Les
Producteurs
de lait
du Québec

Special General Meeting
November 27, 2014
Chairman's Address

Ladies and gentlemen, delegates, members of the Board of Directors of Les Producteurs de lait du Québec, dear guests and partners, thank you for being here. Your attendance is important to us.

Special greetings to our producer members in attendance today.

Welcome to your Special General Meeting.

Finally, we welcome our fellow milk producers from other provinces. With us today are representatives from British Columbia, Alberta and Manitoba, Ontario, New Brunswick, Nova Scotia and Prince Edward Island. We are very pleased to have you with us.

In March 2015, it will have been 30 years since Canada's Prime Minister Brian Mulroney and U.S. President Ronald Reagan held a summit in Quebec City, not very far from here, at the Château Frontenac. Journalists nicknamed the meeting "the Irish summit," due to the origins of the two heads of state. But what history would retain from this meeting was their decision to launch negotiations for a free trade agreement between the two countries. Economic liberalism was starting to become a pervasive ideology in the world after several decades of growth and government intervention, following World War II.

Since then, there have not been too many speeches by chairmen of Quebec milk producers that have not focused primarily on how free trade and globalization threaten our marketing model.

Unfortunately, I cannot be an exception to the rule today. So indulge me even if you think that you might have already heard what I have to say!

By defending supply management, as we have done now for 30 years, despite the upsurge of economic liberalism, we are swimming against the current. And the fact that we have succeeded in maintaining our system in this context is a real feat. Some would call us tenacious. Others would say “stubborn” or “hard-headed,” in good old plain English. Many think we are fighting a losing battle. They spend a great deal of energy trying to get us to give in and take what they believe is a step toward modernity: abandoning supply management, opening our markets and conquering others' markets.

It is as if the real economy, real commerce, real ways of doing business were invented in the 80s, with the concept of economic liberalism.

However, trade is as old as humanity. Men, people and countries have always traded with each other. No one on Earth is completely self-sufficient.

How do we manage this trade? How do we structure it? Do we put limits on it or not? This is not decided by Divine Law, but rather by the political decisions of humans.

What is new since the 80s is the predominance of the idea that no one, especially governments, should interfere in and regulate markets. The idea is that the less regulations there are, the less customs tariffs and government interference there will be, and the more wealth and well-being for everyone. Some think that this economic theory is a natural law, just like Earth orbiting around the Sun.

Even the major economic crisis of 2008-2009, which was largely caused by excess financial market deregulation, a crisis that the world has still not fully recovered from, does not seem to call into question the ultra-liberalism movement. What have we learned from this lesson?

Even though some large international organizations, such as the IMF and the World Bank, have recognized the errors in this type of policy, most major governments are still moving in that direction.

As our friend Benoît, who now knows that we produce over 400 cheeses in Quebec, would say: You do not need to be a rocket scientist to understand why supply management is seen as heresy in this context by followers of this new religion.

Our joint plan gives us the authority, under provincial law, to sell our milk collectively through a mandatory central sales agency. We have production quotas so that we can adjust supply to demand and avoid surpluses. We have a price based on the cost of production, which is set annually by a government agency and, finally, imports to our market are limited by custom tariffs. For the new preachers of the ultra-liberal economy, this is the devil incarnate and the ultimate sin.

In this context, it is not surprising that supply management gets bad press. So we have often been criticized in the past 30 years, but recently, it has become even more intense.

A young consultant from a Montreal public relations firm is the latest to suggest that we end supply management, in La Presse newspaper last week! However, there was nothing new in his arguments and proposals.

Our adversaries' strategy is repetition. They continue to hammer away at the same message until it imprints itself and becomes truth. The facts and the truth of the arguments matter little.

This is not a new tactic, but we do have to acknowledge its effectiveness. Eighteenth century philosopher and writer Voltaire wrote: “Lie, lie, there will always be something left. You must lie like the devil, not timidly, not for a while, but boldly and all the time.”

Though the language may sound dated, the message still applies!

The good thing about the letter in La Presse was that it at least gave me an opportunity to rebuke each of our adversaries’ arguments with facts.

But before I do that, I want to digress for a moment and ask a few questions that have been troubling me for some time.

