Canada’s Supply-Managed Dairy Policy: How Do We Compare?

INTRODUCTION

Though most Canadians drink milk or eat yogurt or cheese, few are aware of the long-standing, complex supply management system that sets milk prices at the farm level and limits milk supply and dairy imports.¹

But some people are beginning to notice. In June 2012, Canada was accepted into Transpacific Partnership trade talks. In exchange for greater access to their markets for all Canadian goods and services, partner countries want access to Canada’s long-protected dairy market. (Partner countries will also seek access to other Canadian sectors, as well as changes to other policies, such as Canadian competition policies.)

¹ Goldfarb, Making Milk.
Canada is also negotiating a trade deal with the European Union. Greater access to Canada’s dairy market in return for greater access to the EU market for all goods and services could be part of the deal. Pressure to abandon the long-standing protection of Canada’s dairy (as well as poultry and egg) sector from international competition has intensified.

There is pressure to change Canada’s policy—whether marginally, dramatically, or somewhere in between—in response to domestic and international pressures. But why single Canada out? Don’t dairy sectors in all countries face similar pressures? What has been the experience of other countries, and how do their dairy industries compare with Canada’s?

This briefing by the George Morris Centre—the second in a series—compares the dairy industries in Canada with those in the United States, the Netherlands, Australia, and New Zealand.

Those four countries are now involved in trade talks with Canada. We hope that a comparison of peer country dairy sectors will provide helpful background on where different countries are coming from in trade negotiations and present a variety of models as Canada contemplates reform of its own system.

All these countries at one point developed interventionist policies to raise farmer returns and deal with surplus milk production. And all—except Canada—made their policies more market-oriented when they became too costly to maintain. Canada’s dairy industry shares some characteristics, such as farm consolidation, with dairy industries in other countries. On the other hand, Canada’s experience differs in that it is the only one of those countries where milk production has not grown. As well, Canada’s milk prices are stable and relatively high.

—The Conference Board of Canada

FIVE COUNTRIES, FIVE DAIRY POLICY APPROACHES

Canada, the United States, the Netherlands, Australia, and New Zealand have developed dairy policies to manage surplus production, subject to some unique circumstances.

U.S. dairy policy evolved based on motivations similar to those in Canada, with the use of regulated pooling agreements and support prices to increase prices and remove surpluses. Australian dairy policy relates to surplus and low producer returns, inequities between fluid and manufacturing milk, and the effect of Australia’s location and its need to trade. New Zealand lost a key export market in the early 1970s; the policy instruments developed to mitigate adjustment became unaffordable in the face of broader fiscal policy challenges, so that country evolved toward a freer market orientation. Dairy policy in the Netherlands under the European Union (EU) Common Agricultural Policy (CAP) was initially driven by the food security strains of post-Second World War reconstruction. By the 1970s, the Netherlands needed to manage surpluses and maintain producer returns, so policy shifted.

EVOLUTION IN THE DAIRY INDUSTRY

Large dairy industries exist in developed countries in the temperate zones throughout the world. A range of market-oriented and regulated approaches characterize the structure of these industries. This section surveys the evolution of the dairy industry in Canada relative to a cross-section of its major peers. For the purposes of comparison, these peers are drawn from major producers and exporters that Canada competes with in its domestic or export markets (at least on a latent basis) and that share somewhat similar technology, consumers, and nature of public policy. These include the U.S., Australia, the Netherlands/EU, and New Zealand.

Because dairy policy tends to focus on milk production and primary processing, this section addresses those activities. In each case, the discussion looks at the economic structure of production (farms), the physical scale of primary production (dairy cow herds), and the market (milk production and prices). Where data are available,
the structure of primary processing is compared (plants). (Though comparative conditions in dairy products and the influence of dairy policies are also of interest, they are outside the scope of this briefing.)

