
Dairy Policy Brief #5: Marketing Quotas

What is the Program?

Marketing quotas specify the maximum amount of milk that individual dairy farmers can sell, usually applying stiff economic penalties to any sales in excess of the assigned farm quota. The policy intent is to achieve a price goal by closely matching total milk supply with the total amount of milk demanded at the price objective. If this goal is achieved, then the government does not need to purchase surplus milk to support prices because no surplus is produced. Likewise, there is no need for government payments to farmers to support income because farmers receive sufficient revenue from the marketplace.

Milk quotas have been used for many years in Canada and the European Union (EU). Quotas have never been used directly for dairy in the United States. But there were programs in the 1980s that operated like quotas in that dairy farmers who marketed more milk than during a specified base period were penalized through an assessment on current marketings.

What are the issues?

- ***Marketing quotas can enhance farm milk prices without large government costs.*** Quotas do not require large treasury outlays because there are no government purchases or direct payments to farmers. Relatively high milk price levels can be achieved, as evidenced by farm milk prices in Canada compared to those in the U.S. In the 2004-05 marketing year (August-July), the Canadian weighted average farm milk price was about \$24.30 per hundredweight (converted to U.S. dollars). The U.S. all-milk price for 2005 was \$15.15 per hundredweight. Price enhancement under the EU quota system has been substantially less because the EU quotas are less restrictive.
- ***The value of marketing quotas is capitalized and raises production costs.*** To the extent that quotas are successful in raising prices above what they would be without them, the difference is capitalized in the value of the quota (if it is transferable) or the farm to which the quota is attached. Under the Canadian system, quota is fully fungible and traded through formal provincial exchanges. In March 2006, quota sufficient to cover the production of one average cow for a year was trading for about \$25,000 (U.S. dollars) in Ontario and Quebec, the major Canadian dairy provinces. The cost of quota is a major capital cost to farmers who want to enter the industry or expand their dairy operation.
- ***Quotas interfere with efficient industry changes.*** Depending on how they are applied, quotas can impede or prevent structural change in the dairy industry. Quotas that cannot be easily transferred can lock in herd size structure within regions and prevent inter-regional shifts in milk production that would increase industry efficiency. Quotas that raise milk and dairy product prices significantly above those in other countries must be accompanied by high tariffs to keep out imports. This interferes with trade liberalization objectives.
- ***Quotas can encourage dairy substitutes.*** Marketing quotas used to raise prices above competitive levels can create consumer resistance. Milk and dairy product consumption is reduced and substitutes displace dairy consumption.
- ***Quotas are difficult and expensive to administer.*** Dairy farmers need to be dealt with individually in allocating quotas and there can be difficult issues of equity in the allocation process. Individual farm production levels must be monitored to assure compliance.