

Mandatory Supply Management: A Dairy Policy Option

The Canadian Milk Quota System

BY FRED WEBSTER
University of Vermont

Editor's Note: This article is the third in a series of seven dealing with supply management.

Conditions leading to the quota program

Milk production and marketing from farms in Canada has changed drastically in this century. As the industry developed, farms near the cities concentrated on supplying fresh, fluid milk needs and more distant farms produced milk for storable dairy products.

However, the regular dairy demand for fresh, high-quality milk in fluid markets made for unstable prices and frequent marketing changes as processors sought extra supplies to cover shortages or limited their milk receipts to avoid a surplus. Also, increases in productivity per cow and per farm meant that fewer farms were needed to supply the market.

Market uncertainty meant high risk for investment in the modern dairy production facilities needed to make use of new technology.

In response to these problems, the Canadian Dairy Commission was established in 1967 to oversee a supply management program for the dairy industry. Today, quotas appear to be strongly supported by the Canadian dairy industry.

Components of the Canadian program

As in the U.S., the Canadian milk marketing system divides milk according to use as fluid milk and industrial milk (for use in manufactured dairy products). Farmers may or may not belong to a cooperative but they all have to pay a hauling charge for getting their milk to a receiving plant and each pays part of the cost of the price support program through assessments.

Beyond that, the system is far different.

For one thing, Canada is a federation of large provinces — each with a great deal more independence than individual states in the U.S. Due to their size and geography, no milk for fluid use

moves between provinces. Also, milk marketing quotas to control production, prices for each class of milk, rules covering transfer of quotas, and assessments to cover program costs are set by each province — not the federal government.

The supply management effort is coordinated by the Canadian Milk Supply Management Committee. The Committee is made up of representatives of provincial producer marketing boards, provincial government agencies, and the CDC. All major policy issues are normally set by unanimous consent of all the provinces, usually after being discussed at two meetings of the committee.

Canadian dairy farmers receive two quotas — one for fluid and one for MSQ (market-sharing quota) of industrial or manufacturing milk. Fluid quotas are determined by each province based on estimates of its fluid needs.

Industrial milk needs are estimated nationally by the CM-SMC and the MSQ allocated to each province on a historical basis. The provinces, in turn, allocate fluid quotas and MSQ among producers. Market share of MSQ is expressed as kilograms of butterfat. If supply or demand changes sharply, the kilograms of quota may be adjusted up or down on a proportional basis.

The responsibility for exporting dairy products that are surplus to domestic requirements rests with the CDC. Since world market prices of dairy products are highly subsidized in most cases, the disposal costs incurred by the CDC are met through levies on all producer shipments of industrial milk.

The CDC determines the an-

anticipated costs of surplus disposal prior to each new dairy year and, after discussion with the CDCMSC, sets the levies required to defray the anticipated costs.

Both within-quota and over-quota levies are used.

The *within-quota levy* is needed to cover the cost of exporting skim milk powder and to defray surplus removal costs of product made from within-quota milk not needed to meet Canadian requirements. The *over-quota levy* is set at a level high enough to market surplus whole milk products on world markets. It is this over-quota levy which makes supply management effective, because it is so high that it discourages most producers from over-supplying their market shares.

The policies used to administer the market sharing quota system vary from province to province but must conform with the provisions of the national plan. For example, in Ontario the provincial allotment of market sharing quota was initially divided among all the producers in accordance with their manufacturing milk shipments in a base period.

While MSQ is an annual quota, fluid quota is set on a daily basis. Both are transferable among producers. Producers wishing to buy or sell MSQ or fluid quota submit their offers by a computer-

operated quota exchange. Volumes and prices of quota submitted by potential buyers and sellers are matched.

All transfers must take place over the exchange, except for within-family transfers and transfers involving ongoing farm operations. Both used and unused MSQ can be transferred, but not loaned or rented. With the exception of within-family transfers, transfers of quota are subject to an assessment of 15 percent.

Producers must market at least 85 percent of their quota. A producer marketing less than this amount may have his quota reduced unless he sells the amount of quota subject to reduction.

The purpose of the maintenance requirement is to encourage high utilization of quota within the Province, and to ensure that producers will not short the market.

Experience with the Canadian program

It is difficult to separate the results of supply management in Canada from other features of the industry. During the 15 years under this system, substantial changes have occurred in the structure of the Canadian Industry. Dairy farm numbers have dropped by some 92,000 or 67 percent.

Total production has remained

relatively unchanged and is presently in the order of 16 to 17 billion pounds a year. Herd size has about doubled while milk production per farm has tripled.

One way to compare returns to Canadian farmers with their U.S. cousins is to look at recent returns for a well-managed, actual Ontario farm.

This farm was slightly above average size (for Ontario) and had nearly its maximum quota. Ontario Dairy Board policies limit quota per farm. The farm had an annual quota of 373,517 pounds fluid milk, 1,023 pounds per day, and 226,761 pounds of MSQ, about 621 pounds per day.

To match production with quota, the owner followed a careful culling program geared to the farm's quota, not just the productivity of individual cows.

This farmer received Canadian \$23.13 per cwt. for fluid milk and Canadian \$18.06 per cwt. for industrial milk in 1985. Total milk marketed was over quota by 8,080 pounds.

The average price, including federal subsidy and deducting various levies was Canadian \$19.81 per cwt. or about U.S. \$13.86 per cwt. After allowance for hauling, milk promotion, and other fees, the average price was Canadian \$18.56 per cwt. or U.S. \$12.99 per cwt.

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Year	Milk shipments Bil. lbs.	Dairy farms Thous.	Shipments per dairy farm Pounds	Average herd size Cows
1970	16.8	136.8	122,920	18
1975	16.0	84.3	189,350	24
1980	16.3	56.4	289,113	31
1985	16.5	44.6	369,289	38

Source: Statistics Canada, Canadian Dairy Commission.

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