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# Canada's Supply Management System

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*Canada's Supply Management System*  
(Background Paper)

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APPENDIX A – PRODUCTION UNDER SUPPLY MANAGEMENT IN CANADA, 2017



# CANADA'S SUPPLY MANAGEMENT SYSTEM

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## 1 INTRODUCTION

In Canada, supply management is a way for farmers – and more specifically, those who produce milk, chickens and eggs – to control, through a marketing system, the supply or quantity of their commercial products. In order to market their products, producers must hold a permit, commonly known as “quota,” without which they would not be able to sell their products to a processing plant.

This paper presents the origins of supply management in Canada, the regulatory framework in which it operates and its three pillars: production control, pricing mechanisms and import control. It also briefly discusses the concerns raised about certain recent international agreements.

## 2 THE ORIGINS OF SUPPLY MANAGEMENT

In theory, in a perfectly competitive market, equilibrium is achieved when the quantity of goods supplied by sellers equals the quantity demanded by buyers.<sup>1</sup> This equilibrium point determines the quantity and price of these goods.

- If the price is lower than the equilibrium price and the equilibrium price is very low, demand for a product exceeds supply. This may result in a shortage, since buyers will be apt to want to buy more of the goods. This tends to lead to rising prices.
- Conversely, when the price is higher than the equilibrium price, supply exceeds demand, resulting in a glut and falling prices.<sup>2</sup>

During the 1960s, price instability and interprovincial trade disputes were a source of major concern for the poultry, egg and dairy industries.<sup>3</sup> At that time, the Canadian agricultural sector experienced overproduction caused by technological advances, resulting in low, unstable prices and disputes between farmers and processors.<sup>4</sup>

Faced with this difficult economic situation, farmers sought to strengthen their bargaining power by asking their provincial governments to create marketing boards. It was this situation – price instability and fluctuations in farmers' incomes – that led to the creation of the supply management system.

The national supply management system coordinates production and demand while controlling imports as a means of setting stable prices for both farmers and consumers. In Canada, supply management encompasses five types of products: dairy, chicken and turkey products, table eggs and broiler hatching eggs.

### **3 REGULATORY FRAMEWORK AND THE PILLARS OF SUPPLY MANAGEMENT**

In 1972, the *Farm Products Agencies Act*<sup>5</sup> created the national agencies authorized to establish supply management. The national egg, turkey and chicken marketing agencies were created in 1972, 1974 and 1978, respectively, to administer the supply management system for these farm products. The Canadian Milk Supply Management Committee, chaired by the Canadian Dairy Commission, a Crown corporation created in 1966,<sup>6</sup> is responsible for the administration of supply management for the dairy industry.<sup>7</sup>

The *Farm Products Agencies Act* also established the National Farm Products Marketing Council, which became the Farm Products Council of Canada<sup>8</sup> in 2009. This federal body oversees the various agencies to promote an efficient and competitive agricultural sector while ensuring that the marketing system operates well, in the interests of producers and consumers.<sup>9</sup>

To be effective, the national supply management system must follow the three basic rules or pillars:

- production control;
- pricing mechanisms; and
- import control.

#### **3.1 PRODUCTION CONTROL**

To prevent surpluses and shortages that can cause significant price fluctuations, the national agency representing each industry is responsible for setting the national production level based on provincial demand. The *Farm Products Agencies Act* authorizes each national agency to restrict production and set production quotas for each province. Each national agency may also impose penalties for overproduction or underproduction.

The provincial boards are responsible for allocating production among farmers, who undertake to produce within their allotted quota and pay any penalties for failing to do so. The boards are also responsible for negotiating prices with buyers. Lastly, they set minimum quotas and quota transfer rules.

##### **3.1.1 QUOTAS**

To operate quota-controlled farms, farmers must hold quota, a kind of permit authorizing them to produce a given volume.