This section provides an overview of policy development in each country, followed by basic metrics relating to the farm segment and (as available) primary processing. The section concludes with a discussion of policy development and observed trends. We proceed in this way because policy both influences markets and is influenced by them. Not all market outcomes can be attributed to or easily explained by policy.

The section concludes with observations on policy developments and market and industry trends.

CANADA

The first briefing in this series\(^2\) described the Canadian dairy industry as in almost continuous flux since prior to the Second World War. The Canadian dairy industry emerged from the war with capacity oriented toward export; in the years following the war, improvements in technology increased milk production just as Canadian dairy exports were going into decline and a potent substitute (margarine) was introduced. This created chronic surpluses, low returns, and market access/power problems.

Through the 1950s and most of the 1960s, deficiency payments and import controls attempted to alleviate these problems; however, these proved to be both onerously expensive and largely ineffective. In the late 1960s and early 1970s, governments moved to cap deficiency payments based on historic production levels. This later led to capping production directly with quotas (for both fluid milk and milk used in manufacturing), coupled with support prices to control surpluses and support prices.

This structure has been robust in managing surpluses and supporting prices at manageable public cost, but has experienced major shifts, as governments removed themselves from direct operation of the system as trade threats affected it and substitute products emerged to compete with traditional dairy products.

This relates to production at the farm level, in terms of the number of dairy farms in Canada, the size of the Canadian herd, total milk production, and milk prices. In the late 1960s, there were over 135,000 dairy farms in Canada, more than half of which were in Ontario and Quebec. In 2010, there were just under 14,000 dairy farms, with the dominant proportion remaining in Ontario and Quebec. (See Chart 1.) Canadian dairy herd size increased during the Second World War, but it has been declining ever since. In 1940, there were just over 3.5 million dairy cows in Canada; today there are just under 1 million. (See Chart 2.)

Chart 3 presents trends in total milk production in Canada. It shows that, starting with 1959–60, even as herd declined, milk production remained relatively stable—consistent with major efficiency improvements brought about by technology. What is remarkable is that milk production remained constant or declined slightly over this period. Since the early 1970s, overall milk production has been stable, while the cow herd declined by

\(^2\) Mussell and others, Canada’s Supply-Managed Dairy Policy: How We Got Here.
about one-half, implying major productivity improvements at the producer level. Dynamics of this pattern that are evident in the chart include the major decrease in production in 1976–77, consistent with the large market sharing quota\(^3\) reduction in that year.

Chart 4 presents average milk prices (farm cash receipts for milk, and cream/milk and cream production) in Canada since 1965, in nominal terms.\(^4\) Canadian milk prices increased sharply in the 1970s and have continued increasing ever since.

Chart 5 shows that since the late 1950s, the dairy processing in Canada has consolidated into fewer plants. This continued through the 1990s to the point where the number today is only about half of what it was in the mid-1970s and only about 10 per cent of what it was in the early 1960s.

**UNITED STATES**

Dairy policy in the U.S. has its basis in the *Agricultural Marketing Agreement Act* of 1937. That act established federal milk marketing orders and price supports, which were originally authorized under the *Agricultural Act of 1949*.\(^5\) Federal milk marketing orders regulate minimum prices paid to farmers and regional pooling standards for milk. California runs its own marketing order, with analogous provisions. Dairy support prices establish a floor price value for cheese, butter, and non-fat dry milk. Under the program, the U.S. government acts as the residual purchaser to maintain support levels. More recent additions to the U.S. dairy policy mix are the Dairy Export Incentive Program, an export subsidy scheme, and direct payments—initially under the Milk Income Loss Contract Program and now under the National Dairy Market Loss Payments Program. Direct payments are triggered proportional to price decreases in the Boston fluid milk market, below a threshold level.

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3 “Market sharing quota” is a quota for milk used in manufacturing.

4 Milk prices in Chart 1 and in charts 10, 15, 20, and 25 are stated in nominal terms to observe the trends in each over time, rather than for direct comparison of price levels across countries.

