Markets can remain irrational longer than you can remain solvent. — John Maynard Keynes

Dairy farmers have a large investment in their operations compared to many other industries. In the U.S., most of the dairy farm investment is in cattle and equipment, and the herd is a major asset. In Canada, the investment is in the land, the creamery, and the machinery. Dairy operations are in danger of total loss if dairy farmers — U.S. milk prices stay ruinously low for very long — has nothing to do with a farm’s size, location, or any measures of quality, but simply defined “cally” by such external factors as demand, weather, and a number of other forces and factors over which the farmer has no control. The farmer, therefore, has nothing to do with the price paid for the milk of his cow. He is merely an economic agent who processes milk to obtain a profit or loss. The profit or loss is determined by the market forces of supply and demand, which are beyond his control.

Producing milk for the consumer market

The glue which holds the Ontario provincial milk pricing system together is supply management by farm milk quota allocation. Quota is held by individuals and used as a vehicle for exchange. In other words, Canadian producers market milk for which there is a market, that’s certainly “not the American way.”

Many dairy farmers in the U.S. feel that the Canadian system of producing for what the market can handle is some form of “socialism.” DFO oversees the entire system in the U.S. and to this end has made no suggestion that dairy farmers have anything to do with the quota. The expanded milk production generally goes to milk powder, which then reduces the price for all the dairy farmers involved. In Canada, there’s a base price for milk, and in the same year, the dairy farmers have the same system, but with the same base price, the farmers have four base prices: one for the lowest, which is 5.5%, in the Atlantic Provinces. This roughly conforms to the distribution of farms which are located in Ontario and Quebec, 13.7% in the western provinces and 11.6% in the eastern provinces. According to Dairy Farmers of Canada, “About 81% of Canadian dairy farms are located in Ontario and Quebec. 13.7% in the western provinces and 5.3% in the Atlantic provinces.” This roughly conforms to the distribution of population in the provinces.

Canadian Dairy Farmers Cash Receipts

Canadian Farm Milk Quota System Yields Rewards to Producers, Rural Dairy Communities by John Bunting

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Canadian uses a pricing system set by a formula, which has varied slightly from province to province. Ontario uses a weighted formula for class 1 (bever- age milk) comprising of 30% consumer price index, 40% producer (farm) cash price adjusted for currency exchange rate.

Farm milk prices are determined individually in each province. Although the geographical size is different, a Canadian province is the political equivalent to a U.S. state. According to Dairy Farmers of Canada, “About 81% of Canadian dairy farmers are located in Ontario and Quebec. 13.7% in the western provinces and 5.3% in the Atlantic provinces.” This roughly conforms to the distribution of population in the provinces. Imagine! Dairy policies that sustain local producers.

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Classification of Milk Use in Canada

Canadian Dairy Farmers Cash Receipts

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In Canada there is a broad sense of public responsibility which far exceeds any such thinking in the U.S. By all means, there’s a lack of economic inequity in Canada than in the U.S. Everyone has access to health care. The cost of post mortuary services for Canadian civilians and residents is about one-third the cost of a college education in the U.S. Again, many in the U.S. consider many government programs in Canada to be “socialism.” But most of those folks do not even know what the word means or what type of social system it is. The fact is, the difference is a matter of degree and not of kind.

Beyond the value of external benefits, there appear to be some very tangible public benefits from Canada’s dairy pricing system.

Provincial oversight: local control

Each province exercises considerable regulatory oversight. For instance, in Ontario, dairy production is regulated by a statute under which the Dairy Over price marketing, including the promotion and pricing of farm milk. DFO oversees supply management for the province. The prime objective of supply management is a stable system. With supply management the government has no costly purchas- ing of milk for public consumption. Supply management has three aspects. First: a system of high tariffs, which limits dairy imports. Second: dairy farm milk sales are limited through quotas. Third: a pricing system based on the cost of production.

DFO has the legal authority to set the farm price of milk within the following guidelines: Canada’s provincial milk pricing system in 1965 became attempting to produce for an uncertain market. That drive for production led to ruinous low of milk for public consumption. The data does not support this conclusion as dairy farmers continue to enter the market place. Quota is a capital that is sold by the provincial government. Some farmers also buy additional quota for expansion, which indicates quota is a reasonable investment. A capital cost, quota will hold value if any facility or equipment in the U.S. And, most Canadian farmers who choose to sell their quotas are entrepreneurs.

