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WHY CANADA'S SUPPLY MANAGEMENT SYSTEM IS GOING TO DISAPPEAR

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Asked about how he went bankrupt, one of the characters in Ernest Hemingway's novel *The Sun Also Rises* replies, "gradually, then suddenly." That's what's in store for Canada's supply management system, an outdated, regressive policy from the 1970s that protects the dairy and poultry sectors by artificially raising consumer prices and drastically restricting imports. It will disappear, gradually then suddenly, for many reasons.

On the immediate horizon, there'll be a blow-up with the Trump administration in the USMCA re-negotiations because of 2025 amendments to the Department of Foreign Affairs Act (Bill C-202) – the product of aggressive lobbying by the dairy industry – that prevent Canada from agreeing to any increases in dairy and poultry imports. Import restrictions are a necessary component of supply management. The U.S. has pressured Canada to scrap supply management before USMCA negotiations have even begun.

Telling the Americans to go fly a kite, when Donald Trump has continually railed against Canada's dairy import policies, would mean narrow agriculture interests could imperil improvements in the entire Canada-U.S. trading framework.

But let's assume for argument's sake that intense pressure from the Americans results in the government somehow overcoming Bill C-202 and agreeing to increased U.S. dairy imports as part of the price for securing a new bilateral trade deal. It will be a step forward in the "gradually then suddenly" scenario facing supply management. To prepare for this, these industries need to pivot from their rear-guard efforts to keep imports out and look at other trade options.

Ironic as it seems, it's the American softwood lumber industry that offers a model for Canadian dairy and other ag sectors. For more than 40 years, U.S. softwood producers have successfully used countervailing duties to fight Canadian imports. They do this by flooding U.S. investigative agencies with trade complaints alleging unfair Canadian subsidies, mostly stumpage fees, but including every other kind of provincial support programs.

These efforts have borne fruit, resulting in decades of countervailing duties on Canadian imports. The Canadian side has spent hundreds of millions of dollars fighting these cases, with some success, but it still faces an American lumber industry that's well-organized, intensely focused and relentlessly determined to use U.S. trade laws to protect its market share.

And here is where Canada's dairy industry can take a lesson.

Canada's dairy farmers run the best-funded lobby group in the country, with budget many times larger than organizations like the Canadian Chamber of Commerce and the Business Counsel of Canada.

But it has been misguided in spending millions lobbying MPs to support supply management to keep out imports, instead of using its financial resources to develop other strategies.

Those strategies would mean a determined use of Canada's existing trade remedy regime, comparable to that in the U.S., if widening the dairy door is one of the concessions needed for a renewal of the bilateral trading framework. The trade remedy option makes eminent sense. Why? Because U.S. dairy producers are heavily subsidized and their exports would almost certainly contravene both the World Trade Organization's Subsidies & Countervailing Measures Agreement and the USMCA itself, both of which allow extra ("countervailing") duties to be charged on those products.

The U.S. Congressional Research Service and many other agencies have detailed the array of these federal subsidies. Start with the large federal payouts under the Dairy Margin Coverage program. Added to that are valuable feed and insurance benefits and other subsidies plus a range of disaster relief and ad hoc payments under the 2025 Milk Loss Program.

U.S. states also maintain an array of lucrative payouts, with a slew of subsidies like tax credits, income support, grants for modernization and other investments. Plus, there are a variety of indirect subsidies that lower farmers' production costs. As these

reports show, U.S. federal and state subsidies to dairy farmers, direct and indirect, are in the billions of dollars annually.

The point is that a successful re-negotiation of the Canada-U.S. trading relationship could well hinge on Canada allowing larger imports of American milk and other dairy products. Because, as the facts show, these imports will be heavily subsidized, Canadian producers can use Canada's trade remedy system to get duties applied to these unfairly priced goods.

This is not a defense of supply management. Far from it. Rather, it says Canadian dairy farmers need to be thinking strategically, adapting the U.S. softwood lumber industry's model should Canada's protectionist door be pried open as the price of a revised bilateral trading framework. It's a partial remedy for the "gradually-then-suddenly" fate that ultimately awaits this highly protected sector.
