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—DISCUSSION—
A CANADIAN PROCESSOR'S PERSPECTIVE

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Much of the detailed analysis that is available, focused as it is on the primary producer, neglects the very critical inter-sectoral relationships that exist. In a supply managed system, the interdependencies are so great that to ignore one sector is to leave the entire system vulnerable. For this reason, policy makers must be acutely aware that processors, whether co-operative or private sector, are infinitely more than an income transfer mechanism within the system. Until these realities are recognized, and until the individual sectors are studied and considered or assessed on the basis of their total or full role, huge gaps will remain in the policy advice offered by analysts.

There is no doubt that governments have traditionally taken their policy advice from the primary producers and their agents. This has largely been due to the concern for rural development and sustainability of agricultural systems. However, as international trade imperatives loom over national dairy systems worldwide, this policy advice must expand to reflect the trade impacts inherent in bilateral and multilateral agreements. These impacts are not limited to the primary sector, nor to the rural economy. Analysts must also address the reality of the fallout from trade deals in terms of viable domestic and export trade experiences in the processing sector. Without such analysis little will be known of the processing sectors' ability to "pay into" the rural economy in any sustainable way.

In Canada, for example, processors have historically been largely excluded from dairy policy development process. In recent years, steps have been taken to permit their input into the redesign process, but they have never been granted a decision making role. Decisions remain the purview of farmers—and Ministers!

This is understandable to the extent that supply management is intended for the benefit of dairy farmers. It is shortsighted because dairy farmer security is really dependent on consumer acceptance of dairy products in a continuously more competitive food supply environment. Market acceptance is the only assurance of continued dairy industry growth and subsequent prosperity.

Trade issues bring into question the issue of whether or not a sufficient common interest exists and is seen to exist between the sectors for policy analysts to consider both as

critically important from a policy development perspective. With the strong support of primary producers, protectionism remains rife in both Canada and the United States. For every tariff line there may exist two or three or more non tariff barriers that are regularly called into play by one country or the other to hinder access or to block trade altogether. These NTBs and the practices surrounding their use require study and assessment for policy making purposes.

Examples abound but let us just mention the PMO and its requirement that milk be traceable back to the originating farm; product labelling rules under the NLEA that are totally unrelated to international standards or guidelines such as the Codex; and the belief and expectation in the United States that “harmonization” really means all other countries will adopt the U.S. system. One current example is the plant inspection system.

It is questionable whether policy analysts have begun assessing the effects on farmers and processors, importers and exporters of these mundane and NTBs relating to dairy trade and trade flows. In Canada, policy makers and their advisors don’t appear to have given any great thought to the dairy processing sector and why processor consolidation is advancing so rapidly. This process is generally applauded from the sidelines. However, if such radical shifts were taking place at the farm level the phenomena would be studied to death and commented on profusely.

Policy decisions do have enormous impact on dairy processors in Canada. The Offer to Purchase programs, the export assistance programs all cause certain effects, many of which are badly understood if at all. Any dairy policy shift may contain the seed of an impact which will undermine the processors’ ability to pay into the administered pricing system at an appropriate level. Processor level impacts most frequently go unstudied by the agricultural policy analysts resulting in potentially deficient advice going forward to the policy makers and their political masters.

Dairy processors are not a homogeneous, single interest, group. They are fierce competitors in the market place and will often want to support opposing policy options. On the other hand, their commitment to their industry and their product is every bit as strong as any dairy farmer’s. Policy analysts must understand and recognize this. Dairy processors are equipped for and want to process milk, not orange juice or bottled water!

It is this commitment that led Canada’s ice cream manufacturers to benchmark their plants against each other and U.S. plants. Currently a similar exercise is underway in the cheese industry. These activities have been industry driven with a desire to be winners within the marketplace. It is not Canada’s dairy processors’ interest or intent to relinquish one iota of market share to any competitor without a battle in the market. Changes in the markets are coming but our sense is that given the international and U.S. dairy industries’ predilection for protectionism, which is at the very least as strong as our own, the change won’t come overnight. Nonetheless, as instability and uncertainty have crept into our previously very stable system dairy processors have been preparing for the worst.

CONCLUSION

What is badly needed now is good analysis by experts of the numerous NTBs previously referred to . We need to define in common terms what we mean by “harmonization” so that analysts, negotiators and stakeholders speak the same language with the same meaning.

Major areas requiring “harmonization” include the whole area of product labelling, nutritional claims, plant inspection procedures, farm inspection methods, process methodologies, and product standards. So far, governments have set up committees to do the harmonizing work but the critical and objective analysis to support changes has not been begun. If it is not undertaken, the results will be haphazard, not appropriate for consumers and detrimental to the dairy industry in both countries.

THEME: REFLECTIONS ON DAIRY POLICY RESEARCH NEEDS

