Intelligence MEMOS

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From: Lawrence Herman

To: Trade Observers

Date: June 24, 2025

Re: **SHOOTING OURSELVES IN THE TRADE FOOT. AGAIN**

It never ends. On June 5, Bloc leader Yves-François Blanchet tabled Bill C-202, a private member's bill that's yet another regrettable effort to enshrine Canada's Soviet-style supply management system in the statute books.

The bill would prohibit any increase in imports of supply-managed goods – dairy products, eggs and poultry – under current or future trade agreements. The Senate fast-tracked the bill, passing it last Tuesday after it sailed through the House with virtually unanimous support. It's an unprecedented piece of protectionist legislation that favours this one group of farmers.

C-202 is virtually identical to Bill C-282, the 2021 Bloc private member's billion that was passed by the Commons in June 2023 and was still being examined in the Senate last November when Donald Trump was elected. It had been stalled there for almost two years and – mercifully – died on the order paper when this spring's election was called.

As well as preventing imports, supply management is a quintessential barrier to internal trade, designed to protect local producers against out-of-province competition, whether in dairy, eggs or poultry. Under the influence of the well-financed dairy lobby, all parties supported Bill C-282 as it made its way through the House. This time round, however, it's hard to see how the Liberals could have voted in favour of a blatantly protectionist bill completely at odds with the Carney government's core policy of dismantling interprovincial trade barriers – and doing so before July 1, no less.

For Parliament to raise this protectionist fence higher as we struggle with US trade attacks is downright foolish – as experts emphasized repeatedly during the debate on C-282 – and would seriously jeopardize our relations with the United States at this very sensitive juncture.

That alone should have consigned C-202 to the parliamentary dustbin. But some other factors that are not always fully aired should outrage Canadians when the facts are better understood.

Consider the dairy sector as an illustration.

First, to make supply management work, over the past 50 years governments at both federal and provincial levels have layered complexities onto the system, creating a mind-numbing process run by vast bureaucracies from coast to coast. The *Financial Post* explained it all in a special report last year.

At the top of the structure is the Canadian Dairy Commission (CDC) and its Canadian Milk Supply Management Committee (CMSMC). Each year, the CMSMC sets the allowable production volume for Canada as whole and the commission then divides this up among the provinces, who parcel out the quota to their own producers, distributors, processors and consumers.

The CDC then sets the farm-gate price for milk under the National Pricing Formula for each of five different classes and many sub-classes. Each class gets its own price, as does each milk component – butter fat, proteins and solids. Provincial marketing boards then take all of this and, after even more consultations with industry players, determine who in their province is allowed to produce what, as well as where and to whom it can be sold, in what volume and at what price in that particular province. This goes on, year after year, involving scads of officials.

The point here isn't to go through all of these bureaucratic intricacies – details can be found in the FP report and on the CDC website – but to illustrate that in diary alone, the system is inordinately complex, difficult to penetrate, and run by large bureaucracies across the country.

This is for the benefit of a few more than 9,000 dairy farms, compared, say, with Canada's 71,000 beef farms and 7,400 pig farms, which operate on the open market and receive no such guarantees. These numbers alone illustrate the inequities of this complex, over-staffed and costly system that exists to protect a small but highly favoured fraction of Canada's agricultural producers.

The system's management should also outrage Canadians. It's run by insiders, persons with direct connections to the dairy industry, the same industry the system is supposed to regulate. For example, the CDC board is made up of persons with dairy industry connections, the chair being a dairy farmer himself. The Supply Management Committee is also weighted with industry players. At the provincial level, there's the same problem. All members of the Ontario Milk Marketing Board, for example, are dairy farmers, a pattern replicated in the other provinces. It's hard to see where the public interest comes in.

All of this should have led to a derailment of Bill C-202 and for the Carney government to start to phase out supply management as an outdated, discriminatory, protectionist system, contrary to the public interest. Though C-202 has passed, the government could hold up the proclamation needed to bring it into force pending further developments in our trading relations. In the meantime, Canadians should be concerned both about supply management itself and about the outsized influence its lobbyists have in Ottawa.

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A version of this Memo first appeared in the Financial Post.