

Standing up to the Americans

Continued from E1

bly has about 10 years left in it," Mark Stevenson, a dairy industry expert at Cornell University, told a gathering of Ontario dairy farmers touring U.S. factory farms last spring.

Several of the 100 farmers on that tour said they don't ever want to have to compete with U.S. imports, but fear that one day they may have to do just that.

Core vows to never let that happen. He is also head of the Ontario milk marketing board, and is in the fight of his life to defend a system that he and his family may no longer be part of by next spring.

"We'll never let supply management die," he says defiantly, then quietly admits that the system has never faced as serious a threat as it does now.

"When we took over this place, the future looked so bright," says Core, looking around his aging barnyard. "Now, there's just so many, well, challenges."

The Core brothers bought out their father 25 years ago full of bright hopes and new ideas, and soon transformed their farm into one of the most innovative dairy operations in the province.

They brought in state-of-the-art milking machines with pipes running the length of the barn, a triple-silo feed mixing system before most farmers had put much thought into giving their cows a mix of feeds, and a mechanized system for cleaning manure out of the barns that would later become an industry standard.

"We used to have tours come through," says Core, his eyes sparkling at memories of the old days. "People were amazed at the new things we were doing."

At 66 cows, it was also one of the largest operations. Most dairy farms back then milked fewer than 25 cows.

Farmers are quietly expanding their farms or getting out of the business, fearing we may one day be flooded with cheap American milk

Now, the herd is barely average, and the shining equipment that once attracted curious farmers from across North America is outdated, rusted and breaking down.

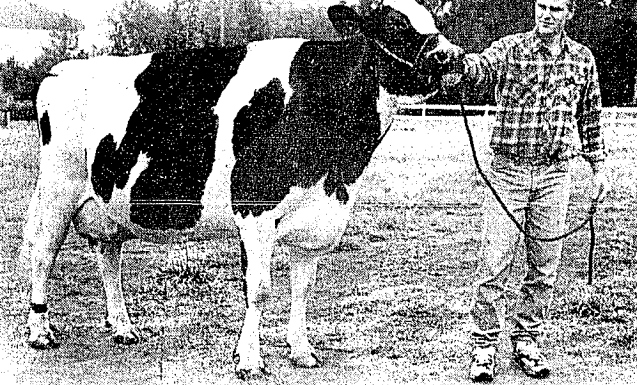
There hasn't been a tour through in 15 years.

"The whole system's just worn out," says Core.

He and his brothers went \$800,000 into debt buying and rebuilding their farm a quarter century ago, jerry-rigging their new technology into the 100-year-old barn.

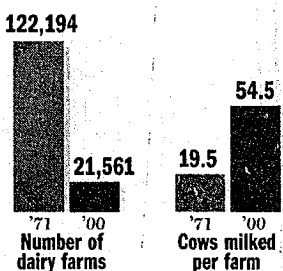
Upgrading now would probably cost up to \$1.5 million to replace the old barn with one more modern, allowing for better ventilation and manure handling and installing a

Dairy farming



Farms and cows

There are only 20% of the dairy farms there were in Canada 30 years ago, but each farm has on average double the cows.

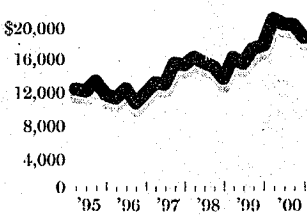


Dairy cows in Canada
1971: 2.4 million 2000: 1.1 million

SOURCE: Dairy Farmers of Ontario, Ontario Milk Producers

Cost of quota

Ten years ago, the cost of cow quota was about \$5,000. Today it's more than \$18,000. Here's how the price has fluctuated since 1995:



What they get

Price per hectolitre of milk
Canadian dairy farmers \$55.72
U.S. dairy farmers \$20.37

CATHERINE FARLEY/TORONTO STAR

much more efficient and modern milking parlour.

In the years since the Core brothers took over, many dairy farms have stopped milking their cows in the barn, preferring to set up separate milking parlours.

Parlours are a much more efficient way to milk cows. They are housed in small buildings attached to the barn, and the cows are herded in two or three times a day for milking.

In contrast, Core's milking machine involves 2-inch pipes running the length of the barn, with cows being milked in their stalls. Under such a system, it would be difficult to expand the herd by even a few cows without also expanding the machine and the barn.

Parlours also allow for the installation of sophisticated computers to monitor the production of each cow.

There are other advantages, too.

Two generations of Core men have ruined their knees after a lifetime of kneeling on cement floors to milk their cows. Modern milking parlours eliminate that risk with sunken floors for the farmer, which put the cows' udders at chest height.

If he could, that's the kind of system Core would install. He watched his father and uncle slowly cripple themselves in the barn he now runs, and has spent the past 25 years watching as strain and arthritis gripped his brothers' knees as well.

"Those parlours, they have foamy floors. There's no strain at all," he says over breakfast, once the morning milking is over.

