

ORDERLY MARKETING IN CANADA

NO EASY ANSWERS

By Gwen O'Reilly

And no, orderly marketing is not about arranging your veggies alphabetically at the farm stand.

Orderly marketing is government regulation that controls either the sale and/or production of a number of important agricultural products in Canada, such as wheat, durum, barley, milk, eggs for eating and hatching, and poultry. Organic producers are now asking to be either more formally included in, or altogether exempted from, orderly marketing, with mixed results.

The Canadian Wheat Board (CWB) and supply management result from the old-fashioned idea that, in the interests of both citizens and farmers, governments should attempt to stabilize agricultural economies. Both of these systems originate from the impetus of individual farmers who pool their products in order to market them more effectively.

The CWB was originally adopted by the federal government during World War I to control the wartime distribution of grain. It was abandoned and later resurrected to save farmer-run wheat pools that were foundering as a result of economic depression in the 1930s. National organization of supply management began in 1972 when Eugene Whalen introduced the Farm Products Marketing Agencies Act, bringing existing provincial marketing boards under a federal mandate. Farmers, marketing agencies and politicians alike give the supply management system credit for the success of dairy, egg and poultry industries in Canada.

These systems serve to retain some sovereignty over Canada's agricultural production by regulating domestic competition, controlling amounts and prices of comparable imported products, and matching production to demand. Both the CWB and supply management have been under attack, and are seen

by the World Trade Organization (especially US and European interests) as subsidies to Canadian farmers that "distort" trade relations. Supporters of CWB and supply management argue that these systems are paid for by farmers and are not a subsidy—and that Canadian farmers will not be able to compete with heavily subsidized US and European producers without the advantage they provide. However, some organic grain farmers see CWB as unfair interference in their livelihood, especially because grain farmers in Ontario are not subject to the same rules.

The CWB has been facing pressure from the current federal government, which tried to drop barley from the CWB purview. The National Farmers Union (NFU), on behalf of farmers, went to court and challenged the government's right to make this unilateral and unlegislated move—and won. At the present time, the government has lowballed the initial payment to farmers, reducing it from 75 to 60%, and is slow at approving increased payments. Minister of Agriculture Chuck Strahl says he supports supply management in Canada, but critics say the Canadian government has been less than strategic in its defence of "sensitive products" in recent WTO negotiations.

What is a Wheat Board?

The Canadian Wheat Board is governed by federal legislation, and is ultimately accountable to Parliament. It is directed by fifteen board members; ten are elected by farmers, and five, including the CEO, are appointed by the federal government. It is a non-profit institution organized around three operational principles: single desk selling, price pooling and a government guarantee covering loans

and potential losses. All growers of wheat and barley for domestic human consumption or export in Manitoba, Saskatchewan, Alberta and the Peace River District of British Columbia (95% of Canadian grain is grown in these regions) must sell their products through the CWB.

Each season the CWB sets a price based on market values for the various grades and types of grain, and pays farmers a percentage of this price up front. The CWB is then responsible for storage, transportation and marketing of pooled grain to both foreign and domestic buyers. Farmers receive subsequent payments up to and above the set price, depending on how lucrative sales have been. The federal government guarantees the loan for initial payments and absorbs any losses if prices or demand are low. The cost of CWB operation is subtracted from any profits made, and any remaining overrun goes back to farmers.

Pros and cons

The monopoly of a single desk marketing and price pooling means that all farmers, large and small, share equally in market gains and losses. Farmers who wish to sell or export their crop independently must “buy it back”—pay a licensing fee which reduces the possibility of individual profit. This rule effectively forces everyone to participate in the collective effort. While it eliminates domestic competition, it also restricts farmers who are large enough, or who have established niche markets (such as organic farmers), from dealing with customers directly. For example, there is a strong

Some key members of the organic community have suggested recently that marketing boards have become the major obstacle to the growth of sustainable agriculture in Canada. They have stated that although supply management may have served a purpose at one time, it is now just a barrier to new entrants, and to potential organic and niche opportunities.

I agree there need to be changes within supply management to better facilitate niche and organic production, and to make it possible for new and young farmers to produce and sell milk, chicken, eggs or turkey. However, I also believe supply management, along with the marketing boards that run it, is needed as much today as when it was started to keep smaller, more sustainable farms, organic and conventional, alive in the countryside. When I drive the back roads of my neighbourhood, I still see a number of small, family run dairy farms, which are the major source of income for the family. These dairy farms require a significant amount of pasture and/or hay, therefore, much of the farm is planted to perennial crops, along with smaller amounts of small grains and corn. This is in contrast to most of the land in my neighbourhood which grows corn for several years followed by soybeans and an occasional crop of wheat.