I know that there are people who fight for ideals and not for personal gain, but I cannot help but doubt that this is the case of those who attack us, and especially those who sponsor these attacks.

I would really like to know, for example, who is behind this young man? Because, without being a conspiracy theorist, I really have a hard time believing that this was a personal, isolated initiative.

His opinion is signed with his job title and the name of the public relations firm where he works. These firms get their business from companies or groups that can afford to pay to influence policies.

I might be wrong, but I don't believe for a minute that his employers would have allowed him to sign his name under that type of opinion if they did not agree with what he wrote and if it did not serve the interests of their clients.

I would like to know if a public relations firm is hiding behind this initiative and used the letter to pass on its message. Who is funding the attacks by the Conference Board, the Fraser Institute, the CD Howe Institute and all other conservative think tanks that want to end supply management? Who would gain from this?

I don't know.
Our critic's first argument is that supply management prevents Canada from signing trade agreements. In August, he wrote, U.S. delegates demanded that Canada open its markets under supply management at the Trans-Pacific Partnership (TPP) negotiations.

Following his logic, when negotiating a trade agreement, we should give in to all of our partners' demands in advance for the sake of showing good faith. There is probably a better negotiating position! I would not let him handle purchasing on my farm because we would be bankrupt in no time.

In fact, supply management has never prevented Canada from signing trade agreements. Since 1986, Canada has signed no less than 13 free trade agreements and about ten sectoral trade agreements, including the first free trade agreement with the U.S. in 1988 and NAFTA, with Mexico and the United States, in 1994. Throughout all of these agreements, Canada has managed to keep supply management intact.

The value of our agri-food exports increased fourfold in the same period. We recognize that international trade has positive impacts on our country and we have never opposed signing these agreements, even though the benefits for agricultural producers are not always as great as they say.

It is true that the value of our agri-food exports has risen steadily for almost 30 years, but total farm net income in Canada has remained around the same level until just recently.

Canada is capable of signing trade agreements and maintaining supply management, as the facts show. Furthermore, all countries have defensive and offensive trade interests. All countries have sensitive sectors they want to protect. The United States and New Zealand are no exception to this rule.

That being said, we are very aware that the past is not always a promise for the future. We saw this in the huge cheese concession made by Canada to Europe. Not only does this raise our ire, but it worries us and we will not hide it. The government repeats that it has protected the foundations of supply management and that it will defend and protect our interests in current and future negotiations.

When visiting New Zealand two weeks ago, Mr. Harper repeated that he would defend milk producers in the TPP negotiations.

Maxime Bernier, Minister of State for Agriculture, answered as follows when asked a question by Ruth Ellen Brosseau, the opposition's Deputy Critic for Agriculture, just last week in the House of Commons:

> "Mr. Speaker, I am happy to repeat what I said last week. My colleague and I were in Quebec City, and we met with people from the dairy and cheese industries. We told them that our government had signed 38 free trade agreements and that we had always preserved supply management and promoted it internationally.
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> The people who were with us, the people from the dairy and cheese industries, agree with us. They support our government, and we will continue to stand up for these people, as we have always done in the past."

We were not born yesterday and our confidence has its limits, especially after the concessions to the European Union. Mr. Harper and his government are under high surveillance. Actions, more than words, will restore our confidence.

The young man's second argument was that supply management costs consumers and Canadian families more money. According to him, it costs a Canadian family exactly $276 annually. How can we not trust someone with such specific calculations? All that is missing is the cents, but that must be an oversight.

The number he cites comes from the Conference Board, which uses agriculture support estimates from the OECD for this calculation.

I will take a minute to explain how the OECD comes up with their agriculture support estimate. It is worth it, even if only to develop your critical thinking. No one should accept what large organizations call the truth without testing it against the facts.

The OECD divides government support for producers into two categories. The first category is very concrete and fairly simple to measure: subsidies and taxpayer money.