5 Miller and Blayney, *Dairy Backgrounder*. 
Beal and Bakken describe the development of U.S. dairy policy. Throughout the early 20th century, the perceived challenges in dairy marketing in regions of the U.S. were adequate seasonal supply of fluid milk (especially in large population centres) and surplus milk with corresponding low prices. The development of municipal health regulations for milk in the U.S. created costs; fluid milk producers willing to incur these costs required a year-round market for fluid milk. This created a higher pricing level for milk that satisfied fluid health standards compared with milk used in dairy manufacturing. It also created the threat of increases in fluid supply in local markets. Thus, by the 1920s, in many urban regions of the U.S., such as Boston, New York City, Chicago, Baltimore, and Louisville, classified pricing plans emerged that allowed for the pooling of revenue between fluid milk and manufacturing milk.

These pools, which were initially developed through individual producer associations, later expanded into local market pools. One of their effects was to increase overall production in local markets, creating surpluses and reducing prices. To mitigate this, producer associations and dealers used quotas or “base-surplus” plans to control production. However, these plans bound only the producers who were members of marketing associations.

These pressures resulted in state-level controls on pricing and pooling, eventually resulting in the federal milk marketing orders in 1937. The late 1990s saw consolidation of the federal milk marketing orders from 31 to 10. It also saw the emergence of a state bloc to support fluid milk prices (the Northeast Dairy Compact) that operated between 1997 and 2001.

As described by Miller and Blayney, support prices for cheese, butter, and non-fat dry milk were initially established to maintain so-called “parity” prices—price levels that prevailed in 1910–18, on an inflation-adjusted basis. By the mid-1980s, the costs associated with the support price program became onerous and excessive, and support prices were reduced significantly—to the point where they were no longer the principal driver of milk prices. Chart 6 shows evidence of this: the marked decrease in dairy products in government stocks in the late 1980s, as the United States Department of Agriculture purchased less under the support price program. Support prices were slated for cancellation by the late 1990s, but they were continued in emergency supplemental payments and then re-established in the 2002 Farm Bill.

Today’s direct payment program evolved over time from a payment that was contingent on reduction in capacity (the Dairy Termination Program) in the 1980s to one that issues deficiency payments based on Northeast U.S. prices. In addition, a herd retirement program called Cooperatives Working Together was introduced in 2003. It operates on a competitive bid basis to remove dairy cows from production as a means of price support.

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6 Beal and Beaker, *Fluid Milk Marketing*.

7 Doyon, *Canada’s Dairy Supply Management*. 
The U.S. dairy industry has evolved significantly since dairy programs were instituted. For example, the number of individual farm operations has significantly declined: from over 1 million in 1965 to just over 60,000 as of 2010. (See Chart 7.) The number of dairy cows has also declined markedly: the herd has shrunk from almost 16 million head in the mid-1960s to about 9.1 million in 2010. (See Chart 8.)

U.S. dairy policy has evolved from support prices that established milk prices to a more liberalized system with deficiency payments based on a range of factors.

At the same time, milk production has grown significantly. Total milk production increased from about 560 million hectolitres in 1964 to about 850 million in 2010. (See Chart 9.) Chart 10, which plots U.S. average milk prices since the early 1960s in nominal terms, shows a broadly increasing trend in milk prices from the 1960s to the early 1980s, at which point the trend levelled out. This was followed by a period of increased price volatility beginning in the early 1990s, coincident with the reduction in dairy product support prices. The number of dairy processing plants in the U.S. decreased from just over 3,700 in the late 1960s to about 1,200 in 2010. (See Chart 11.)

