

The Elusiveness of the Embedded Liberal Compromise: An Evaluation of Canada's Supply
Management System and its Legality within the Global Trade Regime

by

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A thesis submitted in partial fulfillment of the requirements for the degree of

Master of Arts

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Abstract

The original compromise of embedded liberalism sought to balance the need for domestic social stability with the need to further liberalize trade through the removal of both tariff and non-tariff barriers. However, this raises the question on what qualifies as social stability? Is the constitutive understanding of ‘social stability’ that was established in the original compromise of embedded liberalism limited to only market stability? The purpose of this study is to utilize Canada’s supply management system as a tool to further understand what stability entails within the compromise of embedded liberalism. Many scholars have challenged the limited conception of social stability within the original compromise of embedded liberalism, noting that it is elusive and can be applied to circumstances that are beyond those of the original compromise. This study will examine the application of culture and cultural sovereignty to the compromise of embedded liberalism, utilizing the example of Canada’s supply management system. It will be argued that culture and cultural sovereignty can be applied to the compromise of embedded liberalism because the meaning of social stability within the compromise is tied directly to sovereignty. Whether a state aims to pursue market stability or cultural and industry protections, it has a sovereign right to pursue these initiatives and shield them from the effects of trade liberalization.

Preface

Chapter 4 of this thesis has been published as Conner Peta, “Canada’s Supply Management System and the Dairy Industry in the Era of Trade Liberalization: A Cultural Commodity?”, *American Review of Canadian Studies*, vol. 49, issue 4, 547-562. I was the sole author of this publication.

Acknowledgements

I would like to acknowledge and thank the following people who have either helped me in my journey to graduate school or helped me cross the finish line.

First, I owe a giant debt of gratitude to my fiancée Victoria for not only moving to Edmonton with me but for her support in moments of doubt and frustration. She was also a fantastic reviewer of my work and was never afraid to critique anything. Our cat Lola also deserves special thanks for always jumping on the desk or on me if I was writing for too long, forcing me to step away and re-evaluate what I wrote later.

Second, I would like to express my appreciation to the academic mentors I have had at both the University of Lethbridge and the University of Alberta. At the University of Lethbridge, both Dr. Chris Kuckucha and Dr. Alan Siaroff did a fantastic job at preparing students for graduate school and providing advice and guidance. At the University of Alberta, Dr. Jared Wesley and Dr. Judith Garber offered very rewarding courses in the first year of my program that helped me develop my thesis topic early. With regards to my thesis, I would like to thank both my supervisor, Dr. Greg Anderson, and Dr. Rob Aitken for their commitment to my thesis project, including meeting with me multiple times over the course of the last year to discuss ideas, propose readings and suggest revisions, and for even helping me get a chapter of my thesis published before I defended it.

Lastly, I would like to thank my family for always checking in on me in Edmonton and always taking an interest in my research.

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Introduction

The survival of Canada's supply management system, which protects Canadian dairy, poultry, and egg products, has been a major priority in Canadian foreign trade policy since the 1980s. Canada's supply management system involves the use of production controls placed on both fluid and industrial milk to ensure that domestic supply is equal to domestic demand, along with a pricing regime that is decided by provincial milk marketing boards based upon the Canadian Dairy Commission's (CDC) established support prices.¹ However, in order to support the domestic price regime, foreign dairy products must be kept out. Therefore, Canada's supply management system has survived utilizing restrictions on imports, with quantitative restrictions used to restrict imports prior to the 1990s and tariffs used to restrict imports since the 1990s.² During the 1980s, free trade with the United States (U.S.) emerged as a significant priority in Canadian politics, creating economic anxiety for many traditionally protective sectors in Canada, including Canadian cultural content, the Canadian automobile sector, and Canadian agriculture. Moreover, in the context of Canadian agriculture, the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) sought to reduce agricultural protectionism in the developed world, with a focus on removing non-tariff barriers such as quantitative restrictions, the method of protection which Canada's supply management system had initially utilized.

The protection of Canada's supply management system has also gained significant media attention over the last decade as Canada negotiated regional trade agreements with allies, including the Comprehensive Economic and Trade Agreement (CETA) with the European Union (EU), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

¹ Grace Skogstad, *Internationalization and Canadian Agriculture: Policy and Governing Paradigms* (Toronto Buffalo London: University of Toronto Press, 2008), 146.

² Ibid.

with Canada's pacific rim allies, and of course the renegotiated North American Free Trade Agreement (NAFTA), known as the United States- Mexico- Canada Agreement (USMCA). The USMCA negotiations generated significant media attention in Canada with regards to the dairy industry. This was due to the theatrics of the newly elected U.S. President Donald J. Trump. On Tuesday, April 18th, 2017, President Trump spoke to Wisconsin dairy farmers about his America First approach to trade. In his speech, the President called out Canada's dairy industry, noting that because of Canada, "some very unfair things have happened to our dairy farmers and others and we're going to start working on that" and that "NAFTA has been very, very bad for our country."³

Despite efforts to liberalize trade in agriculture in both the Uruguay Round of the GATT and with the rise of regional trade agreements, Canada's supply management system has remained relatively untouched, surrendering only minimal market access to trading partners. This has been primarily due to the efforts of the Canadian government in defending supply management and making its survival a priority in trade negotiations. Why is the defense of supply management a key trading priority? Kukucha noted that Canada's supply management system has emerged as a "sacred cow" in Canadian foreign trade policy due to its economic and political importance in Ontario and Quebec.⁴ Moreover, Skogstad noted, "[s]upply management has enjoyed the protective barrier of joint-decision federalism amid a perennial threat of Quebec separation", primarily due to "the result of swing rural votes in large provinces such as Ontario

³ The Canadian Press, "'What Happened?': Canadian Dairy Farmers Being 'Very Unfair' to U.S. Counterparts, Donald Trump Says |," *National Post*, 2017, <https://nationalpost.com/news/canada/what-happened-canadian-dairy-farmers-being-very-unfair-to-u-s-counterparts-trump-rails>.

⁴ Christopher J. Kukucha, "Federalism Matters: Evaluating the Impact of Sub-Federal Governments in Canadian and American Foreign Trade Policy," *Canadian Foreign Policy Journal* 21, no. 3 (2015), 228.

and Quebec, but also in large part a function of the organizational strength and coherence of the supply management lobby.”⁵

The strength of Canada’s supply management lobby, which for the purposes of this study will include groups such as the Dairy Farmers of Canada and the provincial marketing boards, have played a pivotal role in encouraging the Government of Canada to pursue the protection of supply management in the era of trade liberalization. The power of the dairy lobby relates to the significance of the dairy industry in Canadian federalism, with dairy lobbyist having large amounts of influence with Canadian politicians, especially in Quebec and Ontario. In fact, it has been reported in the Canadian media that Canada’s dairy farmers played an influential role in the 2017 Conservative Party of Canada leadership race, helping Andrew Scheer, a supporter of supply management, defeat Maxime Bernier, a critic of Canada’s supply management system.⁶ As interesting as the role and influence of Canada’s dairy farmers are in Canadian domestic politics, the power and influence of Canada’s dairy farmers towards the Government of Ontario, Quebec or Canada is outside the scope of this study. As a result, this study will avoid questions of Canadian elections, Canadian federalism, and provincial politics.

The point of this study will be to explore the legality of Canada’s supply management system within the international trading regime. However, domestic politics itself will not be ignored. Although this study will avoid questions of electoral politics and federalism, it will focus on the construction of norms and narratives that begin at a domestic level and then spread to the external actions of the state. The questions that this study will explore is twofold. First, how has dairy been constructed as a Canadian cultural commodity? In answering this question,

⁵ Skogstad, *Internationalization and Canadian Agriculture*, 143.

⁶ Andrew Coyne, “Tories Cry Foul as Maxime Bernier Spills the Beans, Er, Milk on Leadership Race | National Post,” *National Post*, 2018, <https://nationalpost.com/opinion/andrew-coyne-tories-cry-foul-as-maxime-bernier-spills-the-beans-er-milk-on-leadership-race>.

this study will employ a discourse analysis of the lobbying efforts of Canada's dairy industry. Second, is Canada's supply management system an example of embedded liberalism, or is it a distinct protectionist trade policy separate from attempts to liberalize trade and ensure social stability? In pursuing these questions, this study will explore the implications of culture and history, trade liberalization versus outright economic protectionism, and whether social stability, the main purpose of the embedded liberal compromise, encompasses the stability of the market overall or encompasses stability on a sector by sector basis.

In answering these questions, this study will be divided into five main chapters, four of which explore specific segments of the research question, and a fifth chapter which attempts to bring everything together. In Chapter One, "Ideas and Trade: Agriculture and Embedded Liberalism", the concept of embedded liberalism and the construction of narratives within trade policy will be explored in great detail. This chapter will begin with a discussion on the construction of narratives and culture within domestic society, and the affects this has on trade policy. This will involve exploring concepts such as the imagined economies and imagined communities framework. Next, this chapter will explore the meaning of Ruggie's famous concept of embedded liberalism and will challenge the notion that embedded liberalism has a fixed meaning. In challenging the fixed meaning of embedded liberalism, it will be argued that embedded liberalism is a product of the construction of norms and ideas at the domestic level with discursive practices that exist on the international level. This includes the role of culture and cultural significance in the construction of narratives domestically. Finally, after presenting the significance of the meaning of embedded liberalism, this chapter will conclude by using the Uruguay Round of the GATT as a case study of embedded liberalism, exploring the implications of agricultural subsidies and protection for the concept of embedded liberalism.

Chapter Two of this study, “History and the Construction of Narratives: A History of the Significance of Canada’s Dairy Industry”, will shift away from the grand debate on embedded liberalism and focus on the history of Canada’s dairy industry from industrialization to the establishment of supply management. The purpose of this chapter is twofold. Its secondary purpose is to provide an historical perspective on the events that led to Canada’s dairy system becoming a “closed system” of production. However, the primary purpose of this chapter is to use the historical context to provide an example of how the imagined economies framework and the construction of narratives domestically manifest through shared history and the presence of an existential threat. The point of this chapter will be to argue that the establishment of supply management was fueled by the desire dairy farmers felt to receive government assistance due to the economic significance of the industry during Confederation and in the subsequent decades. Moreover, this history is crucial because the narratives that were constructed by dairy farmers are still used today in their defence of supply management.

Chapter Three of this study, “Trade Liberalization and Canada’s Supply Management System”, will bring the first two chapters together by exploring how Canada’s supply management has survived during the era of trade liberalization. This will involve exploring how Canada’s supply management system was affected by both the Uruguay Round of the GATT and the Doha Round within the World Trade Organization (WTO), as well as the CETA, CPTPP, and USMCA. The purpose of this chapter is twofold. First, it provides a frame of reference for chapter four, outlining the trade agreements that have challenged and subsequently altered Canada’s supply management system. Second, this chapter contributes to the overall question of the thesis, whether supply management is an example of embedded liberalism, by examining the prospects for real structural reform towards trade liberalization in Canada’s dairy sector. This chapter will conclude by noting that the limited amount of liberalization granted so far in

previous agreements was the result of Canada's blind defence of supply management and was a necessary step to preserve the system. Therefore, any prospect for significant reforms towards liberalization in Canada's dairy sector remain unlikely for the foreseeable future.

Chapter Four of this study, "Domestic Politics and the Dairy Lobby: A Cultural Defence of Canada's Supply Management System", employs a discourse analysis on the public lobbying efforts of Canada's dairy farmers towards both government and the public. The main point of this chapter will be to explore how dairy farmers have weaponized the domestic narratives that were discussed in both chapter one and two. Moreover, the main purpose of this chapter will be to provide an answer to the first question posed by this study, how has dairy been constructed as a Canadian cultural commodity? This chapter will note that dairy farmers have framed their product as a Canadian cultural commodity in their lobbying efforts to both government and the public, and that this lobbying effort has depended upon the ability of dairy farmers to portray threats posed to their industry by U.S. and EU farmers as a threat to Canadian sovereignty. Moreover, by utilizing the narrative that the U.S. poses an existential threat to Canadian agriculture, dairy farmers are utilizing a standard defence in the history of Canadian cultural disputes, as threats posed by the U.S. have been used to protect Canadian cultural goods varying from audio-visuals and magazines to the Canadian Football League. Therefore, this chapter will conclude by noting that Canadian dairy producers will continue to utilize this narrative of cultural defence against the U.S. and other foreign countries for as long as trade liberalization poses a threat to Canada's dairy industry.

Chapter Five of this study, "Supply Management as an Embedded Liberal Compromise?", seeks to answer the overarching question of this study, is Canada's supply management system an example of embedded liberalism, or is it a distinct protectionist trade policy separate from attempts to liberalize trade and ensure social stability? In answering this

question, this chapter will flip the question around and explore what implications the example of Canada's supply management system (as well as other examples of protectionist agriculture measures) have on the principle of embedded liberalism itself. This will involve revisiting the debate in Chapter One on whether or not embedded liberalism is a fixed concept or a broad principle that can be applied to a number of different economic and political circumstances. In examining embedded liberalism through the lens of supply management, it becomes evident that the meaning of "social stability" within embedded liberalism is inherently protectionist and seeks to preserve and safeguard state sovereignty. This chapter will conclude by arguing that the answer to the question on whether Canada's supply management system is an example of embedded liberalism depends on how one envisions the principle of embedded liberalism. If embedded liberalism is envisioned as a broad principle that can be applied to scenarios beyond its original circumstances and the concept of 'social stability' can be adjusted to the political and economic concerns of a given time, then supply management is an example of the embedded liberal compromise. Moreover, if the embedded liberal compromise is meant to preserve and safeguard cultural narratives that have become entrenched within domestic societies, then supply management and other agricultural protectionist policies that emphasize cultural sovereignty and self-sufficiency are an exemplar of embedded liberalism.

Chapter 1: Ideas and Trade: Domestic Politics, Agriculture and Embedded Liberalism

Issues of international trade are typically viewed within the scope of economics. They involve the complicated formulas and numbers which make up the language of econometrics, thus making it inaccessible for large portions of the population. This epistemological method for understanding trade is important, but is incomplete, as the foundation for understanding the practicality of trade is rooted within the discipline of politics and law. However, even within the discipline of politics and law, issues of trade policy are not a science. This is especially true of trade politics, as responses to the implementation of free trade amongst countries are not always rational. Rather, responses to the implementation of trade policies involve a competition of narratives about trade that occur at both the domestic and international levels. The domestic level influences the international level when politicians identify reasons why trade is necessary, resulting in negotiations at the international level which represent a shared understanding of the values of trade between countries. However, the result of negotiations at the international level can also influence the expectations and responses of domestic societies, potentially fuelling panic and discontent with trade for both economic and cultural reasons, which will then subsequently affect how trade is perceived between countries at the international level.

This chapter will seek to provide an explanation of the social construction of trade policy at both the domestic and international levels. It will be argued that these two influence one another, and that the principle of embedded liberalism, represents the greatest attempt thus far to balance the chaos between the domestic and international spheres of trade. To begin, this chapter will discuss how trade narratives are constructed at the domestic level through collective narratives and cultural influence, and how this can affect the international system. Subsequently, this chapter will then explore the concept of embedded liberalism and will seek to answer the

question of whether embedded liberalism is a fixed concept, or if it is a broad principle that can be applied to scenarios beyond its original circumstance. Moreover, this chapter will conclude with the case study of agriculture, demonstrating that agriculture in the conclusion of the Uruguay Round represented a continuation of the embedded liberal compromise.

Domestic Politics and Trade Policy: The Construction of Narratives and Culture

The politics of international trade agreements raise a classical question within the discipline of international relations theory: what impact do domestic politics and individuals have in international affairs? This question can be traced back to Waltz' influential and definitive work *Man, the State, and War*, in which Waltz outlined the theoretical frameworks of the first image (individual), the second image (domestic structure of states), and the third image (the international system) in international relations. Waltz characterized the first and second image as being "incomplete", arguing that states do not just make up the content of the international system, but that the "international political environment has much to do with the ways in which states behave."⁷ Therefore, individual perceptions of international affairs that translate into action through the process of domestic politics cannot be considered independent from the structure of anarchy within the international system. This aligns with Gourevitch, who sought to reverse the second image in international relations by arguing that domestic politics are a consequence of the international system, rather than a cause.⁸

Gourevitch's argument implied that the structure of the international system constructs actors within the system.⁹ However, Gourevitch's argument relied on material factors, such as the

⁷ Kenneth Waltz, *Man, the State, and War: A Theoretical Analysis* (New York: Columbia University Press, 1959), 122.

⁸ Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization* 32, no. 04 (1978), 881.

⁹ Alexander Wendt, *Social Theory of International Politics* (Cambridge University Press, 1999), 26-27

distribution of military and economic power, that influence and constrain the choices available to domestic political actors.¹⁰ Therefore, both Waltz and Gourevitch's analysis assumed that domestic actors will respond reasonably to constraints placed upon them in the international system, constraints such as military and economic power that are objective facts, not open to interpretation. Constructivist theorists have challenged the notion that the structure of the international system alone can determine the state's interests. Wendt argued that "anarchy is what states make of it", which meant that the interest and identity of state actors cannot be determined from the anarchic structure of the international system alone.¹¹ Therefore, constructivist literature challenged the prevailing assumption that domestic actors lack agency in international relations.

Katzenstein noted that the issue with traditional theories such as realism and liberalism is the assumption that actors are viewed as "preprogrammed torpedoes with fixed identities."¹² Viewing state actions through this lens creates the impression that all states react in the same way to the same scenarios. It treats history as a variable that can be simplified and reduced to the anarchic structure of the international system.¹³ Constructivists are not interested in simplified explanations and seek to challenge assumptions based on common knowledge.¹⁴ Additionally, constructivist scholarship is concerned with the role of ideas and identity, and how these notions challenge traditional understandings of international relations. Hopf's study on the Soviet Union

¹⁰ Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," 883.

¹¹ Alexander Wendt, "Anarchy Is What States Make of It: The Social Construction of Power Politics," *International Organization* 46, no. 2 (1992): 424.

¹² Peter J. Katzenstein, *Cultural Norms and National Security: Police and Military in Postwar Japan* (New York: Cornell University Press, 1996), 204.

¹³ Katzenstein, *Cultural Norms and National Security: Police and Military in Postwar Japan*, 204.

¹⁴ Rawi Abdelal, "Constructivism as an Approach to International Political Economy," *Routledge Handbook of International Political Economy (IPE)*, no. 10473 (2009), 71.

and post-Soviet Russia explored the construction of the identity of the state in relation to both its domestic society and its interactions with other states.¹⁵ This requires not only studying the identities constructed through interaction with other states such as war or trade but also exploring how these identities are constructed through interactions within the state's own society.¹⁶ Therefore, individual interactions within a domestic society, such as lobbying, political discourse, and electoral politics are significant factors in creating a state identity that can then respond to events within the international system.

Individuals conceptualize the international economy, and their conceptions of the economy can be constructed to achieve political ends. Therefore, it is necessary to look at previous scholarship concerning the construction of the economy. For instance, in a study on regionalism in Russia, Herrera examined regional movements that were motivated to pursue greater sovereignty through economic demands and sought to answer the question: how could similar economic conditions produce different economic interests?¹⁷ Herrera noted that "like the nation, the economy is an imagined entity based on data that are subject to historical experience, institutional context, and local interpretation."¹⁸ In utilizing schema theory, a challenge to objectivity that explains how individuals view the world through the lens of their experience, Herrera combined nationalist literature with constructivist political economy, to create the 'imagined economies' framework.¹⁹ The imagined economies framework established three

¹⁵ Ted Hopf, *Social Construction of International Politics: Identities & Foreign Policies, Moscow, 1955 and 1999* (Ithaca: Cornell University Press, 2002).

¹⁶ *Ibid*, 294.

¹⁷ Yoshiko M. Herrera, *Imagined Economies : The Sources of Russian Regionalism* (Cambridge University Press, 2005), 58.

¹⁸ Yoshiko M. Herrera, "Imagined Economies: Constructivists Political Economy, Nationalism, and Economic-Based Sovereignty Movements in Russia," in *Constructing the International Economy*, ed. Rawi Abdelal, Mark Blyth, and Craig Parsons (Ithaca and London: Cornell University Press, 2010), 119.

¹⁹ Herrera, *Imagined Economies : The Sources of Russian Regionalism*, 94.

things: first, “economic structural variables alone do not determine economic interest”; second, “economic facts are subject to multiple understandings; and third, “interest and external conditions are mutually constituting.”²⁰ Herrera’s argument aligns with Katzenstein’s because they both agree that actors’ preferences are not pre-determined because the “economic facts” that make up the structure are not objective but subjective and are therefore open to multiple understandings.

