



Understanding the Costs of Supply Management

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This study was commissioned by the Centre for Civic Engagement. The CCE is a non-partisan Canadian charity dedicated to conducting original research on public policy issues related to Canadian prosperity, productivity, and national flourishing. The CCE's research informs an active program of policy seminars, events, conferences, and lectures all aimed at providing the policy making community with actionable insights that encourage informed decision making on issues that matter to Canadians.

Introduction

In the context of the Trump administration's threat of tariffs on Canada and the possible renegotiation of the United States–Mexico–Canada Agreement (USMCA), Canada's system of supply management for dairy, poultry, and eggs is under renewed scrutiny.

Trump's pick¹ for commerce secretary has argued that Canada treats American dairy farmers unfairly. The president himself has previously made similar claims.

They have a point. Canada's system of supply management imposes tariffs on US farmers for chicken, turkey, eggs, and dairy products, between 150 percent and 300 percent. If Donald Trump's 25 percent tariff threat is a problem, so too is our supply management policy.

Yet in recent days, the Trudeau government has signaled that it won't make any concessions on its system of quotas, price-setting mechanisms, and import tariffs.

This essay discusses the persistent problems with the supply management system and presents a path forward. It is increasingly clear that this system not only serves Canadian consumers poorly but also harms Canada's international trade interests. The time for change is now.

¹ Bryan Passifiume, "Supply management enters Canada–U.S. trade dispute," *Toronto Sun* online, January 30, 2025, <https://torontosun.com/news/supply-management-enters-canada-u-s-trade-dispute>.

What is Supply Management?

Supply management is an agricultural policy framework for dairy, poultry, and eggs that dates back to the early 1970s. It operates through three main mechanisms: production quotas, import controls, and a cost-of-production formula.

The system dictates how much each farmer can produce through quotas. The concept behind controlling supply in this way is for supply to meet demand without leading to surpluses or shortages. Farmers must own or lease a quota to produce, which adds a layer of control over who can not only enter the market but also how much they can actually produce.

One of the mechanisms to control the flow of dairy into the Canadian market is import controls, which are tariffs on imported goods over a specific threshold. Under the current system of supply management, a limited amount of products from foreign markets can be imported at a lower tariff or zero tariff rate using a system of tariff rate quotas (TRQ). The thresholds vary by product to product and by the trade deal governing the relationship between the exporting country and Canada such as USMCA, Comprehensive Economic and Trade Agreement (CETA), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the World Trade Organization (WTO).

Regardless of the trade deal in question, the TRQ limits are small and ensure that the Canadian market for these products is almost entirely Canadian. The tariffs under supply management are as follows:

Dairy:

- Tariffs on products like butter, milk, and cheese above the TRQ limits can be as high as 241 percent. While the rate varies, it is generally between 200 percent and slightly higher than 300 percent.

Turkey and chicken:

- Tariffs on chicken imports above the TRQ can reach 289 percent, and on turkey imports, they are around 165 percent.

Egg and egg products:

- For egg and egg product imports above the TRQ limit tariffs range between 150 percent and 164 percent.

The cost-of-production aspect of supply management ensures that prices are fixed to cover the farmer's cost of production and what is considered a "reasonable" profit margin.

The Justifications for Supply Management

The justification for supply management is, generally speaking, twofold.²

1. Supply management exists to provide farmers with a stable income. By attempting to accurately match supply with demand, farmers will have predictable incomes shielded from major market fluctuations. This, in turn, will allow farmers to make long-term investments in their operations.
2. The second is consumer protection, which aims to ensure Canadians have a steady domestic supply of these products and that they are high-quality and stable in price.

² "Top 5 Reasons Why Supply Management Works," *Chicken Farmers of Canada* online, 2025, <https://www.chickenfarmers.ca/why-should-i-care/>.