**AUSTRALIA**

Doyon\(^9\) divides the development of dairy policy in Australia into two periods. Before the mid-1980s, the Australian dairy market was heavily regulated and supported; it was then deregulated. Prior to reform, fluid milk was priced at a significant premium to milk used in manufacturing and was subject to a quota. Schapper documented the market situation in Australia in the period well before the reforms of the mid-1980s:

Despite the extensive arrangements made by governments and industry to increase the price of butterfat … there is, in this butter and cheese segment, a low-income problem …. The low-income problem occurs not only in spite of price protection and subsidization, but in part also because of it. Dairy farmers who produce for the

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8 Miller and Blayney, *Dairy Backgrounder.*

9 Doyon, *Canada’s Dairy Supply Management.*
liquid milk trade have an economic environment which is entirely different from that of dairy farmers whose milk is used for butter and cheese . . . for the liquid milk trade as it is now organized there is evidence to suggest that . . . farmers who supply [the fluid] market are in a privileged economic position.  

For a long period prior to the mid-1980s, dairy policy was sharply fragmented between fluid and manufacturing milk prices. Fluid milk was fragmented at the state level and regulated by state marketing authorities, supported by quotas or pooling arrangements. Milk used in manufacturing was subject to price supports, import controls, and pooling of export revenues. A levy scheme was implemented on manufactured dairy products, in effect to finance exports. The result was significantly higher prices and limited market access for fluid milk compared with manufacturing milk.

In the mid-1980s, the Australian dairy industry reoriented itself toward growth through dairy exports. The pooling of export returns was eliminated and price supports were reduced. Processors were given a uniform deficiency payment under the Market Price Support program, funded by a producer levy on all milk production. In the 1990s, this was changed under the Domestic Market Support Scheme. Under this program, consumer levies on milk and dairy products funded support payments to manufacturing milk producers. In the years that followed, many states abolished fluid milk quotas and replaced them with pooling arrangements. By the late 1990s, the remaining elements of dairy protection were removed under pressure from tariff-free competition from New Zealand. Consumer levies were used to finance exit and adjustment programs for producers under final deregulation.

Since 1970, the number of dairy farms in Australia has declined from about 50,000 to under 8,000 in 2010. (See Chart 12.) The dairy cow herd has also seen a downward adjustment, but a different one compared with the decrease in dairy farms. (See Chart 13.) The herd declined from the 1960s to the late 1980s, increased markedly until about 2000, and then has been declining since—recent severe droughts are likely a significant cause for this latest decline.

Total milk production in Australia increased through the 1960s and early 1970s, and then declined in the later 1970s and early 1980s. It then increased through

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11 Harris, An Agriculture Case Study.
12 Doyon, Canada’s Dairy Supply Management.
the later 1980s and since; recent years’ production is
down, but this can be attributed to severe droughts.
(See Chart 14.)

Average milk prices (weighted averages of fluid and
manufacturing milk prices) in Australia increased through
the 1980s to the early 1990s and have since mostly
levelled off; recent price spikes are consistent with
drought. (See Chart 15.)

THE NETHERLANDS

Dairy policy in the Netherlands is driven by the EU
CAP. The CAP, implemented in 1962, is a core element
of European integration.13 Exhibit 1 provides an overview
of the considerations guiding CAP evolution since that
time. In its early development, when Europe was emerging
from the Second World War, agricultural policy focused
on maintaining European food security and boosting agri-
cultural productivity; thus, price supports and protection
were employed. This later resulted in surpluses, and
export subsidy programs were introduced to remove
these. These programs gave rise to burdensome govern-
ment costs and environmental problems, which have
been dealt with through programs to control production
and protect the environment. Recent policies focus on
rural development and environment rather than on tar-
targeted and direct commodity support.

Doyon discusses the details of dairy policy in the EU
under the CAP. Consistent with the policy evolution
described above, the initial CAP dairy policy involved
floor prices (“intervention prices”) and target prices that
protected domestic production. By the mid-1980s, the
dairy market in the EU was subject to extensive surpluses
that caused high costs to government in purchasing and
storage and, ultimately, export. To curb those costs,
quotas were put in place to limit production and thus
government exposure. However, the quotas were imple-
mented on a country-by-country basis, with high costs
assessed if quota production levels were exceeded.