Herrera’s imagined economies framework provides an excellent method for understanding how regional movements for greater economic sovereignty are constructed. However, it is also a useful framework for understanding public opinion with regards to trade policy. Historically, policy issues regarding free trade agreements have traditionally been inaccessible to the public. Park and Stangarone argued that “issues on trade were never presented in a fully comprehensible way to the U.S. public, due to the technicality of trade dynamics, the use of jargon by trade experts and asymmetrical access to information.”²¹ Therefore, it is necessary to construct a narrative about trade that will appeal to the public. Skonieczny argued that trade politics represents a “clash of narratives where actors construct stories about worthy and unworthy partners, good and bad ideas about the economy, blame and praise for past economic actions, and better or worse paths for a prosperous future.”²² Narratives are created when trade becomes constructed as a story, so as to become more “interesting and accessible” to the public.²³ One negative impact of this is how trade can become tied into xenophobic narratives that encourage the “us vs. them” mentality. As Freund noted, “It is a simple story: Foreigners

²⁰ Ibid., 95.

²¹ June Park and Troy Stangarone, “Trump’s America First Policy in Global and Historical Perspectives: Implications for US-East Asian Trade,” *Asian Perspective* 43 (2019), 3-4.

²² Amy Skonieczny, “Trading with the Enemy: Narrative, Identity and US Trade Politics,” *Review of International Political Economy* 25, no. 4 (2018), 442.

²³ Ibid.

and their flood of goods are the economic problem, foreigners and their conflicts are the political problem.”²⁴ However, what makes these narratives appealing is the fact that they are based on ideas that the target group may already hold. This is evident in the construction of narratives about free trade negotiations with ‘enemy’ countries, as the pro-trade narratives are limited because of the pre-existing beliefs regarding those countries.²⁵ Therefore, domestic support for international trade can be based upon several different factors, such as perceptions regarding the partner country or the perceived winners and losers of the trade deal, all of which are subject to individual perceptions based on both external conditions and lived experience.

The construction of narratives about trade depends largely on a subjective understanding of the subject. That is why Herrera’s imagined economies framework is crucial because it explains how individuals filter objective facts through their own lived experience, thus making their interpretation of the so-called ‘objective’ information (such as a trade deal) socially constructed. However, individuals’ perceptions can only become a transformational force when they are mobilized and become a ‘cultural’ identity. This mobilization usually happens due to the establishment of a shared narrative amongst the group. For example, Pratt noted that the shared narrative of class movements “are oriented towards a future which is either a continuation of current processes or a transformative revolution” and “are directed ‘inwards’; they are about unity and solidarity.”²⁶ Moreover, Pratt noted that creating a shared narrative is only the first step and that once a narrative is created it must be put back “within the social context” through the establishment of “imagined communities”.²⁷ The establishment of “imagined” communities

²⁴ Caroline Freund, “Anti-Globalization or Xenophobia?,” Peterson Institute for International Economics, 2016.

²⁵ Skonieczny, “Trading with the Enemy”, 442.

²⁶ Jeff C. Pratt, *Class, Nation and Identity: The Anthropology of Political Movement* (London and Sterling, Virginia: Pluto Press, 2003), 184.

²⁷ *Ibid*, 185.

represents the creation of cultural identity. Culture, according to Friedman, is “a product of stabilizing properties in social reproduction itself, tendencies to the production of similar kinds of experience of the social world or worlds, to the production of similar frameworks of interpretation of the world and similar structures of desire and motivation.”²⁸ Therefore, the construction of trade politics requires trade policy to be reduced to “cultural” narratives that appeal to people's local understandings of the economy and their social situation.

If the imagined economies framework and the construction of cultural identity represents how trade is constructed domestically, then how does trade become constructed in the international arena? To be more specific, if Hopf is correct that the construction of state identity involves both the construction of narratives within domestic society, relating to Herrera’s concept of the imagined economy, and in its interactions with other states, then how does the interaction between states affect perceptions of the global economy? Moreover, is there a shared narrative or social purpose that constitutes how individual states deal with one another in the global economy? The next section of this chapter will argue that the principle of embedded liberalism represents a shared narrative in the legitimacy of domestic constraints on trade liberalization amongst countries in the international system. In arguing this, this section will highlight the debate amongst scholars as to what embedded liberalism means, how states protect national and local cultural identity from the threat posed by trade liberalization, as well as the weaknesses and challenges to embedded liberalism.

The Compromise of Embedded Liberalism: What does it mean?

Embedded liberalism is tied to the concept of liberalism and regime theory in international political economy. Liberal institutionalism and regime theory both claim that

²⁸ Jonathan. Friedman, *Cultural Identity and Global Process* (Sage Publications, 1994), 76.

institutions and regimes can be employed to manage anarchy and promote communication and cooperation within the international system. Keohane noted that “a major function of international regimes is to facilitate the making of mutually beneficial agreements among governments” in order to prevent conflict within the international system.²⁹ Additionally, regimes are valuable in situations in which *ad hoc* action would have an inferior result.³⁰ Hoffman concluded that “[t]he most international organizations can do is to provide restraints on the superpowers....”³¹ Hoffman’s interpretation of the effectiveness of international organizations was based on power. Gruber noted that the effectiveness of institutions is dependent upon the ability to reduce the ‘losers’ destructive ambitions.³² Therefore, the effectiveness of international regimes and institutions that facilitate cooperation is based on the ability to restrain power. Concerning the contemporary trade regime, Keohane noted that “trade regimes do not create harmony, but they do facilitate cooperation by reducing transaction costs, limiting the legitimate strategies available to actors, and providing information in a relatively symmetrical fashion.”³³ Moreover, trade regimes “reduce uncertainty and risk.”³⁴ Trade regimes can facilitate cooperation between states and can restrain power, but the main challenge to trade regimes is not how they facilitate cooperation between states per se, but rather how states within the regime can balance the need to cooperate internationally with their responsibilities domestically.

²⁹ Robert O. Keohane, “The Demand for International Regimes,” *International Organization* 36, no. 2 (1982), 332.

³⁰ *Ibid.*, 334.

³¹ Stanley Hoffmann, “The Role of International Organization: Limits and Possibilities,” *International Organization* 10, no. 3 (1956), 372.

³² Lloyd Gruber, “Power Politics and the Institutionalization of International Relations,” in *Power in Global Governance*, ed. Michael Barnett and Raymond Duvall (Cambridge University Press, 2005), 103.

³³ Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, New Jersey: Princeton University Press, 1984), 214.

³⁴ *Ibid.*

Throughout the history of trade, there have been attempts to find a delicate balance between trade liberalization and economic protectionism. No historical example highlights this struggle more than the 19th and 20th centuries, where the expansion of laissez-faire economics in the late 19th century laid the foundations for the economic nationalism of the early 20th century. Polanyi described the implementation of the self-regulating market in the late 19th century as “nothing less than the institutional separation of society into an economic and a political sphere.”³⁵ Essentially, the economy was separated from social purposes, such as ensuring a good quality of life for citizens of the state. Ruggie concluded this by noting:

In sum, this shift in what we might call the balance between "authority" and "market" fundamentally transformed state-society relations, by redefining the legitimate social purpose in the pursuit of which state power was expected to be employed in the domestic economy. The role of the state became to institute and safeguard the self-regulating market.³⁶

Polanyi concluded that this was not sustainable, noting that allowing “the market mechanism to be sole director of the fate of human beings and their natural environment indeed, even of the amount and use of purchasing power, would result in the demolition of society.”³⁷ Moreover, Keynes noted in regards to laissez-faire economics that “it is not a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest.”³⁸ In order to pursue policies that aligned with the public interest, Keynes proposed that the unit of control and organization lies “somewhere between the individual and the modern state.”³⁹

³⁵ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon, 1944), 74. www.beacon.org.

³⁶ John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36, no. 2 (1982), 386.

³⁷ Polanyi, *The Great Transformation*, 76.

³⁸ John Maynard Keynes, *The End of Laissez-Faire* (London: The Hograth Press, 1926), 39.

³⁹ *Ibid*, 41.

Although not resulting in the “demolition of society”, the self-regulating market did not survive past World War I and the subsequent Great Depression of the 1930s. Rather, what resulted from this was an economic nationalism that was exemplified by policies such as the Smoot-Hawley tariffs in the United States, which Irwin noted: "will forever be associated with an outbreak of worldwide protectionism, the collapse of world trade, and the onset of the Great Depression."⁴⁰

As Irwin noted, the economic protectionism of the inter-war period led to the collapse of the global trading system. The results were devastating, and following World War II, world leaders came together to address this concern. However, world leaders had to find a way to balance the negative effects of the economic nationalism of the 1930s with the negative effects of the self-regulating laissez-faire system that created the foundation for this problem. This balance was achieved in the embedded liberal compromise that became the embodiment of the post-war reconstruction of the international economy. The embedded liberal compromise was a way to maneuver between the two extremes of the 19th and 20th centuries, a framework that would create domestic stability without having to resort to destructive forms of economic nationalism. Moreover, as Keynes advocated, it was a way to balance control between individual private interest which sought liberalization and states interest which sought order and stability. According to Ruggie, this system would be different because “unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism.”⁴¹

Ford noted that the original compromise of embedded liberalism in the form of the welfare state was limited to developed countries, creating a separate identity for developing

⁴⁰ Douglas A Irwin, “The Smoot-Hawley Tariff: A Quantitative Assessment,” *The Review of Economics and Statistics* 80, no. 2 (1998), 326.

⁴¹ Ruggie, "International Regimes, Transactions, and Change", 393.

countries as the “protectionist Other”, leaving them out of the regime and limiting the multilateralism of the embedded liberal compromise.⁴² This identity of the “protectionist Other” relates to Hopf’s argument (discussed in the previous section) regarding the construction of the identity of the state in relation to both its domestic society and its interactions with other states. This conflict was exasperated by the challenges of the 1970s, which included the abandonment of the gold standard and issues of stagflation. Moreover, Lewis noted that this period also included “increased measures to restrain trade that went beyond those explicitly permitted by GATT Articles XII and XIX.”⁴³ Essentially, developed countries such as the United States began taking unilateral action that abandoned the multilateral principles of the GATT and the embedded liberal compromise. This dilemma encompassed the Tokyo Round of the GATT. It encompassed the Tokyo Round because the “economic turmoil of the 1970s helped to erode political support for the normative priorities of embedded liberalism, both within the trade regime and more broadly in the domestic politics of its Contracting Parties”, resulting in the Tokyo Round being an “a compromise between those seeking to reshape the regime in accordance with the newly invigorated ideas of economic liberalism, and those who sought to maintain its normative foundations closer to its original post-war form.”⁴⁴

If the Tokyo Round of the GATT represented a compromise between economic liberalism and the normative foundations of embedded liberalism, then the subsequent Uruguay Round represented an outright revolt against the compromise of embedded liberalism. This is

⁴² Jane Ford, “A Social Theory of Trade Regime Change: GATT to WTO,” *International Studies Review* 4, no. 3 (2002), 124-125.

⁴³ Meredith Kolsky Lewis, “The Embedded Liberalism Compromise in the Making of the GATT and Uruguay Round Agreements,” in *The Future of International Economic Integration: The Embedded Liberalism Compromise Revisited*, ed. Gillian Moon and Lisa Toohey (Cambridge University Press, 2018), 19.

⁴⁴ Andrew Lang, *World Trade Law after Neoliberalism: Reimagining the Global Economic Order* (Oxford University Press, 2011), 222.

because the domestic supports that were exempted during the Tokyo Round were viewed as only providing benefits for developed states. Developing states witnessed developed countries, such as the United States and the economic powerhouses of Europe, creating a set of protectionist rules that only applied to themselves. Therefore, viewing this system through the scope of the limitations within their own domestic societies and the unfair exemptions made for developed countries, the “protectionist Others” became the champions of trade liberalization during the Uruguay Round of the GATT, forcing developed countries to address some of their protectionist policies (especially agriculture, which will be covered in the next section).⁴⁵ As a result of this, Ford argued that the Uruguay Round created a form of “disembedded” liberalism, in the sense that “the new regime reflected the primary state concern with instituting a competitive or self-regulating market.”⁴⁶ However, Ford also noted that both the “developed and developing countries began to adopt neoliberal norms and legalism as the basis for their trade interactions”, thus making the regime more multilateral.⁴⁷ The effects of this “disembedded” liberalism will be discussed in the next section on agriculture. However, Ford’s argument highlighted one fundamental weakness with the original compromise of embedded liberalism, which was its limited scope in only addressing social stability within developed countries.

Since the establishment of the GATT, the embedded liberal compromise has undergone many challenges and has been viewed as both a tool for protectionism and trade liberalization. But what is the embedded liberal compromise? Is it a fixed concept, or is it a broad principle that takes on different meanings in different situations? The move away from Keynesian economic policies in the 1980s and the emergence of Reaganism and Thatcherism threatened the compromise of embedded liberalism due to the desire to pursue market-oriented solutions.

⁴⁵ Ford, "A Social Theory of Trade Regime Change: GATT to WTO," 116.

⁴⁶ Ibid, 117.

⁴⁷ Ibid.

However, despite the reemergence of laissez-faire economics, Ruggie argued in 1982 that embedded liberal compromise was very much intact because it would “endure as a central institutional feature of the international order” as long as economic theory and social policy remained tied together.⁴⁸ Therefore, this created the implication that the compromise of embedded liberalism did not have to remain tied to its original pre-1970s form, because the compromise of embedded liberalism remained in all future policies that tied economic theory to social policy. This application has resulted in many scholars stretching Ruggie’s compromise of embedded liberalism to modern day policy issues regarding trade liberalization and social policy outside of the original context of embedded liberalism. For example, Hays, Ehrlich, and Peinhardt argue that countries can use the embedded liberal compromise to directly compensate the losers of trade. They noted that the “bargain of embedded liberalism is alive and well even in countries where we might not expect to find it”.⁴⁹ An example of where we might not expect it was when administration of President George W. Bush and free trade supporters in the US Congress bought off opposition to Trade Promotion Authority by increasing trade adjustment insurance and providing wage insurance for workers displaced by trade.⁵⁰

Contemporary concerns about how to manage the distributional and negative consequences of trade liberalization politically are part-in-parcel of the Doha Round and central to understanding the lack of progress in those negotiations. With regards to managing the distributional and negative effects of trade liberalization, Lewis argued that this debate over the application of the compromise of embedded liberalism is not the main point. Regardless of

⁴⁸ Ruggie, “International Regimes , Transactions , and Change”, 415; Lewis, “The Embedded Liberalism Compromise in the Making of the GATT and Uruguay Round Agreements”, 20.

⁴⁹ Jude C Hays, Sean D Ehrlich, and Clint Peinhardt, “Government Spending and Public Support for Trade in the OECD: An Empirical Test of the Embedded Liberalism Thesis,” *International Organization* 59, no. 2 (2005), 491.

⁵⁰ Ibid.

whether or not it is labelled as an example of compromise of embedded liberalism, Lewis argued that “it is clear that international trade negotiations have continued to include provisions that are not aimed at market access but, rather, at other priorities.”⁵¹ These “other priorities” can encompass economic stability in the spirit of Keynes, or they can concern non-trade-enhancing provisions that go beyond the concerns of Keynes⁵², such as cultural protection.

The original compromise of embedded liberalism that Keynes was concerned with envisioned economic sovereignty as the means to social stability. Economic sovereignty was effective because “the nation-states had effective authority over their economies, major political choices could be made at the national level, and national governments could be held accountable through democratic processes.”⁵³ However, can embedded liberalism encompass other forms of sovereignty rather than just economic sovereignty? If domestic societies were only concerned with economics, then governments could just buy off industries through trade adjustment assistance rather than taking concrete measures to preserve industries. Domestic societies are also concerned with culture, history, livelihoods, and the dignity that workers and citizens derive from their way of life. Cultural sovereignty is important for domestic societies. Lewis noted referring to non-trade-enhancing provisions that “in some instances, such provisions may be in the spirit of the policies pursued in the post-war Bretton Woods era and should perhaps be seen as a continuation of the original Embedded Liberalism Compromise.”⁵⁴ But what about cultural

⁵¹ Lewis, “The Embedded Liberalism Compromise in the Making of the GATT and Uruguay Round Agreements”, 21.

⁵² Ibid.

⁵³ R. B. Bilder and D. M. Trubek, “Book Review of J. S. Nye Jr. and J. D. Donahue (Eds.), *Governance in a Globalizing World* (Brookings, 2000),” *American Journal of International Law* 96 (2002), 749.

⁵⁴ Lewis, “The Embedded Liberalism Compromise in the Making of the GATT and Uruguay Round Agreements”, 21.

sovereignty? Is the compromise of embedded liberalism only about preserving economic sovereignty? Or does it encompass sovereignty in its entirety, including cultural sovereignty?

Lang noted that the trade regime is both a product of "evolving ideas and social values" at the domestic level and the "discursive practices" that exist on the international level.⁵⁵ The notion of social protection or social stability is not a fixed concept, but something that is determined within domestic societies. As Lang noted, "the notion of 'social protection' itself, central to defining embedded liberalism, rests on particular ideas about who is in need of protection, who bears the responsibility of protection and what kinds of risks are worthy of protection."⁵⁶ Currently, the compromise of embedded liberalism tends to answer the question of social stability through a single-nation lens. According to Blackett, "distributive justice concerns have to be thought of in terms that exceed the limited confines of a single "nation state" on which discussions of embedded liberalism tend to be based."⁵⁷ Social stability, whether it is viewed from the lens of a single nation or transcends the single nation view, is a fluid concept linked to constitutive ideas and not confined to the definitional requirements of Ruggie's pre-1970 embedded liberal compromise.

The Compromise of Embedded Liberalism and Culture

Even Ruggie recognized that social stability is a fluid concept linked to constitutive ideas, and not fixed concept. According to Abdelal and Ruggie, social stability "is the need to legitimize international markets by reconciling them to social values and shared institutional

⁵⁵ Lang, "Reconstructing Embedded Liberalism: John Gerard Ruggie and Constructivist Approaches to the Study of the International Trade Regime", 39.

⁵⁶ Ibid, 29.

⁵⁷ A. Blackett, "Toward Social Regionalism in the Americas," *Comparative Labor Law and Policy Journal* 23, no. 4 (2002), 911-912.

practices.”⁵⁸ However, the question that arises is whether social stability encompasses the disruption of social and cultural values through the implementation of trade liberalization? This relates specifically to sensitive sectors of trade where an “imagined community” has been created with regards to the production and consumption of a particular commodity. Cultural goods and services, such as audiovisual media are similar to agriculture because both appeal to a local identity of production and consumption that exemplifies the principle of social stability. The establishment of the Convention on the Protection and Promotion of the Diversity of Cultural Expression by the United Nations Educational, Scientific and Cultural Organization (UNESCO) by a 148-2 vote (with 4 abstentions and the United States voting against it) signifies the importance of cultural preservation for many states. As Goff noted, “the convention affirmed governments’ sovereign right to make cultural policy” because “cultural activities, goods and services have both an economic and a cultural nature, because they convey identities, values and meanings, and must therefore not be treated as solely having commercial value.”⁵⁹ Moreover, the hope with this agreement was to provide a “counterweight to trade agreements that seek to liberalize trade” by providing a legitimate justification for cultural protections for the purpose of social stability.⁶⁰ However, that did not happen, as the convention did not have the power to override existing treaties and laws.⁶¹ Regardless, the Convention on the Protection and Promotion of the Diversity of Cultural Expression represented a normative attempt to bring cultural sensitivities into the framework of the embedded liberal compromise.

⁵⁸ Rawi Abdelal and John Gerard Ruggie, “The Principles of Embedded Liberalism: Social Legitimacy and Global Capitalism,” in *New Perspectives on Regulation*, ed. D. Moss and Cisternino J. (Cambridge: The Tobin Project, 2009), 151-153.

⁵⁹ Patricia M. Goff, “Canada’s Cultural Exemption,” *International Journal of Cultural Policy* 25, no. 5 (2019), 556.

⁶⁰ Ibid.

⁶¹ Ibid.

The incorporation or expansion of culture into the framework of social stability and the embedded liberal compromise raises a question of practicality and concern: how to ensure that culture rights are protected within the international trade regime without encouraging excessive practices of protectionism? According to Sucker, “[c]ultural policy measures represent an interesting illustration of the Embedded Liberalism Compromise, and it is arguable whether or not there is sufficient policy space and regulatory scope for Members to minimize disruptions to the diversity of cultural expressions and not to isolate national cultures from foreign influences.”⁶² Sucker raises the question of whether embedded liberal compromise can accommodate cultural exemptions without resulting in economic protectionism? This question is tied to the relationship between cultural policy and stability, and the extent to which trade liberalization creates social disruption within domestic society. This is a question that can only be answered on a sector-by-sector basis.