Europe, for example, spends over $70 billion per year to support its agriculture. Under its new Common Agricultural Policy (CAP), which will come into force starting in 2015, France's livestock institute calculated that one dairy farm and large farming operations of three operators, with 240 hectors of cropland, like those that can be found in Montérégie or Centre-du-Québec in Quebec, could receive €348 per hectare, or approximately CAD $118,000 in annual support. The European Union calls its direct farm aid "decoupled" support. The amount of the aid is calculated per hectare, regardless of what farmers choose to sow, what they raise, and whether market prices are excellent or mediocre. This form of support benefits Europe in that the WTO thinks that it does not distort the market. It is considered green support, which has no ceiling. The sky is the limit!

In my opinion, a dairy farm with 240 hectares and three operators that receives nearly $120,000 in subsidies, coupled or decoupled, is more profitable, even if the price of milk is closer to the world price. This allows European exporters to be more competitive and send us their cheese at good prices. Coupled or decoupled, these subsidies help them gain more of our market.

Personally, I don’t envy these producers. I do not believe that this is a good policy. I do not want to be a harbinger of bad news, but when you give up quotas, there will more crises like the ones Europe’s dairy sector experienced in 2008-2009. And though these amounts may seem generous, they will not be high enough to make up for the losses.

As for Canadian milk producers, the OECD wrote zero on the line for transfers from taxpayers. We do not receive government subsidies to support our revenue.

Where it gets worse for us is the estimated value of the other form of support: regulatory support. Supply management of milk fits under this kind of support.

It is true that government intervention gives us an increasingly larger share of consumer dollars. It is not necessarily true that its intervention hurts consumers.

But that is what the OECD thinks. For its estimate of transfers from consumers to producers, it uses a simple arithmetic operation…and an act of faith. Acts of faith may be useful in theology, but they should not be used in economics.

Its logic is simple. The OECD takes the lowest farm-gate price of milk and calculates the difference between that price and the domestically administered price. The difference is the additional cost that consumers are said to assume due to regulation. Because in a free and perfect market, everyone knows that all savings achieved along the marketing chain are definitely passed along to end consumers. Everyone knows that!

For a long time, the OECD used the price of milk in New Zealand as the most competitive reference price. Now, it uses the world price of butter and skim milk powder to calculate a theoretical world farm-gate price for milk. With this simple calculation, it has determined that the cost for Canadian consumers is $2.7 billion dollars. The Conference Board has taken this number and divided it by the number of families in Canada to get its famous $276! This is big-time economic religion!

First of all, the world price of butter and skim milk powder is far from a reliable reference. I would describe the world price of dairy products as a dumped price in a marginal market.

According to the IDF, in 2013, less than 8% of dairy products in the world were traded in that market. I call that a marginal market.

More than 90% of the milk produced in the world is sold below its production cost. In some of the largest export countries, it is only possible to produce at a loss because of subsidies. The European Union is an example. I call that a dumped price.

That is why this reference is very questionable.

Next, it is far from clear how the savings on price made by milk buyers or on a product sold at the world price is passed along to consumers.

Take New Zealand, for example. No one would dispute the fact that New Zealand's producers are competitive. With their climate, they produce seasonal milk on pastures, with very little equipment and few buildings, at the world price, or not far from it, without government subsidies.

According to OECD estimates, the support level for New Zealand's milk producers is practically zero. No transfers from taxpayers or consumers.

If the OECD's theory holds water, New Zealand's consumers should pay a lot less for their milk than Quebecers. However, a litre of milk is more expensive in New Zealand than in Canada. Two weeks ago, its high price even made the front page of the country's media. On average, it cost CAD $1.87 for a litre in the most economical size, while we currently pay $1.54 in Quebec. Work that one out for yourself! The savings are lost somewhere along the chain.

This is like the constant comparisons people make with the United States: Milk is more expensive in Canada than in the United States; supply management is to blame!

Let's consider agricultural products with a North American price that are not under supply management: soy and canola, for example. You can make margarine from soy or canola oil. And there are no trade barriers for margarine between Canada and the United States. The price should be the same in both countries, right?

Why is it then that margarine is approximately 50% more expensive here than in the United States?

Automobiles, tires, electronic devices, clothing: There are loads of examples of products that are more expensive here than south of the border.

Loss leader policies, the concentration of the retail industry, geography, distribution channels, fiscal policies and the assessment of consumers’ ability to pay are all factors that influence the retail prices of food products, just like other consumer products.

