. The increase in the value of exports has been especially strong since 2008-09; US dairy exports have more than doubled since then. Meanwhile, since 2003 Canadian dairy exports have been bound by limits on both value and volume of subsidized exports.

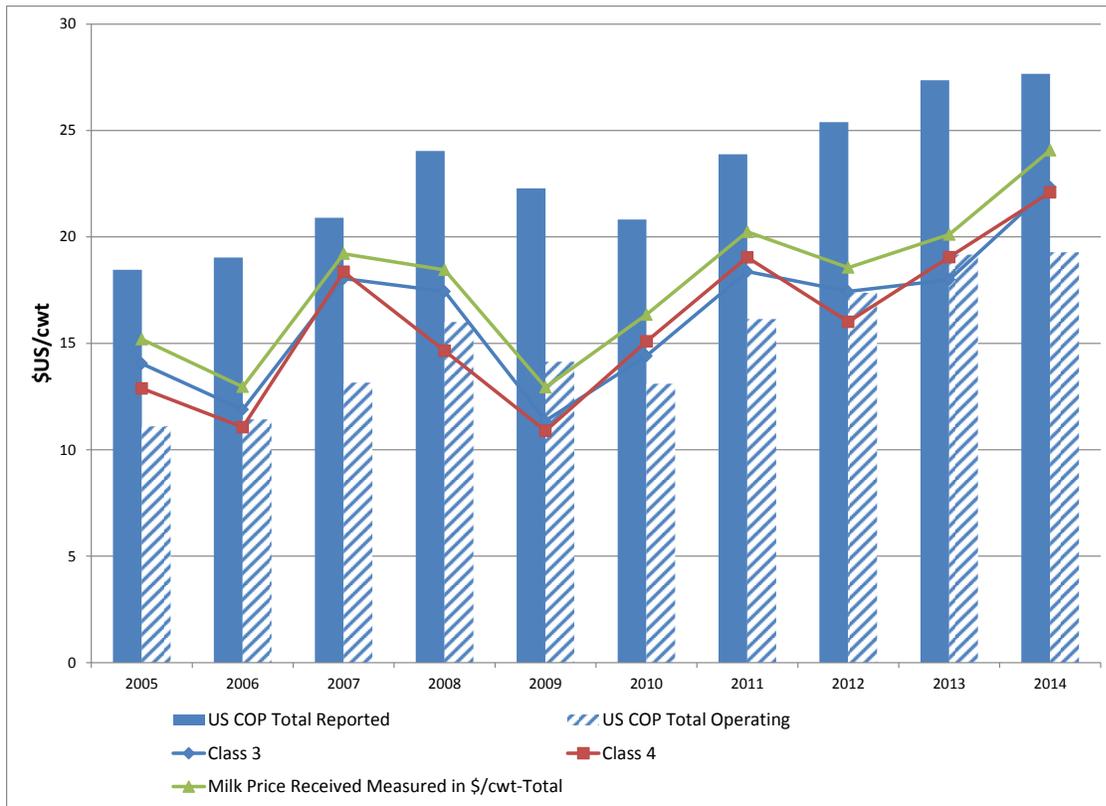
Concepts Clarified in the WTO Dairy Export Case

Concepts regarding export subsidies were clarified in the WTO Dairy export case against Canada. Under the Agreement on Agriculture, an export subsidy exists if:

- a payment exists;
- the payment is financed by virtue of government action⁶ (a measure put in place by government);
- the measure is contingent on exports (implied by the decision).