There may be specific sectors that are so sensitive to the social cohesion of a society that trade liberalization would result in social disruption, but who decides that? The decisions on cultural exemptions on trade can only be legitimized in a multilateral forum. A state may wish to protect a specific sector due to cultural concerns, but it can only become a reality once that form of protection is legitimized in the international trade arena. Therefore, cultural concerns are a prime example of the compromise of embedded liberalism. Moreover, the compromise of embedded liberalism can continue to adapt to changing economic and political circumstances of a given time. To demonstrate this, the next section of this chapter will highlight the case study of agriculture during the Uruguay Round of the GATT. It will be argued that agriculture is a key

⁶² Franziska Sucker, “The Embedded Liberalism Compromise and Cultural Policy Measures Maintaining Cultural Diversity alongside WTO Law,” in *The Future of International Economic Integration: The Embedded Liberalism Compromise Revisited*, ed. Gillian Moon and Lisa Toohey (Cambridge University Press, 2019), 221.

example of the compromise of embedded liberalism due to its political sensitivity, which is tied to its cultural significance. In addition, this section will also highlight debates between scholars on the meaning of the embedded liberal compromise with regards to agriculture and will argue that the case study of agriculture in the Uruguay Round represents a continuation of the compromise of embedded liberalism.

Agriculture, Culture, & the Uruguay Round: Extending the Compromise of Embedded Liberalism

The sensitivity of agriculture in international trade negotiations is tied to its status as a cultural commodity for specific nations and sectors within nations. According to Broude, the “centrality of food in our human lives far transcends the primary physical context of nourishment, and easily takes on additional cultural or quasi-cultural dimensions.”⁶³ These cultural dimensions are best exemplified by the use of geographical indicators. Moran noted that geographical indicators “are much more than the identification of a product with a place”, they are “a type of intellectual property, that is attached to territory, they are a means for the social and industrial groups with rights to them to protect and distinguish their products.”⁶⁴ A key example of the use of geographical indicators in international trade is French wine. Ray argued that “French wine became dependant upon inter-regional and international trade which led to a collaboration between the local and state levels to protect the economic interests of producers and localities.”⁶⁵ Geographical indicators became the best way to embed the cultural significance of the product into commercial sales through trade, and the collaboration between the local and

⁶³ Tomer Broude, “Taking ‘Trade and Culture’ Seriously: Geographical Indications and Cultural Protection in WTO Law,” *University of Pennsylvania Journal of International Economic Law* 26, no. 4 (2005), 642,

⁶⁴ Warren Moran, “Rural Space as Intellectual Property,” *Political Geography* 12, no. 3 (1993), 264.

⁶⁵ Christopher Ray, “Culture, Intellectual Property and Territorial Rural Development,” *Sociologia Ruralis* 38, no. 1 (1998), 10.

state levels to protect the economic interests of the producers represents an attempt to utilize the compromise of embedded liberalism to maintain an advantage within the wine sector. It is an attempt to ensure social stability within the local economy and to combat the effects of trade liberalization by invoking both national and cultural protection of wine products. Moreover, the use of geographical indicators in international trade do not only protect domestic industries of production but are also intended to ensure “the preservation of cultures of consumption, not just production.”⁶⁶ A culture of consumption can be represented by both a domestic society for which the product is intended or a diaspora community, such as a French citizen living abroad or somebody who just likes French wine.

However, more sensitivity arises when it is a product produced domestically that is intended for domestic consumption. Broude noted that problems may arise in scenarios where local types of food, which concern food that is produced for consumption by the “producer themselves” and the “immediate communities”, are exposed to “cheaper, better, non-local alternatives”, resulting in “terroir-minded defense for unabashed pro-local consumption traditions” because of the culture of consuming locally.⁶⁷ This raises the question on whether French wine actually has cultural value, or if appeals to culture are a pure commercial form of protectionism? Regardless of whether a product has any actual empirically proven cultural value, the “terroir-minded” defense of pro-local consumption traditions invokes culture, nationalism, and sovereignty as a means to shield against the negative effects of trade liberalization or open competition within the market. Therefore, even if it is a culturally disguised form of commercial protectionism, the fact that the argument has gained merit speaks to the power of cultural appeals. Moreover, if the compromise of embedded liberalism is to be extended to cultural

⁶⁶ Broude, “Taking ‘Trade and Culture’ Seriously”, 656.

⁶⁷ Ibid.

sovereignty, then a state reserves the right to implement policies that encourage and support local cultures of production and consumption, including measures that assist local products commercially. This right can extend to the right to impose geographical indicators to highlight local production.

Geographical indicators, along with other forms of non-tariff barriers to trade in agriculture, represent an attempt by states to use the compromise of embedded liberalism to protect the economic and cultural significance of their domestic agriculture industries. Before the Uruguay Round of the GATT, agricultural subsidies and trade protection in agriculture had been relatively untouched in trade negotiations. This was due to the political sensitivity of agriculture and the fact that agricultural subsidies were perceived as a practice that every country participated in.⁶⁸ GATT rounds before the Uruguay Round took an ‘al la carte’ approach to trade, allowing countries to “pick and choose their commitments with respect to the Rounds’ negotiating outcomes.”⁶⁹ In contrast, the Uruguay Round was a single undertaking, meaning that “nothing is agreed until everything is agreed.”⁷⁰ This requires asking the question: why was the Uruguay Round different from previous rounds? Two factors changed this. First, as previously stated, developing countries began to perceive the exemptions of the embedded liberal compromise, such as agricultural subsidies, as unfair trading practices that only benefited the developed nations of the world. The conflict between both the developed and developing countries subsequently resulted in Argentina, Brazil, Chile, Colombia, Peru, and Uruguay refusing to accept any agreement that excluded agriculture in the Montreal Mid-Term Review in

⁶⁸ William D Coleman and Grace Skogstad, “Neo-Liberalism, Policy Networks, and Policy Change: Agricultural Policy Reform in Australia and Canada,” *Australian Journal of Political Science* 30, no. 2 (1995), 61.

⁶⁹ Lewis, “The Embedded Liberalism Compromise in the Making of the GATT and Uruguay Round Agreements”, 23.

⁷⁰ Ibid.

1988.⁷¹ Thereby challenging the established norm that agricultural protectionism was a legitimate practice in the international arena.

Second, conflict emerged between the United States and the Europeans. Before the Tokyo Round of the GATT, the United States perceived itself as a free trader in agriculture but perceived the EU's Common Agricultural Policy Program (CAP) as a protectionist system that was limiting its access to the European market.⁷² Therefore, the United States' desire to export its agricultural products to new markets also disrupted the established norm that agricultural protectionism was a legitimate practice in the international arena. However, the failure of the Tokyo Round to address agriculture created the preconditions necessary for the beginning of a trade war in the 1980s. The spark for war was ignited when the United States filed six complaints against the EU between December 1981 and July 1982, resulting in EU countermeasures that launched the farm wars of the 1980s.⁷³ Therefore, the Uruguay Round was utilized as a tool to both end the trade war between the United States and the EU, and to appease the developing countries of the GATT by ending the unfair trading practices of the developed countries.

The Uruguay Round resulted in the establishment of the World Trade Organization (WTO) and the subsequent WTO Agreement on Agriculture in 1994. However, the question amongst scholars is whether or not this new system continued to advance the compromise of embedded liberalism, especially since it sought to liberalize agriculture, the remaining sacred relic of the Bretton Woods system. Wolfe has argued that the WTO Agreement on Agriculture does reflect the compromise of embedded liberalism. Wolfe noted that:

⁷¹ Ford, "A Social Theory of Trade Regime Change: GATT to WTO", 128.

⁷² Robert Wolfe, *Farm Wars: The Political Economy of Agriculture and the International Trade Regime* (Kingston: Macmillan Press, 1998), 62.

⁷³ *Ibid*, 63.

The first objective of the Round was ending the war, and the second was creating the basis for future stability. These objectives required three things: a reduction of export subsidies, new rules, and a mechanism for future negotiations. Liberalization was an objective only to the extent that it was a necessary tool of the central objectives.⁷⁴

Stability, one of the main components of the embedded liberal compromise, was one of the two primary goals of the Uruguay Round according to Wolfe. Does the quest for stability, whether it be domestic stability or international stability, balanced with the desire to liberalize trade qualify the Uruguay Round as an extension of the compromise of embedded liberalism?

To understand if the Uruguay Round encompasses the compromise of embedded liberalism, one must ask whether the Uruguay Round represented an intersubjective understanding amongst states? Lewis challenged Wolfe's application of embedded liberalism to the Uruguay Round, noting that:

...the Agriculture Agreement arguably reflects a balance between trade liberalisation and domestic policy space, the space being preserved was not necessarily related to prioritising full employment, and different cohorts of negotiating countries would have preferred less, more or different types of policy space.... This seems more like a rationale based in domestic policy rather than multilateral consensus. Even Ruggie himself seems to apply his concept in more expansive terms in his later writings, referring to non-trade values such as 'social community' rather than focusing on full employment.⁷⁵

Wolfe attributed the Agriculture Agreement to the embedded liberal compromise because it sought market stability and granted states the domestic policy space to achieve these directives. Lewis agreed that the Agriculture Agreement embodied the compromise of embedded liberalism because it balanced domestic policy space with trade liberalization. However, Lewis disputed that the domestic policy space was limited to ensuring market

⁷⁴ Wolfe, *Farm Wars: The Political Economy of Agriculture and the International Trade Regime*, 144.

⁷⁵ Lewis, "The Embedded Liberalism Compromise in the Making of the GATT and Uruguay Round Agreements", 21.

stability, prioritizing full employment, or pursuing trade adjustment measures. Rather, the embedded liberal compromise had expanded to include non-trade values, such as social community or cultural sovereignty, and measures to address these concerns were within the scope of the domestic policy space. Moreover, just because the rationale of the Uruguay Round was based on domestic policy does not mean that it could not also encompass a multilateral compromise. The two are not mutually exclusive. Concerning this point, Wolfe noted that the Agriculture Agreement still allows “states to say that the differing theories on which they base their domestic policy are legitimate and appropriate in the circumstances, but the new system will be more transparent than the old.”⁷⁶ This is the key point. Although the Agriculture Agreement ensures domestic stability, it is multilateral because it establishes the legality of domestic policies in the international system.

Agriculture remains a key example of the compromise of embedded liberalism and the Uruguay Round extended this principle. This is because the Uruguay Round embodied a continuation of the compromise between the domestic and the international spheres. The WTO Agreement on Agriculture required states who protected their agricultural products through non-tariff measures, such as quantitative restrictions, to convert their protectionist measures to tariffs.⁷⁷ Countries were not required to remove protectionist barriers but were required to use more transparent measures to protect their domestic industries, with the hopes that tariffs could slowly be removed over time. However, the tariffication of non-tariff barriers represented a shared understanding amongst countries that protectionist tariffs were a legitimate and transparent practice in the interim, whether they be for

⁷⁶ Wolfe, *Farm Wars: The Political Economy of Agriculture and the International Trade Regime*, 160.

⁷⁷ Tom L Cox, Danny G Le Roy, and Ellen W Goddard, “Dairy Disputes in North America: A Case Study,” in *Trade Liberalization under NAFTA: Report Card on Agriculture*, ed. R.M.A. Loyns et al. (Texas A&M University University of Guelph El Colegio de Mexico, 2001), 268.

economic or cultural reasons, and the industries in which tariff protections were utilized were decided within the domestic sphere. This is an example of the compromise of embedded liberalism.

Chapter 2: History and the Construction of Narratives: A History of the Significance of Canada's Dairy Industry

The establishment of Canada's supply management system was not a singular event, rather it was the result of decades of history, suffering, and lobbying to government. However, if one digs deeper, the establishment of Canada's supply management system and its subsequent survival in the decades since, can be attributed to the establishment of narratives regarding its cultural and economic importance to the Canadian identity. This chapter will begin by exploring the origins of Canada's dairy industry beginning in the 19th century, when Canada's dairy industry became an economic powerhouse for an emerging nation. However, during the 20th century, Canada's dairy industry ceased to be a major export for the country, and the dairy industry subsequently became a closed system of production that was decimated by international forces such as the American Smoot-Hawley Tariffs and the Great Depression. During this period, a narrative was constructed that tied the success of dairy products as a commodity to the success of Canada. This involved producer well-being. The suffering of Canada's dairy producers embodied the suffering of the country during the Great Depression, forcing government intervention in the industry. This history is significant because it established dairy as a distinctly Canadian cultural commodity, and thus informed the negotiating strategies of future Canadian governments in international trade negotiations. The suffering of dairy farmers became culturally tied to the suffering of Canadians, and therefore the stability of the dairy system became tied to the notion of stability in Canadian society.

One of the major events in the origins of Canada's dairy industry was the introduction of the factory system for the production of cheese and butter and improvements in the refrigeration and transportation of products, which subsequently created an export market. To highlight the

speed of this industrialization, the first cheese factory was introduced to Canada in 1864 and by 1891 there were 1,565 in Canada.⁷⁸ Moreover, exports in cheese expanded from 24 million pounds in 1874 to 155 million pounds in 1894.⁷⁹ With regards to butter, before 1856, exports of butter had never exceeded more than C\$200,000.⁸⁰ By 1871, exports in butter reached C\$2.9 million, primarily due to the opening of the British market for Canadian dairy producers in the 1860s.⁸¹ Confederation in 1867, as well as the end of the Reciprocity Treaty with the United States in 1866, contributed to Britain becoming the main market for Canadian dairy products.⁸² After 1860, between two-thirds and three-quarters of Canadian dairy exports were sent to Britain, highlighting the importance of the British market in the internationalization of Canadian dairy products in the 19th century.⁸³

Moreover, frustration with the end of reciprocity with the United States and the inability to access U.S. markets marked a turning point in which anti-Americanism was increasingly used as part of the narrative constructed by dairy sector as rationale for needed protection. This anti-Americanism narrative would come to define the economic and cultural protectionist arguments of dairy farmers during the 20th century. In addition, the trend towards urbanization in Canada during the 19th century further encouraged the industrialization of dairy production. Between 1850 to 1870, the farming population of both Ontario and Quebec declined as people moved to

⁷⁸ Harold Innis, *Essays in Canadian Economic History* (Toronto: University of Toronto Press, 1956), 215.

⁷⁹ Veronica McCormick, *A Hundred Years in the Dairy Industry* (Ottawa: Dairy Farmers of Canada, 1968), 14.

⁸⁰ John McCallum, *Unequal Beginnings : Agriculture and Economic Development in Québec and Ontario Until 1870* (Toronto Buffalo London: University of Toronto Press, 1980), 49.

⁸¹ McCallum, *Unequal Beginnings : Agriculture and Economic Development in Québec and Ontario Until 1870*, 49.

⁸² Innis, *Essays in Canadian Economic History*; McCormick, *A Hundred Years in the Dairy Industry*.

⁸³ McCallum, *Unequal Beginnings : Agriculture and Economic Development in Québec and Ontario Until 1870*, 50.

urban centres for new jobs, leaving a bigger slice of the market for those who continued to farm and produce dairy.⁸⁴ In addition, the opening of the Canadian Pacific Railway in 1886, combined with the technological advancements in mechanical refrigeration, expanded the potential for dairy production domestically, as well as contributing to an increase in exports.⁸⁵

Canadian Dairy Exports and the 20th Century Decline: The Solidification of Canada's Closed System

With regards to exports, following the significant increase in dairy exports to Great Britain in the years after Confederation, Canada and Britain further developed their trading relationship, contributing further to the industrialization of the dairy industry. In 1887, new economic ties were established between Great Britain and Canada that included preferences in loans on the part of Britain and tariff preferences, reducing more barriers and allowing the export of Canadian dairy products to Great Britain to increase further.⁸⁶ During the 1890s, cheese was one of Canada's top exports, demonstrating the significance of this period of industrialization for the Canadian economy.⁸⁷ Thus, at the end of the 19th century, Canada was a major exporter in dairy products. However, during the 20th century, Canada's exports in dairy would be diminished, and a closed system of dairy production would develop.

Due to the rapid expansion of butter and cheese production in Canada during the 19th century, government policies at the beginning of the 20th century continued to encourage the manufacture and export of cheese and butter.⁸⁸ Exports in cheese reached 200 million pounds in

⁸⁴ McCallum, *Unequal Beginnings : Agriculture and Economic Development in Québec and Ontario Until 1870*, 50.

⁸⁵ Ibid, 14-15.

⁸⁶ Ibid, 15.

⁸⁷ Ibid.

⁸⁸ Roy C Barnes, "The Rise of Corporatist Regulation in the English and Canadian Dairy Industries," *Social Science History* 25, no. 3 (2001), 392.

1902, and by 1904 reached an all-time high of 234 million pounds.⁸⁹ The Government of Canada assisted in the dairy boom of 1895 to 1914 by providing education for dairy farmers to help them improve their methods and by purchasing the best available transportation facilities.⁹⁰ This government assistance allowed Canadian dairy farmers to achieve best practices which would make them competitive with British dairy farmers. By 1906, dairy exports to countries such as Great Britain began to decline, but this was primarily due to changes in the domestic structure of Canada's economy.⁹¹

The growing urban population, coupled with improved methods of transportation and refrigeration, helped provide a rapid increase in the domestic market.⁹² In addition, during the 1920s, Canadian milk production increased from 10, 977 million pounds in 1920 to 13, 421 million pounds by 1925; this was primarily due to the spread of milk production across Canada, with British Columbia and the newly established prairie provinces contributing to Canada's total milk output.⁹³ One of the main reasons for the decline of dairy exports to Great Britain was because advances in technology and refrigeration opened up the American and British markets to meat and dairy products from Australia and New Zealand.⁹⁴ Therefore, Canada was experiencing a rise in milk production as exports were decreasing and domestic consumption was increasing. However, as production increased, the level of domestic consumption would eventually flatline as the effects of urbanization materialized, which created the potential for over production. This is exactly what happened during the Great Depression.

⁸⁹ McCormick, *A Hundred Years in the Dairy Industry*, 15.

⁹⁰ Ibid.

⁹¹ Ibid, 16.

⁹² Innis, *Essays in Canadian Economic History*, 217.

⁹³ McCormick, *A Hundred Years in the Dairy Industry*, 18.

⁹⁴ Innis, *Essays in Canadian Economic History*, 217.

Canada's Dairy Industry: The 19th and 20th Century and the Origins of Economic Protectionism

In terms of direct government intervention in the market, such as regulating production, there was still very little government involvement in this period. However, there was one exception to this. Although the Government of Canada had no regulation of production, it did establish a prohibition of margarine in order to assist the dairy industry. In 1886, following an extensive debate in the parliament, the Government of Canada introduced “An Act to Prohibit the Manufacture and Sale of Certain Substitutes for Butter” that would prohibit the sale of margarine for the next 60 years in order to protect the dairy industry and to calm the fears that margarine would be sold and labelled as butter.⁹⁵ The ban was temporarily lifted due to emergency food shortages during the First World War, but was subsequently re-introduced after the war in 1923 in order to protect Canada's domestic dairy industry.⁹⁶ The legalization of margarine would be a long struggle, with the Government of Prime Minister Mackenzie-King referring the issue to the Supreme Court in 1948.⁹⁷

Subsequently, the Supreme Court of Canada and the Judicial Committee of the Privy Council (JCPC) ruled that the margarine ban was “*ultra vires*” of parliament, meaning beyond its legal power, thus ruling in favour of consumer rights and protection and against the claim that margarine threatened the livelihood of Canadian dairy farmers.⁹⁸ The Supreme Court of Canada ruled in a 5-2 decision that the margarine ban was in the same category of legislation as property

⁹⁵ W.H. Heick, *A Propensity to Protect: Butter, Margarine and the Rise of Urban Culture in Canada* (Waterloo, Ontario: Wilfrid Laurier Press, 1991), 18-20.

⁹⁶ Charlene Elliott, “Canada's Great Butter Caper,” *Food, Culture & Society An International Journal of Multidisciplinary Research* 12, no. 3 (2015), 384-385.

⁹⁷ *Ibid*, 385.

⁹⁸ Heick, *A Propensity to Protect: Butter, Margarine and the Rise of Urban Culture in Canada*, 79.

and civil rights, thereby effectively ruling that this was provincial jurisdiction.⁹⁹ This ruling was upheld by the JCPC, in which their Lordships ruled that although the federal government's intent was to protect the dairy industry, it had no power to act in this manner.¹⁰⁰ Moreover, according to Heick, the legalization of margarine was associated with the increased urbanization in Canada, noting that urbanization "...also meant the appearance of a generation further from its rural roots than its predecessors, and therefore its received culture did not necessarily include a strong allegiance to the myth of milk."¹⁰¹ Therefore, urbanization represented a threat to Canadian dairy, as consumers were looking for cheap variations or alternatives to their products, regardless of their origin or circumstance.

Prior to the Great Depression, there were attempts by the Government of Canada to regulate the dairy industry. In 1917, the Government of Canada established the Cost of Living Branch, and one of its first investigations involved an alleged "cold storage trust", which involved the destruction of food to increase the price.¹⁰² Although the investigation failed to discover a "cold storage trust", it resulted in the creation of the Board of Commerce in 1919, which began intervening by investigating prices in both Toronto's fluid milk market and Winnipeg's milk business.¹⁰³ In 1921, the Supreme Court of Canada was asked to look at the constitutionality of the Board of Commerce, a federal agency, to see if it had the power to intervene in a provincial jurisdiction.¹⁰⁴ The Supreme Court ended up declaring that the Board's powers to set provincial and local prices were unconstitutional, which ended the attempts by the

⁹⁹ Ibid, 83.