13 European Commission, “The CAP in Perspective.”
Later reforms resulted in the Luxembourg agreement in 2003. It extended dairy quotas, with a schedule of increases in quotas such that they do not constrain production, and reduced support prices for dairy products markedy.\textsuperscript{14} Quotas are to be eliminated entirely by 2015. The 2008 CAP reform (“Health Check”) resulted in a schedule of managed support price decreases to provide for a soft landing as quotas are increased toward phase-out in 2015.

Chart 16 presents the number of dairy farms in the Netherlands, starting before the implementation of the CAP. Since 1960, the number decreased from about 200,000 to about 33,000. The Dutch dairy cow herd has declined from about 3.2 million head in 1960 to just under 2.5 million head recently. (See Chart 17.) Milk production in the Netherlands peaked in the early 1980s, stabilized with the imposition of quotas in the mid-1980s, and has since stabilized at a lower level. (See Chart 18.) Average milk prices in the Netherlands increased throughout the 1970s and into the mid-1980s; they have not demonstrated an upward trend since, and they appear to be more variable. (See Chart 19.) In the early 1970s, there were just under 300 dairy processing plants in the Netherlands. Today there are just over 50 plants. (See Chart 20.) (Note that the data contain significant gaps, which justifies a caveat in interpretation of this chart.)

### NEW ZEALAND

Dairy policy in New Zealand can be considered in two periods: between the Second World War and the mid-1980s, and the period since the reforms of the mid-1980s. New Zealand is a small country with a relatively large dairy output. As such, it has long been a major dairy product exporter, with a small domestic market in fluid milk and manufactured dairy products.
Following the Second World War, the U.K. was the anchor export market for New Zealand dairy products, particularly butter and cheddar cheese. This stemmed from a 1932 agreement between the U.K. and Commonwealth member countries. That agreement gave New Zealand preferential access to the U.K. market for dairy and other farm products, and Commonwealth countries gave greater access to products from the U.K. In 1970 the U.K. market accounted for 90 per cent of New Zealand’s butter exports and 75 per cent of its cheese exports.

The U.K. became a formal member of the European Economic Community (EEC) in 1973. New Zealand was then granted quota access in dairy products to the EEC at 71 per cent of existing levels on a milk equivalent basis; however, that access decreased over time.

A small country with a relatively large dairy output, New Zealand has been a major dairy product exporter, with a small domestic market in fluid milk products.

New Zealand needed to diversify its export product mix, which resulted in much lower and more volatile returns. This motivated the New Zealand government to offer protection to maintain its export-oriented industries, especially in agriculture; by 1984, government support to agricultural sectors was 30 per cent of sales. For example, in 1978, the government introduced supplementary minimum price payments (a deficiency payment scheme) to complement existing dairy support measures. New Zealand also implemented a mandatory single-desk export agency, the New Zealand Dairy Board, which exported product on behalf of dairy cooperatives. Bureaucratic in nature, it regulated many aspects of

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16 Rae and others, *New Zealand’s Agricultural Exports to Quota Markets*.

17 Ibid.

18 Ibid.

19 Evans, *Structural Reform*.

20 Ibid.

21 Conforte and others, *The Key Elements of Success and Failure in the NZ Dairy Industry*. 
dairy marketing. This export structure offered poor incentives to farmers’ cooperatives supplying product and created conflict with the fluid market.

Fluid milk marketing was also regulated. Among the concerns in domestic fluid milk marketing is regulation of the fluid milk supply through the year in a pasture-based dairy industry at consistent quality. Using price premiums to achieve supply consistency risked inducing a supply response. Regional pools developed, but access to fluid milk markets was not uniform across producers. Following centralization of fluid milk marketing (eventually under the New Zealand Milk Board), regional cooperatives were contracted to supply urban centres; regional price differences, handling margins, and supply agreements became subject to regulation; and fluid supply quotas were established through regional dairy producer associations.

