

Dairy and poultry sectors are the weak link in Canada's trade defences

[By Barry MacKenna, business columnist, *Globe and Mail*, June 8, 2018](#) (subscriber only)

The essence of Canada's posture in the deepening trade feud with the Trump administration is that we are the victims.

We've been hit with tariffs on steel and aluminum even though the United States sells us far more of these products than we sell them. The pending threat of U.S. tariffs on vehicles is similarly egregious given that Canada has experienced a sharp drop in auto production and investment in the past decade. And the U.S. is demanding major concessions in NAFTA talks even though the U.S. enjoys a small overall goods and services trade surplus with Canada.

Surely, if anyone is getting a raw deal, it's us.

There is, however, at least one notable outlier, and Donald Trump has railed about it repeatedly: Canada's dairy and poultry practices.

"Canada charges the U.S. a 270% tariff on Dairy Products! They didn't tell you that, did they? Not fair to our farmers!" the U.S. President tweeted Friday before boarding Air Force One to head to the Group of Seven leaders' meeting in Charlevoix, Que.

The regime that protects Canadian dairy and poultry farmers is our Achilles heel, leaving us vulnerable to Mr. Trump's angry attacks when we'd like to be taking the high road.

Mr. Trump is absolutely right that Canada's markets in dairy, chickens, eggs and turkeys are protected by restrictive barriers. Ottawa imposes prohibitive tariffs ranging from 150 to 300 per cent on imports of these products, with only limited quantities allowed to enter Canada duty-free under strict quotas.

The suggestion, however, that Canada treats U.S. farmers "poorly" is a stretch. In spite of Canada's steep barriers, the United States still exports far more poultry and dairy products to Canada than vice versa – mainly because international trade rules block us from exporting the surpluses from our tightly regulated supply management regime. And the trade balance has been titling the U.S. way for years.

Defending these sectors comes at a price. Supply management has been an issue in every major trade international negotiation going back decades, forcing Canada to play defence instead of aggressively pursuing new export opportunities, particularly in agriculture.

Prime Minister Justin Trudeau was apparently ready to appease the U.S. In an interview last Sunday on NBC's *Meet the Press*, Mr. Trudeau acknowledged that Canada had been ready to

make some concessions to the U.S. on dairy in a renegotiated North American free-trade agreement.

“We’re moving towards ... flexibility in those areas that I thought was very, very promising,” Mr. Trudeau said, without detailing what had been offered.

The dairy issue, in particular, is also complicating efforts to keep key Congressional Republicans as NAFTA allies, including House Speaker Paul Ryan of Wisconsin and Majority Leader Kevin McCarthy of California, both from major dairy producing states.

Mr. McCarthy, for example, supports the steel and aluminum tariffs on Canada as way of achieving “fair trade” in areas, such as dairy. “If you are talking about Canada, look at what they do when it comes to our dairy products,” Mr. McCarthy told CNN recently.

Dairy isn’t Canada’s only vulnerability. Mr. McCarthy isn’t happy about how provincial liquor laws discriminate against California wines. “Our wine cannot sit on their supermarkets,” he told CNN – an apparent reference to B.C.’s policy of allowing only wines produced in the province to be sold in grocery stores.

Last month, the U.S. launched a trade challenge at the World Trade Organization, claiming that the exclusive sale of B.C. wines in grocery stores hurts California’s wine industry and violates WTO rules.

Every country engages in restrictive trade practices, including the U.S. But such nuances are lost in a cross-border war of words.

Canada’s predicament is that it’s facing rising protectionism in a country that is the destination for nearly three-quarters of our exports. That puts us uniquely at risk.

Mr. Trudeau’s hint of concessions on dairy is an acknowledgment of trade realpolitik. Canada will inevitably have to give something – either in the NAFTA talks or in a direct bilateral deal with the U.S., as Mr. Trump apparently now wants.

Sacrificing some of the protections for the relatively small dairy and poultry sector may be the price to pay for saving what’s left of Canada’s diminishing access to the massive U.S. market for everything else we produce.