Myths and Facts

Stable income for farmers allowing for long-term investment and 'saving the family farm'

Supply management does, in fact, achieve the goal of a stable income. However, there is no evidence that the current system has enabled farmers to make long-term investments. Instead, the Canadian dairy sector, for example, has consistently consolidated since the inception of supply management. If the system were achieving its goal of not just mandating a stable income but ensuring growth in the sector, one would assume that the market would not have consolidated as quickly as other sectors in agriculture. This has not been the case whatsoever. In the early 1970s, there were upwards of 150,000 quota holders,³ around 16,000 in 2015,⁴ and around 10,000 in 2024.

Now, it is possible that while the number of quota holders has fallen, the total number of dairy cows could have increased. That is not the case either. For dairy cows, the number of dairy cattle in Canada has remained fairly flat⁵ in that same time period at around 1.9 million cows.

On income, this is one area where supply management has handsomely achieved its goal, yet at the cost of the sector's long-term growth. The net income quota owners receive after all production expenses have been paid has increased from \$161,000 in 2013 to \$246,000 in 2022,⁶ when the median individual income was only \$43,100.⁷ And while incomes increased by nearly 53 percent over that time period, total milk production in Canada only increased by 15.5 percent.

In terms of farms, the dairy sector is contracting while farm income is exploding, meaning that the industry is effectively incentivized to become smaller while there appears to be only marginal efficiency gains in terms of milk production. Dairy farmers aren't generating more income because they are producing more milk, but rather because supply management allows them to profit more while only producing marginally more product.

Accurately matching supply and demand

Historically speaking, government programs aimed at attempting to outperform market forces to meet demand have failed, and supply management is no exception. Using dairy as an example, a new study outlines just how wasteful supply management really is. Since 2012, supply management has produced a surplus of more than 6 billion litres of milk. This surplus, as has been widely reported, is dumped.⁸

³ "Page 1 – Criteria – D056 – Number of Farms with Shipments of Milk by Province," *Government of Canada* online, December 12, 2024, https://agriculture.canada.ca/en/market-information-system/rp/index%2Deng.cfm?action=ePR&R=220&PDCTC=#clfinput_err.

⁴ John Paul Tasker, "How Canada's supply management system works," *CBC News* online, June 16, 2018, <https://www.cbc.ca/news/politics/canada-supply-management-explainer-1.4708341#:~:text=As%20of%202015%2C%20there%20were%20just%20over%2016%2C000%20quota%20holders%20in%20Canada>.

⁵ M. Shahbandeh, "Number of cattle on Canadian dairy farms from 2014 to 2024 (in millions)," *Statista.com*, August 13, 2024, <https://www.statista.com/statistics/813912/number-of-cattle-on-dairy-farms-canada/>.

⁶ M. Shahbandeh, "Average net operating income of per dairy farms in Canada from 2013 to 2022 (in 1,000 Canadian dollars)*," *Statista.com*, August 14, 2024, <https://www.statista.com/statistics/468327/average-net-operating-income-of-dairy-farms-in-canada/>.

⁷ "Income of individuals by age group, sex and income source, Canada, provinces and selected census metropolitan areas," *Statistics Canada* online, April 26, 2024, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110023901>.

⁸ Matthew McClearn, "Canada's dairy farms dump 7 per cent of all milk produced, study contends," *The Globe and Mail* online, October 16, 2024, <https://www.theglobeandmail.com/business/article-canadas-dairy-farms-dump-7-per-cent-of-all-milk-produced-study/>.

The research, published in the *Journal of Ecological Economics*,⁹ estimates that the volume of surplus milk (i.e., produced milk beyond the quota limits) that is quite literally poured down the drain on Canadian farms is more than 6.8 billion liters of milk, valued at \$6.7 billion. This is enough milk to supply 4.2 million people annually, which is 11 percent of the Canadian population. Given the state of food insecurity in Canada,¹⁰ one would assume that this surplus milk would be processed and donated to food banks or processed and sold at lower prices to eliminate that waste. But no, not in Canada, because supply management is built to restrict supply and keep compensation artificially high for farmers.

Not only is this a disaster for Canadian consumers, but it is also terrible from an emissions standpoint. The authors of that study estimate that the CO₂ emissions from wasted milk is around 8.4 million tonnes.

