

**THE CANADIAN DAIRY COMMISSION:  
A 40-YEAR RETROSPECTIVE**



# THE CANADIAN DAIRY COMMISSION: A 40-YEAR RETROSPECTIVE



Canadian Dairy  
Commission

Commission  
canadienne du lait

OTTAWA

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## FOREWORD

This book was conceived when Canadian Dairy Commission (CDC) staff realized that many CDC pioneers were getting on in years, or in some cases, had passed away.

The four decades of the CDC's history span a period during which more change occurred, both technological and organizational, than had previously taken place from the day the first dairy cow set hoof on Canadian soil. The CDC has been a witness, participant, and from time to time a driving force, in the modernization of Canada's dairy industries.

We felt we had reached a point in our history when it was important to record those changes. It is easy to lose track of the rationale for decisions and agreements that continue to influence the way we do business today. Knowledge of what happened in the past—and why—may with profit inform and influence future decisions.

The book should serve as an exposition for our counterparts in other countries of what a fair and well-run dairy industry can do for all its stakeholders, from producer to consumer. Canada's system may look complex from the outside, but its checks and balances have worked for us.

This history will also stand as a monument to the outstanding people who have led our industry over the years and have brought us through more than one period of crisis, when lesser leaders would have thrown up their hands. We have been truly fortunate in the succession of pathfinders who, coming from farms, factories, the civil service and the political platform, have succeeded in drawing together an industry from Vancouver Island to St. John's to make Canada a world leader in dairy products.

John Core  
Chairman  
Canadian Dairy Commission

December 2006



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meticulously over the manuscript, her keen eye ensuring balance, fairness and accuracy, and generally provided much-needed encouragement. Gilles Froment should also be commended for his support and management of this project.

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member Alice Chadwick reviewed the manuscript and offered suggestions for improvements. Bill Hamilton, a retired Canadian Federation of Agriculture employee, brought a sharp eye to various manuscript drafts and asked much-appreciated questions.

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At Statistics Canada: Barb Keith-Badour, Anna Michalowska.

Former CDC employee Shelley Crabtree deserves much credit for hunting down and corralling the selection of photos used in this book. If a picture is worth a thousand words, this book is much the richer for its collection of photos.

The St. Albert Cheese Co-operative in St. Albert, Ontario, opened its doors so I could see how cheese was made, right from 11 p.m., just after it starts, to 8 a.m. when products start heading out the door for distribution. (It was a long night.) Jim and Nancy Wert, dairy farmers in Avonmore, Ontario, were more than gracious in opening up their house, their history and their farm to a visit from me and my family. My six-year-old city slicker son,

Fionn, was thrilled to see where milk came from and got to feed some heifer calves.

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Despite Herculean efforts by many people to ensure the accuracy of the information and statistics used here, any errors or shortcomings in the finished work are mine. Darn!

Erin Scullion

Author

August 2005





## ABOUT THE AUTHOR

When this project finally got off the ground in October 2003, Erin Scullion was chosen because of her talent as a writer and her enthusiasm for the book. I never regretted this choice. Despite the ambitious scope of the project, her talent and enthusiasm never failed.

As time went by, I also discovered her constant pursuit of perfection, her persistence, her generosity, her skill in cajoling and convincing, and her devotion. Someone else could have written a good book, but Erin gave us a great book.

Erin was born in Ottawa and decided in her early 20s that she wanted to be a farmer. She had (and has) a particular affection for cattle. She graduated from Kemptville College in 1980. But she then decided that with a physique like hers (let's just say that she'll never break any scales), she'd better develop another skill, just in case she couldn't make it as a farmhand. (She didn't!) So she turned her hand to journalism, graduating with distinction with a BA from Montreal's Concordia University in 1986, and a master's in Communications from Syracuse University in New York State in 1990.

She started her writing career at the *West Quebec Post*, a small weekly originating in Buckingham, Quebec, and went on to write for various magazines and daily newspapers, including the *Owen Sound Sun-Times* and the *Ottawa Citizen*, before jumping into corporate communications for Chicken Farmers of Canada and several federal government departments.

I know that early in the project, she wondered what she had gotten herself into, because she told me so. But she has since confessed that she has no regrets. "It wasn't necessarily a harder or bigger job than I expected, but the timeframe was definitely tight. And I had to sort through a lot of conflicting information and statistics. Too bad nobody had written a history!" she says.

"But interviewing and recording the thoughts of so many dedicated people was a huge pleasure for me. I really don't think people appreciate the extent to which CDC employees, federal and provincial public servants, and farmers have all committed their careers to making the Canadian dairy industry what it is today. It was an honour to tackle this history."

And now we have the history that Erin was looking for!

