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union farmer newsletter

TPP attack on Supply Management: a beggar thy neighbour strategy

—by Cathy Holtslander, NFU Director of Research and Policy

In the Trans Pacific Partnership (TPP) negotiations Canada's supply management system, particularly in dairy, is under relentless attack. The 12 TPP countries* tried to finalize the trade agreement in July, but left the Hawaii meetings without a deal. Media reports indicate Canada made last-minute concessions on dairy tariffs; however, details are still a secret. A look at the dairy business in New Zealand, Australia and the USA – and their EU rivals – sheds light on why they are so eager to get more access to Canada.

Most nations' dairy policies focus on providing milk for their own populations. As a result, only a small portion of the world's dairy is traded, and exports are generally surplus to domestic needs. When countries shift from a domestic milk strategy to a dairy export strategy, the selling price of exports becomes a major factor in setting the farm-gate price.

New Zealand

New Zealand exports 95% of its dairy production. One-third of internationally-traded dairy products are from New Zealand. New Zealand has been promoting dairy exports since 2001 and is now highly dependent on dairy. Fonterra, a mega-co-operative, purchases nearly all milk produced in New Zealand. Its strategy is to rapidly increase volume and to add value through processing. It has grown by selling to countries that have rising populations and less-developed dairy sectors, such as China. It also partners with corporations in the USA, South Africa and Europe to sell specialized milk ingredients.

New Zealand farm-gate prices are set by Fonterra, based on international dairy auction prices. On July 31, 2015 Fonterra warned it planned to reduce the price due to lack of foreign demand – or in other words, excess supply. Two of its biggest markets – China and Russia – have significantly reduced imports. China has increased its own production and now has large stockpiles of powdered milk, while Russia closed its borders to food imports in response to international political sanctions. Its biggest competitor, the European Union (EU), is also challenging New Zealand's sales.

On August 19, Fonterra's farm-gate price went down from $5.35/per kg milk solids to $3.25 (New Zealand dollars). Farmers' cost of production is estimated to be $6.00. For every dollar reduction in milk price, approximately $2 billion is lost from the dairy economy. Fonterra laid off more than 500 employees in August, while farmers are forced to take on more debt, reduce herds, and in some cases exit the sector. These multi-billion dollar losses ripple throughout rural communities.

Australia

Australia exports almost half the milk it produces, and provides around 10% of all dairy products traded internationally. Until 2000, Australia had a two-price system where the regulated domestic price was set higher than the export price. Now, the Australian farm-gate price closely tracks the international price, which is influenced by currency exchange rates and the dynamics of the large dairy trading countries. Australia exports primarily into China, Japan and Southeast Asian countries.

Australian check-off organizations collect levies from farmers and use the funds to promote higher farm productivity and increased sales to export markets. These

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*Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, USA and Vietnam. Note that China is not part of the TPP.

(*TPP attack on Supply Management*, *from page 1)*

organizations have strong representation from dairy processors and corporate dairy farms, prompting some Australians to question whose interests they actually serve. The Australian dairy industry seeks new markets – such as Canada's – hoping the trade situation will shift to one where demand chases supply, leading to price increases.

The USA

From 1985 until 2010, the US Farm Bill's Dairy Export Incentive Program promoted American dairy exports with subsidies. US exports now comprise 16% of world trade in dairy products and 15% of the USA's total dairy production. 8% of American dairy exports already enter the Canadian market. As the volume of export-oriented production has increased, the world price for dairy products decreased, while the US dollar strengthened against other currencies, putting additional pressure on US export prices. The dairy lobby in the US is pushing their government to obtain full access to Canada's market as a way to increase sales and partially compensate for low prices.

Europe

The European Union (EU) is not part of the TPP, but because it is the world's second-largest exporter its dairy policy has an impact on negotiations. On April 1, 2015, the EU completed its phase-out of the quota system that has prevented over-production for decades. Many dairy farmers have ramped up in anticipation of bigger sales. Now all are facing a severe price slump – estimated at 40% below the cost of production. Farmers in the United Kingdom and France are protesting in grocery stores and on the streets.