Dismantling supply management would not necessarily guarantee that consumers would pay lower prices. In fact, the only thing that is certain is that deregulation would cause the producer price to plummet, resulting in bankruptcies, job losses and a missed opportunity to capitalize on the huge economic benefits for Quebec and Canada.

Not to mention that milk producers, I repeat, earn a living from production without government subsidies. Deregulation would be costly for the national treasury and I do not believe that our governments are in a position to take on such a burden.

On that note, a clear example of this is when Australia deregulated its dairy production in 2000.

The young man who wrote the letter in La Presse states that we need to follow this example. He wrote: “ultimately, deregulation has reduced the prices that farmers receive for their milk, but definitely improved the efficiency of the industry so that it now exports no less than 40% of its production.”

He concludes that while we oppose free trade, Australian producers are still on the lookout for new markets and couldn‘t be more satisfied!

I’d like to cite some figures from Dairy Australia to bring our young dreamer back to reality:

- From 1999-2000 to 2013-2014, the number of dairy farms in Australia dropped from 12,896 to 6,398. More than half of the producers disappeared.

- In the same period, total milk production went from 10.1 billion litres to 9.2 billion litres. That's a drop in production of over 8%.

What a success! The number of producers has drastically fallen. Those who are still producing may be more efficient, but at what price? And they produce less milk than before deregulation. At the International Summit of Cooperatives, one Australian producer leader told me that they were missing $10/hl to cover their costs. They are more efficient, but in the red.

As for consumers, the price of dairy products in Australia has increased by nearly 40% since deregulation, despite the decreases in the producer price. Not to mention the fact that they were taxed for 10 years to provide producers with a minimum compensation.

Unless I was a masochist, there is nothing in that situation that makes me want to follow Australia's example.

No! The best way to deal with the so-called agricultural exception, which, in other words, is extreme price instability, market uncertainty, climate change and environmental risks and chronic revenue shortages, and avoid billions in subsidy payments from taxpayers is still collective marketing and supply management.

"Proud of our collective achievements" is this year's theme, and we have every reason to be proud.

Quebec milk producers have been collectively marketing their milk for over 50 years and have been under supply management for over 40. We have continued to develop our model since the very beginning.

The results speak for themselves:

Dairy production is by far the top agricultural sector in Quebec, with 28% of agricultural receipts from the market, and Canada's top milk producing province, with 37% of its production.

Along with egg and chicken producers, who are also under supply management, we generate nearly 40% of agricultural receipts from the market, and I repeat, without government subsidies.

As I said in the video that we just watched, Quebec dairy farms alone generate nearly 24,000 direct jobs. That makes us Quebec's fourth biggest employer out of 500 others, right behind Desjardins, Métro and Weston, but ahead of Hydro-Québec, Jean-Coutu, Bombardier, BCE and National Bank.

If you add our dairy industry partners into the calculation, together we provide some 83,000 direct, indirect and induced jobs. We contribute $5.5 billion to Quebec’s GDP, which is nearly 2% of the province’s total GDP, and $1.26 billion to the coffers of the three levels of government. And we do all that, I repeat, without government subsidies.

We can also be proud of our environmental record. The milk life cycle assessment conducted by ÉcoRessources in 2012 shows that Quebec milk production is one of the world’s lowest emitters of greenhouse gases per kilogram of milk produced. We are very close to New Zealand and far behind the largest emitters, Europe and the United States. We are also some of the world’s lowest water users per kilogram of milk produced.

We are proud that the vast majority of Quebec dairy farms are certified by the Canadian Quality Milk program, which is designed to manage milk safety risks on farms. And since 2013, we have been implementing an ambitious mandatory certification program that will include independent audits and set standards in six areas of dairy livestock: traceability, food safety, milk quality, animal welfare, biosecurity and the environment. This is a first in Canada's livestock sector.

When it comes to market development, we were visionaries in the 80s. We insisted on negotiating the rules for supplying Quebec dairy plants so that they could give priority to fresh and growing markets. Some will remember that we had to dig in our heels and be very persuasive to redirect milk that was being sent to our many regional butter-powder plants so that it went to cheese and yogurt plants. Some of the companies that lost these volumes gnashed their teeth, despite the compensation they were paid.

