FRONTIER CENTRE FOR PUBLIC POLICY
CHARTICLE

GRAPHICAL ANALYSIS FROM THE FRONTIER CENTRE FOR PUBLIC POLICY FC034
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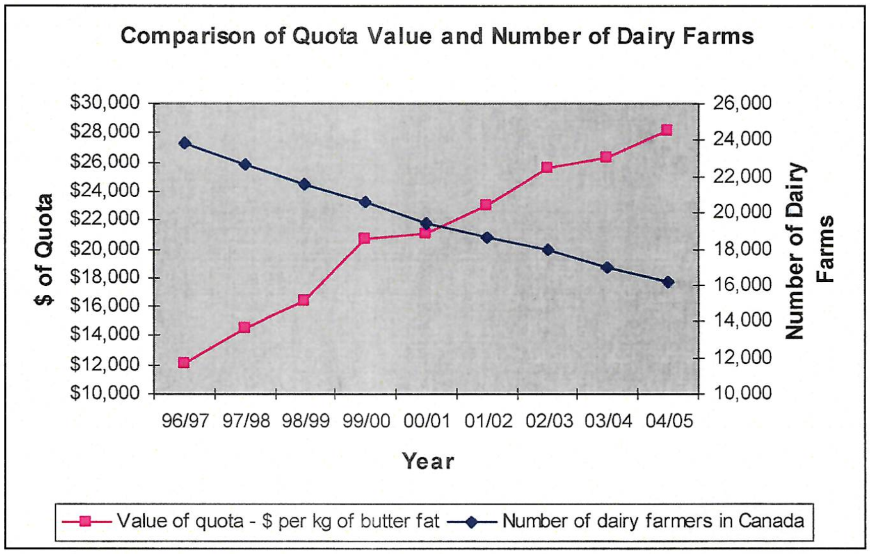
Is Quota Helping to Kill the Family Farm?

Table 1 - Number of Dairy Farms in Canada

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
32,678	31,200	29,358	26,199	25,700	24,603	23,818	22,643	21,561	20,624	19,411	18,673	17,931	16,970	16,224

Table 2 - Quota Values - $ per kilogram of butter fat per day

1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
12,132	14,507	16,342	20,663	20,991	22,992	25,543	26,326	28,131



Canada's dairy industry claims that supply management protects the family farm. It ran an information campaign a few years ago were a little red barn blows to dust because of perceived threats from international trade negotiations. The facts tell a different story.

- Table one shows the number of dairy farms is falling dramatically - collapsing from 174,000 dairy farmers in 1968 to 53,000 in 1985. By 2005, the number had fallen a further 70% to 16,224.
- Consolidation has occurred in the rest of agriculture as well, but not at this startling pace. For example, Agriculture and Agri-Food Canada documents state that general farm numbers fell by 11% from 1996 to 2001, a significantly lower rate of decline than dairy.
- A reason why dairy farms are disappearing much faster than in other sectors of agriculture is the cost of quota or the "license" to sell the annual production from one cow. Similar in concept to a taxi shield, it does not include the cost of the cow itself, the barn to feed it, or anything else. This is not the cow itself, the barn to house it, its feed, or anything else – it is just the paper that allows a farmer the ability to access the supply managed system. The quota or license to have a dairy cow in 2005 had risen to an average of over $28,000 per cow (Table 2).
- In economics terms, the value of the quota is calculated by capitalizing the value of the above market returns made possible by legislatively restricting entry into this marketplace.
- Governments originally distributed quota to farmers based on the state of the agriculture market in the early 1970s. Using an average dairy farm of about 60 cows the "value" of quota for an average farm now runs over $1.5 million.
- Plotting the rise in quota value against the decline in dairy farmers one can see that the number of dairy farmers in Canada is declining at a rate that is inversely proportional to the increase in the value of quota.
- These figures suggest that the current system is destroying the family farm, not protecting it. The preservation of supply management in dairy is not driving improvements in productivity, but is creating an industry that is uncompetitive on the world stage.
- The high cost of quota is protected by high protective tariffs, 299% on butter for example. According to the dairy farmers themselves (in their arguments against a World Trade Organization agreement), any decrease in the high protective tariffs will result in a flood of dairy imports, putting their production in jeopardy. Farmers who would benefit from free trade in other farm commodities, particularly in western Canada, are collateral damage in the supply management debate, since Canada can't credibly argue for free trade while supporting protectionist supply management policies.
- These high tariffs also disproportionately impact the poor who spend a higher proportion of their lower incomes on these foods.
- High tariffs required to protect rising quota values are not just degrading the dairy and farm sector's long run viability but are limiting the development of value added processing in Canada. Why make frozen pizza in Canada when inputs are far cheaper in the U.S.?
- Canada needs to move away from the supply managed system to preserve our domestic industry, stop penalizing the poor, and to encourage valued added industry. If we fail to consider the evidence to date twenty years from now we may realize we have no viable domestic dairy industry.

SOURCES: Canadian Dairy Commission, compiled by Agriculture and Agri-Food Canada

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