The provincial marketing boards also set minimum quotas. Currently, under Ontario's supply management system, a farmer-member must have at least 14,000 units of chicken production (one unit corresponds to 13 kilograms [kg] of chicken), which is equivalent to 182,000 kg of chicken production per year.<sup>10</sup>

Quota sales vary by industry. In the dairy industry, sales are negotiated not in terms of litres of milk, but in terms of daily kilograms of butterfat produced, the equivalent of one cow's production,<sup>11</sup> whereas in the poultry industry, quota is sold by units produced or square metres of floor space. For example, in Manitoba, one production unit is equivalent to the production of one chicken. In Quebec, one square metre of chicken production is equivalent to the production of 7 to 10 birds.

The supply management system does not apply to hobby farmers operating small farms and producing for personal consumption. Each provincial commodity board maintains its own exemption criteria. Quota-exempt dairy production is generally permitted as long as it is for personal consumption. For example, Prince Edward Island, New Brunswick and British Columbia permit dairy farming without requiring production quota.<sup>12</sup> Although Alberta also permits dairy farming for personal consumption, it imposes a limit of 50 litres per day.<sup>13</sup>

As regards poultry production, Ontario allows up to 300 broilers, 50 turkeys and 99 laying hens to be raised without requiring production quotas.<sup>14</sup> Table 1 presents quota-exempt poultry production, by province.

**Table 1 – Quota-Exempt Poultry Production, by Province**

Province	Chickens	Laying Hens	Turkeys
British Columbia	200 <sup>a</sup>	99 <sup>b</sup>	50 <sup>c</sup>
Alberta	2,000	300	300
Saskatchewan	999	299	99
Manitoba	999	300	99
Ontario	300 <sup>d</sup>	99 <sup>e</sup>	50
Quebec	99	99 <sup>f</sup>	25
New Brunswick	200	199	25
Nova Scotia	200	200	25
Prince Edward Island	500	299	0
Newfoundland and Labrador	99	99	0

- Notes:
- a. Quota-exempt production of up to 2,000 chickens with a special permit at an annual cost of \$20.
  - b. Quota-exempt production of up to 399 chickens with a special permit.
  - c. Quota-exempt production of up to 300 turkeys with a special permit at an annual cost of \$75.
  - d. Under the Artisanal Chicken Policy, artisanal chicken farmers may grow 600 to 3,000 chickens each year, under certain conditions, to supply local markets, such as public markets.
  - e. Quota-exempt production of up to 500 hens for certain grandfathered farms.
  - f. Quota-exempt production of up to 250 hens for certain grandfathered farms. Under the Programme d'aide au démarrage de producteurs d'œufs dédiés à la vente directe, the Fédération des producteurs d'œufs du Québec holds a lottery to permit farmers who have never held or operated under production quota to grow up to 500 laying hens.

Sources: Table prepared by the author using data obtained from the individual provincial boards and provincial regulations.

### 3.1.1.1 NUMBER OF QUOTA HOLDERS AND QUOTA VALUE

In 2017, cash receipts for the supply-managed sector accounted for slightly more than 17% of cash receipts for Canada's entire agricultural sector. There were 15,388 quota holders in Canada, mostly in the dairy industry (see the map shown in the appendix). Most of the quota holders are in Quebec and Ontario.

Farmers initially received quota free of charge. However, quotas acquired market value, which has risen considerably over the years. For example, milk quota in Manitoba was selling for \$27,640/kg in October 2018, compared to \$12,000 in December 1998, an increase of over 100%.<sup>15</sup> Across the country, the estimated total quota value was \$36.9 billion in 2017, compared to \$14.7 billion in 1998 (see Table 2).

