

Canada's Supply-Managed Dairy Policy: An Agenda for Reform

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Report Summary

This paper concludes the George Morris Centre's series of papers on milk supply management in Canada with recommendations for reform.

The series of papers has observed that Canadian dairy policy set clear objectives for milk supply management- the system was to control milk surpluses, support producer returns and address market power concerns at acceptable government surplus removal costs. Focusing narrowly on the initial policy objectives, it is difficult to argue that Canadian milk supply management has not been successful. However, this has occurred at a cost. Canada's competitor dairy industries have seen significant milk market growth, while Canada has seen exceptionally little growth. Prices under supply management have attracted increasing levels of dairy product imports and encouraged substitute products just as Canadian dairy exports have been sharply limited. Producer returns have been heavily capitalized into milk quota values, depressing overall financial returns even as operating returns are increasing. The regulatory instruments developed to maintain milk price levels and restrain quota value appreciation have restricted export market access, sharply limited access to milk quota for transfer purposes, and fragmented the domestic market in an uneven and inconsistent manner.

This paper draws these observations together into an agenda for bold reform. The essential elements, detailed in the sections below, are the following:

1. Make growth a top objective of milk supply management, and mandate growth
2. Improve the efficiency of the milk supply management system
 - Eliminate the provincial balkanization of the dairy market
 - Improve the efficiency of milk allocation to processing plants
 - Improve the governance of supply management agencies
 - Liberalize milk quota transfers
3. Liberalize milk pricing
4. Improve the broader trade positioning

The first element (market growth) and the second (improved efficiency) can create a reduction in costs that helps make feasible the third (liberalized pricing). The third leads logically to the fourth element (improved trade positioning). It is acknowledged that these recommendations are not unequivocal, as important barriers and challenges exist. However, without minimizing the challenges, there is no need to redesign the system from "scratch", no new laws need to be enacted, and it need not take a long period of time to implement these recommended changes.

It should be clear that these recommendations are a package- implementing any one of them in the absence of the others could result in only marginal changes or even no improvement; taken together significant improvement may be possible. In so doing, it avoids the extremes of ongoing marginal changes to the system as it exists vs. dismantling the system, and helps to develop the basis for a new, positive reform agenda for milk supply management.

Introduction

As dairy markets in Canada have evolved, federal and provincial dairy policies under supply management have adapted to adjust and reconcile market forces, consumer preferences, new technologies and products, financial returns, and production scale. These have not always been smooth, nor completely successful. Indeed, the basic mechanics of supply management were not conceived to fully address some of these issues; thus, new product demands, improvements in technology and scale, innovation among substitute products, and changing consumer preferences all create significant friction in the system.

This paper proposes and develops the rationale for important changes to the milk supply management system in Canada.

The first two papers were commissioned by the Conference Board of Canada. The first paper¹ detailed the evolution of supply management in response to chronic dairy surpluses, low farm milk prices, processor market power and high government support costs. It observed that supply management had evolved to implement its objectives in a changing market context, and that it had been successful in advancing its apparent objectives.

The second paper² cast Canadian dairy policy in the context of its peers internationally, and noted that dairy policies across developed countries have engaged many of the same issues—initially with protectionist policies, which were eventually liberalized due to government cost. The success of the Canadian dairy policy approach in limiting government cost has allowed it to avoid similar liberalization.

The third paper³ in the series, published by the George Morris Centre, provided an overview of challenges facing milk supply management. It found that the dairy industry suffers under stagnant growth, but that there are important countertrends in product growth. The supply management system struggles with transparent and flexible milk allocation, which is particularly important with segmented and differential growth trends. Milk pricing, with cost of production as its primary driver, struggles to be responsive to the range of milk demands. Milk supply management suffers from an extensive and fragmented regulatory framework—this extends from milk allocation within and among provinces to milk quota administration; inadministration. In much of the country, regulation of milk quota markets has created a gridlock situation.

