

## Canadian Dairy Case Brief

### Problem Statement:

The Canadian dairy market, known for having an extensive history of detrimental price volatility and income fluctuation, is at risk yet again. Chrystia Freeland, Canada's Minister of Foreign Affairs, has a difficult decision ahead of herself as alleged intentions to alter the NAFTA trade agreement arise following the United States presidential election, threatening the once regenerated, yet fragile supply management system. With the renegotiation underway, Freeland must determine what sacrifices can be made to the system to ultimately appease the demands of the fellow trading partners whilst steering clear from major implications on Canadian consumers, farmers and the economy as a whole.

### Situational Analysis:

Reviewing the history of the Canadian dairy market highlights times of lacking price stability and economic bust. Legislative actions were called upon to reduce the effects stemming from the price volatility along with the increasing supply in agricultural products. The supply management system was made using a three tier controls plan to reverse the effects and create a balanced market between dairy producers and their product consumers. Implementation of the supply management system intended to provide farmers with greater economic security although this is now being threatened. Following the election of Donald Trump as President of the United States, the US Trade Administration has announced his intentions to modernize the original agreements of NAFTA in attempts to ultimately protect various US interests. Although the supply management system was originally permitted under NAFTA, the United States desires this aspect to be modified in an effort to provide US dairy producers and suppliers with greater access to Canadian dairy markets. Modernizing the agreements of NAFTA inevitably entails an altering of the historic and strategic Canadian supply management system, posing threats to the livelihoods of the Canadian dairy farmers.

Via the use of import tariffs, Canada has been able to maintain harmony ensuring prosperous domestic dairy production. With demands that these tariffs be lifted by fellow NAFTA members, Canadian authorities must now search for alternatives to keep the peace. Lifting tariffs will lead to instability domestically and cause Canadian dairy farmers, and the economy as a whole, to be vulnerable and susceptible to implications. An alternative solution could potentially be to alter the tariff structure without lifting them completely. The import controls tier of the supply management system calls for strict and forceful import tariffs which can appear highly discouraging to international organizations. Similarly, the Canadian authorities could take into discussion the alternative solution of maintaining the national quotas but removing the provincial ones. Strict penalties resulting from over and underproduction can cause inherent fear and feelings of restriction for dairy farmers therefore altering the production controls tier of the system may relieve limitations while still fostering a national quota. Because the United States contributes to over half of the Canadian trade flows, extreme economic downfalls may take place if Freeland is to address the issue the incorrect way. This, of course, is

not a sustainable option as it would erode the free trade impact that Canada holds in not only NAFTA, but various other trade agreements. With Mexico and the United States already reaching a bilateral agreement, actions need to be put in place in a timely manner as tensions may continue to escalate, further deepening the weight of the decision needing to be made. Freeland must identify and analyze the cards she has been dealt to move forward in this case.

### Recommendations:

The initial recommendation that came to my mind was for Freeland to reduce tariffs but not eliminate them completely. This would allow for a greater quantity of dairy to be imported at a lower tax rate or she can take the route of taxing any excess above the minimum level at rates far lower than 200 percent as this high of a rate is extremely unappealing and restrictive to international affairs. An alternative recommendation can be made when taking into regard NAFTA's hefty list of viable criticisms along with the extensive list of other free trade agreements Canada is already involved in, including the Comprehensive Economic and Trade Agreement with the European Union and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Freeland could consider all together leaving NAFTA if it means preserving domestic dairy production prosperity and the overall satisfaction of the Canadian citizens. This, however, could be extremely harmful to the Canadian economy and would most likely be used as a last resort option. Other recommendations I devised include: maintain a national quota but lifting provincial ones, increasing the guaranteed price given to farmers whilst lifting tariffs on imports, allowing imports but assigning a quota to them as well, or combining the final two by remove tariffs to appease the fellow NAFTA members while cutting back on domestic quotas set in place by the supply management system restricting dairy farmers from producing over the set national quota.

### Implementations:

Implementation of the recommendations listed above will be no easy feat. Freeland must preserve the trust of the Canadian people, while securing the country's position in the NAFTA deal. Explaining in full detail to both parties, being as clear and concise as physically possible, is key to successfully handling the final decision. Due to the limited time frame resulting from the bilateral agreement in place between Mexico and the United States, Freeland must expedite her plan of action but still weigh all her options. Remaining loyal to the citizens of Canada will show respect and allow for a smoother transition therefore Freeland should truly make it clear to the Canadian people that she is understanding of their perspectives when implementing the decision. Pressures from international partners can cause for domestic upsets and disruptions. Overall, it is key that Freeland moves with confidence and rational thinking when formulating and implementing the final decision of the newly constructed NAFTA demands.