Vicious circle

Farmers in all major dairy exporting jurisdictions are subject to price volatility caused by fluctuations in both international supply-demand dynamics and currency exchange rates. Classical economic theory suggests that when expenses exceed revenues production will decrease until supply and demand balance again. However, dairy cows cannot be turned on and off like machines, or be laid off like human workers. Sending the cows to slaughter under these circumstances will impair future income potential and reduce only some costs, such as feed, labour and vet bills, but not loan payments. When the price is below the cost of production it makes sense to try to bring in as much revenue as possible – even if it is not profitable – by increasing output to pay for at least some of the animals' feed and care, as well as to service mounting debt. This vicious circle makes the excess supply problem worse until a breaking point is reached, followed by widespread bankruptcies and herd reductions.

Price volatility ratchets up the scale of production, as smaller operations exit and larger operations seek credit to expand production when prices are low. As smaller farms go out of business, larger operations consolidate to increase their sales volume, albeit with smaller margins. Dairy farms in New Zealand, Australia and the USA are much larger than in Canada due to the volatility inherent in their systems. There are now several corporate dairy farms in Australia running herds ranging from 3,500 to 15,000 cows. The biggest in the USA milks 30,000 – more than the total number of dairy cows in Saskatchewan. New Zealand farms are getting bigger too. In all three countries there is increasing public concern about impacts of larger-scale, more intensive dairy operations.

Export-oriented dairy strategy invariably puts downward pressure on domestic prices. An extended period of low world prices is causing hardship, even despair, for many farmers who are trying to make a living in New Zealand, the USA and Australia. Their governments are trying to pry open Canada's market to solve their own dairy income problems by selling more milk. However, when the price is below the cost of production, increasing sales volume also increases total losses. Instead of pursuing a "beggar thy neighbour" strategy, these countries would be better off if they set up their own supply management systems.

New Zealand, the USA and Australia are also competing with each other and the EU for export sales. If our government negotiates away import controls to get a deal, Canada would become one of their battlegrounds. Who, other than global food corporations seeking low-cost dairy ingredients, would benefit from the TPP nations' dairy farmers losing even more money by undercutting Canadian farmers?

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The Economy without the CWB

In 2014-15, Canada exported about 17.5 million tonnes of wheat, over 4.5 million tonnes of durum and just under 1.5 million tonnes of barley, most of it from the prairies. The federal government ended the single desk authority of the Canadian Wheat Board three years ago. Now farmers sell directly to grain companies instead. We checked in with some of our members to find out how the change affects them and Canada's grain economy.

Lower Prices:

With the Board, the year's pooled price was the same no matter when the grain was delivered. We could manage cash flow by delivering wheat and barley when it made sense while waiting for other grains' prices to spike. Now farmers are forced to hold wheat and barley too, but the price spikes never come. According to one, "Signing futures contracts doesn't help, because if the price goes up I'm upset at contracting too soon and if the price goes down I'm mad at all the money I'm losing on the grain I have left."

The CWB knew crop conditions around the world and sold strategically, knowing other global players' positions. Today, Statistics Canada reports tell buyers how much grain there is. They don't need to bid; they just wait for farmers to decide to sell. The most desperate set the price. When you hit the wall due to cash flow or storage limitations, you take your turn as the most desperate seller.

Farmers don't have unbiased pricing information, so we can't tell what we should be getting for our wheat. The CWB's opponents falsely claimed it lacked transparency, but now the system is totally opaque. Grain companies benefit by offering "target price contracts" to sell in the near future if the price rises to the farmer's "target" level. The company calls the lowest priced contracts first and fills its stores with the most cheaply-offered grain from the most pessimistic farmers. This "marketing tool" ratchets down prices.

Grain companies paid a trucking premium to encourage deliveries because they made money handling grain for the CWB. Now, they routinely charge excess basis (unregulated price discount) with $2 to $3 billion per year now going to multinational grain companies instead of entering the rural economy.

Elevators are grading high protein wheat No. 2 instead of No. 1. Once-profitable malting barley is now underpriced. Feed wheat pays nearly the same as milling unless feed conditions are poor. Meanwhile, the grain companies benefit by blending various qualities to increase their selling price.

In 2013, local prices were in the $5.50/bushel range while export prices were $10 to $11/bushel. With the CWB, the local price would have been about 90% of the export price. Viterra's 2013-14 operating profit went up 500%, mainly due to revenues the CWB would have paid western farmers.

Higher Costs:

Rail service to smaller delivery points is erratic. Many farmers thus wait longer to deliver while incurring interest and storage costs. Higher logistics-related costs in the absence of CWB's coordination get passed along to farmers through basis discounts. The farmer's only option is to store grain, risking losses from deterioration, and wait for a better price. Meanwhile grain companies are building more capacity – no doubt with profits made as a result of ending the single desk – that will allow them to hold out longer before offering better prices.