This paper brings forward the observations, insights and analyses of the first three papers to develop recommendations for how the milk supply management system, and thus Canadian dairy industry, can be improved.

¹ *Canada's Supply-Managed Dairy Policy: How We Got Here* by Al Mussell, Bob Seguin, and Janalee Sweetland. Conference Board of Canada Centre for Trade, Investment Policy and International Cooperation, August, 2012. Available at <http://www.conferenceboard.ca/e-library/default.aspx>

² *Canada's Supply-Managed Dairy Policy: How Do We Compare?* by Al Mussell, Bob Seguin, and Janalee Sweetland. Conference Board of Canada Centre for Trade, Investment Policy and International Cooperation, October, 2012. Available at <http://www.conferenceboard.ca/e-library/default.aspx>

³ *Canada's Supply-Managed Dairy Policy: Challenges and Need for Evolution* by Al Mussell, Bob Seguin, and Janalee Sweetland. George Morris Centre report. December, 2012. Available at <http://www.georgemorris.org/publications/file.aspx?id=151f45f1-4ea2-4c86-bf12-0d7ad926a8de>

The Context and Legacy of Milk Supply Management

Canadian dairy policy has set clear objectives for supply management- the system was to control milk surpluses, support producer returns and address market power concerns at acceptable government surplus removal costs. This policy evolved during a tumultuous time of rapid change in the Canadian industry. Sharp changes in dairy markets, competition from new substitutes, rapidly improving technology, and concerns regarding processor market power characterized this period. Focusing narrowly on the initial policy objectives, it is difficult to argue that Canadian milk supply management has not been successful.

This success acknowledged, it must be understood that the development of dairy policy into supply management in the late 1960's/early 1970's, and the evolution of supply management from its inception to today has followed a complex path. It has always been controversial- through raucous public debate, at times aggressive action taken against a few to protect the many, legal challenges, and public displays of farmer protest. Moreover, while the system should rightly be judged a success relative to its policy objectives, in retrospect the objectives guiding the design of the system have been excessively simplistic; the need for market growth over time was never a core element, and its regulatory governance structure leaves it vulnerable to evolution in products and technology.

The problems addressed by Canadian dairy policy were not unique; Canada's peer countries have confronted many of the same issues, many using highly interventionist measures. For the most part, these policy instruments have been ratcheted back. The US reduced dairy support prices in the 1980's, Australia deregulated in the late 1990's, New Zealand in the mid-1980's and the EU in the early 2000's (a process which is ongoing). The results of these developments have been somewhat similar- milk prices have not increased as in Canada, milk prices have become more volatile, and milk production has increased, with Australia somewhat of an anomaly due to ongoing and severe droughts. Regardless of dairy policies, the number of dairy farms in Canada and peer countries has decreased; where information is available, the number of processing plants has also decreased.

Thus, control of milk surpluses at manageable public cost and increased producer returns through supply management in Canada, while successful, have come at a cost. Canada's competitor dairy industries have seen significant milk market growth, while in aggregate, Canada has seen exceptionally little growth in overall milk volumes- despite large increases in both population and income as demand drivers. In 1959/60 milk production in Canada was about 78 million hectoliters; in 2011/12 it was about 79 million hectoliters⁴. For reference, the Canadian population in 1960 was about 18 million and is about 35 million today⁵; according to Statistics Canada, real Canadian GDP in 1961 was just over \$264 billion, and was about \$1.36 trillion in 2011⁶.

The prices generated under supply management have attracted increasing levels of dairy product imports, and encouraged the development of substitute products. At the same time, Canadian

⁴ http://www.dairyinfo.gc.ca/index_e.php?s1=dff-fcil&s2=msp-lpl&s3=volume&page=histproddy

⁵ <http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&p2=33&id=0510005>

⁶ <http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=3800017&pattern=GDP+2002+chained&csid>

dairy exports have been limited to historic subsidized export levels based on decisions in a past trade dispute. Producer returns have been heavily capitalized into milk quota values, depressing overall financial returns even as operating returns are increasing. The regulatory instruments developed to maintain milk price levels and restrain quota value appreciation have restricted export market access and sharply limited access to milk quota for transfer purposes. Allocation of milk to plants is fragmented an uneven and inconsistent manner across the country, and implemented under a heavily bureaucratic system.