**Table 2 – Total Quota Value in Canada, by Province, 1998–2017  
(\$thousands)**

	1998	2005	2009	2013	2017
British Columbia	1,025,699	2,985,806	3,539,446	4,072,629	4,030,106
Alberta	1,095,162	2,319,301	2,973,346	3,203,092	4,058,912
Saskatchewan	308,753	627,044	1,238,992	975,070	1,201,485
Manitoba	457,374	948,229	1,295,742	1,485,180	1,500,707
Ontario	5,565,246	9,383,186	10,103,257	12,346,562	13,942,792
Quebec	5,477,087	9,822,311	9,714,993	9,014,025	10,312,569
New Brunswick	281,954	430,735	529,968	375,185	475,172
Nova Scotia	361,684	634,484	782,672	714,083	931,789
Prince Edward Island	147,830	281,882	297,218	261,620	320,859
Newfoundland and Labrador	35,761	81,619	89,287	108,389	127,762
Canada	14,756,549	27,514,598	30,564,922	32,555,835	36,902,154

Source: Table prepared by the author using data obtained from Statistics Canada, "[Balance sheet of the agricultural sector as at December 31st](#)," Table: 32-10-0056-01 (database), accessed 26 October 2018.

The quota exchange value varies by province. For example, in October 2018, quota for 1 kg of butterfat per day sold for \$38,500 in British Columbia and \$24,000 in New Brunswick.<sup>16</sup>

### 3.1.1.2 QUOTA PRICE

Quota is a major asset for quota-controlled businesses. For example, for a Quebec dairy farm with an average of 64 cows in 2017,<sup>17</sup> quota alone represented an investment of over \$1.5 million.<sup>18</sup> This does not include investments in other assets, such as livestock, land, buildings and machinery.

Given the steep rise in milk quota prices and fears about excessive debt, the five provinces participating in the *Agreement on Eastern Canadian Milk Pooling*<sup>19</sup> (Prince Edward Island, Nova Scotia, New Brunswick, Quebec and Ontario) established a quota pricing mechanism policy in December 2008.<sup>20</sup> In 2010, Quebec and Ontario capped the quota price at \$25,000 per kg of butterfat produced.<sup>21</sup> In February 2016, Quebec lowered this cap for the transfer of dairy quota from \$25,000 to \$24,000 per kg of butterfat produced.<sup>22</sup>

Other production sectors have also capped quota prices. Quebec has capped the quota price at \$500 per square metre for turkey<sup>23</sup> and at \$245 per unit for laying hens.<sup>24</sup>

### **3.2 PRICING MECHANISMS**

In addition to production control, supply-managed farmers are guaranteed a minimum price for their products. Through their provincial marketing boards, farmers collectively negotiate minimum farm-gate prices with processors. This minimum price is based on production costs and market conditions, such as consumer demand, inventory available on the market and the price of competing products.<sup>25</sup>

Supply management gives farmers a fair price that reflects production costs while preventing significant price fluctuations for consumers. However, not everyone agrees on its benefits:

- Studies by MEI (Montreal Economic Institute),<sup>26</sup> the Fraser Institute<sup>27</sup> and the Conference Board of Canada<sup>28</sup> argue that supply management is expensive for consumers. Critics say that supply-managed products cost less in the United States.
- In 2014, a Nielsen Company study commissioned by the Dairy Farmers of Canada showed that the price of Canadian products compared favourably with prices in other countries.<sup>29</sup>
- A University of Waterloo researcher found that supply management benefits all Canadians.<sup>30</sup>