⁶ WTO Agreement on Agriculture, Article 9 (1) c: payments on the export of an agricultural product that are financed by virtue of governmental action, whether or not a charge on the public account is involved, including payments that are financed from the proceeds of a levy imposed on the agricultural product concerned or on an agricultural product from which the exported product is derived

Figure 1 US Milk Prices and Production Costs



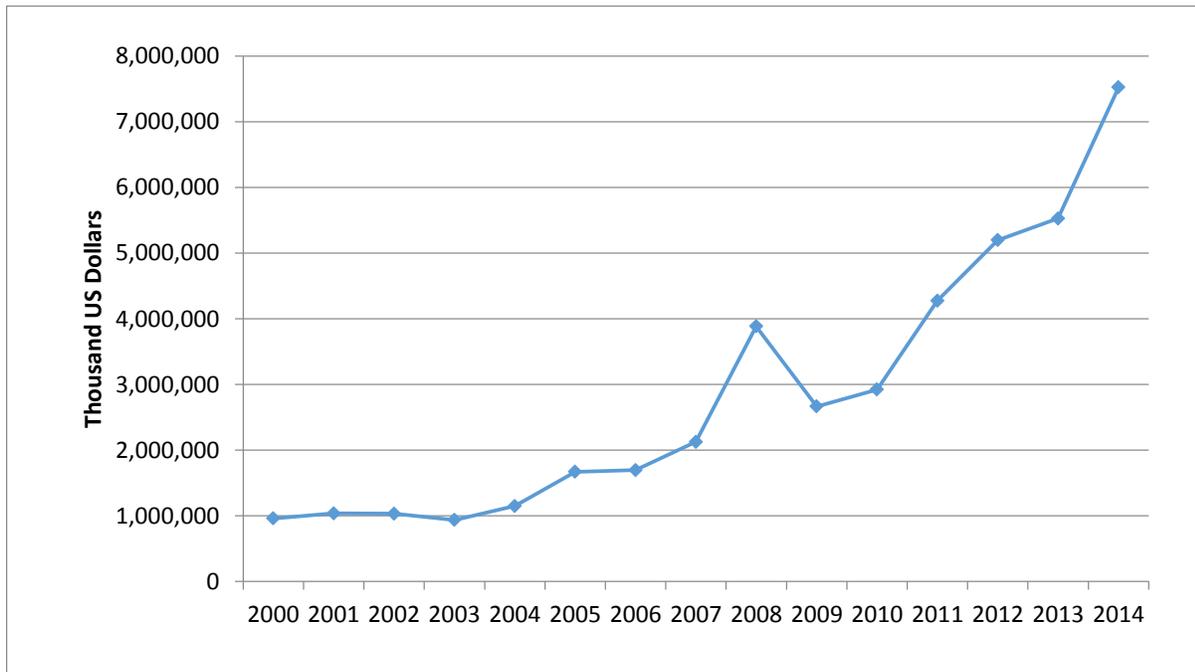
Sources: USDA-AMS

<http://www.ams.usda.gov/AMSV1.0/ams.fetchTemplateData.do?startIndex=1&template=TemplateV&page=MilkPriceAnnouncementsSummariesandProductPrices>

USDA-NASS <http://quickstats.nass.usda.gov/results/363ED748-050B-35D9-AD8C-CE4855A781E0>

USDA-ERS <http://www.ers.usda.gov/data-products/milk-cost-of-production-estimates.aspx>

Figure 2 US Dairy Exports



Source: USDA FAS

The panel in the dairy export case found that the marketing boards were agents of government, so that in effect measures put in place by marketing boards are effectively measures put in place by governments. Secondly the panel found that a benefit was conferred (a payment) through government action in the financing of exports. This is because government action (through marketing boards, including CDC and its support price setting) results in a domestic price that exceeds the export price, and it is the higher domestic price that facilitates and finances the exports. Alternatively, Canada was found to have dairy policy that facilitated exports at prices below the cost of production; this implicit financing of exports was found to constitute a benefit. Finally, Canada was found to have an export pricing mechanism that was contingent upon export.⁷

The IS differs from the above on the basis that pricing is not contingent upon exports and the CDC surplus removal and support prices would not have the same role; the other conditions identified remain. With these IS refinements, Canadian dairy policy would resemble US dairy policy in the essential ways observed by the WTO panels.

⁷ This refers specifically to the Commercial Export Milk (CEM) program operated under Class 5 (e) until it was terminated in 2003.