The governance of supply management agencies contributes to the system's bureaucratic nature. Many of the important decisions on supply management are devolved to federal-provincial or multi-province committees; this is the case for the Canadian Milk Supply Management Committee regarding industrial milk quotas (Market Share Quota, or MSQ), and the Canadian Dairy Commission and regional pools on milk pricing. The inclusive nature and collective decision making processes (in some cases, unanimity) have created a cohesive federal/provincial network. However the decision processes have had difficulty adapting to very changed markets and technologies. This has lent itself to focus mostly on marginal changes in the system at the expense of flexibility and the ability to make bold changes.

The fragmentation of milk allocation at the provincial level also reduces flexibility in the system. Adjustments in milk allocation to plants are concentrated at the provincial level, which thereby increases the pain of adjustment. Provinces are defensive of their provinces' dairy industry interests and thus milk allocation, which need not be in complete alignment with the national interest in effective and innovative milk supply management.

With the benefit of hindsight, significant elements of milk supply management could be viewed as what amounts to regulatory overreach- measures that are more than what is required to achieve objectives, which then create unintended consequences in terms of costs and burdens to the operation of the system. The system has also been shaped over time by the broader international trade environment; this appears to be shifting again. Given this, the challenge to the Canadian dairy industry and to policy makers is to retain essential elements of supply management, and to allow changes in other elements so as to not be trapped by the system's own history.

This leads to the following recommendations for a cohesive, intrinsically linked package of reforms to the system:

- Focus on market growth as a core element of milk supply management
- Efficiency improvements in the milk supply management system
- Liberalized milk pricing
- Improved trade positioning

This represents a holistic package of recommended improvements to milk supply management which are described below.

Establish Market Growth as a Core Principle Guiding Milk Supply Management

Market growth is critical to attracting new investment in the dairy industry, and this must be actively facilitated within a regulated system. The symptoms of lagging growth in Canadian dairy markets are evident throughout- in milk production and MSQ trends, in increasing imports, in tightness in the quota market, and in declining apparent dairy farm financial returns. At the same time, milk supply management agencies have not ignored growth. The agencies developed a Domestic Dairy Products Innovation Program (DDPIP), and following the adjustment from the WTO dairy export decision, a significant and increasing share of milk used in processing has been marketed under special (lower priced) classes. Recently, the agencies have committed to a permanent growth allowance within the MSQ. But these efforts are not well aligned with pricing, allocation, and other elements of supply management. Canadian dairy policy should shift focus to market growth and less on market stability as a clear and high priority objective.

An important start would be committed, material targets for market growth in industrial milk. There are dairy product categories that have demonstrated strong potential, and in which there is apparently greater demand elasticity to price. One means of implementing this would be to commit credibly, and well in advance, to an x% per year increase in the MSQ for a number of years and then to price as appropriate to move this volume, consistent with recommendations put forward by Robson and Busby (2010). It would then be left to provincial marketing boards and regional pooling blocs to determine how best to market this additional production.

Implementing this recommendation could require extensive changes in the workings of the system, many of which are detailed within the recommendations below. The milk supply management system is exceptionally conservative with regard to market growth as it currently operates. This is especially evident in the mechanisms of milk allocation to new and existing processing plants.

Eliminate the Balkanization of Milk Allocation

Milk allocation and pricing is a complex web that limits flexibility, expansion, and investment in the dairy industry. Fluid milk quota is strictly provincial in scale. Allocation of national industrial milk quota (MSQ) across provinces is based on the historic geography and structure of dairy processing facilities, with changes in this allocation driven by provincial population growth. This has recently been augmented with an allowance to move skim milk across provinces. Overall milk allocation is resident within a province and is strictly a provincial responsibility. Milk pricing is implemented at the regional pool level.