To avoid economic collapse, in the mid-1980s, protective measures for agricultural sectors were dropped and New Zealand switched to a floating exchange rate.

The mid-1980s was a time of tremendous fiscal strain in New Zealand. Broad adjustment was required throughout the economy and government to avoid economic collapse. Protective measures for agricultural sectors were dropped, beginning in 1985. New Zealand switched to a floating exchange rate, and a systemic deregulation initiative began. The New Zealand Dairy Board was initially devolved to management by cooperatives, with its single-desk export marketing status eliminated in 2001. As part of broader fiscal discipline and deregulation, fluid milk was deregulated in 1987–88, and the New Zealand Milk Board was terminated.

The number of dairy farms in New Zealand decreased from about 18,000 in the mid-1970s to just under 12,000 in 2011. (See Chart 21.) The dairy cow herd, on the other hand, increased from about 2 million head in the mid-1970s to well over 4 million in 2011. (See Chart 22.) Milk production has tripled since the mid-1970s. (See Chart 23.) Average milk prices have experienced an increasing trend, and they appear to have become increasingly volatile. (See Chart 24.) (Note that milk price data for New Zealand are available only for the period since the early 1990s.)
**OBSERVATIONS**

Common threads extend through the dairy policies and markets of Canada and its peers that feature in this briefing. Dairy policies in each country have related to the management of surplus production, subject to unique circumstances. Canada’s evolution to supply management and evolution within supply management itself was largely driven to manage surpluses.\(^{26}\) The development of U.S. dairy policy has been in many ways similar, with the use of regulated pooling agreements and support prices backed by government purchases to increase prices and remove surpluses. As in Canada, as the costs of surplus removal became burdensome, policy shifted. The development of dairy policy in Australia also relates to surplus and low returns in milk used in manufacturing, inequities between fluid and manufacturing milk, and Australia’s isolated location and its need to trade. Policy development in the Netherlands under the EU CAP was initially driven by the food security strains of post-Second World War reconstruction, but by the 1970s was being driven by the need to manage surpluses and maintain producer returns. As the public cost of managing butter mountains and milk powder lakes became onerous, policy shifted. New Zealand had a similar experience to Canada’s: it lost a key export market and then made painful adjustments to reallocate product. The policy instruments that New Zealand developed to mitigate adjustment became burdensome in the face of broader fiscal policy challenges, so they were largely dropped.

The implication is that the countries surveyed here do not easily fall into dichotomies or typologies. Their dairy policies are not ideologically either “free-market” or “protectionist.” When confronted by surplus milk and dairy product supplies and low prices, each country developed an interventionist policy to mitigate adjustment. And each retained those interventionist policies until fiscal conditions made them unsustainable. In no

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\(^{26}\) Mussell and others, *Canada’s Supply-Managed Dairy Policy: How We Got Here.*
country was a shift from intervention to a more market-oriented dairy policy conceded easily. Most made this shift in the 1980s. To some extent, Canada avoided this trend because its interventionist policy did not depend heavily on government fiscal conditions.

In today’s context, New Zealand and Australia are positioned at the highly market-oriented end of the continuum, Canada is at the highly protectionist end, and the U.S. and Netherlands/EU are in between.

Many of the long-term measures of dairy industry development are strikingly similar. In all the countries discussed, over the long run the number of dairy farms has decreased significantly: down to between 20 and 30 per cent of what it was in the late 1960s or early 1970s. This is mostly consistent with a broad decline in the size of the dairy cow herd over the same period. But in every jurisdiction, the number of farms declined faster and more uniformly than did the cow herd—which suggests that much of dairy industry evolution consists of farm consolidation. New Zealand is the exception, with a large increase in its dairy herd since the 1970s. As well, it appears that the Australian herd began expanding shortly after deregulation. Where data were available on dairy processing plants (for Canada and the U.S., and discontinuously for the Netherlands), the same trend is evident: a significant decrease in the number of plants.