Core figures he escaped the family curse only because he spends so much time away from the farm.

In 20 years of active involvement with the milk marketing board, and 11 years as its chairman, Core has been at the forefront of challenges to the industry's supply management system.

The 35-year-old system, established in the mid-1960s to bring some stability to the industry, is based on production quotas held by every dairy farmer in Canada. Farmers can sell their quota, and high, price up to that quota, and anything above it must be sold on the world market at a much lower price. The farmers buy their quota, which costs about \$18,000 per cow.

The current quota price for milk is 55.7 cents per litre, compared with a world price of 22.4 cents.

Consumers, however, do not pay a higher price for their milk in Canada than they do in the U.S., says Rick Phillips, a policy director at the Dairy Farmers of Canada, an umbrella group for the provincial marketing boards.

That's because in a competitive environment like in the U.S., you end up with two or more fleets of milk trucks running up and down the same country roads collecting milk from farmers. Under supply management, the marketing boards run all the trucks, eliminating overlap.

"It's a cheaper way to run a system," he says.

As well, there is no volatility in the cost to the milk companies, so they don't need to build in "risk premiums" in their retail prices to cover any sudden spikes in the price paid to farmers, Phillips says.

The two-price system for farmers has, however, got the Canadian dairy industry into trouble on the world stage. The World Trade Organization (WTO), acting on a complaint from the U.S. and New Zealand, ruled a year ago that marketing boards are government agencies, which subsidize milk exports by paying farmers much higher prices for domestic sales.

The marketing boards have responded by cutting their ties to the export sales.

Instead of simply paying farmers the world price for their over-quota milk and then selling it for them on the open market, as they did before the WTO ruling, the marketing boards now leave it up to farmers to negotiate their own export contracts.

Core, who helped develop the new system, says the changes should satisfy the WTO since the marketing boards no longer arrange the over-quota contracts. Their only role now is to inform farmers if a contract exists so they can bid on it.

"That gets us right out of the way," Core says.

The change, however, has failed to satisfy the U.S. and New Zealand.

Tim Galvin, the U.S.'s top negotiator at the WTO, says the higher and stable prices paid to farmers for domestic milk are subsidies that allow them to undercut Americans on the world market.

"If you have a domestic support program that helps keep the farmer in business, then there's always the concern that it will allow them to be more aggressive on the export side," says Galvin.

Galvin says the U.S., like New Zealand, doesn't care what Canada does to meet its domestic milk needs, but won't stand for anything it believes gives Canadians an export advantage.

In its position paper tabled at ongoing WTO talks on agriculture, the U.S. says it would like to see an end to domestic supports that help farmers export cheaply.

Federal Agriculture Minister Lyle Vancilief has vowed to defend supply management at the WTO talks, saying it is a domestic policy and therefore lies out of the WTO's jurisdiction. Only about 5 per cent of Canada's milk is exported.

Vancilief can expect some help in his fight from globe-trotting dairy farmers.

The Dairy Farmers of Canada, which Core also heads, has set up a \$2 million war chest to fend off WTO challenges.

The money will be used to send dairy farmers on trade missions around the world, building up allies in Canada's fight to defend supply management. They will meet with government officials and farm groups to convince them that Canada's quota system poses no threat to them.

There will be ad campaigns here and abroad defending the system and even promoting it as an option for farmers in other countries. Core says that if farmers elsewhere like the program, governments will be hard pressed to fight it at the WTO.

But the central pillar of the plan is a series of studies the dairy farmers have commissioned into the payment systems for their counterparts in both the U.S. and New Zealand.

The studies won't begin until later this fall, but Core says preliminary research shows that the Americans and New Zealanders use much the same two-price system that Canadians have been criticized for at the WTO — except that they are better at hiding it.

Farmers in those countries are paid one price for exported milk, and a second, higher, one for domestic sales. But when the farmers receive their cheques, only one blended price is listed as a weighted average of the export and domestic prices.

"That's no different from what we do," Core says.

He hopes that by commissioning the studies, Canadian farmers will be able to convince the Americans and New Zealanders that their policies are just as vulnerable to WTO sanctions as the Canadian system.

"Maybe then, they'll back off," he says.

But that seems unlikely.

The U.S. considers the higher and stable prices paid to Canadian farmers for domestic milk to be subsidies that allow them to undercut Americans on the world market

From his neat office overlooking the Washington Monument in the U.S. capital, Galvin says the U.S. price of milk — whether domestic or exported — is determined on the open market.

"We must really seek to level the playing field," he says.

Yet Phillips at the Dairy Farmers of Canada says Galvin is missing the point. The WTO was not concerned that the farmers got more money for domestic milk, but that the marketing boards were paying farmers for their exports. That made the two-price system a subsidy only because the marketing boards were deemed by the WTO to be government agencies.

"There are three elements that must be in place for there to be a subsidy: There has to be a payment to the farmer, the payment must be contingent on exports, and the payment must come from the government," he says.