¹⁰⁰ Ibid, 90.

¹⁰¹ Ibid, 53.

¹⁰² Barnes, "The Rise of Corporatist Regulation in the English and Canadian Dairy Industries", 393.

¹⁰³ Ibid.

¹⁰⁴ Ibid.

federal government to regulate the industry for the foreseeable future.¹⁰⁵ Therefore, the battle to regulate dairy and ensure adequate social stability within the sector would have to be waged within the provincial realm of Canadian politics for the foreseeable future.

The Great Depression and the Need to Protect Canadian Dairy

The optimism following the expansion of the Canadian dairy industry in the 1920s quickly faded following the harsh realities of the Great Depression in the 1930s. Following the international monetary collapse in 1929, Canada's entire economy struggled. However, no sector suffered more in the Great Depression than agriculture. With regards to exports, Canadian exports of butter to Great Britain were affected by a quota system that was intended to limit the number of imports from Canada, New Zealand and Australia.¹⁰⁶ Moreover, the effects of the Great Depression were intensified by the Smoot-Hawley tariffs, which were protectionist measures imposed by the United States.¹⁰⁷ The tariffs were imposed on U.S. imports on June 30th, 1930, and by the third quarter of 1932 imports into the United States plummeted 41.2%.¹⁰⁸ The Smoot-Hawley tariffs contributed to the growing sentiment of anti-Americanism in Canada's dairy industry, contributing to the idea that the U.S. government unfairly subsidized and protected its farmers to the detriment of Canadian farmers and Canadian exports. The Smoot-Hawley tariffs, coupled with the introduction of the quota system in Great Britain, were a detriment to Canadian exports. These policies essentially transformed Canadian dairy into a closed system, due to exclusion of Canadian imports in the United States and the subsequent

¹⁰⁵ Ibid.

¹⁰⁶ McCormick, *A Hundred Years in the Dairy Industry*, 18-19.

¹⁰⁷ J.A. Ruddick et al., *The Dairy Industry in Canada*, ed. Harold Innis (Toronto: The Ryerson Press, 1937), 257.

¹⁰⁸ Douglas A Irwin, "The Smoot-Hawley Tariff: A Quantitative Assessment," *The Review of Economics and Statistics* 80, no. 2 (1998), 326.

exclusion of U.S. imports by Canada.¹⁰⁹ The exclusion of Canadian dairy products from the U.S., and the subsequent exclusion of U.S. dairy products in Canada during the early 20th century intensified the narrative that U.S. producers presented a threat to Canadian dairy farmers. This narrative would continue to grow as Canada's closed system of dairy production was solidified.

As a result of the trade restrictions imposed by the United States and Europe during the Great Depression, Canada's closed system of dairy production was limited to supplying domestic consumption. However, the domestic market had also been impacted by the effects of the Great Depression. Domestically, the Canadian dairy industry was not quick to recover from the effects of the Great Depression. In 1939, at the end of the Great Depression, the farm value of milk was only C\$0.92 per hundred pounds, as compared to 1920 when it was C\$2.03 per hundred pounds.¹¹⁰ These low prices were due to producer and consumer price cutting that was encouraged by the low barriers of entry into the fluid milk trade.¹¹¹ Producer price cutting was the result of a price war that was initiated by producers due to the over-saturation of the market, specifically in Ontario.¹¹² These price wars were good for the consumers, however, they were detrimental for producers.¹¹³ As a result of the detriment to dairy producers that were caused by the low price of milk, the government would intervene in order to control domestic price and domestic demand.

¹⁰⁹ Ruddick et al., *The Dairy Industry in Canada*, 257.

¹¹⁰ McCormick, *A Hundred Years in the Dairy Industry*, 1968, 21.

¹¹¹ Barnes, "The Rise of Corporatist Regulation in the English and Canadian Dairy Industries", 394.

¹¹² Andrew Ebejer, "'Milking' the Consumer? Consumer Dissatisfaction and Regulatory Intervention in the Ontario Milk Industry During the Great Depression.," *Ontario History* 102, no. 1 (2010), 21.

¹¹³ *Ibid*, 21.

The Emergence of Economic Protectionism and Government Protection in Canadian Dairy

The negative effects of the Great Depression on agriculture, and dairy specifically, were not just limited to Canada. During the Great Depression and the subsequent decade, milk control legislation was passed in 26 U.S. states, Great Britain and all Canadian provinces.¹¹⁴ In Canada, provinces brought in regulations, and as a result, Canada's regulation of dairy was decentralized and varied from province to province. In 1933, Quebec established the Quebec Dairy Commission, which was intended to increase producer incomes, whereas Alberta established the Public Utilities Board that same year.¹¹⁵ Ontario created the Milk Control Board in 1934, which was intended to stabilize the milk industry, but ironically lacked the power to set milk prices, resulting in a series of negotiations and agreements between producer and distributor associations; whereas Saskatchewan established the Milk Control Act in 1935, which created a quota-system to match domestic supply with domestic demand.¹¹⁶ During the same year that the Government of Ontario created the Milk Control Board, the Canada Dairy Farmers' Federation was established in order to provide a national voice for dairy farmers and to advocate to the federal government.¹¹⁷ The decentralized regulation brought in by the Canadian provinces created chaos and confusion for Canada's dairy farmers, as regulation varied in each provincial jurisdiction. In response to this, dairy farmers would mobilize and demand action from the federal government in order to provide stabilization to Canada's dairy industry.

¹¹⁴ Ibid, 24.

¹¹⁵ Bruce Muirhead, "Crying Over Spilt Milk: The History of Dairy Supply Management and Its Role in Recent Trade Negotiations," *Centre for International Governance Innovation*, no. 30 (2014), 3.

¹¹⁶ Ibid; Ebejer, "'Milking' the Consumer? Consumer Dissatisfaction and Regulatory Intervention in the Ontario Milk Industry During the Great Depression", 25.

¹¹⁷ Muirhead, "Crying Over Spilt Milk: The History of Dairy Supply Management and Its Role in Recent Trade Negotiations", 1.

The late 1950s provided some hope that sufficient intervention by the federal government was possible. The Government of Canada passed the Agriculture Stabilization Act in 1958. The Agriculture Stabilization Act was managed by the Agriculture Stabilization Board, and it passed a subsidy for industrial milk producers, which help farmers financially but failed to encourage them to invest in new technologies or improve efficiency.¹¹⁸ Despite small improvements in terms of producer income as a result of the Agricultural Stabilization Act, the beginning of the 1960s was a chaotic time in Canada's dairy industry. Provincial dairy farmer organizations had become "fragmented and disorganized" and separate groups emerged for different commodities, such as fluid milk, cheese, and concentrated milk products.¹¹⁹ Two problems existed with regards to Canadian dairy in the early 1960s: "surplus production and insufficient price support across Canada."¹²⁰ In 1963, a conference was organized by the Dairy Farmers of Canada, formerly the Canada Dairy Farmers' Federation, and the Canadian Federation of Agriculture. During the conference, a closed session was held between provincial and federal representatives and the Dairy Farmers of Canada, which resulted in the demand for a national body or organization to coordinate Canada's dairy industry.¹²¹ In response, the Liberal minority government under Prime Minister Lester B. Pearson established the Canada Dairy Commission in 1966, with the mandate of "coordinating federal and provincial dairy policies and creating a control mechanism for milk production which would help stabilize revenues and avoid costly surpluses"¹²². However, that was not enough, as dairy farmers wanted structural change to Canada's dairy system.

¹¹⁸ Erin Scullion, "The Canadian Dairy Commission: A 40-Year Retrospective" (Ottawa, 2007), 8.

¹¹⁹ Ibid, 1.

¹²⁰ Muirhead, "Crying Over Spilt Milk: The History of Dairy Supply Management and Its Role in Recent Trade Negotiations", 52.

¹²¹ Ibid, 9.

¹²² Canadian Dairy Commission, "Canadian Dairy Commission," 2019, <http://www.cdc-ccl.gc.ca/CDC/index-eng.php>.

As a result of this era of chaos, confusion and instability, dairy farmers began to mobilize on a national level in a way that they had not done before, resulting in unified demands and protest that forced the federal government to take more action. On May 24th, 1967, representatives from the Quebec based Union Catholique des Cultivateurs, the Ontario Farmers' Union, and the Ontario Federation of Agriculture met with Prime Minister Lester B. Pearson and the federal cabinet. In this meeting, these groups presented a briefing to the government that demanded "a realistic minimum income", "aggressive plans for the export of Canadian farm products", "adequate economic and social provisions for those who are being dislocated from agriculture", and "a system of import regulations and equalization subsidies", among other requests.¹²³ These demands are fascinating because of the demand for both import regulations and an aggressive plan to increase exports. It seemed that Canada's dairy farmers wanted to have their cake and eat it too.

Moreover, Lionel Sorel, President of the Union Catholique des Cultivateurs, accused the federal government of deceiving farmers by not giving specific answer to questions and concerns laid out in the briefing.¹²⁴ The anger caused by the Government of Canada's dismissal of the demands of the dairy industry led to anger and protests later that day. While these meetings were occurring, 10,000 dairy farmers from Ontario and Quebec stormed Parliament Hill in protest of Canada's milk prices, which subsequently resulted in dairy farmers storming past the RCMP towards the doors of parliament, forcing the Commons guards to shut the doors and lock them; this was the first time that Parliament's doors were shut against Canadians.¹²⁵ The protests and the impressive level of mobilization from dairy farmers can be attributed to the discontent and

¹²³ Ottawa Bureau, "Angry Words Exchanged at Farmer-Cabinet Talks," *Globe and Mail*, 1967.

¹²⁴ *Ibid.*

¹²⁵ James Rusk, "Irate Farmers Storm House to Climax Milk Price Battle," *Globe and Mail*, 1967.

frustration faced by the industry during the Great Depression, including surplus production, inefficient price supports, and the inability to exports products.

The organization and protests from dairy farmers resulted in government action as the work of the Canadian Dairy Commission produced Canada's supply management system. Canada's supply management system was the result of the establishment of the Canadian Milk Supply Management Committee (CMSMC) in 1970, an agreement initially between the federal government and Ontario and Quebec, with the rest of the provinces (except Newfoundland) joining in 1974.¹²⁶ The introduction of supply management initially involved a system of non-tariff barriers, such as quantitative restrictions, to limit market access to foreign products while also tying domestic supply to domestic demand in order to ensure a sufficient income for dairy producers. As a result of the establishment of supply management, dairy was no longer just a commodity, but rather became an agricultural product that was associated with the economic well-being of the producer and the emergence of the Canadian welfare state in the 1960s. It is no coincidence that the Canadian Dairy Commission and the subsequent supply management system was introduced by the same Liberal Government that introduced universal health care, student loans, and the Canada Pension Plan ¹²⁷. As a result of this, supply management became tied to and embedded within the Canadian welfare state. It became tied to the function of managing economic anarchy and ensuring social stability. The commodification of dairy in Canada and its economic significance to the emerging Canadian nation created a culture around dairy production, and the emergence of the 'closed system' transformed dairy into a national

¹²⁶ Western Dairy Digest, "A Brief History of Supply Management in Canada: Evolution of the Canadian Dairy Commission," 1999, <http://www.cdc.ca/indexen.html>.

¹²⁷ Jean Chrétien, "Foreword," in *Pearson: The Unlikely Gladiator*, ed. Norman Hillmer (McGill-Queen's University Press, 1999), xi – 2.

commodity. As a result, dairy farmers were limited to the domestic market, thus creating the domestic culture of production and consumption that made dairy a Canadian cultural commodity.

History and the Construction of Narratives in Canada's Dairy Industry

In the last chapter, Herrera's imagined economies framework was employed in order to understand how individuals filter economic facts and realities through their own lived experience. The history of Canada's dairy industry is crucial in order to understand how the social construction of the narrative created by dairy farmers to protect supply management in the era of trade liberalization. Canada's dairy industry took off as a result of the industrialization in the 19th century. The timing of this aligned with Confederation and the establishment of the Canadian nation, with the dairy industry becoming an economic powerhouse of an emerging nation. This created a shared narrative amongst dairy farmers regarding their contribution to the emergence of the Canadian nation, thus forever enshrining Canadian dairy as a cultural commodity tied to Canadian nationalism. As argued by Pratt in the last chapter, once established, social narratives need to be put back into "the social context" in order to become shared narratives that create an imagined community. The eventual decline of Canadian dairy as a significant export, coupled with the transformation of Canada's industry from open to closed due to the exclusion from the U.S. market, put this narrative back into the social context. Over-production and the pains of the Great Depression mobilized dairy farmers to protest and demand action from the federal government. Dairy farmers felt entitled to receive government assistance due to the economic significance of the industry during Confederation and in the subsequent decades. Moreover, Canadian dairy farmers perceived U.S. dairy farmers as an existential threat that had excluded them from the U.S. market yet wanted access to the Canadian market. The presence of this existential threat encouraged Canadian dairy farmers to call upon the federal

government to protect and ensure stability within Canada's dairy industry through any necessary means.

As noted in the last chapter, the establishment of the embedded liberal compromise took place with the creation of the GATT and the Bretton Woods system. The embedded liberal compromise recognized that trade liberalization and globalization threatened to uplift the social fabric of countries in the developed world which had previously utilized policies of economic protectionism, such as the Smoot-Hawley tariffs implemented by the United States. Thus, in order to transition towards market liberalization, the GATT system recognized that certain countries could utilize the welfare state in order to protect sensitive industries. The establishment of supply management initially appears to be an example of Canada utilizing this right, although rather later, having established supply management just prior to the Tokyo Round of the GATT. Moreover, supply management was just one of a number of reforms implemented by the Pearson Government to build and sustain the welfare state. Supply management was intended to ensure social stability in Canada's dairy industry. However, was it an example of the compromise of embedded liberalism? Was the implementation of supply management in 1970 intended to provide short-term stability going into later GATT Rounds that would target agriculture? In other words, was the establishment of supply management utilized by the government as a means to find a solution, or was it seen as the solution?

The history that led to the establishment of Canada's supply management system and the narratives that were created regarding Canada's closed system of dairy production, would remain and would be built upon in subsequent decades in order to ensure its survival in the era of trade liberalization, beginning with the Uruguay Round of the GATT. This would include building upon two narratives. The first narrative would involve the significance of the dairy industry to the fabric of the Canadian nation, in order to justify nationalist economic policies. Second,

Canada's dairy farmers would continue to highlight the history of Canada's closed system and the threat posed by U.S. dairy farmers, who wanted to harm Canada's dairy industry by infiltrating Canada's domestic market. The common threads that these two narratives have in common is stability and nationalism. The next two chapters will not answer whether Canada's supply management system is an example of the compromise of embedded liberalism, but rather will seek to demonstrate how supply management was constructed as an example of the embedded liberal compromise through the invocation of the history that was laid out in this chapter, and the subsequent narratives which were constructed as a result.

Chapter 3: Trade Liberalization and Canada's Supply Management System

Chapter one of this thesis outlined the concept of embedded liberalism and the case study of agriculture during the Uruguay Round of the GATT, whereas chapter two explored the history of Canada's dairy sector from industrialization to the establishment of supply management. The next two chapters will seek to bring these two concepts together by outlining the journey of Canada's supply management system throughout the era of trade liberalization. This chapter will seek to provide a frame of reference for the next chapter, outlining the various rounds of GATT and WTO trade talks and trade agreements that have challenged and then subsequently altered supply management. As outlined in the last chapter, Canada's supply management system was established in the 1970s. This occurred right before the beginning of the Tokyo Round of the GATT, which was the beginning of the global movement towards eliminating tariff measures. Therefore, the establishment of supply management, which initially utilized tariffs, would be targeted in this attempt to liberalize trade and reduce tariff measures.

This chapter will seek to contribute to the overall question posed by this study regarding supply management as an example of the compromise of embedded liberalism by examining how the era of trade liberalization has impacted Canada's dairy sector. The compromise of embedded liberalism, as demonstrated in the first chapter of this thesis, represents a compromise between the need to balance domestic sovereignty with trade liberalization. This chapter will explore the implications for Canada's supply management system as a result of two WTO Rounds (Uruguay and the Doha Development Round), as well as three regional trade agreements (CETA, CPTPP, and USMCA). In addition, this chapter will compare developments in Canada's supply management system with ongoing developments in the European Union's Common Agricultural Policy (CAP). The EU's CAP program has made structural changes to specifically

encourage liberalization while protecting farmers, thus increasing the prospect of full liberalization in the future. Canada's system of supply management has undergone significant reforms in the last twenty years that have gone in the direction of trade liberalization, with farmers beginning to receive government compensation as a result of the CETA and the CPTPP. However, with the exception of pressure and small concessions in bilateral and multilateral trade agreements, Canada's supply management system has not undergone any structural changes toward liberalization and economic competitiveness. The next two chapters aim to explain why Canada's supply management has avoided major structural changes.

WTO Negotiations: Uruguay and the Doha Development Round

The Uruguay Round of the GATT and the subsequent WTO Agreement on Agriculture initiated a new era of supply management by forcing the Government of Canada to abandon its practice of quantitative restrictions in favour of tariffication. Tariffication involved the introduction of TRQ and prohibitive over-quota tariffs between 200-300%.¹²⁸ However, following the WTO Agreement on Agriculture, the governments of New Zealand and the United States challenged Canada's dairy policies at the WTO. The first complaint, filed by both the United States and New Zealand, concerned the class 5 pooling arrangement of the Canadian Dairy Commission, with the United States and New Zealand both claiming that this class was an export subsidy due to the fact that milk that was destined for export was being sold in Canada at lower prices.¹²⁹ The second complaint, filed by the United States concerned whether the procedures of Canada's TRQ commitment for fluid milk were acceptable, and argued for the TRQ commitment to be opened up for commercial and bulk shipments.¹³⁰ The initial panel ruled

¹²⁸ Richard Barichello, "The Canadian Dairy Industry: Prospects for Future Trade," *Canadian Journal of Agricultural Economics* 47 (1999), 48.

¹²⁹ *Ibid.*, 49.

¹³⁰ *Ibid.*

against Canada in both complaints in March 1999, concluding that “the state is heavily involved in the marketing of dairy products in Canada”, “Canadian exports of butter, cheese and other dairy products under two specified milk pricing classes [Special Classes 5(d) and (e)] are subsidized”, “the volume of subsidized exports is in excess of Canada’s commitment on export subsidy reduction”, and that “market access for fluid milk is unduly restricted”.¹³¹ The findings of the WTO panel were immediately appealed to the Appellate Body, which subsequently released its findings in October 1999. The Appellate Body disagreed with the initial findings regarding market access for fluid milk, ruling that it was consistent with Canada’s commitment but upheld the ruling that Canada had, through Special Milk Classes 5(d) and 5(e), acted inconsistently with its WTO obligations.¹³²

The WTO Agreement on Agriculture represented the first and only substantial change that has taken place with regards to Canada’s supply management system in the era of trade liberalization. However, these two WTO disputes did not challenge supply management but rather solidified its legality during a key conjuncture in the process of trade liberalization in agriculture. As Skogstad noted, “[n] one of these WTO rulings invalidated the domestic milk supply management system. The regulation of domestic production under the quota system was not in question, nor was the right of producer marketing boards and the CDC to establish/negotiate domestic dairy product prices.”¹³³ Moreover, the rulings against Canadian

¹³¹ World Trade Organization. Dispute Settlement Panel, “Final Report on Canada: Measures Affecting the Importation of Milk and the Exportation of Dairy Products. WT/DS103.” 1999.

¹³² Bruno Larue, Michele Veeman, and Murray Fulton, “Protection, Price Discrimination and Inefficient Trade: The Case for Real Tariffication,” *Canadian Journal of Agricultural Economics* 47, no. 5 (1999), 78,

¹³³ Grace Skogstad, *Internationalization and Canadian Agriculture: Policy and Governing Paradigms* (Toronto Buffalo London: University of Toronto Press, 2008), 157.

dairy exports solidified the Canadian dairy system as a “closed system”, invoking the previous struggles of exporting Canadian dairy that were outlined in Chapter Two.

The Uruguay Round and the WTO Agreement on agriculture failed to achieve liberalization in Canada’s dairy sector. However, Canada was not the outlier. According to da Conceição-Heldt, the WTO Agreement on Agriculture failed to achieve major liberalization in agriculture because “the tariffication process was initially used by countries to set very high initial tariffs, in such a way that after the agreed reform, the new binding tariffs were even higher than the prevailing tariff rates that had been in place for the reference period” from 1986-1988.¹³⁴ Despite this, the WTO Agreement on Agriculture did bring agricultural commodities into the multilateral trading system for the first time and divided them into three categories: market access, export subsidies, and domestic support. Concerning domestic support, subsidies were put into three categories: amber box, blue box, and green box. The amber box referred to domestic subsidies that were trade distorting, requiring developed countries to reduce their amber box subsidies by 20 % over 5 years, and developing countries to reduce by 14% over 10 years; blue box subsidies were seen as less trade distorting and mostly involved payments made to farmers to reduce production; lastly, green box provisions were excluded from WTO challenge through a ‘peace clause’ and include direct payment to farmers that are not tied to production.¹³⁵ Therefore, domestic subsidies and support that was not “trade distorting” were legitimized under this agreement.