As well as similarities between countries, there are also important differences. Declines in dairy herd and farm size match most closely in Canada. The size of the U.S. dairy herd has declined more gradually, as has that of the Dutch herd. In the course of its adjustment toward a smaller dairy herd, Australia went through a protracted expansion in the 1990s; that herd is only slightly smaller now than it was in the early 1990s. With a sharply increased herd and fewer dairy farms, New Zealand dairy farms have gotten larger.

An important reason for these differences in national dairy herd adjustment is milk production. Increases in production represent industry growth. In each country, total milk production has grown or at least remained steady, regardless of decreases in the dairy herd, which indicates significant increases in milk production per cow. However, the patterns in milk production differ sharply: Canadian production has been essentially constant since the mid-1970s and is actually down compared with the early 1960s. At the same time, milk production in the U.S. has increased steadily. In Australia, it has increased markedly following policy changes, prior to recent years when widespread drought limited production. Netherlands dairy production increased steadily before quota controls were imposed in the 1980s, and it has been relatively steady since, with a recent increasing trend. New Zealand’s milk production is significantly up.

And what of milk pricing? The national patterns diverge to a degree. The available data suggest that prior to the mid-1980s, milk prices in the countries considered here broadly increased. Canadian milk prices have continued to increase since the 1980s. In the U.S., prices abandoned their trend of increases in the 1980s and have since become more volatile, consistent with the reduction in support prices. Similarly, in the Netherlands, the increasing price trend ended in the late 1980s. Milk prices in Australia increased through the 1980s and plateaued in the 1990s; recently, prices have increased, consistent with drought-induced supply constraints. New Zealand has seen a trend of higher prices and increased volatility, with some similarity to Australia.
Chart 25 presents divergences in milk pricing, using the U.S. as a reference. The chart plots monthly P5 Eastern Milk Pool\(^{27}\) (Canada) blend milk prices versus U.S. Federal Order blend prices for New York/New Jersey and for the Upper Midwest since 1997. Milk prices in Canada are generally much higher than those in the U.S.; over the period, the eastern Canadian price averaged $C63.05/hl, while the U.S. Midwest price averaged $C39.42/hl and New York/New Jersey averaged $C44.31/hl. Moreover, because U.S. milk prices are much more volatile than those in Canada, the price differential is commonly wider than these averages suggest. For example, the price spread between eastern Canada and the Upper Midwest U.S. has frequently exceeded $C40/hl—more than the average value of the Upper Midwest price itself.

The key lesson from the evolution in dairy policies in Canada and its peer countries is that fluid milk markets are characterized by seasonality that creates surpluses, which are diverted to industrial milk markets and thus result in lower industrial milk prices. Sudden losses of export markets exacerbate domestic surpluses and depress milk prices. Under persistent surpluses, with their associated inequities and low returns to farmers, the initial response is to mitigate adjustment through mandated pooling systems and more interventionist policies, such as price supports, product surplus removal programs, and production quotas. These are eventually reduced or eliminated due to their cost burden. The industry then adjusts, resulting in market growth. Canada has not experienced the same pressures to reduce or eliminate interventionist policy that its peer countries have, so Canada continues to use certain approaches that its peers have dropped. Nevertheless, industry adjustment has occurred in Canada, but without the market growth seen elsewhere.

Overall, the evolution of Canadian dairy policy is consistent with that of its peers, and Canadian industry development has been somewhat consistent as well. But important divergences hint at challenges in the evolution of Canadian dairy policy—which the next briefing in this series will describe.

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**BIBLIOGRAPHY**


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\(^{27}\) The P5 Eastern Milk Pool is an interprovincial pooling agreement among Canada’s eastern provinces (Ontario, Quebec, Nova Scotia, New Brunswick, and Prince Edward Island).


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by R. Allan Mussell, Bob Seguin, and Janalee Sweetland

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