"If any one of those elements is not in place, it is not a subsidy — and we have removed the last element."

It will, perhaps, be Core's last act as head of the Dairy Farmers of Canada to set in place its battle plan for what promises to be the most serious challenge to supply management since it was set up 35 years ago.

Unsure even about his own future as a farmer, Core has told both dairy groups he heads that he will leave his posts by the end of the year.

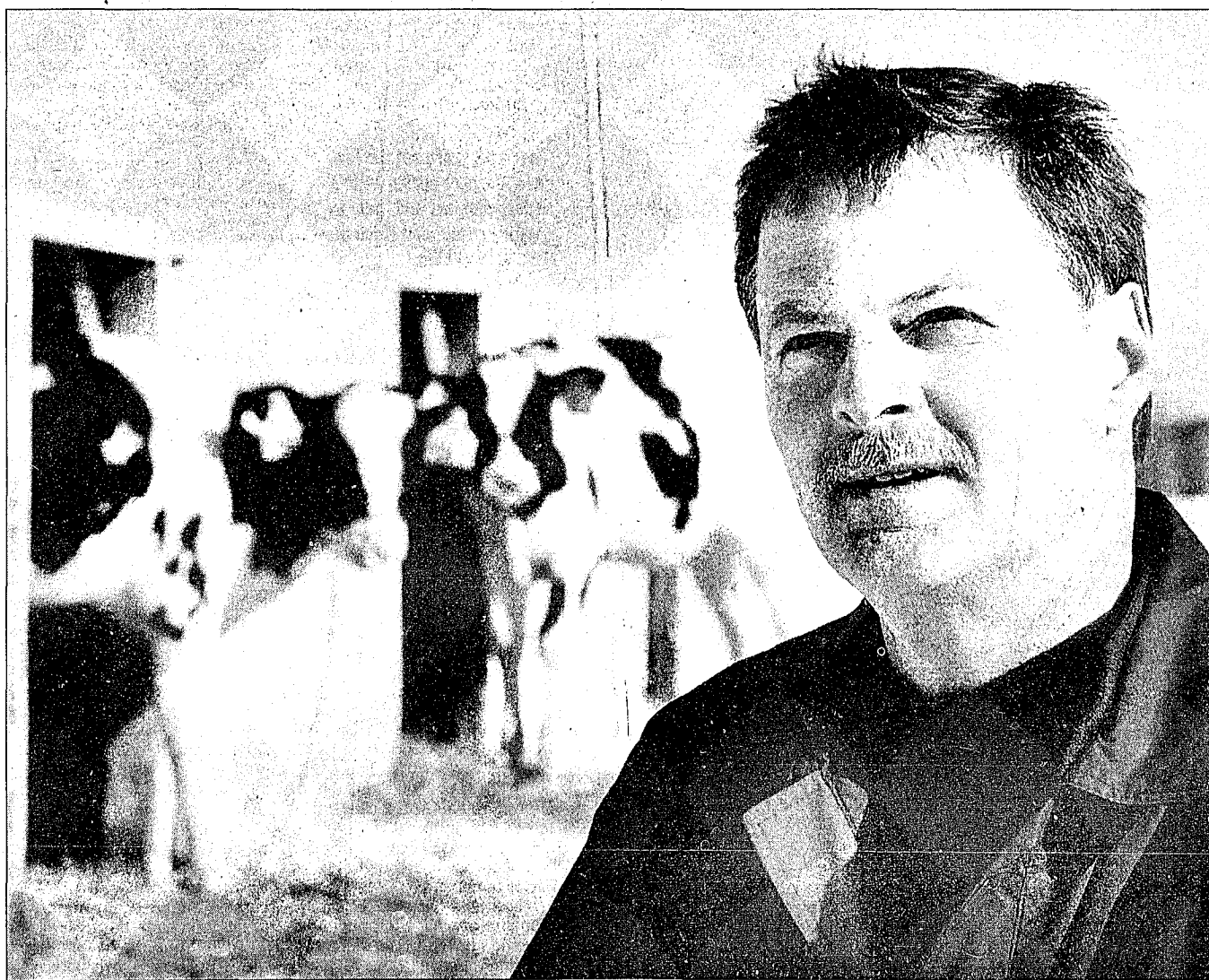
He'll spend his last few months in office getting the battle plan in place before handing the torch over to a new leader.

Core is proud of his work with the dairy boards, his only regret being that he and his brothers were not able to make farming a more attractive option for their own children.

When he and his brothers were young, they looked forward to a future of farming. Today, none of their children have inherited the dream.

"They look at us — the struggles, the bad knees — and they wonder whether it's really worth it," he says, watching his younger brother bend his aching knees into his pick-up truck after the morning's milking.

"Can't say I blame them."



TED ANDRUDE FOR THE TORONTO STAR

JOHN CORE: The president of the Dairy Farmers of Canada, and head of the Ontario milk marketing board, says he will probably sell the family dairy farm next year. "These days you've really got to want to farm to make a go of it," he says.