Conclusion

While there are many in the U.S. who question the Canadian system, keep in mind that if the dairy farmers in Canada were unhappy with the system, they could change it. The Canadian system also answers an important but, rarely asked, question — what kind of bottom line should the government intervene in the public interest, an interest that is the financial stability of the industry. Surely, we all know what the U.S. government’s answer to that question has been for some time: a corporate and bank lobby! Yet another question: Under what conditions should milk for public consumption be produced? Dairy farmers are paid based on cost for milk, and other solids. Dairy farmers are licensed and regulated and can reject milk at farm for odor or appearance.

There is a list of current marketing charges assessed to producers by DFO (2009). The list has been increased to no more than 7% of the Canadian currency into U.S. sales and the from the metric system’s liters into U.S. ×1.02765. In Ottawa, DFO charges farmers $1.075 per hundredweight for administration, $1.075 per hundredweight for marketing, $1.425 per hundredweight for promotion for a total of $1.150 per hundredweight for farmers. The benefits from DFO are the same as the benefits which provide producers ade- quate, stable incomes: fair returns on labor and investment, and the opportunity to invest in their businesses with confidence.

Processors benefit from stability, equal costs

One reason for the farmers to support the supply management system is the benefit. Processors benefit from stability, equal costs.

In the U.S. distribution of milk to processors is the result of power concentration among raw milk sellers. In the U.S., the economic powers of our few, large dairy processors and the also powerful major banks and brokerages! Yet another question: Under what conditions should milk for public consumption be produced? Dairy farmers are paid based on cost for milk, and other solids. Dairy farmers are licensed and regulated and can reject milk at farm for odor or appearance.

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U.S. $/cwt

All Milk

Canadian $/hl

U.S. $/cwt

Conclusion

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Business as usual: For U.S. milk pricing is leading many dairy farmers down a road which is going to lead to ruin. “Business as usual” will not sustain rural communities, nor will such practices feed this nation.

In the U.S. retail demand for the Canadian milk is about double that found in the Northeast U.S. Consequently, quota is sometimes described as an impediment to entering the market place. The data does not support this conclusion as dairy farmers continue to enter the market place.

Quota is a capital that is sold by the provincial government. Some farmers also buy additional quota for expansion, which indicates quota is a reasonable investment. A capital cost, quota will hold value if any facility or equipment in the U.S. And, most Canadian farmers who choose to sell their quotas are entrepreneurs.

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Dairy farmers have a large investment in their operations compared to many other U.S. farmers. Most of the dairy farm investment is in equipment. Risk management is a challenge for every dairy farm. Farmers that do not manage their operations are in danger of losing their farms. Dairy farmers can struggle for many reasons.

Few in a position to affect dairy policy are voicing any intelligent alternatives to our dairy pricing mess. Just across our northeast border in Canada, the farm milk pricing system which has sustained dairy farmers’ standard of living. Canadian dairy policies have been supported by the provinces and the federal government. The history of the Canadian farm milk pricing system is worth briefly reviewing. While there are many in the U.S. who question the Canadian system, keep in mind that if the dairy farmers in Canada were unhappy with the system, they would change it.

The Canadian system also answers an important but, rarely asked, question: “What are intelligent alternatives to our dairy pricing mess?”

Canadian Dairy Farms Cash Receipts

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In Canada there is a broad sense of public responsibility which far exceeds any such thinking in the U.S. By all measures, there is less economic inequality in Canada than in the U.S. Everyone has access to health care. The cost of post-secondary education for Canadian citizens and residents is about one-third the cost of a college education in the U.S. Again, many in the U.S. consider many government programs in Canada to be “socialism.” But most of those folks don’t know what “socialism” means. In Canada, the government is a major player in the market meddling in the marketplace.

In the U.S., the different class system has a definite effect on the ability to receive a high quality of education. Teachers are better trained and paid. The states that do not pay as much for teachers do not have as good a quality teacher. In Canada, the provinces pay their teachers very well. In addition, the educational system is a “free” commodity in Canada. Children do not pay tuition to attend school.

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