The overlapping nature of quota and milk allocation is complex and can be confusing, but it is also costly. Processing facilities in a province are practically limited in scale to the volume of milk that can be supplied within that province, with the prospect of augmenting that supply with skim milk from other provinces. New processing plants can now be built that are literally national in scale, and where product distribution allows, large plants will supply product nationally in lieu of a collection of smaller plants that serve local markets. Moreover, new

processing investments imply either the direction of milk away from some existing plants, which at least temporarily shorts the volume of existing plants in a province, or the purchase of PSQ from other plants in the province, which entails an additional capital cost associated with plant investment. The effect is to create an uninsurable contingent liability for existing processors in the residual use category regarding their security of milk supply, and the prospect of significant capital costs for new plants if they must acquire PSQ from a rival- either of which is a disincentive to new investment in the dairy industry. Moreover, the disruption in supply allocation is magnified because the milk supply must be realigned within the province; it would be less disruptive if it could be realigned at the national level. Thus, as technologies have changed toward larger capacity plants for some products, and markets for some products face booming demand while others are stable or in decline, the carve-up of the national market into provincial segments in which markets must clear makes less sense.

Supply management agencies have recognized these issues. An initiative has been championed by supply management agencies that aspires to combine regional pooling blocs and some provincial marketing board activities into a single national “P10” system; however, this has not been achieved. While this effort is ongoing and has achieved modest results such as the MSQ growth allowance, the issue of market and regulatory fragmentation goes much further than this. As long as provinces retain control over milk allocation within provinces, incentives to invest in new and larger processing facilities will be significantly weakened.

The dairy industry needs ongoing investments in processing facilities, and this is increasingly moving toward large, national-scale processing plants. To facilitate these investments, a system with production quota and milk supply control at the provincial level makes little sense. New plants established in a given province will expect transparent access to the milk supply, even if the plants themselves are large in comparison to the provincial market or even in comparison to the raw milk supply in the province. In addition to a focused renewal of the P10 initiative, the case must be pressed upon provincial governments that by retaining provincial fragmentation and authority over national allocation shares, it structurally weakens the milk supply management system. In the interest of increasing efficiency in milk supply management and attracting new investment in the dairy industry, provinces should devolve their authority over milk allocation to the national level. The system needs to move toward fully national allocation.

To address this, governments must be willing to confront the nexus of producer, processor, provincial and federal regulations that balkanize milk allocation. The dairy industry leadership must be prepared to press for these changes in the interest of improved efficiencies in milk supply management and new investment in the dairy industry, understanding that processing plants and milk quota allocation will be a result, affecting provincial capacities. This tradeoff must be recognized, and serve as the starting point for discussions, understanding that some provincial governments (and some provincial milk marketing boards) may view this as a threat and a prospective loss of provincial economic activity. But ignoring these inefficiencies poses an even greater threat to the broader Canadian dairy industry.

Improve Milk Allocation Mechanisms Within-Province

Another aspect of milk allocation inefficiencies is the administrative mechanism used to distribute milk among processing plants. Plant allocation is limited to a provincial level and is highly bureaucratic, based on a plant's historic milk volumes purchased, combined with priority allocation rules across end-uses employed by provincial marketing boards (which differ by province). These allocation rules generally favour fluid milk and some other uses (such as Class 2- ice cream, yogurt, etc.) and in effect discriminate against others such as Class 3 (cheeses) and Class 4 (butter, skim milk powder, etc.) as residual users are allocated milk based on PSQ or traditional allocation. This is changing, as new pricing classes with new priority uses were very recently introduced. But it remains that there is not a clear alignment between milk allocation and end use class pricing.