The ongoing Doha Development Round is the latest attempt by the WTO to pursue agricultural liberalization. The Round was officially launched at the WTO’s Fourth Ministerial

¹³⁴ Eugénia da Conceição-Heldt, *Negotiating Trade Liberalization at the WTO: Domestic Politics and Bargaining Dynamics* (Palgrave Macmillan, 2011), 45.

¹³⁵ *Ibid*, 46.

Conference in Doha, Qatar, in November 2001. According to the Ministerial Conference Declaration, the commitments for this round include “comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.”¹³⁶ Similar to the commitments made in the Uruguay Round, there would be no requirement for Canada or any other country, to minimize support “which has no or minimal trade distorting effects.”¹³⁷ Therefore, consistent with the WTO rulings against Canada in the 1990s, the only trade distorting practices that would be targeted would be export subsidies. That is exactly what happened following The Nairobi Declaration in 2015, which required developed countries to eliminate all export subsidies by the end of 2018.¹³⁸ Canada received a postponement on this until 2021. Therefore, as of January 1st, 2021, Canada will be fully out of the export market for dairy exports, except for products that are deemed subsidy free.¹³⁹

Concerning market access, no progress has been made since negotiations came to a standstill following the 2008 draft modalities. The 2008 draft modalities require that “[t]ariffs would mainly be cut according to a formula, which prescribes steeper cuts on higher tariffs”, with tariffs for developed countries being cut by “50% for tariffs below 20%, to 70% for tariffs above 75%”.¹⁴⁰ However, the draft allows for “sensitive products” with over-quota tariffs of

¹³⁶ World Trade Organization, “Doha WTO Ministerial 2001: Ministerial Declaration WT/MIN(01)/DEC/1,” 2001, https://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm.

¹³⁷ Mike Gifford and Bill Dymond, “The Doha Round of WTO Negotiations: Implications for the Canadian Dairy Processing Sector” (Carleton University/ University of Ottawa, 2008), 5.

¹³⁸ World Trade Organization, “Ministerial Decision of 19 December 2015 : WT/MIN(15)/45 — WT/L/980,” 2015, https://www.wto.org/english/thewto_e/minist_e/mc10_e/l980_e.htm.

¹³⁹ Al Mussell and Douglas Hedley, “The Canadian Dairy Sector in Relation to the Canada-US-Mexico Agreement and Comprehensive and Progressive Agreement for TransPacific Partnership,” *Agri-Food Economic Systems*, (2019), 3.

¹⁴⁰ World Trade Organization, “WTO | Doha Development Agenda | Briefing Notes - Agriculture,” accessed October 31, 2019, https://www.wto.org/english/tratop_e/dda_e/status_e/agric_e.htm.

75% and over to face only a 23-24% reduction as opposed to the 70% reduction required for non-sensitive products.¹⁴¹ If the Doha Round is successful, the Government of Canada could designate dairy products as “sensitive”, resulting in Canada’s over-quota tariffs of 200-300% to be reduced by 23-24%, as opposed to 70%. In addition, Canada would be required to give up around 5% of its domestic share to imports due to the required expansion of the TRQ.¹⁴² Therefore, Doha presents some challenges to Canada’s dairy sector due to the elimination of export subsidies, which solidify Canada’s closed dairy system, and potential increases in market access.

Regional Free Trade Agreements: CETA, CPTPP, and USMCA

Canada’s supply management system has avoided significant reform in the era of deregulation and trade liberalization. Since the WTO Agreement on Agriculture, multilateral negotiations focused on dismantling agriculture protections in the developed world and pursuing liberalization have stalled in the ongoing Doha Round. Therefore, in the interim, reforms made to Canada’s supply management system have not involved structural changes towards trade liberalization, but rather have involved improving market access to foreign goods at the lower tariff rate. This principle has characterized the negotiations of the Trans-Pacific Partnership (now the CPTPP), the CETA with the European Union (EU), and the NAFTA renegotiations that resulted in the USMCA. These regional free trade agreements differ from the Uruguay Round and the subsequent WTO Agreement on Agriculture because they are not seeking structural change to Canada’s agricultural policies, but rather a quid-pro-quo. Foreign countries seek improved access to Canada’s dairy industry in exchange for improved market access in other

¹⁴¹ Gifford and Dymond, “The Doha Round of WTO Negotiations: Implications for the Canadian Dairy Processing Sector”, 6.

¹⁴² *Ibid*, 2.

sectors. Canadian officials increased the TRQ and granted minimum market access in order to keep the demolition of supply management off of the table.

The CETA was signed on September 26th, 2014 after six years of negotiations between the Government of Canada and the European Parliament, the European Council, and EU member states.¹⁴³ In the year after the CETA came into force, trade between the two in goods and services increased EU by 7.7%, and resulted in a 3.9% increase in Canadian exports to the EU as well as a 10.8% increase in imports from the EU.¹⁴⁴ Before the negotiations between Canada and the EU, representatives from the EU told the House of Commons Standing Committee on International Trade that Canada's cheese market was an area of "offensive interest", along with improved access for automobiles to the Canadian market, and raised concerns over "the manner in which dairy products are marketed as well as the high customs tariffs on dairy products in Canada."¹⁴⁵ In the final agreement, the EU was able to increase its market access to Canada's dairy industry. EU milk exports to Canada doubled as a result of the agreement, resulting in an estimated increase equivalent to 2% of Canadian domestic milk production.¹⁴⁶ In addition to this, the CETA agreement will raise the quota portion of Canada's TRQ on EU cheese imports by 2667 metric tons (mt) in year one to 5333 mt and will reach over 16000 mt in year six, which represents 7% of Canadian cheese consumption (see Figure 1).¹⁴⁷ Although the CETA conceded

¹⁴³ William A. Kerr and Jill E. Hobbs, "A Protectionist Bargain?: Agriculture in the European Union-Canada Trade Agreement," *Journal of World Trade* 49, no. 3 (2015), 437.

¹⁴⁴ Government of Canada, "CETA Benefits Already Visible a Year after Its Entry into Force," 2018, https://www.international.gc.ca/gac-amc/campaign-campagne/ceta-aecg/year_one-premiere_annee.aspx?lang=eng.

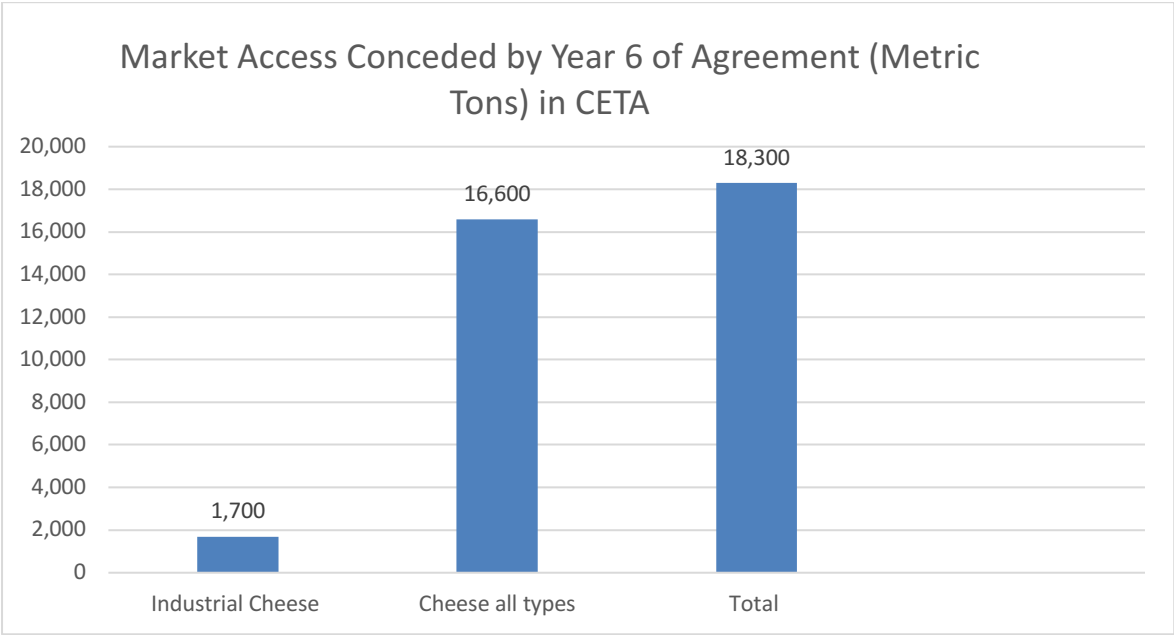
¹⁴⁵ Canada. Parliament. House of Commons. Standing Committee on International Trade, "Negotiations Toward a Comprehensive Economic and Trade Agreement (CETA) Between Canada and the European Union" (Ottawa, 2012), 12.

¹⁴⁶ Eugene Beaulieu and V Balaji Venkatachalam, "NAFTA Renegotiations: An Opportunity for Canadian Dairy?," *The School of Public Policy Publications* 11, no. 10 (2018), 16.

¹⁴⁷ Kerr and Hobbs, "A Protectionist Bargain?," 443; The Canadian Agri-Food Policy Institute, "The CPTPP and Benefits to Canadian Agriculture" (Ottawa, Ontario, 2019), 8.

valuable Canadian market access to European dairy producers, the agreement was not completely negative for Canadian producers. According to Kerr and Hobbs, the agreement allows Canada (not the EU) to “use trade barriers justified under a special safeguard for some agricultural products” in order to “limit over quota imports under Canada’s TRQ system for dairy, poultry and eggs”¹⁴⁸, thus protecting Canada’s supply management system through the implementation of temporary safeguard measures. This provision ensures the preservation of Canada’s supply management system and creates a temporary understanding between Canada and the EU that Canada’s supply management system is legitimate for the time-being.

Figure 1



Source: The Canadian Agri-Food Policy Institute, “The CPTPP and Benefits to Canadian Agriculture” (Ottawa, Ontario, 2019).

The CPTPP is a free trade agreement between Canada and ten other Asian-Pacific countries: Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and

¹⁴⁸ Kerr and Hobbs, “A Protectionist Bargain?”, 444.

Vietnam. The CPTPP originated from the Trans-Pacific Partnership (TPP) agreement, which was signed in 2016 and subsequently renegotiated following the withdrawal of the United States in 2017. The CPTPP entered into force on December 30th, 2018. The CPTPP was an overall benefit for Canadian agriculture. According to the Canadian Agri-Food Trade Alliance (CAFTA), the CPTPP is expected to increase total agri-food exports to the CPTPP region “by \$1.5 billion or by 12.45% over and above what they would have been without the CPTPP” with substantial gains for the Canadian beef industry (\$568 million), as well as fruit and vegetables (\$345 million), processed foods (\$237 million) and pork (over \$200 million).¹⁴⁹ The benefits of the CPTPP for Canadian agriculture are huge. However, the sector that suffered as a result of the agreement was Canada’s dairy industry. Canada was forced to give up market access in its dairy sector in exchange for market access in other sectors.

Initially, the prospect of the TPP alarmed supporters of Canada's supply management system, as it involved negotiations with New Zealand, Australia, and the United States, countries that shared a desire to infiltrate Canada’s dairy markets and called for the end of Canada’s supply management system.¹⁵⁰ Moreover, the country that is likely to gain the most from increased access to Canada’s dairy market in the CPTPP is New Zealand. New Zealand was the second biggest source for Canadian dairy imports after the United States, supplying C\$72 million in 2012-2013.¹⁵¹ On the eve of the implementation of the CPTPP in 2018, dairy imports from New Zealand amounted to C\$91 million and dairy imports from Australia totaled C\$ 3 million.¹⁵² It is

¹⁴⁹ Canadian Agri-Food Trade Alliance, “Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – Frequently Asked Questions,” 2019, <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptppg/faq.aspx?lang=eng>.

¹⁵⁰ James Rude and Henry An, “Trans-Pacific Partnership: Implications for the Canadian Industrial Dairy Sector,” *Canadian Public Policy* 39, no. 3 (2013), 397.

¹⁵¹ Agriculture and Agri-Food Canada, “Canadian Dairy Trade Bulletin 2013 Edition,” 2013, 5.

¹⁵² Statistics Canada, “Imports of Dairy Products by Country of Origin Calendar Year - 2015 to 2018,” 2019.

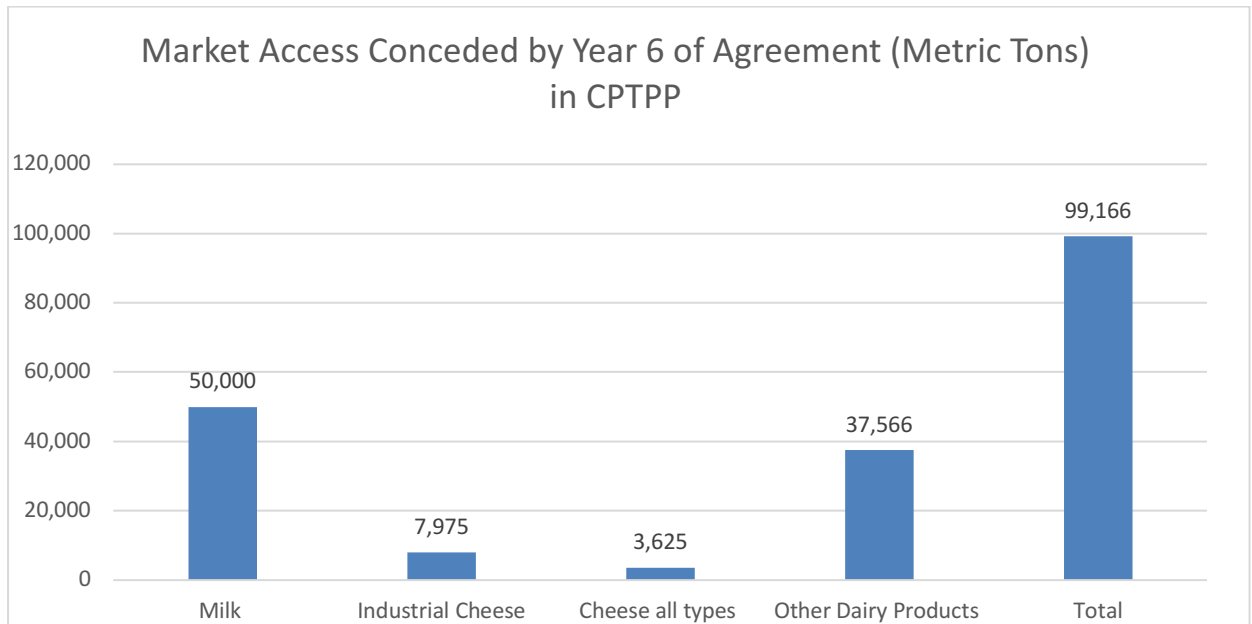
not yet known how much New Zealand or Australia's dairy imports to Canada will increase under the CPTPP. However, Canada conceded significant market access in its supply management system in the CPTPP, with the quota within the TRQ increased by 99,166 mt for all dairy products by the sixth year, including 50,000 mt for milk (See Figure 2).¹⁵³ The Government of Canada estimated that the expected increase in dairy imports as a result of the CPTPP would be C\$135 million, compared to a minuscule increase in dairy exports of C\$ 3.5 million.¹⁵⁴ The Dairy Farmers of Canada estimated that the C\$ 135 million increase in imports will result in a loss of 3.1% of milk production in Canada.¹⁵⁵ Moreover, the U.S. withdrawal from the TPP ensures that the market access granted within the CPTPP will be filled by Australia and New Zealand.

¹⁵³ The Canadian Agri-Food Policy Institute, "The CPTPP and Benefits to Canadian Agriculture" (Ottawa, Ontario, 2019), 8.

¹⁵⁴ Global Affairs Canada Office of the Chief Economist, "Economic Impact of Canada's Participation in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership," 2018, <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/impact-repercussions.aspx?lang=eng>.

¹⁵⁵ Pierre Lampron, "DFC Reacts to the Government's Assessment of Potential Economic Impact of CPTPP," 2018, <https://dairyfarmersofcanada.ca/en/dairy-in-canada/dairy-news/dfc-reacts-governments-assessment-potential-economic-impact-cptpp>.

Figure 2



Source: The Canadian Agri-Food Policy Institute, “The CPTPP and Benefits to Canadian Agriculture” (Ottawa, Ontario, 2019).

Following the inauguration of Donald J. Trump as President of the United States in January 2017, Robert E. Lighthizer, Trump’s United States Trade Representative (USTR), informed Congress that President Trump intended to renegotiate the NAFTA on May 18th, 2017, only three days after being sworn in as the USTR¹⁵⁶ In July 2017, the USTR released its objectives for NAFTA renegotiations. In this report, the USTR listed as one of its negotiating objectives the elimination of non-tariff barriers and TRQs that unfairly limit market access.¹⁵⁷ Therefore, USTR initially issued a general statement about TRQs, but did not mention or target Canada’s dairy sector specifically. However, this changed when the USTR released its updated

¹⁵⁶ Office of the United States Trade Representative, “Trump Administration Announces Intent to Renegotiate the North American Free Trade Agreement | United States Trade Representative,” 2017, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/may/ustr-trump-administration-announces>.

¹⁵⁷ Office of the United States Trade Representative, “Summary of Objectives for the NAFTA Renegotiation: July 2017,” 2017, 4.

list of objectives in November 2017. In this report, the USTR specifically references Canada's system of supply management. The report called for the expansion of "competitive market opportunities for U.S. agricultural goods in NAFTA countries, substantially equivalent to the competitive opportunities afforded foreign exports into the U.S. market, including by eliminating remaining Canadian tariffs on imports of U.S. dairy, poultry, and egg products."¹⁵⁸ The subsequent USMCA agreement, which was signed on November 30th, 2018, further increased liberalization in Canada's dairy sector. The market access given up in the USMCA was roughly the same as the market access that Canada gave up in the CPTPP, with the quota within the TRQ increased by 100,000 mt for all dairy products, including 50,000 mt for milk(see Figure 3).¹⁵⁹ Moreover, the USMCA agreement also required the Government of Canada to eliminate its Class 7 milk designation, which allowed Canada to export skim milk at a competitive world price outside of the WTO limitation on subsidized exports.¹⁶⁰ The Dairy Farmers of Canada estimated that the USMCA would result in a loss of 3.9% of Canada's milk production(above the Government of Canada calculation of 3.6%), which amounts to C\$ 192 million per year.¹⁶¹

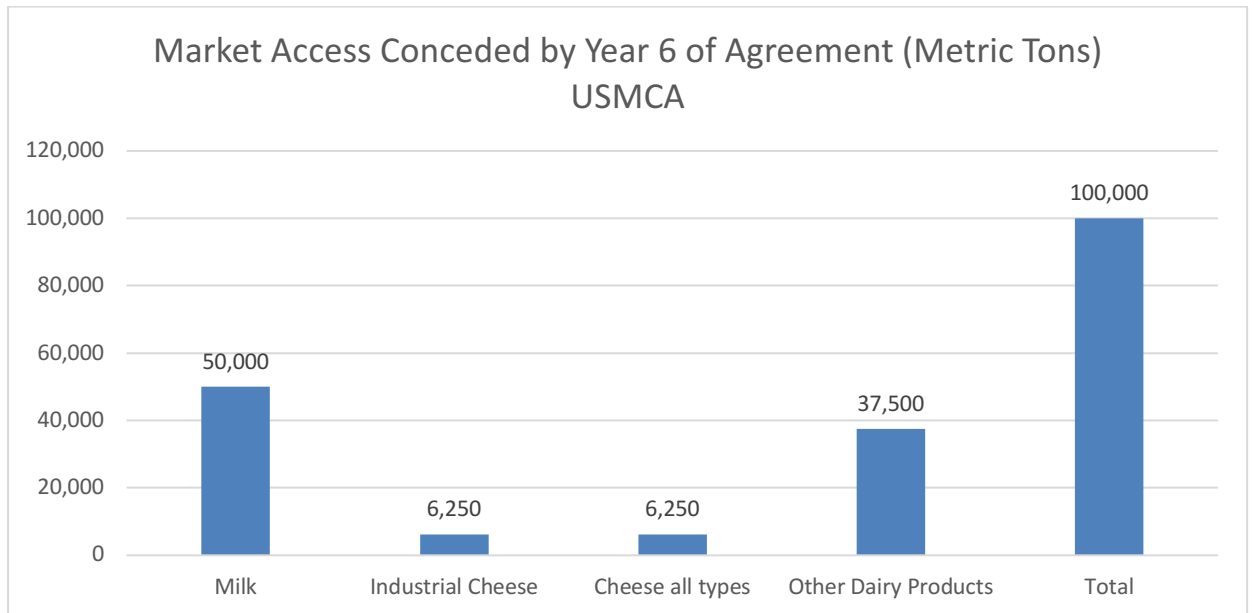
¹⁵⁸ Office of the United States Trade Representative, "Summary of Objectives for NAFTA Renegotiation: November 2017," 2017, 3.