Stable prices and high product quality

Supply management generally creates a market with stable prices. That said, stability does not mean affordable, and that is evident when comparing Canadian prices to the US. Canada's milk is expensive. Compared to our friends in the South, we pay¹¹ almost 20 percent more¹² for milk (when adjusted to American dollars) today. In years past, Canadians were paying up to 30 percent more for their milk than Americans.

When general inflation was moderate and food insecurity stable, peer-reviewed research from 2015 showed that supply management artificially inflates prices for Canadian consumers, adding upwards of \$500¹³ to the average family's grocery bill each year, which in turn pushes¹⁴ between 133,000 and 189,000 Canadians below the poverty line. These figures are likely much higher today in our current economic climate, given that supply management is still in place, and the products it covers are staples for Canadians coast to coast.

Moreover, supply management fails to live up to its promise of product quality. The "buttergate" scandal of 2021 emerged from social media complaints that butter was no longer softening at room temperature. Those calls led to prominent food scholars, such as Dalhousie University's Dr Sylvain Charlebois, arguing¹⁵ that dairy cattle were being given palm oil supplements that were altering the milk fat composition and raising the melting point of butter. The Dairy Farmers of Canada initially denied those accusations but later acknowledged¹⁶ that palm oil was being used and then recommended that farmers stop using palm products in their cow feed.

⁹ Thomas Elliot, Benjamin Goldstein and Sylvain Charlebois, "Over 6 billion liters of Canadian milk wasted since 2012," *Ecological Economics* 227 (2025): 1–4.

¹⁰ "HungerCount 2024 – Buckling under the strain," *Food Banks Canada* online, 2024, <https://foodbankscanada.ca/hungercount/#:~:text=CHANGE%20POLICIES%20METHODOLOGY-,OVERALL%20FINDINGS,is%20reaching%20its%20absolute%20limit.>

¹¹ "Monthly average retail prices for selected products," *Statistics Canada* online, February 5, 2025, <https://www150.statcan.gc.ca/t1/tbl/en/cv.action?pid=1810024501>.

¹² "Average Price: Milk, Fresh, Whole, Fortified (Cost per Gallon/3.8 Liters) in U.S. City Average," *Federal Reserve Bank of St. Louis* online, Feb 12, 2025, <https://fred.stlouisfed.org/series/APU0000709112>.

¹³ Ryan Cardwell, Chad Lawley, and Di Xiang, "Milked and Feathered: The Regressive Welfare Effects of Canada's Supply Management Regime," *Canadian Public Policy* 41, no. 1 (2015): 1–14.

¹⁴ Pierre Desrochers, Vincent Geloso and Alexandre Moreau, "Supply management and household poverty in Canada," *International Review of Economics* 65 (2018): 231–240.

¹⁵ Sylvain Charlebois, "Opinion: Buttergate and the 'hard' truth about Canadian butter," *CTVnews.ca*, February 23, 2021, <https://www.ctvnews.ca/montreal/article/opinion-buttergate-and-the-hard-truth-about-canadian-butter/>.

¹⁶ Kevin Yarr, "Dairy farmers advised to stop adding palm oil to feed as butter controversy heats up," *CBC News* online, February 25, 2021, <https://www.cbc.ca/news/canada/prince-edward-island/pei-dairy-farmers-palm-fat-hard-butter-1.5927559>.

Hindering our Trade Relationships

Supply management has long been a thorn in the side of Canadian trade negotiations.

Trade with the United States

Historically, the U.S. has challenged Canada's supply management system through different avenues, including the WTO and the North American Free Trade Agreement (NAFTA). Canada's high tariffs on dairy, poultry, and eggs were often at the centre of these disputes, as these were seen as protectionist measures that limited U.S. access to the Canadian market.

Under CUSMA, the U.S. has continued to challenge Canada's dairy policies. The U.S. has argued that Canada's allocation of dairy TRQs does not comply with the agreement's terms, specifically citing Article 3.A.2.11(b), which prohibits allocating quotas to processors. These disputes have been part of ongoing trade negotiations and have occasionally led to formal dispute settlement processes. As of September 18, 2024, several disputes were initiated under USMCA¹⁷ by both the Biden administration and the first Trump administration.¹⁸

However, it's not just the U.S. that has a trade grievance with Canada over its use of supply management.