Regulation of milk allocation among plants in a province is not fundamental to supply management. The best evidence of this is that it is not used in other supply management systems such as turkey, eggs, and chicken in most provinces. Administered milk allocation to plants is simply not a necessary element of supply management. It is a case of regulatory overreach.

Moreover, administered allocation creates implicit costs within the system. There are plants that would willingly pay for more milk, but are unable to do so. Within the residual use category, there may be products with strong brands or product mix that serve market niches that actually add more value to raw milk than the priority uses imply, but this remains unknown and unrealized because the milk allocation mechanisms do not allow it to be revealed.

The obvious alternative to administered allocation of milk is market allocation based upon competition among processors for raw milk. This is employed in the other supply managed commodities described above, and allows much greater transparency in allocating milk to its highest and best use. It would support market growth by allowing plants to compete with one another directly for milk supplies in lieu of historic allocation, so that more innovative products and efficient plants could bid milk away from others.

As the seller of all raw milk from farms, provincial milk marketing boards are in a position to, in effect, tender milk to competing processors on a periodic basis, subject to end-use class pricing as minimum prices. Any premiums over minimum prices could be retained and pooled among producers. This avoids the concerns regarding inequity from some producers being paid price premiums.

Dairy industry leadership- producers and processors- must enunciate that the current allocation mechanism is costly and increasingly inefficient, and that they desire a system of competition among processors to allocate raw milk. Provincial marketing boards can then act to reform allocation. As such, some processors will need to get past the implicit equity value built up in PSQ/traditional allocation in dairy processing plants; doing so will be necessary to obtain a more flexible and competitive system.

Renew Supply Management Governance

The governance of milk supply management is a labyrinth of agencies, organizations and committees. These include the following:

- Canadian Dairy Commission
- Canadian Milk Supply Management Committee (CMSMC)
- Regional milk pools
- Provincial milk marketing boards

These agencies have a range of functions: the Canadian Dairy Commission establishes support prices for butter and skim milk powder and operates national marketing programs; the CMSMC makes decisions regarding adjustments in the MSQ; regional pools make decisions of regional milk pricing; provincial milk boards administer producer quotas, producer settlement, processor allocation, and a range of marketing/promotion programs. In fact, it is many of the same individual representatives that are involved throughout the process. For example, representatives of provincial marketing boards participate in the CMSMC process and they also sit on regional pool committees.

The above comprises an administrative network, but it is a network that can be (and is) bogged down. Supply management administration needs to be streamlined. A process toward doing this has been initiated by supply management organizations (the P10 process). It needs to be driven further and deeper to effectively take on the functions of provincial marketing boards and regional pools. The governance and culture of supply management agencies should be recast based on more accessible dialogue, discussion, and debate that leads to more transparent decisions and that reflects the essential needs of the system- referencing its underlying objectives, including market growth.

Liberalize Quota Transfer Policy

Quota transfer policy critically influences dairy farm investment and growth, and requires change and improved transparency. The capitalized value of quota and specialized dairy assets relates to current and expected future returns in dairy farming; when quota values are high, it reflects high returns or future expectations thereof. In some marketing boards' attempts to hold down quota prices and remove the appearance of onerous barriers to entry or expansion, precisely the opposite occurs. Quota price statistics may look lower, but the practical cost of acquiring quota for expansion has increased as producers move to purchase durable farm assets, create synthetic partnerships, and other proxy activities as a means of going around the system to access quota.

Doyon (2011) suggests changes in the quota exchange pricing mechanism that are worthy of consideration. But the issue goes well beyond the details of the quota pricing mechanism. The dairy industry would be better served if marketing boards recognized quota values as an indicator of dairy farm returns over which they hold influence, rather than something that they regulate directly. By attempting to short circuit the economic process that drives quota values, it costs efficiency in dairy production. Provincial marketing boards should be directed by provincial

governments to roll back regulation of milk quota prices and quota exchanges, as well as policies that constrain quota transfers among dairy farmers.