¹⁵⁹ The Canadian Agri-Food Policy Institute, "The CPTPP and Benefits to Canadian Agriculture", 8.

¹⁶⁰ Mussell and Hedley, "The Canadian Dairy Sector in Relation to the Canada-US-Mexico Agreement and Comprehensive and Progressive Agreement for TransPacific Partnership", 3-4.

¹⁶¹ Dairy Farmers of Canada, "Update on United States-Mexico- Canada Agreement (USMCA)," 2018, 1.

Figure 3



Source: The Canadian Agri-Food Policy Institute, "The CPTPP and Benefits to Canadian Agriculture" (Ottawa, Ontario, 2019).

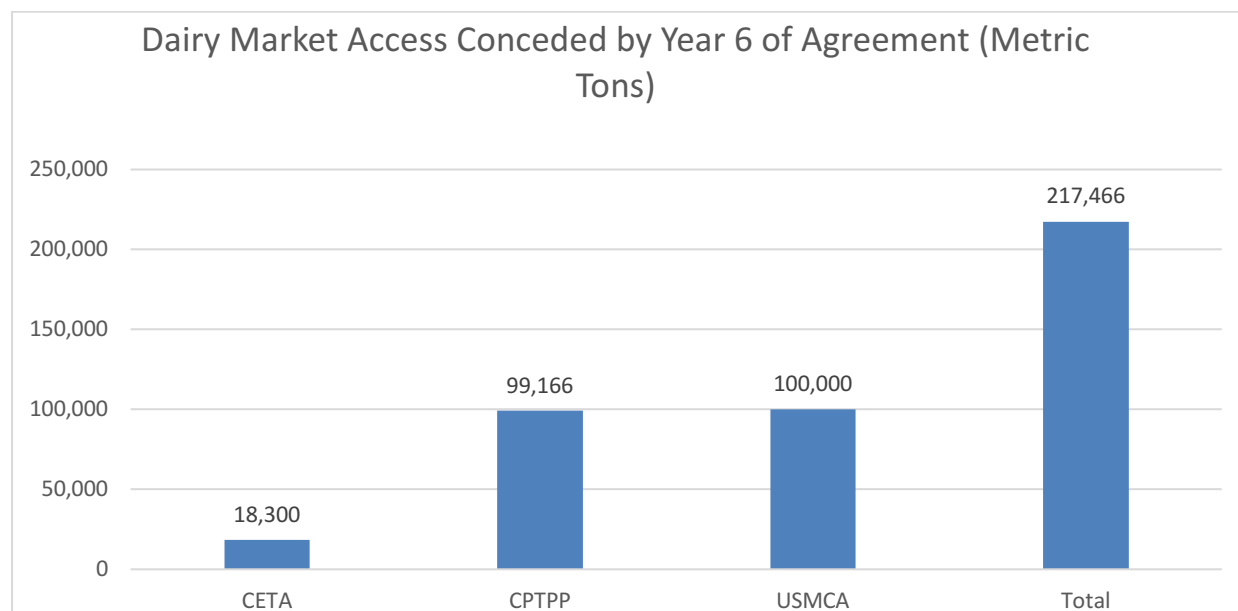
According to the Les Producteurs de lait du Québec, Canada conceded 8.4% of the dairy product market in the CETA, CPTPP, and USMCA¹⁶². Moreover, "once CETA (+1.4% access), the CPTPP (+3.1%) and the USMCA (+3.9%) are fully implemented in 2024, Canada will import around 18% of its milk production, which equals \$1.3 billion in annual lost sales for producers alone".¹⁶³ This includes the potential of a 5% increase in the TRQ pending the successful competition of the Doha Round. However, these numbers are quite small in terms of the alternative, which would be the abandonment of supply management. The increase in terms of market access in both the CPTPP and USMCA were almost the same in overall mt and were the same with regards to milk (see Figure 2, 3, & 4). This was because both agreements were negotiated with partners who wanted access to Canada's dairy industry for the benefit of their entire dairy sector, whereas the Europeans were only concerned about access to Canada's cheese

¹⁶² Les Producteurs de lait du Québec, "Supply Management and the Trade Agreements," 2018.

¹⁶³ Ibid.

market, which explains the limited amount of market access given up in CETA. Moreover, by granting this limited market access, Canada was able to secure an interim period of acceptability for its supply management system. Therefore, supply management can continue to exist within the confines of the agreements.

Figure 4



Source: The Canadian Agri-Food Policy Institute, "The CPTPP and Benefits to Canadian Agriculture" (Ottawa, Ontario, 2019).

In response to this, the Trudeau government announced that it would provide a compensation package of \$3.9 billion to the supply-managed sectors, including dairy farming, to compensate farmers for the market access that was conceded in both the CPTPP and the CETA¹⁶⁴. This compensation has multiparty support, with the opposition not only supporting this but calling on the government to do more. Andrew Scheer, leader of the Official Opposition, the Conservative Party of Canada, told dairy farmers at the annual Dairy Farmers of Canada

¹⁶⁴ Amanda Connolly, "Dairy Farmers, Supply-Managed Sectors to Get \$3.9B in Compensation for CETA, CPTPP – but Not NAFTA," *Global News*, 2019.

conference in July 2019 that Trudeau's "mistreatment" of dairy farmers "is unacceptable" because Trudeau's compensation package provides no predictability.¹⁶⁵ Therefore, the Government of Canada is willing to compensate farmers for the losses of their quota value as a result of the international trade negotiations.

The EU Common Agricultural Policy: A Structural Approach to Trade Liberalization

The EU's CAP was implemented over eleven years following the signing of the Treaty of Rome in 1957 and involved "[h]igh internal farm prices, strong market intervention and border protection."¹⁶⁶ Border protection was achieved through import levies and export subsidies, while the support for domestic prices was achieved through target prices and internal intervention.¹⁶⁷ Like Canada's supply management system, the EU's CAP program was untouched by international trade negotiations before the Uruguay Round of the GATT. However, the Uruguay Round required the EU to adjust its agricultural programs, thus beginning the reform period of the CAP. The MacSharry reform of 1992 significantly altered the CAP price support mechanisms in cereals, where price supports were reduced by a third in order to move towards a direct payment support system as opposed to a price support system.¹⁶⁸ The subsequent Fischler reforms of 2003 went further, essentially abolishing "the notion of support based on production or cultivating land" and replacing it with "income support in terms of a Single Payment Scheme

¹⁶⁵ Marco Vigliotti, "Scheer Slams Trudeau Government for 'mistreatment' of Dairy Farmers," *IPolitics*, July 17, 2019.

¹⁶⁶ Alison Burrell, "The CAP: Looking Back, Looking Ahead," in *The Common Agricultural Policy: Policy Dynamics in a Changing Context*, ed. Grace Skogstad and Amy Verdun (Routledge, 2010), 7.

¹⁶⁷ *Ibid*, 7.

¹⁶⁸ Carsten Daugbjerg and Alan Swinbank, "Ideational Change in the WTO and Its Impact on Agricultural Policy Institutions and the CAP," in *The Common Agricultural Policy: Policy Dynamics in a Changing Context*, ed. Grace Skogstad and Amy Verdun (Routledge, 2010), 53.

(SPS) based on land ownership.¹⁶⁹The reforms sought to reduce the “protectionist character of agricultural policy” and to increase the “competitiveness of agriculture” in a way that was less trade distorting.¹⁷⁰ Moreover, during the CETA negotiations, EU and French parliamentarians defended the EU’s CAP program to representatives from Canada’s House of Commons Standing Committee on International Trade by noting that “the amounts paid under the CAP are now almost entirely decoupled from farmers’ production levels, and that European farmers need financial support from the state because of the additional costs associated with European regulations.”¹⁷¹ This defense of CAP occurred at the same time as EU officials were raising concerns over Canada’s supply management system. The distinction between CAP and Canada’s supply management system was made because Canada has yet to decouple agricultural supports in dairy from production levels.

The decoupling of production and farm support was a middle ground between pursuing trade liberalization and ensuring social stability for farmers. However, Daugbjerg and Swinbank noted, “there was no intention of ending agricultural support and thus there was no attempt to shift to a market liberal paradigm.”¹⁷² It was not the intention of the Fischler reforms to achieve a pure market paradigm. However, through the process of decoupling farm supports from production, market forces were encouraged and reintroduced to the system. This is because it

¹⁶⁹ Helle Oersted Nielsen, Anders Branth Pedersen, and Tove Christensen, "Environmentally Sustainable Agriculture and the Future Developments of the CAP," in *The Common Agricultural Policy: Policy Dynamics in a Changing Context*, ed. Grace Skogstad and Amy Verdun (Routledge, 2010), 101.

¹⁷⁰ Ivan Marković and Milan Marković, "Agricultural Protectionism of the European Union in the Conditions of International Trade Liberalization," *Economics of Agriculture* 61, no. 2 (2014) 432-433.

¹⁷¹ Canada. Parliament. House of Commons. Standing Committee on International Trade, “Negotiations Toward a Comprehensive Economic and Trade Agreement (CETA) Between Canada and the European Union”, 12-13.

¹⁷² Daugbjerg and Swinbank, “Ideational Change in the WTO and Its Impact on Agricultural Policy Institutions and the CAP”, 55.

encourages farmers to adapt their production practices to market demand and ultimately encourages self-reliance and efficiency¹⁷³, while also ensuring that adequate protection is in place to protect farmers' livelihoods and incomes from the effects of trade liberalization. The Fischler reforms exemplify the original compromise of embedded liberalism because it sought to provide assistance and support to farmers while also encouraging reforms that will help farmers adjust to the inevitability of trade liberalization, as opposed to a system of protection tied to production which creates no incentives to innovate or to achieve efficiency.

The Common Agricultural Policy and Supply Management: A Comparative Analysis

Similar to the EU's CAP, Canada's supply management system has also dramatically shifted in the last two decades due to the WTO Agreement on Agriculture, and the emergence of regional trade agreements such as the NAFTA, the CETA, and the CPTPP. Skogstad has described the post 1990 period as "a second generation" of supply management, where "prices of a few supply-managed products now reflect competitive market conditions more than they did two decades ago" and "domestic producers' ability to match domestic supply to domestic demand is under challenge."¹⁷⁴ This has led to questions on regarding the sustainability of Canada's supply management system and the prospect for trade liberalization in the future.

Despite the shift from quantitative restrictions to tariffication in 1990s, Canada's supply management system has not undergone any structural changes. Although the tariffication of non-tariff barriers was initially viewed as a potential threat to the system, it upheld the main goal of the system, which was the reduction of market access for foreign dairy products in order to give

¹⁷³ Nielsen, Pedersen, and Christensen, "Environmentally Sustainable Agriculture and the Future Developments of the CAP", 102.

¹⁷⁴ Skogstad, *Internationalization and Canadian Agriculture: Policy and Governing Paradigms*, 142.

Canadian dairy producers an advantage in the domestic market. The Government of Canada has not taken a structural approach towards liberalization to reduce the protectionist character of the system. Rather, the Government of Canada has continually attempted to justify and defend the protectionist measures of Canada's supply management system. Minor reforms have made supply management compatible with both the rules of the WTO and to the rules of Canada's trade agreements, such as the NAFTA, the CETA, and the CPTPP, for the interim. This is in contrast to the Fischler Reforms, which were intended to make structural changes to the protectionist policies of the CAP through the decoupling of direct farm payments from production. Moreover, considering the multiparty support that Canada's supply management system enjoys, it appears that future governments will continue to fight for the preservation of the system in an ad-hoc and reactionary way, even if that requires slowly increasing more market access for foreign dairy products in future trade agreements and continuing to compensate farmers.

The elimination of export subsidies through the Nairobi Declaration solidifies Canada's dairy industry as a "closed system" of economic protectionism, a closed system that has characterized the history of Canada's dairy sector. Moreover, in exchange for the limited access granted to Canada's dairy market, Canada has been able to defend and maintain its system of supply management through the CETA, CPTPP, and USMCA agreements. Canada has shown no desire to pursue trade reforms that match the Fischler reforms to the CAP. Rather, the only reforms that Canada has pursued have been reforms that have followed multilateral or bilateral agreements to pursue transparency and liberalization. Therefore, reforms or changes to Canada's supply management system have not been structural attempts at reform in order to reduce protectionism, but rather part of Canada's ad-hoc defence of supply management. It appears that the limited liberalization granted so far in previous agreements, along with the limited increase in

market access and the lowering of over-quota tariffs that are on the table in Doha, represented the only prospect of external pressure for Canada to change its system, and therefore it appears that Canada will not liberalize its supply management system in any structural way for the foreseeable future. Moreover, it is yet unknown how the elimination of export subsidies on January 1st, 2021 will affect the dairy industry, as Canada was not a key player in the international dairy market. It could be assumed that the elimination of export subsidies will force Canadian dairy farmers to double down in their protection of the Canadian domestic market, thus making the prospect of future trade liberalization in upcoming agreements more unlikely.

Chapter 4: Domestic Politics and the Dairy Lobby: A Cultural Defence of Canada's Supply Management System

This chapter seeks to answer the following two questions. First, why does maintaining the existence of supply management continue to be a top Canadian trade priority? And second, why do efforts to sustain economic protectionism and welfare for Canada's dairy industry receive such little organized opposition? In answering these questions, this chapter will explore how dairy has been constructed as a Canadian cultural commodity. Canada's dairy lobby, which includes provincial marketing boards and the Dairy Farmers of Canada, has been very successful at convincing the Government of Canada to advocate for supply management despite desires from foreign countries for Canada to open up its domestic market. One of the main methodological frameworks employed in this chapter is a discourse analysis. According to Abdelal et al., "discourse analysis is the qualitative and interpretive recovery of meaning from the language that actors use to describe and understand social phenomena."¹⁷⁵ This chapter will provide a discourse analysis on the public lobbying efforts of Canada's dairy farmers, both to government and the public, to build support for Canada's supply management system and to portray Canadian dairy as a cultural commodity. However, attempts to portray Canadian dairy as a national cultural commodity have depended upon the ability of Canadian dairy farmers to portray threats posed by farmers in the United States (U.S.) and the European Union (EU) to Canadian domestic markets as an infringement of Canadian sovereignty. This chapter will argue that Canada's dairy farmers have worked to frame the Canadian dairy industry as a Canadian cultural commodity to protect Canada's supply management system and its domestic market. This will be done by highlighting the resistance of dairy farmers to the trade liberalization

¹⁷⁵ Rawi Abdelal et al., "Identity as a Variable," *Perspectives on Politics* 4, no. 4 (2006), 702.

agenda through an examination of its advocacy documents and public relations campaigns in the era of trade liberalization in agriculture that started in the late 1980s.

Canadian Cultural Content: Protecting the Mouse from the Elephant

In highlighting the threat posed by U.S. farmers to Canada's dairy industry and sovereignty, Canadian dairy farmers are utilizing a key tool in the history of Canadian cultural protectionism. Meisel and Van Loon noted that Canada's proximity to the United States is a "key factor relevant to cultural policy" because the power and influence of the United States create "very special problems for Canadian culture and hence for cultural policy."¹⁷⁶ As a result, invoking concerns over U.S. dominance has become a common justification for protectionism. Traditional areas of Canadian cultural policy that have been protected include the publishing and audio-visual industry, sectors that created areas of conflict in the 1990s following the establishment of free trade between the two countries. Canada's first piece of cultural protectionist legislation was aimed at American magazines such as *Sports Illustrated*.¹⁷⁷ In outlining the cultural disputes between the United States and Canada, Goodenough highlighted three types of cultural commodities. First is "high culture", which includes "opera, ballet, classical music, "legitimate" theatre, "art" film, "serious" literature, "public" television, academic periodicals, "hard" news, "fine" art, and architecture."¹⁷⁸ Second, is "ethnic culture", which Goodenough argued consists of "folk" music, "folk" dance, story-telling and folklore,

¹⁷⁶ John Meisel and Jean Van Loon, "Cultivating the Bushgarden: Cultural Policy in Canada," in *The Patron State: Government and the Arts in Europe, North America and Japan*, ed. Milton C. Jr. Cummings and Richard S. Karz (New York: Oxford University Press, 1987), 277.

¹⁷⁷ Kevin V. Mulcahy, "Cultural Imperialism and Cultural Sovereignty: U.S.-Canadian Cultural Relations," *American Review of Canadian Studies* 30, no. 2 (2000), 192.

¹⁷⁸ Oliver R. Goodenough, "Defending the Imaginary to the Death--Free Trade, National Identity, and Canada's Cultural Preoccupation," *Arizona Journal of International and Comparative Law* 15, no. 1 (1998), 209.

"traditional" arts, craftwork, and vernacular architecture."¹⁷⁹ Lastly, Goodenough highlighted "popular culture", which includes "entertainment film and television, pop music, popular fiction, popular journalism, "soft" news, and commercial architecture."¹⁸⁰ A recent example of government protection in popular culture is the Canadian Football League. According to Valentine, "the CFL and the Grey Cup were seen as sufficiently constitutive of the nation to justify federal government support. Since the state had interceded in both the economy and in the area of culture to limit American influence, supporting the CFL was seen as a politically-safe, logical next step."¹⁸¹ The Canadian government protects these industries through a series of "direct and tax-based subsidies for Canadian cultural industries, from magazine and book publishing to film and television production" as well as "[q]uotas for work containing significant Canadian content, and penalties and outright prohibitions against the import and distribution of certain classes or percentages of external cultural production have also been imposed."¹⁸² The goal is to limit the imposition that a cultural giant like the U.S. can have on Canada and to protect what is deemed as Canadian culture.

Threats from Abroad: American Dairy & Protecting Canada's Sacred Cow

As noted in the previous chapter, the early rounds of the GATT excluded agriculture due to its political sensitivity. However, the trade liberalization agenda eventually targeted Canada's dairy industry through the prospect of free trade with the United States and the subsequent GATT rounds. According to Muirhead, supply management was put into the "neo-liberal crosshairs" because "regulation of any sort was an "evil" that stood in the way of letting "the

¹⁷⁹ Ibid.

¹⁸⁰ Ibid.

¹⁸¹ John Valentine, "Cultural Nationalism, Anti-Americanism, and the Federal Defense of the Canadian Football League," *American Review of Canadian Studies* 49, no. 3 (2019), 389.

¹⁸² Goodenough, "Defending the Imaginary to the Death--Free Trade, National Identity, and Canada's Cultural Preoccupation", 210.

market” decide winners and losers”¹⁸³ The Dairy Farmers of Canada anticipated the potential threat posed by trade liberalization to Canada’s dairy industry at the beginning of the Tokyo Round of the GATT in 1974. According to the Dairy Farmers of Canada’s 1974 Dairy Policy document, the Dairy Farmers of Canada expressed its concern that “Canada may be drawn into negotiations in this area in response to U.S. initiatives”.¹⁸⁴ Highlighting the threat that the United States posed to Canada’s dairy industry became one of the main strategies of Canadian dairy farmers in their efforts to preserve supply management in the era of trade liberalization. Moreover, the US was not the only market to pose problems for Canadian dairy farmers. As Doyon noted, the United Kingdom's decision to join the European Economic Community (EEC) resulted in Canada losing “its privileged access to the UK dairy market”.¹⁸⁵ The animosity of Canada’s dairy farmers to the EEC is evident in the Dairy Farmers of Canada’s 1975 Dairy Policy document, in which the Dairy Farmers of Canada characterized the policies of the EEC as an “unfair and intolerable situation, and one moreover which does violence to the whole direction and intent of national dairy policy in Canada”¹⁸⁶. Although Canadian dairy farmers were concerned that the Tokyo Round of the GATT would force Canada to open up its dairy industry and dismantle supply management, dairy policy was not included.

A decade later, a new threat would emerge for Canada’s supply management industry. In August 1983, the Government of Pierre Elliot Trudeau introduced the Trade Policy Review to begin sectoral negotiations with the United States in the hopes of achieving free trade in areas

¹⁸³ Bruce Muirhead, “Crying Over Spilt Milk: The History of Dairy Supply Management and Its Role in Recent Trade Negotiations,” *Centre for International Governance Innovation*, no. 30 (2014), 10.

¹⁸⁴ Dairy Farmers of Canada, “1974 Dairy Policy” (Ottawa, 1974), 10.

¹⁸⁵ Maurice Doyon, “Canada’s Dairy Supply Management: Comprehensive Review and Outlook for the Future,” 2011, 14. <https://www.cirano.qc.ca/files/publications/2011DT-01.pdf>.