Without the marketing boards that give small farmers the collective power to negotiate prices with a couple of powerful, multinational processors, I doubt that most of those small dairy farms would continue to exist. They would be replaced by fields of corn to feed the energy inefficient, highly subsidized, fast growing ethanol industry. I do not see how such changes would make farming in my neighbourhood more sustainable. The average size dairy herd in Ontario is still well under one hundred cows, significantly smaller than the average dairy herds in much of the US. Similarly, chicken and egg farms in Ontario are smaller, and more likely to be owned and controlled by farmers, than their American counterparts.

Supply management was born out of a desire of small farmers to make a living on the farm by getting a fair price for their products and to provide local eaters with local food. Marketing boards are made up of farmers elected to the board. I believe organic farmers have gained enough acceptance within the general farm population that being an organic farmer would not necessarily be an obstacle to getting elected to a marketing board. Having an organic farmer sitting at the board table could be quite helpful in pushing for the changes needed to better facilitate organic and niche production. Hopefully in the near future, an organic farmer or two will take up the arduous challenge of getting elected to one of the marketing boards in Ontario.

—Ann Slater, *President of Ecological Farmers Association of Ontario (EFAO) and an organic market gardener in Oxford County, Ontario*
An excerpt from the President's Message from the Sept/Oct 2007 edition of Ecological Farming in Ontario.

demand in the US for organic feed grain to meet the rapid growth of the organic dairy sector. Not only have export restrictions frustrated farmers able to supply this lucrative market, but CWB has done little to brand or develop it.

CWB has introduced new options this year to address some of these concerns. They include an organic cash buying program (basically a direct sale to CWB as demand arises), and the Organic Fixed Spread Contract which replaces the buy back and allows farmers to obtain an export license after paying a “low and stable” levy for CWB services. They have also announced funding for organic market development.



Photo credit: Willie Curry

Some argue that the CWB does not have the flexibility to speculate on shifting markets and therefore make the best deals. But, as a large marketer with national backing, the CWB has clout individual farmers do not. It can access large export markets, negotiate premium prices and low rates on transportation, and also supply consistent volumes and quality of grain. It is certified by QAI as a handler, and can market organic grain directly. The CWB also plays an advocacy role, as when it intervened in the

introduction of transgenic wheat to Canada. Had transgenic wheat been widely introduced, Canada would have lost several important export markets.

What is a quota?

Supply management is a complicated system that consists of three areas of (provincial and federal) government regulation: 1) production management (milk, eggs, poultry) and supply allocation (eggs and poultry), also known as quotas; 2) cost-of-production pricing; and 3) import controls.

Provincial marketing boards attempt to match production to demand to avoid the inevitable fluctuation of price when products are oversupplied. Farmers who produce milk, eggs for consumption or hatching, chicken or turkey must purchase “quota” from the marketing board which gives them the right to grow and/or sell a preset amount of their product.

Marketing boards estimate anticipated demand, and periodically measure farmers’ costs of production, then set quota and prices accordingly. At the same time they meet domestic demand, supply management systems restrict imports to reduce the impact of cheaper products from elsewhere on quota-grown food. As long as all three measures are working, prices, and therefore profits, remain stable, allowing farmers a reliable income.

Overproduction is discouraged in this system, so few supply managed products are exported.

Cows and fowl

Supply management is generally advantageous for those who are able or allowed to participate. Purchasing quota is expensive—in the case of the dairy farmers, at least \$15,000 to \$20,000 to milk the equivalent of one cow. For organic farmers who must also cover the costs of certification, organic feed and more intensive management practices, this may be prohibitive. A BC report suggests that more organic farms would use supply-managed production if they could afford the quota. BC farmers have asked for exemption from quota costs but that option has, so far, been denied.

Organic farmers circumvent supply management rules in various ways. They limit the size of flocks or milk production to levels that are exempt from the quota system, produce unregulated products such as goat milk, or set up their own processing facilities.