Liberalize Milk Pricing

Canadian farm milk prices are high relative to Canada's key competitors. This is hardly surprising, as one of the core objectives of milk supply management was to increase returns to farmers. Canadian milk prices are materially higher than in the US- as illustrated in the third paper in this series. Evidence is also contained in the OECD measures of market price support, which essentially compares the domestic price of farm products in a country with the world price. Recent estimates by the OECD for 2009-11 show Canadian milk with market price support in excess of 50% of farm gate value⁷.

Canadian dairy farmers clearly identify with the benefits of high milk prices, and concerns on behalf of consumers with Canadian dairy product prices have so far been minor. But there are also difficulties with relatively high prices. High prices serve to dampen market growth- the best evidence of this is the converse, which is the growth observed in special classes where prices have been discounted. High domestic prices also attract imports, as evident in Canada's increasing dairy trade deficit.

High prices are also capitalized into input prices, creating inflation in production costs. This is especially the case when pricing is directly linked to the cost of production. The key difficulty with pricing based on production costs is that it feeds upon itself- higher milk prices justify higher production costs, which in turn results in higher milk prices (referred to by Forbes *et al* as the "upward ratchet effect"). Thus there is a perverse nature to cost of production pricing, and escalating input prices. Moreover, pricing based on costs cannot be responsive to dairy product markets, even when cost of production pricing is fragmented into end-use price classes

There is a clear opportunity to engage milk pricing issues at a range of levels. The Canadian Dairy Commission announced several years ago that its objective to cover the costs of production of 50% of farmers had been met. As such, the prospect exists to develop a pricing approach that is based on some other rationale than cost of production. Moreover, the improvements in supply management system efficiency and growth described above should effectively take costs out of the system, making lower pricing levels more feasible for the dairy farm segment.

Two elements of pricing reform should be considered: the overall level of price and the mechanism of price adjustment. There are many options in terms of overall reduction in price levels. For example, Barichello *et al* present a range of options on milk pricing, each of which ultimately focuses on reduction in milk price levels in anticipation of increased import competition, with producer compensation. Under one conception, milk prices would be reduced and compensation paid based on financing from a consumer tax; this has analogies with the Australian experience. Alternatively, Barichello *et al* envisage a two-quota system in which producers could exchange quota based on current prices for quota based on a lower milk price

⁷ OECD *Agricultural Policy Monitoring and Evaluation 2012- OECD Countries*, page 124

and receive compensation for the difference in value; this has analogies to the California milk marketing system. There are apt to be other possibilities; the point is for the dairy industry leadership to enunciate the need for lower milk price levels, and commit through milk supply management agencies to make this occur.

With regard to a price adjustment mechanism, the system requires a new pricing model that is not based on the cost of production. As described above, competition among processors for milk in a liberalized allocation system can serve as a central component of pricing, but an autonomous mechanism that sets minimum prices is also required. One alternative would be to link class prices more closely to actual dairy product prices. This mechanism is employed in the US and California milk marketing systems and could provide a starting point for pricing mechanism discussions, understanding that these mechanisms in use in the US are not backed by production controls, and could thus perform differently as an element of milk supply management in Canada.

It would be naïve to suppose that increased market growth and improved system efficiencies would completely offset significant decreases in milk prices, and a likely implication of changes in pricing and quota expansion is falling quota values. However, in engaging this issue, the discussion needs to be widened. Dairy farmers and governments called upon for compensation of lost quota value are not the only impacted parties, as banks and financial institutions, as well as others, have a stake in the dairy industry. The situation is different for farms that have recently purchased quota versus those that have not. Farms that are in a high equity situation versus lower equity situations are also impacted differently. Finally, the past and potential future tax treatment of milk quota needs to be understood.