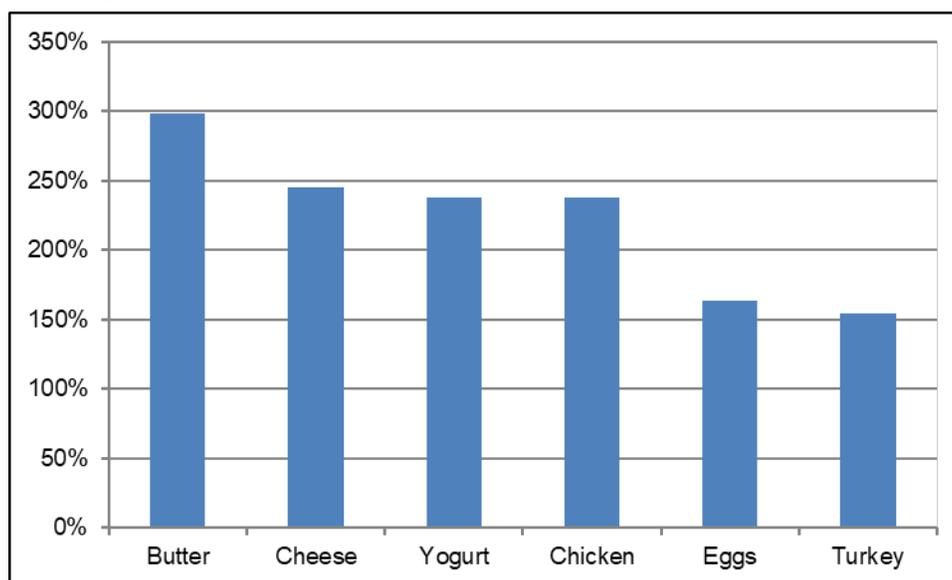
### **3.3 IMPORT CONTROL**

In addition to relying heavily on production control and pricing mechanisms, the supply management system also relies on import control to function properly.

In accordance with various trade agreements, Canada restricts imports by setting tariff rate quotas. This means that it grants its trading partners a “minimum level of access” to imports and imposes a high customs tariff on imports beyond a certain amount to prevent foreign products from flooding the Canadian market.

For example, the import quota for yogurt is currently set at 332,000 kg,<sup>31</sup> and for chicken, it is 39,900,000 kg or 7.5% of domestic production,<sup>32</sup> whichever is greater. Imports within these quotas are not subject to customs tariffs or, if they are, the tariffs are low. However, high tariffs – as high as 300% in the case of butter – are imposed on over-quota imports (see Figure 1).

Figure 1 – Customs Tariffs on Selected Over-Quota Products, 2018



Source: Canada Border Services Agency, [Departmental Consolidation of the Customs Tariff 2018](#).

#### 4 SUPPLY MANAGEMENT AND INTERNATIONAL AGREEMENTS

Canada has always been able to protect the supply management system when concluding a number of trade agreements, including the *North American Free Trade Agreement* (NAFTA), as well as bilateral trade agreements.

However, recent international trade agreements concluded by Canada – the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership* (CPTPP),<sup>33</sup> the *Canada–European Union Comprehensive Economic and Trade Agreement* (CETA),<sup>34</sup> and the *Canada–United States–Mexico Agreement* (CUSMA),<sup>35</sup> are cause for concern for supply-managed industries.

Under the CETA, Canada will grant access to roughly 17,700 tonnes of cheese from the European Union.<sup>36</sup> As for the countries in the CPTPP (this progressive agreement followed the United States' withdrawal from the Trans-Pacific Partnership on 30 January 2017), they will have phased-in limited access to the market for supply-managed products.<sup>37</sup>

Under the CUSMA, Canada will grant the United States increased access to supply-managed products in Canada. Canada will also increase its dairy import quotas by 500% in the sixth year after the Agreement comes into force, and then provide a 1% annual incremental increase thereafter until the 19<sup>th</sup> year.<sup>38</sup> In addition, the CUSMA provides for the elimination of prices associated with milk classes 6 and 7.<sup>39</sup> In the poultry sector, the chicken quota will increase from 47,000 tonnes to 57,000 tonnes in the sixth year, while the table egg quota will increase from 1.67 million dozen eggs to 10 million dozen eggs for the same period, after which these quotas will increase by 1% annually for the following 10 years. Canada will also provide the United States with annual market access, which will represent at least 3.5% of its annual turkey production and at least 21.1% of its annual broiler hatching egg production.<sup>40</sup>

A number of supply management stakeholders fear that these agreements will open a crack in this marketing system and weaken one of the pillars of supply management in Canada.