Trade with the European Union and New Zealand

The CETA trade pact between the EU and Canada was supposed to increase market access for European products. However, the EU has expressed dissatisfaction¹⁹ with Canada's management of dairy quotas post-CETA. There have been complaints about the allocation of TRQs not being transparent or fair, often benefiting Canadian processors over importers.

There have been instances where the EU has considered or initiated dispute settlement procedures under trade agreements like CETA due to disagreements over how Canada manages its supply quotas. For example, in 2019, the EU requested consultations²⁰ with Canada regarding dairy market access under CETA, highlighting issues like the lack of transparency in quota allocation.

New Zealand's primary grievance²¹ is with the high tariffs and restrictive quotas Canada imposes on dairy products. These measures limit New Zealand exporters' access to the Canadian market, which is significant given New Zealand's strong dairy industry, especially in products like cheese and butter.

Under the CPTPP, New Zealand expected better market access to Canada for dairy products. However, New Zealand has been critical of how Canada has managed its dairy TRQs, arguing that the system benefits domestic producers at the expense of international competition.

¹⁷ David Clement, "On challenge to dairy supply management: You go, Joel," *Financial Post* online, June 4, 2021, <https://financialpost.com/opinion/david-clement-on-challenge-to-dairy-supply-management-you-go-joe>.

¹⁸ David Clement and Kyle Walker, "When it comes to Canadian dairy, Trump is right," *The Hamilton Spectator* online, June 13, 2018, https://www.thespec.com/opinion/contributors/when-it-comes-to-canadian-dairy-trump-is-right/article_7922db25-52f4-5af3-922e-bd-c6acc31d2d.html.

¹⁹ Marie Danielle-Smith, "Cheese quotas in Canada-Europe trade deal quietly under formal review after EU complaints," *National Post* online, July 17, 2019, <https://nationalpost.com/news/politics/cheese-quotas-in-canada-europe-trade-deal-quietly-under-formal-review-after-eu-complaints>.

²⁰ "CETA cheese quota allocation system under formal review," *Dairy Global* online, October 10, 2019, <https://www.dairyglobal.net/dairy/milking/ceta-cheese-quota-allocation-system-under-formal-review/>.

²¹ Gyles Beckford, "New Zealand wins trade dispute with Canada over dairy access," *rnz.co.nz*, September 6, 2023, <https://www.rnz.co.nz/news/business/497363/new-zealand-wins-trade-dispute-with-canada-over-dairy-access>.

Ending Supply Management

Supply management, in summary, fails to protect the industry from consolidation, fails in its most basic goals of matching supply and demand, artificially limits choice for Canadian consumers, inflates prices in the process, and significantly limits our ability to engage the world in honest free trade negotiations. Despite its failings, the program lingers on now, largely due to the perceived cost of ending supply management,²² specifically buying back the quota that farmers have purchased. For example, Conservative leader Pierre Poilievre argued²³ that supply management would be expensive to end, citing a cost upwards of \$30 billion.

This figure, which is often repeated, is not necessarily the case because it assumes that the proposed buy-back amount must be the market value of the quota today (i.e., the value if you were to sell the quota). That value ballooned over the years, originally valued at \$4.3 billion in 1983 and skyrocketing to \$43.4 billion in 2023. That, taken at face value, is an alarming figure and one that would likely worry many taxpayers, especially given Canada's current fiscal state.

However, the market value of the quota owned by farmers is not what they would be owed. Rather than taking the inflated market value figure, we should look at the book value of the quota instead. The book value is simply the original cost of acquiring an asset. Rather than attempting to buy back the quota at the inflated market value figure, Canada should buy back the quota at the book value amount indexed to inflation. Using the book value indexed to inflation ensures that farmers are made whole for their quota purchase while also ensuring that taxpayers are not footing an artificially inflated bill.

Some may argue that the book value of the quota, indexed to inflation, is not fair for farmers, but those who make that argument forget that the quota has essentially been a golden ticket for supply-managed farmers for decades. For farmers who have an average net income of more than a quarter of a million dollars per year, being compensated with the book value indexed to inflation is more than appropriate.