Today, Quebec's dairy processors make over 80% of the yogurt, 54% of all cheese and more than 60% of the fine cheese in Canada.

Likewise, we showed vision when we insisted in the 90s that a growth reserve and a milk reserve be created for new operations. Today, we have around fifty small artisanal cheese making operations, and their cheeses are a source of regional pride, as well as delicacies enjoyed by Quebecers.

I should also mention that after the WTO agreement in 1994, we showed openness by setting up our special classes, which make it possible to provide milk at a competitive price to the processors that supply secondary processing markets.

We also agreed to develop an optional milk export program at the turn of the 90s and 2000s. It no longer exists today because the WTO deemed that the producer price concessions made to exporters constituted a form of subsidy. We may export products, but only if they are made from milk bought at the Canadian market price.

More recently, we set up promotional programs that offer discounts to our partners in the interest of developing the ice cream, chocolate milk and pizza cheese markets.

In short, we have never been fans of accepting the status quo and being passive, on the contrary. We have been open and visionary business partners who are willing to compromise.

All our efforts have yielded results. Since 2007, Canadian demand has risen by an average of 1.5% per year. That is significant progress. At any rate, it is much better than Australia's production drop, which is the example to follow according to those who want to end supply management.

Together with our P5 partners, we have set the ambitious objective of achieving 10% growth between 2015 and 2020. We will not be able to achieve this objective without our processor partners, and that goes without saying.

We are still awaiting their reply to our proposed dairy ingredient strategy, which is a cornerstone of Canadian dairy sector development in the coming years. We have been told that we will have their reply soon.

I would like to let our processor partners know that while we will need to approach their proposal with open minds, they will also need to do the same, in the interest of truly constructive discussions that lead to a final agreement.

Once again, we are open to compromises.

Gandhi said: “All compromise is based on **give and take**.” In other words, mutual concessions. And Gandhi continued: “but there can be no give and take on fundamentals."

Modernizing supply management does not mean distorting it. Most Canadian milk producers should be able to make use of the strategies we will implement through give and take. And in my opinion, if they make good use of them, they will cover all production costs, earn a decent income and create a margin. This is the exact calculation that any head of a business would make to know whether it is profitable.

My message to our governments is simple. You do not have the means to do without supply management. We see how Mr. Couillard's government is now trying to cut spending wherever it can to balance the budget. Fortunately, Mr. Paradis, Minister of Agriculture, was quick to defend La Financière’s budget after the Robillard Commission proposed cuts. He argued that agriculture is a complex sector of the economy in which most countries intervene. He is right.

He should also be glad that his producers under supply management do not need financial assistance from the government for dairy, egg and poultry production. Our system gives Quebec and Canada one of the most efficient and cost-effective intervention methods. Just like the old saying goes, if it ain’t broke, don’t fix it.

Don’t give in to the demons whispering in your ear that Canada should get rid of supply management; that argument is made mostly for ideological reasons.

Don’t give in to trade partners that demand that we dismantle supply management. All countries have sensitive sectors. Most intervene to protect their agriculture; they do so either through regulation or subsidies.

We are still waiting to hear the federal government's plans for compensating the losses incurred by producers and cheese makers once the Canada-European Union Agreement comes into force. They do not need more reasons to be compensated.

My final words are aimed at milk producers. It is true that we often face headwinds. Unfortunately, we do not control the wind. But there are some things we can control: our farms and our collective marketing system.

I know that each and every Quebec milk producer works very hard to do their best. Their work is never done. In life as in business, if we are not moving forward, we are moving backward. We must continue to improve our efficiency, the quality of our product, and our environmental and livestock practices and show consumers that we are the best.

We will consult you at the beginning of winter for your input on updating our strategic plan, and we hope that you will participate in large numbers. We will need to show openness, realism and vision in our discussions.

The status quo is not an option. While we need to be open to change, I assure you that we will fight to preserve the fundamental principles of our model and prevent it from being distorted. We cannot export at world price and keep supply management. Our partners cannot have their cake and eat it too. There can be no concession on that point and we will fight so that milk producers can continue to be proud of their contribution to society and earn a dignified and profitable living from milk production.

Thank you.