¹⁸⁶ Dairy Farmers of Canada, “1975 Dairy Policy” (Ottawa, 1975), 4.

such as public procurement and the petrochemical market.¹⁸⁷ At this time, significant tariff and non-tariff barriers existed between the United States and Canada, and therefore the removal of these barriers promised significant economic benefits for both countries.¹⁸⁸ As the goal to remove tariff and non-tariff barriers developed into negotiations for a regional trade agreement, it was inevitable that agriculture protectionism and subsidies, including Canada's supply management system on dairy products, would be on the table. This created panic within the Canadian dairy industry and had Canadian dairy farmers anticipating the end of their industry. For example, Ellard Power, the former President of the Canadian Dairy Commission, warned dairy farmers at an event hosted by the National Farmers Union in 1987 that "Ontario dairy farmer's milk quota could drop as much as 15 percent if Canada and the United States sign a free trade agreement" and that "agriculture is targeted to be one of the biggest losers in free trade".¹⁸⁹

The Dairy Farmers of Canada expressed concerns over the proposed Canada-United States Free Trade Agreement in its 1986 Dairy Policy document. According to the Dairy Farmers of Canada document:

The health of the dairy industry is also threatened by external pressures to liberalize trade between Canada and other countries. The national dairy policy for industrial milk in Canada represents an agreed undertaking of producers, provincial governments and the federal government to achieve stability and fair price levels for producers for Canada's requirements of industrial milk. There are few if any countries in the world with a significant dairy industry that do not have dairy policies aimed at a higher degree of domestic self-sufficiency at guaranteed price levels. Dismantling or disruption of this structure of policies and programs as part of a general Canada-United States trade liberalization negotiation or through discussion

¹⁸⁷ Murray G. Smith, "The Free Trade Agreement in Context: A Canadian Perspective," in *The Canada- United States Free Trade Agreement: The Global Impact*, ed. Jeffrey J. Schott and Murray G. Smith (Washington, D.C: Institute for International Economics (U.S.) Institute for Research on Public Policy, 1988), 40.

¹⁸⁸ *Ibid.*, 42.

¹⁸⁹ Harry Kilfoyle, "Fight Free Trade Now, Dairy Expert Urges 250 Farmers at Seminar," *The Whig-Standard*, 1987.

for a renewed General Agreement on Tariffs and Trade (GATT) would not be a tolerable nor remotely desirable option.¹⁹⁰

This policy is interesting given the context of a proposed free trade deal with the United States. First, national dairy policy on industrial milk is linked to Canadian federalism, with the Dairy Farmers of Canada noting that this policy reflects a compromise between producers, provincial governments, and the federal government. This compromise or undertaking places dairy producers as negotiators equal to the provincial and federal governments. Second, is the fact that the Dairy Farmers of Canada highlight that Canada's system of supply management is not unique, but rather another agricultural policy aimed at a higher degree of domestic self-sufficiency. Although true that many countries have had, or currently have in place protectionist measures for their dairy industries, such as New Zealand, Australia, and the United States¹⁹¹, Canada's is distinct because it only encompasses protecting the domestic industry in order to ensure domestic consumption. Following the signing of the CUSFTA in 1988, the Dairy Farmers of Canada called for "close scrutiny" for the "introduction of and debate over such legislation during the months to come, to ensure the long-term maintenance of all elements of the milk supply management program".¹⁹²

A Multilateral Threat: Protecting Canada's Dairy Industry from the WTO

In addition to this, the beginning of the Uruguay Round of the GATT presented another threat to Canada's dairy industry. With regards to the Uruguay Round, which was intended to deal with agriculture, the Dairy Farmers of Canada called on the Government of Canada to

¹⁹⁰ Dairy Farmers of Canada, "1986 Dairy Policy" (Ottawa, 1986), 4-5.

¹⁹¹ Doyon, "Canada's Dairy Supply Management: Comprehensive Review and Outlook for the Future", 23.

¹⁹² Dairy Farmers of Canada, "1988 Dairy Farmers of Canada Policy Statement" (Ottawa, 1988). 8.

promote Canada's supply management system as a model for "achieving the overall GATT objectives of raising the standard of living and the progressive development of the economies of all contracting parties" and to highlight the need "for domestic government interventions which are at the base of current trade distortions".¹⁹³ Canada's dairy farmers defended supply management as a model of the embedded liberal compromise of the post-war era. Supply management was portrayed as a model of GATT objectives because it encouraged "domestic government interventions" which encouraged "raising the standard of living" and "progressive development" of economies. In other words, supply management was a model of GATT objectives because it helped sustain domestic stability and prevented the desire to liberalize trade from trumping the need to ensure the preservation of incomes and Canada's closed system of dairy production.

As previously noted, the Uruguay Round of the GATT forced countries to convert all non-tariff barriers into tariffs, forcing Canada to adjust its supply management program from import quota restrictions to tariff protection. The threat of Uruguay Round and the threat of the tariffication of non-tariff barriers forced Canadian dairy farmers to mobilize. The Dairy Farmers of Canada were clear about the threat that tariffication posed, with the 1993 Dairy Policy document stating that "[t]ariffication cannot and will not ensure the continued stability which has characterized the Canadian dairy industry under supply management" and will instead "inevitably lead to the demise of Canada's supply management programs".¹⁹⁴ This represented another invocation of the compromise of embedded liberalism and the threat to sovereignty posed by trade liberalization. However, it defends stability within the Canadian context. Supply management and the quantitative restrictions that sustained it at the time were essential to

¹⁹³ Dairy Farmers of Canada, "1988 Dairy Farmers of Canada Policy Statement", 4.

¹⁹⁴ Dairy Farmers of Canada, "1993 Dairy Policy," 1993, 3.

preserving the stability of the Canadian system and ensuring the preservation of a Canadian cultural industry. While Canadian dairy farmers were making economic arguments to the Government of Canada, in their public relations fight, they were appealing to the cultural significance of the dairy industry in Canada. During 1990, at the height of the fears over the Uruguay Round, Canadians began seeing ads on their televisions that claimed: "every time a dairy farm dies, part of Canada dies too".¹⁹⁵ Moreover, Canadian dairy farmers defended their position by pointing to opinion polls at the time that showed that Canadian consumers wanted self-sufficiency in milk products ¹⁹⁶.

Canadian dairy farmers continued expanding upon the narrative that the main threats to Canada's dairy industry were the United States and the EEC, with the executive director of the Dairy Farmers of Canada, Richard Doyle, arguing that they will continue to "produce surpluses" and "drive down the world price, and, combined with the tariffs, will end up hurting Canada" ¹⁹⁷. Moreover, Doyle called upon the world to recognize that Canada's supply management system has not been "trade-distorting"¹⁹⁸. The 1993 Dairy Policy document also highlights the threat posed by the United States and EEC, attacking their negotiating partners for criticizing Canada for wanting to keep supply management intact under Article XI, while insisting that all GATT signatories accept the Blair House Accord, a list of exemptions intended to protect U.S. and EEC agriculture.¹⁹⁹ Therefore, the policy of Canada's dairy farmers involved calling out the hypocrisy of the United States and the EEC, while arguing that protecting the economic interest of the

¹⁹⁵ Bernard Simon, "Canada Fights to Protect Its Dairy Farmers - GATT / How Ottawa Keeps a Powerful Lobby from Becoming a Dying Breed," *Financial Times*, November 6, 1990; Wolfe, *Farm Wars: The Political Economy of Agriculture and the International Trade Regime*, 8.

¹⁹⁶ Simon, "Canada Fights to Protect Its Dairy Farmers - GATT / How Ottawa Keeps a Powerful Lobby from Becoming a Dying Breed."

¹⁹⁷ Elaine Shein, "Supply Management Supporters Urged to Keep on Fighting," *The Western Producer* 69, no. 28 (1992).

¹⁹⁸ Ibid.

¹⁹⁹ Dairy Farmers of Canada, "1993 Dairy Policy", 5.

Canadian dairy industry was a necessity in preserving a distinctly Canadian cultural commodity. Furthermore, following the competition of the Uruguay Round of the GATT and the beginning of the subsequent Doha Round, the Dairy Farmers of Canada created an International Trade Department in November 1998 to provide them “with the necessary resources to deal with all the issues involved in the international trade arena” and to provide information in order to “develop a credible and comprehensive position on trade”.²⁰⁰ In addition to this, the Dairy Farmers of Canada claimed that the Government of Canada’s negotiating position for the Doha Round was “greatly influenced” by their work, including Canada’s “Initial Negotiating Position” on over-quota tariffs, which was a previously adopted Dairy Farmers of Canada policy position.²⁰¹

The Free Trade Era: Dairy Farmer’s Resistance to Regional Trade Agreements

The resistance and hesitation demonstrated by Canadian dairy farmers during the CUSFTA negotiations in the 1980s were similar to the resistance and hesitation of Canadian dairy farmers following both the CETA, the CPTPP, and the USMCA. As noted in the previous chapter, it was estimated that Canada conceded 8.4% of domestic market access to foreign dairy imports in these three agreements. The appeals to both economic and cultural arguments that dairy farmers had utilized in their public advocacy and lobbying remained. Essential to this in the CETA negotiations was to allow Canadian dairy farmers to use geographical indicators. The Dairy Farmers of Canada told the House of Commons Standing Committee on International Trade that “Canadian farmers must not be impeded in their ability to name and promote certain common agri-food products, such as feta and Parmesan cheese.”²⁰² This was due to fears that

²⁰⁰ Dairy Farmers of Canada, “Action + 1999-2000,” *Action +: Dairy Farmers of Canada Activity Report*, 1999, 30.

²⁰¹ *Ibid*, 12.

²⁰² Canada. Parliament. House of Commons. Standing Committee on International Trade, “Negotiations Toward a Comprehensive Economic and Trade Agreement (CETA) Between Canada and the European Union.”

geographical indications in the EU, such as feta and cheddar cheese, are marketed as generic products in Canada.²⁰³ Therefore, the inability to market these products as feta or parmesan cheese would hurt Canadian producers. Geographical indicators used exclusively in the Canadian domestic market would become an essential tool for Canadian dairy producers to fight against the infiltration of foreign dairy products, especially cheese from the EU which could compete within Canada's market. Moreover, after the negotiations on the original TPP agreement concluded, the Dairy Farmers of Canada told the House of Commons Standing Committee on International Trade that Canada's dairy industry is "mostly produced for domestic and local needs", accused the EU, U.S., and New Zealand of subsidizing dairy exports, and called for the Government of Canada to compensate farmers and invest \$4.3 billion in Canada's supply managed sectors.²⁰⁴ As evident in this submission, the Dairy Farmers of Canada also defines Canada's dairy industry as a closed system and only seems concerned with protecting Canada's dairy market, rather than expanding or improving exports.

During the negotiations of the USMCA, the Government of Canada and Prime Minister Justin Trudeau portrayed the increased market access for U.S. farmers as a win for Canada, because the U.S. initially wanted to dismantle Canada's supply management system and Canada's negotiators preserved the system.²⁰⁵ However, the Dairy Farmers of Canada did not agree with this assessment and characterized the agreement as a "message sent to our passionate, proud and quality-conscious farmers and all the people who work in the dairy sector is clear: they are

²⁰³ Kerr and Hobbs, "A Protectionist Bargain? ", 449.

²⁰⁴ Canada. Parliament. House of Commons. Standing Committee on International Trade, "The Trans-Pacific Partnership Agreement: Benefits and Challenges for Canadians" (Ottawa, 2017), <https://www.ourcommons.ca/Content/Committee/421/CIIT/Reports/RP8828808/ciitp06/ciitp06-e.pdf>.

²⁰⁵ Kelsey Johnson, "Dairy Farmers Will Be Compensated for Trade Deal: Trudeau, Freeland – iPolitics," iPolitics , 2018, <https://ipolitics.ca/2018/10/01/supply-management-saved-say-trudeau-and-freeland/>.

nothing more than a bargaining chip to satisfy President Trump”²⁰⁶. Moreover, the Dairy Farmers of Canada President and the Chairs of all 10 provincial dairy associations wrote an open letter to Prime Minister Trudeau asking him to not sign the USMCA until US oversight over Canada’s dairy industry was removed, calling it “a matter of Canadian sovereignty”²⁰⁷. This statement once again highlights the attempt by Canadian dairy farmers to tie their industry to the Canadian nation, arguing that US access to the dairy industry was a violation of Canadian sovereignty. This argument is very similar to the arguments made by defenders of Canada’s protectionist policies on culture, who view the influx of US cultural products as a threat to Canadian cultural industries and Canadian sovereignty.

To fight against the increased market access to U.S. and EU dairy products, the Dairy Farmers of Canada has launched a buy Canadian campaign that includes a 100% Canadian Dairy Certification logo that companies can add to their product.²⁰⁸ Their website notes that this logo will “Help Canadian shoppers identify your Canadian-made products”, “Guarantee your products are made with 100% Canadian milk”, and “support Canadian dairy farmers and their commitment to responsible farming”²⁰⁹. Moreover, the Dairy Farmers of Canada cited a poll from Abacus Data to state that “77% of Canadians want to keep dairy Canadian”²¹⁰. Once again, Canada’s dairy farmers were making a cultural and national claim of support for Canada’s dairy industry by arguing that Canadians wanted to keep the domestic dairy industry “Canadian”. However, 77% of respondents to the poll did not agree to keep the domestic industry

²⁰⁶ Dairy Farmers of Canada, “Dairy Farmers’ Livelihood Sacrificed Again,” 2018.

²⁰⁷ Dairy Farmers of Canada, “Dairy Farmers across Canada Ask the PM Not to Sign USMCA until US Oversight Clause Has Been Removed,” Dairy Farmers of Canada, 2018.

²⁰⁸ Dairy Farmers of Canada, “Our Certification of Origin Logo,” 2019, <https://www.dairyfarmersofcanada.ca/en/dairy-in-canada/our-certification-origin-logo>; Doyon, “Canada’s Dairy Supply Management: Comprehensive Review and Outlook for the Future”, 44.

²⁰⁹ Dairy Farmers of Canada, “Our Certification of Origin Logo”.

²¹⁰ Dairy Farmers of Canada; Bruce Anderson and David Coletto, “Trade, Trump & Milk: How Canadians React to Tough Talk,” 2017.

“Canadian”, but rather agreed that the statement “Like the US and other countries, Canada has policies that are designed to support a healthy Canadian dairy farm sector and that they work well enough to meet the needs of consumers too” came closest to their own view ²¹¹. Therefore, it appears that the Dairy Farmers of Canada policy of appealing to Canadian sovereignty and culture under threat from U.S. and European economic and cultural dominance has been effective thus far in maintaining both public and government support for Canada’s supply management system.

Although Canada’s dairy farmers have been quick to defend supply management as a key example of the notion of stability that encompasses the embedded liberal compromise of the GATT, it was also quick to condemn the U.S. and the EU for employing such measures. However, Canada’s dairy farmers have not been critical of the U.S. and EU for protecting its own markets, because to do that would be to refute the GATT principles and objective of stability that it uses to defend its own interest. Rather, the Dairy Farmers of Canada attacks the U.S. and EU industry’s because they want to use domestic protection and subsidies to export products to other markets. For Canada’s dairy farmers, this represents a violation of Canadian sovereignty. It is a violation of Canadian sovereignty because it seeks to infiltrate and destroy a distinctly Canadian system that has been legitimized in the short-term by surviving multiple trade agreements and reforms. Moreover, it is a violation of Canadian sovereignty because EU and U.S. attempts to infiltrate Canada’s market are viewed by Canada’s dairy producers as attempts to disrupt social stability. In a 2009 Dairy Farmers of Canada update, Canada’s dairy farmers called on “all parliamentarians” to “continue to work together to ensure that all countries have the right to define their own food and agricultural policies in order to nurture and sustain

²¹¹ Anderson and Coletto, “Trade, Trump & Milk: How Canadians React to Tough Talk.”

their own food systems.”²¹² Therefore, it appears that Canada’s dairy producers are concerned with sovereignty, and sovereign measures that can help states sustain their own food systems, including the community and social values that derive from sovereign food systems. It seems that the Dairy Farmers of Canada would be fine if the U.S. and EU created a system similar to supply management, which manages production and aligns with domestic demand, as long as it was for their own domestic consumption and did not threaten the Canadian market.

Dissidents, Traitors and Rebels: Ensuring Farmers Buy into the System

Canadian dairy farmers have been very successful at creating and promoting a national culture of consumption for Canadian dairy products. The Dairy Farmers of Canada and provincial dairy organizations will continue to promote the narrative that the future of dairy as a Canadian cultural commodity is reliant on economic protectionism and the threat posed by foreign markets. This linkage of culture and economics is essential in maintaining a system that protects the domestic industry. However, threats to Canada’s supply management system are not only foreign but are present within the domestic dairy industry. The threat presented to supply management within the dairy industry has been the presence of “dairy dissidents”, dairy farmers who do not abide by the rules of the domestic quota-system. Two examples of this are the dissident case in British Columbia (BC) from 1984-1993 and the dissident case in Alberta in 1995. In both cases, “dissident” farmers sold their quotas but continued selling their products to new markets.²¹³ In the Alberta case, the “dissident farmers” sold their quota and began working outside the supply management system because of the threat posed by the new NAFTA and the Uruguay Round of the GATT, with a representative for the farmers stating that “they didn’t want

²¹² Dairy Farmers of Canada, “DFC Update Spring 2009,” *DFC Update*, 2009, 1–4.

²¹³ David Schmidt, “B.C.’s Dissident Issue Nearing Resolution,” *Western Dairy Farmer*, 1993, 12-14; Janis Schole, “Radicals or Visionaries?: Producers Abandon Quotas for New Market,” *Western Dairy Farmer*, 1995, 12-15.

to be dependent on any government subsidy to hold their hand while going through this process...and they have chosen to take initiative to seek and create new markets on their own in order to survive in the world today”.²¹⁴ The actions of the Alberta “dissident” farmers resulted in the managing director of the Alberta Dairy Control Board, Lloyd Johnston, to state that “ the system [supply management] would not fall apart from outside forces, but rather from within”.²¹⁵ This highlights the challenge to the future of Canada’s supply management system, it is not only about making the cultural and economic protectionist argument to appeal for support to actors outside the industry, such as consumers and government, but also about ensuring buy-in from farmers within the industry. Considering that dairy dissidents at the time were referred to as “traitors”, “crooks”, “rebels”, and “renegades” by the others in the dairy industry, it appears that most farmers have continued to buy into the system, but the threat of dissidents could pose a challenge to Canada’s dairy industry as market access for foreign products increases in the era of trade liberalization.

As noted in the previous chapter, Canada’s commitments following the Nairobi Declaration in 2015 means that Canadian dairy export that are deemed to be subsidized will end January 1st, 2021. Carter and Mérel argued that Canada’s closed system of dairy could hurt producers in the long-term, because they are prevented from exporting to a world market of increased demand, despite the fact that their models suggest that Canadian dairy producers hold a comparative advantage.²¹⁶ This could potentially lead to frustration from Canada's dairy farmers and threaten the stability of supply management from within. It is outside the scope of this chapter and this study to examine whether Canadian dairy farmers want to export their product

²¹⁴ Schole, “Radicals or Visionaries?: Producers Abandon Quotas for New Market”, 14.

²¹⁵ Ibid, 51.

²¹⁶ Colin A. Carter and Pierre Mérel, “Hidden Costs of Supply Management in a Small Market,” *Canadian Journal of Economics* 49, no. 2 (2016), 577.

and to examine the internal division within Canada's dairy industry, but Johnston's concern in the early 1990s may still be valid today. Regardless, Canada's dairy farmers seem content with Canada's dairy system becoming more closed, as long as imports continue to be limited and farmers are compensated when foreign dairy products intrude on their market.

Maintaining supply management in the era of trade liberalization has involved the mitigation of threats that are both external and internal. However, in an attempt to mitigate these effects, Canadian dairy farmers have appealed to Canadian culture and Canadian sovereignty, arguing that supply management is a legitimate economic tool utilized to protect a distinct Canadian cultural commodity. Moreover, Canadian dairy producers have doubled down on this appeal to cultural significance by outlining the threats posed by the U.S. and the EU. The appeal to threats posed by the U.S. is a standard defence in the history of Canadian culture, which has been used to protect everything from Canadian audio-visuals to the Canadian Football League. These appeals to anti-Americanism in Canada ensure that politicians and the public buy into the message, and then subsequently support the agricultural protectionism that sustains Canada's dairy industry. Therefore, the Dairy Farmers of Canada and Canadian dairy producers will continue to utilize this narrative for as long as trade liberalization poses a threat to Canada's dairy industry.

Chapter 5: Supply Management as an Example of the Embedded Liberal Compromise?

The purpose of this chapter is to examine Canada's supply management system within the context of the embedded liberal compromise, with the goal of answering whether Canada's supply management system is an example of the compromise. As noted in Chapter One of this study, the compromise of embedded liberalism is a product of the construction of norms and ideas at the domestic level with discursive practices that exist on the international level. Moreover, in order to answer the question on whether Canada's system of supply management is an example of the compromise of embedded liberalism, it requires revisiting the debates over the concept of the embedded liberal compromise that were explored in Chapter One. The main question in the debate over the compromise of embedded liberalism was whether or not it should be regarded as a fixed concept or if it is an overall principle that can adjust to the changing needs and requirements that make up the objectives of domestic society and the discursive practices of the international community. This chapter will argue that the compromise of embedded liberalism is not a fixed concept, but rather a compromise between the construction of narratives that creates the objectives of domestic societies, and the discursive practices of the international community. One of the main implications of embedded liberalism that this chapter seeks to explore is the meaning of social stability. Moreover, if one is to envision the compromise of embedded liberalism as a means to preserve and safeguard cultural narratives that have become entrenched within domestic societies, then supply management and other agricultural protectionist policies that emphasize cultural sovereignty and self-sufficiency are an exemplar of the compromise of embedded liberalism.