Improve the Bargaining Position in Trade Discussions

Canada has been a willing participant in international trade negotiations since the Second World War, and its ultimate interest in trade is such that this will continue. The current federal government has made this clear; negotiating new trade agreements will be a central component of the economic growth strategy for Canada. In aggregate, the Canadian trade interest in agriculture and food overwhelmingly favours trade liberalization with only limited sensitivities, which include dairy. Ultimately, the dairy industry and milk supply management can only fail to engage this dynamic only at its own peril.

The above initiatives to spur growth and improve efficiencies can allow for a reduction in domestic milk pricing levels. This, in turn, can allow for reduced levels of protection for dairy products. This would take some of the pressure off dairy as a target in trade negotiations, and facilitate better Canadian participation in trade negotiations. As suggested above with pricing; it would be naïve to suppose that growth, improvements in system efficiency and reductions in price would be sufficient to dramatically reduce border protection for the dairy industry. Border measures will continue to be required to facilitate the operation of milk supply management. But the prospect of lower levels of protection would provide some relief and room for adjustment for dairy in trade negotiations that has not existed. It could also create a very different tone for Canada's agri-food trade discussions, and recast what has long been a defensive posture around dairy.

This approach could also create new possibilities that are not currently on the horizon. For example, in return for lower levels of protection on dairy products, Canada could seek improved dairy export market access with some of its trading partners. The past WTO dairy decision effectively freezes dairy exports at historical levels. It is conceivable that as part of Canada's current and future trade negotiations export access to partner dairy markets could be extended beyond these caps. If this is possible, increased access to export markets could be of great benefit to growth in the Canadian dairy industry. But surely this access would come easier if Canada had found a way to reduce its own trade barriers in dairy products.

Conclusion

This paper concludes a series of papers on milk supply management in Canada with an agenda for bold reforms. It is somewhat unique in that its recommendations are not oriented toward elimination of supply management and ideas to soften the impact; rather, it contemplates a renewal of supply management to align better with its current and future environment. It is also holistic in nature, rather than dealing in isolation with singular dimensions like pricing or market growth; the recommendations are designed to fit together with one another. Some of the recommendations above are technical in order to address the complexities in the system. However, its essential elements can be simplified as the following:

1. Make growth a leading objective of milk marketing under supply management, and mandate growth
2. Improve the efficiency of the milk supply management system
 - Eliminate the provincial balkanization of the dairy market
 - Improve the efficiency of milk allocation to processing plants
 - Improve the governance of supply management agencies
 - Liberalize milk quota transfers
3. Liberalize milk pricing
4. Improve the broader trade positioning

The first element (market growth) and the second (improved efficiency) should create a reduction in costs that leads to the third (liberalized pricing). The third leads logically to the fourth element (improved trade positioning). It is acknowledged that these recommendations are not without difficulty, as important barriers and challenges exist- for example, how to commit credibly to long-term mandated growth in MSQ; or how to successfully engage provincial MSQ allocation discussions; and to what extent decreased pricing levels could decrease dairy products tariffs, for example. But without minimizing the tasks, it should also be acknowledged that there is no need to redesign the system from "scratch"- the basic intents, logic, and operations could continue. No new laws would need to be enacted to implement these recommendations. It need not take a long period of time to implement these recommended changes.

As a package, the recommendations could help to provide a cohesive path forward for milk supply management that has not previously existed. It should be clear that these recommendations are a package- implementing any one of them in the absence of the others could result in only marginal changes or even no improvement; taken together significant improvement may be possible. In so doing, it avoids the extremes of ongoing marginal changes

to the system as it exists vs. dismantling the system, and helps to develop the basis for a new, positive reform agenda for milk supply management.

In 1972, Dr. Hans Mestern, one of the original designers of the supply management system for industrial milk declared, “The market is sounder because supply management aims at avoiding surplus production with low prices in cycle with short production and high prices. The Dairy Farmers of Canada have demonstrated a willingness and ability to determine their future as an aggressive and modern industry”. The dairy industry needs recapture this willingness and ability to determine its future by taking some bold action to renew and reform milk supply management.

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