Reputation and quality problems:

Within Canada, millers lost predictability in pricing, delivery schedules and quality. Farmers in other provinces buying feed grains have seen dramatic price rises and erratic supplies. Foreign buyers have less trust in the quality and timely delivery of our grain. Structural changes in Canada's wheat economy, including weakening the Canadian Grain Commission, are changing Canada into an undifferentiated high volume provider which will make it more difficult to command better prices for our wheat and barley in the future.

"Marketing freedom" has certainly benefited Cargill, Richardson, Viterra, and now G3, but it has not improved the economic position of prairie farmers.

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Agriculture Concerns for Election 2015

—by Dean Harder, NFU Region 5 (Manitoba) Youth Advisor

Trade Agreements: As encouraging as tariff reduction sounds, trade agreements like CETA and the TPP have become inroads for private corporate control of our economy and tie the hands of elected governments.

> ***Pre-emptive Seizure*** – CETA (yet to be ratified) includes Section 22, Article 16, which empowers judges to order seizure of assets, inventory and freeze bank accounts if a company believes you are - or may be - infringing their intellectual property rights – such as violation of Plant Breeders' Rights on protected seeds.
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> ***Supply Management*** – Under TPP, major pressure has been placed on Canada to end Supply Management. Even though the Conservatives have said they will keep this sustainable form of agriculture intact, as of July 31, 2015 the government has made concessions, but has not revealed what it plans to give away.

Canadian Wheat Board : During the 2011 election, Agriculture Minister Gerry Ritz said he would respect a vote on the CWB single desk. When a non-binding vote was held, 62% voted in favour of keeping wheat under the farmer-elected CWB, yet he ignored it. He also promoted a "dual market", tried to defame former farmer-elected directors, and on Nov. 2, 2011, promised in Parliament that farmers would "run it" after privatization. Instead, the CWB was given away to G3, a partnership between Bunge and Saudi Arabian-owned SALIC. Farmers who sell grain to G3 are promised a 49.9% stake, but G3 has total control and can end this trust in seven years. Issues in democracies need to be addressed — not dismantled.

Rail Transportation: On Nov. 2, 2011, CWB director Ian McCreary made it clear: when an abundance of grain exists across the prairies, railroads and terminals will get clogged without the CWB's orderly marketing and logistics oversight, because all shippers will want to get grain to the west coast at once. Predictably, in 2013 this happened. Minister Ritz was slow to react with an Order in Council to railroads in Feb. 2014; six months after the single-desk CWB would have started managing the situation for the benefit of farmers. "The Market" can't solve everything.

Public Plant Breeding: Major funding cuts to our public plant breeding programs have hurt the research that put our nation on the leading edge. Collaborative public efforts at federal AAFC institutes across Canada have developed useful new varieties that would not have been possible under restrictive private breeding systems. The loss of federal funding means lost knowledge, less shared benefit, and a hindrance to Canada's leadership.

Meat Inspectors: The Public Service Alliance of Canada reports that, due to cuts to the Canadian Food Inspection Agency, some federally inspected meat plants are operating at 60% below inspector staffing requirements. Industry self-regulation puts public safety at risk. The government must hire more food inspectors at slaughter facilities immediately.

Growing Forward 2: The AgriStability safety net under GF2 has proven ineffective for most farmers. To trigger a payment, a farm's profits must drop by 30% (versus 15% in GF1) below reference margins. This drastic change eliminates most farms' access to the program, does not account for mixed farming, and fails to adequately help those that have seen disasters in multiple years.

New Farmers: In 2011 only 8.2% of farm operators were under the age of 35. 68% of over 1300 farmers surveyed by the National New Farmers Coalition want to farm but currently are not farming. A renaissance in farmers' markets and the local food movement helps, but policy must be pursued that offers young, new and potential farmers a better chance to pursue their vocation.

Climate Change: Drought, floods, early frosts and winter thaws have their biggest impacts on farmers. Manitoba's farmland drains two major watersheds and bears the brunt of prairie flooding. Federal Governments must be willing to respond to natural disasters more quickly and provide substantial funding for water diversion and retention to reduce impacts. Above all, we need policies that move us towards a green energy revolution. Increased floods and droughts are a risk farmers should not be expected to take on alone when they are a result of current pollution-heavy climate change policies.

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