Supply Management and the Original Embedded Liberal Compromise

In the context of trade negotiations, the compromise of embedded liberalism was a compromise between the desire to liberalize trade on the international level with the desire to ensure a just transition towards liberalization by cushioning sensitive industries on the domestic level. As Ruggie noted, “measures adopted to effect such domestic cushioning should be commensurate with the degree of external disturbance and compatible with the long-term expansion of international transactions.”²¹⁷ Thus, to qualify as an example of the compromise of embedded liberalism, Canada’s supply management system should be compatible with the long-term expansion of international transactions, meaning that it should be compatible with long-term multilateral trends towards trade liberalization. Chapter Three of this study argued that Canada’s supply management has resisted liberalization thus far and has only undergone small changes to accommodate new trade agreements but has not undergone any major structural change that would push it towards liberalization. Even the Uruguay Round requirements of tariffication did not radically affect the protectionist measures of supply management. Thus, it is hard to argue that Canada’s supply management system is compatible with the long-term goal of trade liberalization and the reduction of protectionist methods and barriers. However, this has not stopped Canada’s dairy farmers from invoking the compromise of embedded liberalism. As noted in Chapter Four, the Dairy Farmers of Canada characterized Canada’s supply management system as an example of the GATT objectives because it encouraged “domestic government interventions” which encouraged “raising the standard of living” and “progressive development” of economies.²¹⁸ However, that excludes the second half of the compromise, the practices of the

²¹⁷ Ruggie, “International Regimes , Transactions , and Change: Embedded Liberalism in the Postwar Economic Order”, 405.

²¹⁸ Dairy Farmers of Canada, “1988 Dairy Farmers of Canada Policy Statement” (Ottawa, 1988), 4.

international community, which in Ruggie's application of the embedded liberal compromise, is about pursuing trade liberalization in the long-term.

A key concept of the original embedded liberal compromise is the idea of "social stability". This concept was examined in Chapter One and was tied directly to the importance of culture within domestic society. Chapter One used Abdelal and Ruggie's definition of social stability, which was "the need to legitimize international markets by reconciling them to social values and shared institutional practices."²¹⁹ Abdelal and Ruggie's definition of social stability raises a significant question: does social stability encompass the reconciling of social values and institutional practices for society as a whole, or can it encompass the social values and shared institutional practices of a specific sector? Chapter One argued that the answer to this question was related to the question regarding cultural exemptions in international trade agreements and noted that these type of cultural protectionist measures can only be legitimized in a multilateral forum, such as the acceptance of these practices within the legal framework of a trade agreement.

Chapter One invoked the Uruguay Round of the GATT as an extension of the compromise of embedded liberalism. It was argued in this chapter that the Uruguay Round embodied the continuation of embedded liberal compromise because requiring states to convert non-tariff barriers to protective tariffs, a more transparent way to protect domestic industry, allowed states to protect their industries while accommodating a future where these barriers were to be removed. Thus, it was a compromise between the domestic and international spheres. The second part of this agreement, tariffication, is key. Tariffication in Uruguay was not a solution in itself, rather it was a band-aid attempt to balance the competing arguments between developed countries, which wanted to maintain cultural protections of their sensitive industries and

²¹⁹ Abdelal and Ruggie, "The Principles of Embedded Liberalism: Social Legitimacy and Global Capitalism," in *New Perspectives on Regulation*, 151-153.

developing countries who wanted a more liberalized trading order. Cultural protections in the developed world in areas previously untouched by international trade negotiations, such as agricultural protections, are under attack in the era of trade liberalization. In this context, tariffication was not meant as a means to save these cultural protections, but rather a way to slow down the bleeding before its inevitable demise. The Doha Round was another attempt not to save cultural protections, but to slow down the bleeding, as it would allow developed countries to keep measures which had minimal trade distorting effects, as argued in Chapter Three.

A New Embedded Liberal Compromise?

The absence of any desire to liberalize Canada's supply management system does not disqualify it from exemplifying the compromise of embedded liberalism. As noted in Chapter One, the embedded liberal compromise is not a public relations strategy for domestic societies to utilize in order to achieve trade liberalization in a responsible way. It is much more complicated than that. Rather, supply management was a compromise between states on how trade is perceived within their domestic societies. Thus, the compromise of embedded liberalism is not a fixed concept, but rather is an overall principle that can adjust to the changing needs and requirements that make up the objectives of domestic society and the discursive practices of the international community. Immediately after World War II, the compromise of embedded liberalism was between the need for social stability at the domestic level and the need for multilateralism at the international level. However, that was due to historical circumstance, with the establishment of the GATT following a half century of world war, economic protectionism, and economic disaster. This raises a significant question: is the embedded liberal compromise of the post-war era still a compromise that embraces the challenges of today, or is it outdated? Moreover, if the original post-war compromise of embedded liberalism does not embody the

economic and political challenges of the present day, then is there a new example of the compromise of embedded liberalism?

Regarding the previous question raised on whether there is a new embedded liberal compromise, in an era of uncertainty, marked by events such as Brexit and the election of U.S. President Donald Trump, culture has been absorbed within the arguments for populism and economic nationalism. Regarding Brexit, the NetCen report into the vote noted that “the Leave victory was not about demographics alone ... matters of identity were equally, if not more strongly associated with the Leave vote—particularly feelings of national identity and sense of change in Britain over time.”²²⁰ Moreover, President Trump characterized his America First policy during his inauguration speech as protecting “our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength.”²²¹ America First and Brexit were not about trade liberalization per se or cushioning the effects of trade liberalization. Rather, it was about sovereignty.

Moreover, as noted in Chapter Four, the notion of protecting national sovereignty was also invoked by Canada’s dairy farmers in response to the market access surrendered in the USMCA agreement. This argument regarding the violation of Canadian sovereignty by the Dairy Farmers of Canada mirrored the arguments of the defenders of Canada’s protectionist policies on culture in the 1990s, because it viewed the United States’ influence as a threat to a distinct Canadian cultural commodity and Canadian sovereignty. Thus, in today’s political climate, where trade agreements encompass more than just the removal of barriers on goods and services,

²²⁰ K. Swales, “Understanding the Leave Vote,” *NatCen*, 2016.

²²¹ Donald J. Trump, “The Inaugural Address,” The White House, 2017, <https://www.whitehouse.gov/briefings-statements/the-inaugural-address/>.

does the compromise of embedded liberalism need to be reconstructed in order to accommodate culture and sovereignty? Conversely, in this new modern-day conception of embedded liberalism, has culture and sovereignty replaced economic stability as the primary epistemological foundation of “social stability” within the embedded liberal compromise?

Culture and the Compromise of Embedded Liberalism: An Examination of the Role of Geographical Indicators in the New Embedded Liberal Compromise

Non-tariff barriers, such as quantitative restrictions, and protective tariffs were the measures utilized by the original embedded liberal compromise. The intended use of these provisions was to cushion domestic industries from the inevitable effects of trade liberalization, and to transition domestic industry towards liberalization in a responsible way. However, in this context, the meaning of social stability was economic stability. If we are to envision a new compromise of embedded liberalism, one which seeks to ensure the survival of cultural sovereignty from the threat of globalization and trade liberalization, what measures would be utilized? The answer to this question is geographical indicators. According to Taubman, geographical indicators “resemble the kind of ‘national champions’ that symbolize the precise, distilled sectoral interests that typically establish managed-trade desiderata” and “unite global protection with an intrinsically localized basis of protection, linking cultural diversity with global markets: thinking locally, acting globally.”²²² However, geographical indicators did not just link cultural diversity to global trade practices. More importantly, it ensured that the preservation of cultural practices and traditions became a priority in international trade negotiations. Thus, the compromise of embedded liberalism was able to transcend its strictly materialist origins, such as

²²² Antony Taubman, “Thinking Locally, Acting Globally: How Trade Negotiations over Geographical Indications Improve ‘fair Trade’ Rules,” in *Research Handbook on Intellectual Property and Geographical Indications*, ed. Dev S. Gangjee (Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing, 2016), 205.

compensation to farmers and workers to ensure economic stability and came to embody more discursive meaning of stability.

As noted in Chapter One, the classic example of geographical indicators is French wine. Geographical indicators on French wine originated with the Decree of 30 July 1935, which established the Appellation d'Origine Contrôlée (AOC), which “controls production techniques without referring to the quality of the final product, whereas other labels focus on the quality aspect.”²²³ AOCs had three main goals; first, was to ensure that producers agreed to fair rules and practices; second, to protect winegrowers from traders; and third, to shield winegrowers from the effects of international competition.²²⁴ The AOC designation has become so significant, partly due to the rigorous process that must take place before a product can receive the designation, that it has significantly influenced how the EU perceives geographical indicators. According to Barham:

The AOC is particularly interesting to consider as a GI because it influenced the development of the European Union Protected Designations of Origin (PDO), to the point that once an AOC is awarded in France there is very little questioning of its legitimacy at the level of the EU.²²⁵

The fact that the AOC designation faces very little questioning at the level of the EU speaks to its legitimacy that is attributed not only to the rigorous process, but also the purpose of the designation. The primary purpose of the AOC is not economic, but cultural. The goal of the

²²³ Alessandro Stanziani, “French Collective Wine Branding in the Nineteenth–Twentieth Centuries,” in *Research Handbook on Intellectual Property and Geographical Indications*, ed. Dev S. Gangjee (Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing, 2016), 38.

²²⁴ *Ibid.*, 40.

²²⁵ Elizabeth Barham, “‘Translating Terroir’ Revisited: The Global Challenge of French AOC Labeling,” in *Research Handbook on Intellectual Property and Geographical Indications*, ed. Dev S. Gangjee (Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing, 2016), 57.

designation is to tie the product to the land and to the history of the people living on the land. The AOC is an example of the concept of *terroir*, which ties the land to the agriculture product. Barham noted that *terroir* reflects both a “ongoing construction of the past through food that is largely unconscious for consumers” and an “conscious and active social construction” from special interest groups to “recover and revalorize elements of the rural past to be used in asserting a new vision of the rural future.”²²⁶ This revalorization of the rural past involves reconstructing the narratives around a specific agricultural product to align it with the hermeneutic assumptions regarding sovereignty, which is the epistemological foundation of the concept of *terroir*.

Geographical indicators have emerged as a significant issue in the Doha Development Round. Prior to the Doha Round, the TRIPS agreement signed in April 1994 imposed on all WTO members an obligation to protect geographical indicators from “deceptive uses” and a specific requirement to protect “wines and spirits”.²²⁷ Deceptive uses could include false claims about the origins of agricultural products, specifically with regards to wines and spirits. Moreover, the TRIPS agreement mandates future negotiations on a multilateral register for geographical indicators on wines, but not spirits.²²⁸ The TRIPS agreement created conflict during the Uruguay Round of the GATT as it pitted ‘emigrant nations’ such as the EU nations who supported geographical indicators against ‘immigrant’ nations including Australia, New Zealand, the United States, and a selection of Latin American nations who opposed them.²²⁹ Moreover,

²²⁶ Ibid, 60.

²²⁷ Daniel Gervais, “Geographical Indications under TRIPS,” in *Research Handbook on Intellectual Property and Geographical Indications*, ed. Dev S. Gangjee (Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing, 2016), 123.

²²⁸ Ibid.

²²⁹ JM Cortés Martín, “TRIPS Agreement: Towards a Better Protection for Geographical Indications?,” *Brooklyn Journal of International and Comparative Law* 30 (2004), 117; F. Addor and A. Grazioli, “Geographical Indications Beyond Wines and Spirits—A Roadmap for a Better

this issue has become a major obstacle in the Doha Development Round. This is not surprising, as the Doha Development Round was intended to address the concerns of developing countries, and geographical indicators, especially on wines and spirits, were intended to protect the cultural significance of certain agricultural products from developed European countries. This has led to a debate on whether the multilateral register should include more than just wines (geographical indication expansion), with a Joint Proposal Group proposing that there should be no mandate to extend the system to other products, and an EU-led group, allied with China, who insist that multilateral registers should not discriminate in favour of wines, and are therefore open to expanding the system.²³⁰ The establishment of a registry for geographical indicators beyond wine and spirits would create an opportunity to expand this new compromise of embedded liberalism and would further institutionalize the protection of culture and history within the global trading regime. However, this would mostly benefit emigrant countries, such as the countries within the EU, and would violate the purpose of the Doha Development Round. Therefore, it can be assumed that the decision over the future of geographical indicators will remain deadlocked in WTO negotiations for the foreseeable future.

As noted in Chapter Four, the use of geographical indicators became an essential tool for Canadian producers to fight back against the infiltration of EU cheese and U.S. and New Zealand milk into the Canadian market over the next six years. The Dairy Farmers of Canada 100% Canadian Certification logo represents an attempt by dairy producers to weaponize the cultural significance of ‘buy local’ as well as the constructed narratives of dairy being tied to national

Protection for Geographical Indications in the WTO TRIPS Agreement,” *Journal of World Intellectual Property* 5, no. 6 (2005), 865, 883.

²³⁰ JM Cortés Martín, “International Protection of Geographical Indications: The WTO Multilateral Register Negotiations,” in *Research Handbook on Intellectual Property and Geographical Indications*, ed. Dev S. Gangjee (Cheltenham, UK and Northampton, MA, USA, 2016), 199.

sovereignty against increased market access to foreign goods. The Dairy Farmers of Canada Certification logo is similar to the French AOC in that both seek to reconstruct and revalorize a distinct idea of a rural past and tie their products to that hermeneutic conception of the rural past. However, there is a key difference between this 100% Canadian Dairy Certification logo and the French AOC. The difference is that Canada's geographic indicators are only intended for the domestic market. As noted in Chapter Four, the dairy lobby's main concern with the CETA negotiations was the fear that the EU would impose its geographic indications policy on generic Canadian products such as feta and cheddar cheese, which would prevent Canadian producers from labelling their products as such. In the CETA, a compromise was reached protecting existing Canadian trademarks that use the same geographic name as protected EU products but banning new Canadian firms from marketing those products.²³¹ However, Canadian producers only wanted to advertise and market those generic names within their own domestic market and opposed the EU dictating what they could and could not do. Moreover, the 100% Canadian Dairy Certification logo is the exemplification of Canada's closed dairy system, it's an 100% Canadian dairy product meant for 100% of the Canadian population, nothing more and nothing less.

Supply Management and the New Embedded Liberal Compromise?

John Maynard Keynes wrote in his famous essay entitled "National Self-Sufficiency" that national self-sufficiency "in short, though it costs something, may be becoming a luxury which we can afford, if we happen to want it."²³² Keynes' piece on National Self-Sufficiency challenged the free trade doctrine of the 19th century and advocated for less "economic

²³¹ William A. Kerr and Jill E. Hobbs, "A Protectionist Bargain? ", 450.

²³² John Maynard Keynes, "National Self-Sufficiency," *The Yale Review* 22, no. 4 (1933), 755–69, <https://www.mtholyoke.edu/acad/intrel/interwar/keynes.htm>.

entanglement among nations.”²³³ This piece was written prior to the Great Depression, and many of the arguments in this piece contradict his legacy as one of the founding fathers of the Bretton Woods System. Nevertheless, it is a useful argument for exploring Canada’s supply management system. It is useful because national self-sufficiency in the dairy sector appears to be all that Canada’s dairy producers want. The historical development of Canada’s closed dairy system, as outline in Chapter Two, has encouraged Canadian dairy producers to pursue national self-sufficiency. Moreover, the system of supply management itself, with the use of quotas to match domestic supply with domestic demand, creates self-sufficiency. As Keynes noted, national self-sufficiency is possible, but it does come at a price. For Canada’s self-sufficiency of dairy, it costs consumers more. However, as noted in Chapter Four, Canada’s dairy producers defended their position in the Uruguay Round negotiations by pointing to opinion polls that showed that Canadians wanted self-sufficiency in milk products, and therefore were willing to pay more.²³⁴

Why do Canadians want self-sufficiency in milk products? Is it to ensure the economic stability of dairy producers? Considering that the average dairy producer in Canada has a net worth of C\$ 5 million and earns C\$160,000 of income per year²³⁵, protecting “vulnerable” dairy producers may not be the reason why Canada strives for self-sufficiency in its dairy industry. Rather, as argued in Chapter Four, Canada seeks self-sufficiency in its dairy markets in order to preserve Canadian cultural heritage, and to defend against the external threat posed by the Americans. The advertisements of the 100% Canadian Certification logo have dramatically increased following the signings of the CETA, CPTPP, and USMCA, despite only limited market access granted and supply management being maintained. This is because the threat

²³³ Ibid.

²³⁴ Simon, “Canada Fights to Protect Its Dairy Farmers - GATT / How Ottawa Keeps a Powerful Lobby from Becoming a Dying Breed”.

²³⁵ Kyle Edwards, “The Truth about Dairy Farming in Canada,” *Macleans*, October 4, 2018.

posed by American dairy farmers is not economic, but cultural. It is about preserving Canadian sovereignty, and the ideal of national self-sufficiency is tied directly to Canadian sovereignty. The cultural importance of Canada's self-sufficiency within its dairy industry is not just about the protection of a specific sector of the economy. Like the *terroir*, it is hermeneutic because it is defined by the revalorization of the rural landscape and the ideas associated with those specific periods in history.

Moreover, this chapter sought to reimagine an embedded liberal compromise which envisions the preservation of culture and collective narratives as the true meaning of social stability. Although economic stability is still crucial, it is not a separate objective measurement that can be divorced from culture and the establishment of narratives. As noted in Chapter One, narratives regarding economic and trade policy are not based upon economic structural variables alone, because economic and trade politics represents a clash of narratives.²³⁶ Therefore, to envision an idea of "social stability" which is separate from culture, and based solely on economic well-being is to entirely miss the point on why trade politics are contentious and why the compromise of embedded liberalism was needed.

To answer the over-arching question on whether Canada's supply management system is an example of the embedded liberal compromise, first requires defining what the compromise of embedded liberalism is. If the compromise of embedded liberalism is envisioned as a fixed concept, where the welfare state is utilized in order to ensure a just and fair transition to trade liberalization, then Canada's supply management system is not an example of the embedded liberal compromise. It would not be an example of the embedded liberal compromise because the prospect for future liberalization are very much in question, as outlined in Chapter Three.

²³⁶ Herrera, *Imagined Economies : The Sources of Russian Regionalism*, 95; Skonieczny, "Trading with the Enemy: Narrative, Identity and US Trade Politics", 442.

However, if the compromise of embedded liberalism is envisioned as a broad principle that can be applied to scenarios beyond its original circumstances, and the concept of ‘social stability’ can be adjusted to the political and economic concerns of a given time, then supply management is an example of the embedded liberal compromise. If the meaning of social stability can accommodate various cultural concerns, and if trade liberalization threatens those concerns, then an embedded liberal compromise would seek to reconcile those two. Supply management has thus far been able to accommodate Canadian’s desire for self-sufficiency in its dairy market and has been able to conform to the legal requirements of the WTO and Canada’s free trade commitments. Therefore, supply management is not some distinct protectionist trade policy separate from attempts to ensure social stability, rather it is preserving the self-sufficiency of Canada’s dairy market, which embodies the hermeneutic notion of Canadian cultural sovereignty.

In examining Canada’s supply management system as an example of the embedded liberal compromise, this chapter sought to provide an answer by flipping the question around and exploring what implications the example of both Canada’s supply management system and the AOC system on French wine have on the compromise of embedded liberalism itself. In examining the embedded liberal compromise through the lens of these two case studies, it becomes evident that the meaning of “social stability” within the compromise of embedded liberalism is inherently protectionist and seeks to preserve and safeguard cultural narratives that have become entrenched within certain products through historical significance. Thus, social stability as envisioned in the compromise of embedded liberalism is rooted in hermeneutics, because it is about preserving narratives that are defined by meanings associated with specific periods of historical and cultural significance. This poses a particular challenge for proponents of free trade and trade liberalization. Reducing barriers to trade in terms of goods and services has

been relatively successful so far. However, tearing down barriers to protectionist agricultural practices poses a particular challenge for proponents of trade liberalization, due to the cultural significance of agriculture and the sacred traditions that many societies hold with regards to that particular sector. Moreover, the increased use of geographical indicators represents a tool for proponents of cultural protection and traditionalism to fight back with. Attempts to control and regulate these tools has not gone as far as some may like, particularly for traditional societies, such as the EU, that want to expand these protections to more agricultural products. As a result, it appears that cultural protection, rather than economic stability, may become the new rationale for protectionist trade measures. Therefore, we must reimagine the concept of the compromise of embedded liberalism in order to accommodate this.

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