Research Poster from the
Canadian Agricultural Trade Policy and Competitiveness Research Network (CATPRN)
Enabling Research for a Competitive Agriculture

Abstract CATPRN-01

Supply Management and Price Ceilings on Production Quota Values: Future or Folly?

Alex Cairns
Research Assistant, Department of Food, Agricultural, & Resource Economics,
University of Guelph

Since the inception of supply management, in Canada, milk production quota has been used to regulate output and participation in the dairy industry. In recent years, milk quota values have increased dramatically, almost tripling in value since the mid-1980s. This escalation has been heavily criticized by farmers and associated groups both internal and external to the dairy sector. This led to the Dairy Farmer's of Ontario intervening on the quota exchange on two occasions: first, in November 2006 with a progressive transfer assessment and then in July 2009, replacing the former policy with a firm price ceiling – fixing the unit price of quota at $25,000 (roughly the quota required for one cow). These policies represent a significant redistribution of economic benefits within the Ontario dairy community from milk producers approaching retirement and selling their quota to those remaining in the industry. This study examines the source of the increase in production quota values, and assesses the welfare and distributional effects of each of the aforementioned quota reduction schemes. The findings suggest that, several factors, both endogenous and exogenous to the dairy industry have influenced the escalation in quota price. An economic model of the market for milk production quota is used to illustrate the shortcomings of a fixed price ceiling and the associated stagnation of the Ontario quota exchange after its implementation. We also provide several alternative policy options that could minimize efficiency losses while moderating the escalation in quota values.

The Future of Farms and Food in Canada
January 13- 14, 2011
Ottawa, Canada