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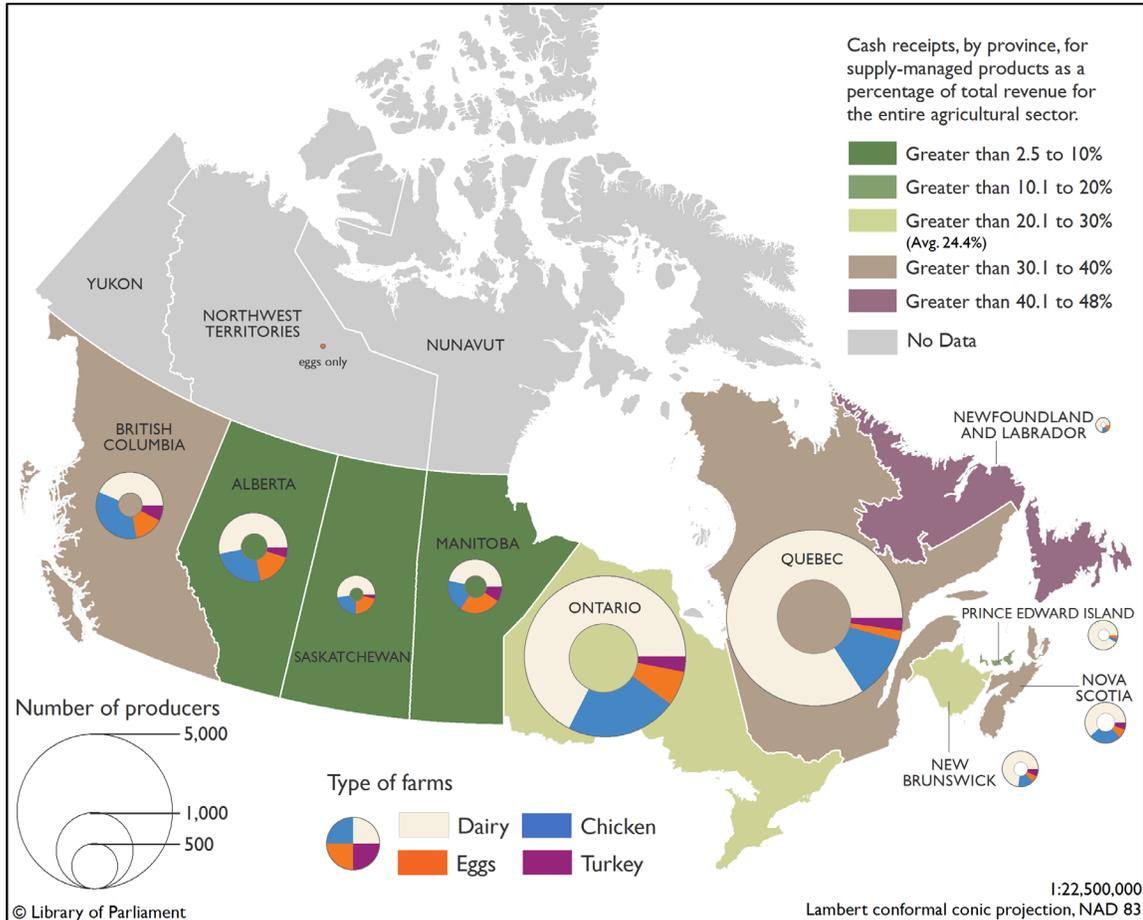
## NOTES

