



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 7/6/2000

GAIN Report #CA0099

## **Canada**

### **Dairy and Products**

#### **Canadian Press Report on WTO Dairy Case**

**2000**

Approved by:

**Norval Francis**

**U.S. Embassy, Ottawa**

Prepared by:

Kathleen Wainio

---

#### **Report Highlights:**

**This report continues a series examining press coverage of the WTO case, and some of the changes the provinces are making to comply with the WTO decision.**

---

Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Ottawa [CA1], CA

In response to a WTO challenge initiated by the United States and New Zealand, in 1999, the WTO determined that Canada's dairy pricing system for certain exports operates as an export subsidy. This report continues a series examining press coverage of the WTO case, and some of the changes the provinces are making to comply with the WTO decision.

The following article is from the July 6 Manitoba Cooperator:  
Begin Text:

#### Dairy Export Plan Threatened While Still in the Starting Gate

Canada's new dairy export system will probably face an international trade challenge as soon as it comes into effect August 1. The United States and New Zealand have rejected Canada's proposed model for dairy exports. The matter will likely go back to a World Trade Organization dispute panel. If Canada loses, it could open a Pandora's box of trade issues, not just for this country but for others, including the United States.

"It has implications for any two-price system," said Rory McAlpine, Agriculture Canada's executive director for international trade policy. McAlpine confirmed that Canadian officials briefed the U.S. and New Zealand in Geneva June 22 and 23 on plans for the new export program. The U.S. and New Zealand indicated they would challenge Canada's proposal to let milk producers contract privately with dairy processors for milk to be used in export products if the plan went ahead.

Canada is developing the plan because a WTO panel ruled last year that its present export system is an illegal export subsidy. Each province is currently negotiating with its processors to develop an optional export program which will withstand WTO scrutiny. The goal is to have the programs in place for August 1, the start of the new dairy year. Details of the programs vary with each province. However, several provinces, including Manitoba and Ontario, are proposing that producers and processors deal directly in negotiating prices and volumes of milk for export contracts. A third-party administrator would operate a "bulletin board" for contracts, giving everyone equal access to the program. Provincial milk marketing boards will not be involved. This is to comply with the WTO ruling that the boards get their powers from government, effectively subsidizing dairy exports.

Industry officials said all provinces except Quebec either have agreements with processors or are close to reaching them. However, the U.S. and New Zealand do not like any of the plans. They maintain Canada cannot export above WTO-allowable levels under a supply-managed system which is supposed to meet only domestic requirements.

The WTO allows Canada to export 4,431 tonnes of butter, 56,902 tonnes of skim milk powder and 11,488 tonnes of cheese a year. Canada had increased its overseas sales using a price pooling system to supply processors with milk for export at a lower rate than the domestic price. The U.S. and New Zealand argued Canada used the two-price system to illegally subsidize exports. The WTO panel

agreed but for different reasons. It did not prohibit pooling or two-tier pricing. It only said the role of milk marketing boards in export sales amounted to a government subsidy. Canada hopes to comply with the ruling by having farmers and processors negotiate contracts privately.

Now the U.S. and New Zealand are saying that supply management prevents Canada from exporting dairy products in the first place, McAlpine said. If they are right, it could have huge implications for Canada's egg and broiler sectors, which are also trying to develop export programs. Eggs could be especially vulnerable because they operate under a two-price system. Industrial eggs are based on a North American price about half the domestic price. The industry makes up the price difference through producer levies. A number of industrial egg products go for export. (Canada had to change its dairy export system a few years back because producer levies to fund the Canadian Dairy Commission were illegal under the WTO. This, plus its two-price system, could put eggs in the same position as dairy in the latest trade threat.) But if Canada cannot export because of supply management, the same principle holds true for protected commodities in the U.S. and other countries, industry officials maintain.

The U.S. uses tariff rate quotas (TRQs) and support programs on sugar, peanuts and other commodities to keep internal prices high while exporting the products at a lower world price. That could mean if Canada is acting illegally, so is the U.S. So, for that matter, are Europe, Japan and other countries which shield certain commodities. "This has wide-ranging implications for lots of programs in the world," said one industry official.

The dairy case still has some distance to go. First, the export programs have to be in place. Then, if the U.S. and New Zealand object, the case goes back to the original WTO panel for a ruling on compliance. A decision could also be taken to an appeal panel. If Canada ultimately loses, the dairy industry will have a choice: try again to develop a legal export program or go to pure supply management with strictly domestic production and no exports. But a loss could also trigger challenges against other countries perceived to be doing the same thing as Canada. Meanwhile, plans for the new dairy export system continue. "The process of implementation goes ahead, province by province," McAlpine said.

End Text.

**Background:** In response to a WTO challenge initiated by the United States and New Zealand, in 1999, the WTO determined that Canada's dairy pricing system for certain exports operates as an export subsidy. In December 1999, the three parties initialed an agreement in which Canada detailed its plans to come into full compliance with its WTO commitments relative to dairy. The plan gave Canada until December 31, 2000 to fully implement the changes needed to fully comply. This report continues a series examining press coverage of the WTO case and some of the changes the provinces are making in an attempt to comply with the WTO decision.