Across the country, many small and organic poultry growers are asking for an increase to the exemption levels for chicken and turkey production. Alberta has set the standard, allowing annual production of 2000 broilers, providing they are sold directly from farmer to consumer. BC has a new regulation which allows 3000 kg (1100–1200 birds) with a \$20 permit. A joint proposal from the EFAO, the NFU and the Christian Farmers of Ontario requested that the Chicken Farmers of Ontario (marketing board) allow a farmer who sells directly to the consumer an annual exemption of 2000 birds. That was whittled down to 900, then 500. The marketing board has now announced a pilot program for

2008* that allows production of 300 chickens per year for non-quota-holding farmers.

Two Ontario organic dairy enterprises have chosen to develop their own processing business, so successfully that the Dairy Farmers of Ontario (a marketing board) now wants in on the act. Organic Meadow (a farmer cooperative) and Harmony Organic Dairy purchase quota and get the conventional supply-managed price for milk, but then produce their own organic dairy products and market them directly. Or at least they did. As of February, 2008, after acrimonious 'negotiation,' they will be forced to redirect a third (eventually two thirds) of their organic milk to the marketing board's new organic pool. They are not happy about it, but will receive a small compensation for the development of the market and mentoring of producers.

There seems to be no way around it—organic farmers have special needs. How can a system incorporate products that are valued for their difference from conventional in a system that creates stability, but also enforces conformity? Organic farmers may need the augmented share of the market, but also require exemption from some of the structures and rules that govern conventional farmers. Organic products must be pooled separately and require special allocation, and their commercial viability depends on the premium price consumers are willing to pay. It's not clear if these things can be incorporated successfully (or willingly) into the supply management system. The question may be moot if organic producers wind up strong-armed into the system as a result of their own success.

Orderly marketing

Orderly marketing redistributes market power, and therefore the allocation of profits in agricultural production and processing. Even if Canadian organic farmers are not directly participating in orderly marketing systems, they may experience some general benefits, such as restriction of imports, and some stabilization of the agricultural sector. Trade liberalization policies are allowing (sometimes enforcing) large, often foreign-owned corporations access to *all* markets, large and small. And agribusiness is definitely into organics these days. So, removing regulatory systems like CWB and supply management effectively enforces another set of rules—those of the free market—which may have its

own set of consequences for Canadian farmers, organic or otherwise.

Organic farmers have tried to find their way through the regulation of production and selling in diverse and imaginative ways. They have lobbied to be included with special consideration, or lobbied to be exempted altogether. Some have stayed small to fly below the regulatory radar; others have developed voluntary, parallel marketing systems. Still others have circumvented the rules with innovative ideas, only to be co-opted by larger interests. Regulatory systems are responding to the needs of organic farmers, but slowly. Increased market demand for organic products will no doubt increase the pace of change, unless pressure for trade liberalization puts the orderly marketing system permanently out of order.

Gwen O'Reilly manages her supply in the lovely Kaministiquia River Valley in Northwestern Ontario. Her chickens have never even heard of quota.

References:

- Anderson, Frances. Sept 2007. DFO to "repatriate" organic milk. *Ontario Farmer*.
- Certified Organic Association of BC. 2005. *Position Paper: Nurturing Organic Growth in BC's Supply Managed System*. www.firb.gov.bc.ca/reports/specialty_reports/coabc_position.pdf
- Husband, Carol. 2007. *Wheat Board Violates NAFTA; In Depth: Inorganic Wheat Board*. <http://carol.farmersforjustice.com/inorganic-wheat-board.htm>; in-depth.htm; cwb-violates-nafta.htm
- OMAFRA. *Production and Marketing Controls in Supply Managed Commodities*, various other Farm Products Fact Sheets. www.omafra.gov.on.ca/english/farmproducts/factsheets/production.htm
- National Farmers Union. 2007. *The Canadian Wheat Board Campaign*. www.nfu.ca
- Parkinson, Rhonda. June 2007. *The Canadian Wheat Board*. www.mapleleafweb.com
- Reid, Fred. Letter on COABC website. www.certifiedorganic.bc.ca
- Slater, Ann. April 2006. *Farmer Direct to Consumer Chicken Marketing Exemption; Update on Chicken Issues*. www.efao.ca
- Supply Managed Producers National Organizations position on WTO negotiations: www.farmsandfood.ca and www.dairygoodness.ca
- * in Ontario: 99 layers; 50 turkeys; 300 chickens; and unlimited milk if consumed on-farm