Conclusion

This paper lays out a potential approach that could lead Canada out of the trap it is in with respect to capped dairy exports and increasing imports, especially of SNF products. It is intended to provoke further discussion that narrows down approaches and focuses the dialogue between producers, processors, and governments. The ingredient strategy represents a major step and an historic opportunity. It would allow exports under tariff lines HS 3504, HS 3502 and SMP. It will involve considerable effort to fully develop the details of the change and the implementation plan. Such reforms would likely attract a challenge from other exporters and further adjustments in design and the implementation process may eventually be needed, to reach full compliance with the WTO. This may require an iterative approach to changes and may involve extending the strategy to include Class 3 (cheeses) to be fully compliant.

Some of the information and analysis to complete the detailed design and implementation would involve:

- Exploration of the legal issues in the WTO as well as in the federal-provincial-producer agreements
- Analysis of the impacts on quota value and levels
- redesign of the classes and sub-classes for milk, based on pricing and volume to maximize returns to producers and processors; analysis of the pooling model with options for classes 4 and 5, and for class 3.
- Understanding of the impact on world markets, including export levels and prices across all major exporters
- Gaining a much better understanding of the marketing and support arrangements for dairy products in other major exporters

As of July 2015, the US process authorizing Trade Promotion Authority (TPA) for President Obama is complete, enabling conclusion of the TPP by as soon as late summer or early fall 2015. This is a very short time horizon, and one that occurs at a singularly bad time for Canada as we approach a federal election. The implication is that the impetus and initiative for action on milk supply management will need to come from the industry (producers and processors) as the federal government initiative is limited by the immediate lead up to the federal election. The dairy industry will need to rapidly coalesce around essential reform components that have been tested and analyzed, and ask governments (both federal and provincial) to press these reforms forward.

This represents a daunting task, but the urgency and importance of the issues commands it. There are new signs that the system is coming under stress as it attempts to facilitate increases in butter supply to fill demands, creating difficulties managing SNF surpluses⁸. Producers and

⁸<https://www.milk.org/Corporate/PDF/News-Update%20on%20Continued%20Demand%20for%20Milk%20in%20Ontario-20150612.pdf>

processors must thus arrive at meaningful dairy policy reforms, and do so quickly- especially as the window for discussions in TPP narrows.

Postscript

Since this paper was written, three critical events have occurred.

In early October, the TPP member nations agreed on a deal on all aspects of the TPP negotiations. Details on dairy trade policy remain scant, with full legal text and tariff schedules some weeks away. Canada agreed to changes in milk and milk product tariffs and TRQs that are estimated to increase access by 3.25 percent of production over five years. It is also evident that tariffs will be removed on milk protein isolates upon coming into force of the agreement, and that tariffs on dried whey will be phased out over 10 years. The federal government also announced \$4.3 billion for all supply managed industries to provide: an income guarantee program, a quota value guarantee program, a processor modernization program, and a market development initiative. The first two of these programs are to provide assurance to producers that no revenue or quota value would be lost over the next several years due to the import access concessions under both the TPP and CETA. The federal government also announced that the compositional standards for dairy products would remain in place and would be enforced.

Secondly, in early October 2015 the Dairy Farmers of Ontario announced that it would be moving forward with an Ontario ingredient strategy, much like that proposed at the national level, with Ontario processors committed to processing milk under the strategy. The details are still forthcoming, but the plan will involve a new milk pricing class, with world pricing on skim solids not contingent on export, implemented within Ontario. The intent would be to compete with MPI imports from the US and/or facilitate exports of SNF-based dairy products outside of Canada's export limits. This announcement provides an indication of the tension and urgency of the situation in milk marketing under supply management, and must place immense pressure on other provinces to rally around a national ingredients strategy. This is especially the case for the eastern provinces, with whom Ontario is a pooling partner.

Finally, the Liberal party has just swept to power with a federal majority, rising from third-party status to form the next government. Prior to the October 19th election, the party forming the new government had little rural/agricultural representation, and the Minister of Agriculture and members of the federal cabinet will need to quickly develop an appreciation of the complex situation and pressures facing milk supply management. This will require moving past the simplistic dialogue of election campaigns into an understanding the various aspects of trade and agricultural policy, as well as the market pressures, and the risks- both of bold reform and of retaining the *status quo*.