The book value of the quota

Now, it is increasingly difficult to actually determine the book value of quota. The last known report²⁴ on the issue, back in 2015, estimated that the book value of the quota that year was somewhere between \$3.6–\$4.7 billion. In 2015, the market value of supply management was around \$32 billion. Assuming the book value in 2015 is an even \$4 billion, the book value at any given time can be approximated at around 12.5 percent of the market value. With a current market value of \$43.4 billion, we can estimate that the book value today is \$5.425 billion.

²² Catherine Cullen, "Conservative leadership candidate Aitchison says he wants to end supply management," *CBC News* online, April 20, 2022, <https://www.cbc.ca/news/politics/supply-management-conservative-leadership-aitchison-1.6425038>.

²³ "Here's where the Conservative leadership candidates stand on supply management," *CTV News*, May 11, 2022, news video, 0:00–3:23, https://www.youtube.com/watch?v=-A_siv20Qbc.

²⁴ Barrie McKenna, "Cost of ending dairy quotas much smaller than expected: study," *The Globe and Mail* online, February 26, 2014, <https://www.theglobeandmail.com/report-on-business/cost-of-ending-dairy-quotas-much-smaller-than-expected-study/article17123557/>.

This is a remarkably lower figure than the market value and one that is arguably more palatable for Canadian taxpayers. It should be noted that the consumer benefit,²⁵ without supply management, is estimated to be around \$6.7 billion per year. From a cost-benefit perspective, trading a total lifetime cost of \$5.3 billion in exchange for \$6.7 billion in yearly consumer benefit is a good deal. Even if the book value were double this estimate, it would only be a matter of a few years for the benefits to significantly outweigh the costs.

How to buy back quota

Some analysts²⁶ have argued that the best way to buy back quotas from farmers would be to use a tax to compensate farmers in the transition away from supply management. While this is certainly a viable path economically, it may not be politically, as Ottawa would have to face criticism about adding an additional tax on consumers at a time when food costs are historically high and while inflation is just getting within the Bank of Canada's target benchmark of 2 percent. A tax on supply-managed goods to buy back quota would be inflationary, especially given the fact that these are core food staples and comprise a notable portion of the Consumer Price Index's basket of goods.

Another possible path is simply a debt-financed book-value buyback, where Ottawa either as a lump sum buys back the indexed value of inflation, or phases the buyback over a series of years as the market is opened.

With that, another way forward would be to simply credit the account of the quota holder with the indexed book value of the quota so that they forgo paying income or corporate taxes on that production until the amount left on the credit is zero. The credit, operating like a negative tax lien, essentially means that the CRA owes the taxpayer the indexed book value of the quota, and that money is "repaid" in the form of not collecting taxes for income or profits until the taxes not collected equals that of the quota value.

²⁵ Vincent Geloso, Alexandre Moreau, Germain Belzile, "Viewpoint – Ending Supply Management with a Quota Buyback," Montreal Economic Institute, May 31, 2017, <https://www.iedm.org/70407-viewpoint-ending-supply-management-with-a-quota-buyback/>.

²⁶ Ibid.

Benefits of Ending Supply Management

Rural communities and export opportunities

Those who advocate in favour of supply management argue that removing it would significantly harm rural communities that depend on those farms, especially the additional inputs provided locally for farm business. The best peer-reviewed evidence²⁷ does not necessarily support this claim. According to research by Colin Carter and Pierre Mérel published in the *Canadian Journal of Economics*, doing away with supply management would mean more competition for dairy farmers, but it would also mean more export opportunities abroad.

With globalization lifting hundreds of millions of people worldwide out of poverty and into the middle class, demand for these products has risen. Consumption of dairy,²⁸ chicken,²⁹ and eggs³⁰ has increased over the past 15 years as a result of new demand from the global middle class, which is expected to continue. New trade deals would allow Canadian farmers to sell their products to this new group of consumers—leading these researchers to conclude that “supply management may no longer be beneficial to domestic producers of the supply-managed commodities.”