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5. [Farm Products Agencies Act](#), R.S.C. 1985, c. F-4.
6. Canadian Dairy Commission, [Home page](#).
7. Canadian Dairy Commission, [Canadian Milk Supply Management Committee \(CMSMC\)](#).
8. Farm Products Council of Canada, [Home page](#).
9. Farm Products Council of Canada, [National Agencies](#).
10. Chicken Farmers of Ontario, [Quota Info](#).
11. A dairy production cycle or calving interval is 410 days – 345 days of production and 65 days of rest. A cow produces milk 307 days per year (345/410 × 365 days/year) on average. The standard composition of a hectolitre of milk with 3.6 kg of butterfat is 103.2 kg of milk. See Government of Canada, [Statistics of the Canadian Dairy Industry](#), 2016. However, average butterfat content in Canadian milk production is over 4%. Annual production per cow is estimated at 8,800 kg. See Canadian Dairy Information Centre, [Average Milk Production by Breed \(Milk Recording\)](#).
12. See Government of Prince Edward Island, Agriculture and Fisheries, [Guide for Beginning Farmers on Prince Edward Island](#), 2016, p. 21; Government of New Brunswick, [Farming in New Brunswick: A Road Map for New Entrants](#), 2018, p. 10; and British Columbia Farm Industry Review Board [FIRB], [Review of Specialty Production and New Entrant Programs Improving Access to the Supply Management System \(Specialty Review\)](#), p. 1.
13. Alberta, [Alberta Milk Plan Regulation](#), Alberta Regulation 150/2002.
14. FarmStart, [Small Farm Regulations](#).
15. Canadian Dairy Information Centre, [Monthly Milk Quota Exchange](#).
16. Ibid.
17. Groupe AGÉCO, [“Nombre moyen de vaches laitières par ferme et par province au 1er juillet, Canada,”](#) *Faits saillants laitiers Québécois*. [AVAILABLE IN FRENCH ONLY]
18. As mentioned earlier, a cow’s production is equivalent to 1 kg of butterfat per day. For 64 cows, the quota is 64 kg, and the quota price in Quebec is \$24,000 per kg (see the following paragraph in the text), a total of \$1.536 million.

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31. Global Affairs Canada, "[Yogurt \(Item 158 on the Import Control List\)](#)," *Notice to Importers*, No. 863, 21 November 2014.
32. Global Affairs Canada, "[Chicken and Chicken Products \(Items 96 to 104 on the Import Control List\)](#)," *Notice to Importers*, No. 869, 12 November 2015.
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34. Government of Canada, [Canada–European Union Comprehensive Economic and Trade Agreement \(CETA\)](#).
35. Government of Canada, [CUSMA: Canada–United States–Mexico Agreement](#).
36. Government of Canada, [Text of the Comprehensive Economic and Trade Agreement – Annex 2-A: Tariff elimination](#).
37. Government of Canada, [Consolidated TPP Text – Table of Contents](#).
38. Government of Canada, "[Chapter 2 – National Treatment and Market Access for Goods](#)," *Canada–United States–Mexico Agreement (CUSMA)*.
39. In February 2017, class 7 was created to allow Canadian dairy producers to sell certain dairy ingredients, such as protein concentrates used in the manufacture of cheese and yogurt, to processors at a more competitive rate than that offered by American producers. The creation of this class was intended to prevent imports of diafiltered milk from the United States. See [Conventions de mise en marché du lait : Extrait chapitre 10 – Classes de lait](#); and Dairy Farmers of Canada, [What is diafiltered milk?](#).
40. Government of Canada, "[Chapter 2 – National Treatment and Market Access for Goods](#)," *Canada–United States–Mexico Agreement (CUSMA)*.

# APPENDIX A – PRODUCTION UNDER SUPPLY MANAGEMENT IN CANADA, 2017

Figure A.1 – Production Under Supply Management in Canada, 2017



Source: Figure prepared by the Library of Parliament, using data obtained from Government of Canada, Natural Resources Canada [NRCan], "[Administrative features](#)," *Administrative boundaries in Canada – CanVec Series*, 2018; Government of Canada, NRCan, "[Hydrographic features](#)," *Lakes, rivers and glaciers in Canada – CanVec Series*, 2018; Statistics Canada, "[Farm cash receipts, annual \(x 1,000\)](#)," Table 32-10-0045-01 (database), accessed 7 November 2018; Chicken Farmers of Canada, "[Chicken Data Booklet 2018](#)"; Canadian Dairy Information Centre, "[Table D056: Number of Farms with Shipments of Milk by Province](#)," Dairy Facts and Figures (database), accessed 7 November 2018; and Turkey Farmers of Canada, "[Canada's turkey industry: By the numbers](#)"; and Egg Farmers of Canada, "[Annual Report 2017](#)." The following software was used: Esri, ArcGIS, version 10.4. Contains information licensed under [Open Government Licence – Canada](#) and [Statistics Canada Open Licence](#).