New Zealand’s experience ending its own system of supply management provides a useful case study of where success can be found. In the past 35 years since opening up the market in New Zealand, milk production has grown from 6.9 billion liters to 20 billion.³¹ The total value has grown from \$2 billion in exports to almost \$20 billion today.³² Successful business investment has allowed New Zealand’s milk products to export to Asian markets, which have proven to be a boon for the once-isolated market. Canada has the potential to do the same.

Farm fairness

Ending supply management would put all of Canada’s farmers on an equal playing field. Currently, supply-managed farmers are subject to protections and guarantees, while other farmers are not. Beef, pork, grain, vegetable, and fruit producers do not have any such program where the government limits international competition via tariffs and controls supply via quotas. By ending supply management, our entire agricultural sector would be placed on a level playing field, with the existing supports available for non-supply managed farms.

²⁷ Colin A. Carter, Pierre Mérel, “Hidden costs of supply management in a small market,” *Canadian Journal of Economics* 49, no. 2 (2016): 555–588.

²⁸ M. Shahbandeh, “Per capita consumption of milk worldwide from 2005 to 2017 (in kilograms),” Statista.com, January 22, 2020, <https://www.statista.com/statistics/237537/per-capita-consumption-of-milk-worldwide-since-2001/>.

²⁹ M. Shahbandeh, “Projected poultry meat consumption worldwide from 2021 to 2033 (in metric kilotons),” Statista.com, July 9, 2024, <https://www.statista.com/statistics/739951/poultry-meat-consumption-worldwide/>.

³⁰ “Annual per capita consumption of eggs in 1980 and 2005, by type of country (in kilograms per capita),” Statista.com, June 1, 2009, <https://www.statista.com/statistics/269168/per-capita-consumption-of-eggs/>.

³¹ “New Zealand Dairy Statistics 2021–22,” Livestock Improvement Corporation Limited & DairyNZ Limited, 2022, <https://www.dairynz.co.nz/media/uzeekwgr/nz-dairy-statistics-2021-22-web.pdf>.

³² “The New Zealand dairy industry,” Dairy Companies Association of New Zealand online, <https://dcanz.com/the-new-zealand-dairy-industry/>.

Consumer benefit

As already highlighted, the consumer benefit of ending supply management is more than \$6 billion annually. Consumers would have more choice on their grocery store shelves and more competitive prices. This is especially important given the nature of food insecurity in Canada, where food banks are reporting record demand. That record demand at food banks is a result of rising food insecurity, with 22 percent of Canadians [currently](#) living in food-insecure households.³³

Trading relationships

Finally, on an international front, removing supply management from policy will remove a consistent source of American angst when agreeing to wider trade deals. With the United States as our largest and most important trading partner,³⁴ our relationship with them is paramount. With more national interest tied up to maintaining access in other areas, Canada is interested in trying to rectify the pain points in our bilateral relationship. CUSMA renegotiation in 2026 looms in the near future, with President Trump likely to use them to seek domestic political gains. In addition, removing supply management raises the potential to get additional trade concessions in future negotiations.

³³ "New data on household food insecurity in 2023," *PROOF Food Insecurity Policy Research* online, April 26, 2024, <https://proof.utoronto.ca/2024/new-data-on-household-food-insecurity-in-2023/>.

³⁴ "Countries & Regions," *Office of the United States Trade Representative* online, [https://ustr.gov/countries-regions#:~:text=The%20top%20five%20purchasers%20of,United%20Kingdom%20\(%2476.2%20billion\)](https://ustr.gov/countries-regions#:~:text=The%20top%20five%20purchasers%20of,United%20Kingdom%20(%2476.2%20billion).).

Key Takeaways

Supply management is a system that fails to meet its core objectives, beyond giving quota holders a substantial, and inflated, source of income. The cost to consumers domestically is significant, while it threatens our trading relationships internationally, and handcuffs the domestic industry from entering the export market for goods that have increasing global demand. Quota holders can be compensated for the indexed value of the quota they own, ensuring that they are made whole, and Canada can move past this archaic system that has persisted for too long.

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