Chantal Paul  
Chief of Communications  
Canadian Dairy Commission

## ACRONYMS

AAFC	Agriculture and Agri-Food Canada	DFC	Dairy Farmers of Canada
AI	Artificial insemination	DFO	Dairy Farmers of Ontario
APMA	Agricultural Products Marketing Act	DISPC	Dairy Industry Strategic Planning Committee
BCMMB	British Columbia Milk Marketing Board	DPAC	Dairy Processors Association of Canada
BNA	British North America Act	EC	European Community (formerly the European Economic Community)
BSE	Bovine spongiform encephalopathy	EEC	European Economic Community (established on March 25, 1957. The ‘Economic’ was removed in 1992.)
bST	Bovine somatotropin	FTA	Free Trade Agreement (more formally known as CUSTA)
BUP	Butterfat Utilization Program	FVMPA	Fraser Valley Milk Producers’ Association
CBSA	Canada Border Services Agency (formerly part of the Canada Customs and Revenue Agency)	GATT	General Agreement on Tariffs and Trade
CDC	Canadian Dairy Commission	IREP	Import for Re-Export Program
CEM	Commercial Export Milk	MCP	Multiple Component Pricing
CFA	Canadian Federation of Agriculture	MMC	Milk Management Committee
CITT	Canadian International Trade Tribunal	MOU	Memorandum of Understanding
CMSMC	Canadian Milk Supply Management Committee	MPC	Milk protein concentrate
COP	Cost of production	MSQ	Market Sharing Quota
CRFA	Canadian Restaurant and Foodservices Association	NAFTA	North American Free Trade Agreement
CUSTA	Canada-United States Trade Agreement	NMMP	National Milk Marketing Plan
DBC	Dairy Bureau of Canada (folded back into Dairy Farmers of Canada in 1994)	NDC	National Dairy Council
DDPIP	Domestic Dairy Product Innovation Program	NFU	National Farmers Union
DFAIT	Department of Foreign Affairs and International Trade (separated into Foreign Affairs Canada and International Trade Canada on Dec. 12, 2003 and put back into one department in 2006.)	OECD	Organisation for Economic Co-operation and Development
		OEP	Optional Export Program
		OFA	Ontario Federation of Agriculture

OFU	Ontario Farmers Union	UCC	Union catholique des cultivateurs (became the UPA in 1972)
OMMB	Ontario Milk Marketing Board (became Dairy Farmers of Ontario on Aug. 1, 1995, after merging with the Ontario Cream Producers' Marketing Board)	UPA	Union des producteurs agricoles
P5	Short form for Agreement on All Milk Pooling as of Feb. 1, 2003. Members same as for P6, minus Manitoba.	WMP	Western Milk Pool
P6	Short form for Agreement on All Milk Pooling, six members: Prince Edward Island, Nova Scotia, New Brunswick, Ontario, Quebec and, up until Feb. 1, 2003, Manitoba.	WMP	Whole milk powder
P9	Short form for Comprehensive Agreement on Pooling of Milk Revenues, which includes nine provinces. Will become P10 when the Newfoundland and Labrador agreement is signed.	WPC	Whey protein concentrate
PCC	Per capita consumption	WTO	World Trade Organization
PLR	Plant of Last Resort	65:35 principle	A 1984 amendment to the National Milk Marketing Plan known as the BC Clause. Under the 65:35 principle, British Columbia would always have a ratio of 65 litres of Class 1 milk to 35 litres of industrial milk. Eliminated in 2003.
RAF	Returns Adjustment Formula	90:10 allocation	A 1989 allocation rule whereby changes in provincial shares of MSQ resulting from an increase in domestic requirements would be allocated 90 percent based on existing shares and 10 percent in proportion to population growth. Reversed (10:90) in 2000.
RCMP	Royal Canadian Mounted Police	Measures	
RPFP	Rebate Program for Further Processors	cwt	hundredweight (100 lbs.)
SEQ	Subsidy Eligibility Quotas	kg	kilogram
SMCPP	Special Milk Class Permit Program	hl	hectolitre
SMP	Skim milk powder	lb.	pound
SNF	Solids non-fat		
SRP	Surplus Removal Program		
TRQs	Tariff Rate Quotas		

## PREFACE

This is the story of the Canadian Dairy Commission (CDC)—the events that brought it into existence and the 40 years since its birth. The story is an amalgam of hard facts with anecdotes and reminiscences by key players in the industry. The facts are drawn from a wide variety of government, political and industry documents. The oral history is drawn from over one hundred personal interviews conducted with past and current industry members, as well as with many present-day CDC staff.

The book is divided into five chapters, one for each decade, from the 1960s to the 2000s. Parallel to the CDC's evolution, the book chronicles developments in the dairy industry as a whole, following trends and issues that influenced the progress and direction of the CDC.

This history is not an analysis of the merits of the CDC (or of supply management) or a recounting of every single historical issue, fact, person and event surrounding the CDC. It outlines (sometimes in considerable detail) the evolution of the CDC—who, what, when, how, and why things happened. How did we get from then to now? What key milestones did we pass along the way?

### MILK, THE PRIMEVAL FOODSTUFF

Why, you may ask, is milk so special anyway? Why has it warranted such particular consideration and resources? For one thing, milk is distinctive because it's been around since bands of roving hunter-gatherers turned into pastoral societies. Milk is also a metaphor for the sustenance of life itself from one generation to the next. Cow's milk contains more of the essential nutrients required by humans than any other single food.<sup>1</sup> What's more of a "motherhood" issue than milk, the substance that sustains the life of our young, and the young of every other mammal?

Milk is unique among agricultural commodities in other ways as well. It's highly perishable and requires expensive refrigeration to keep it fresh, or rapid processing into other products. This perishability put early industrial milk producers in a weak

bargaining position compared to producers of other agricultural products, including fluid milk.

Today, there is no distinction between industrial and fluid milk, or their producers, in most provinces. But decades ago they were quite different. Industrial milk was used to make the dairy products that we eat, like cheese, butter and skim milk powder. Fluid milk consisted of the milk and cream consumers drank. Milk was initially mostly regulated by each province because it was marketed within provincial boundaries. As milk and dairy products were increasingly sold outside provincial boundaries, federal legislation came into play.

The labour needed to run a dairy operation has always been more demanding than that required for other kinds of farming. Even the most advanced modern cow must still be milked twice a day, *every day*, come hell or high water. Dairy farming requires heavy investments: breeding stock, feed, veterinary care, silos, milking equipment, bulk tanks, enclosed barns, not to mention land, quota (the right to sell a specified amount) and machinery. Milk production expenses are higher than for other agricultural commodities.

The dairy industry is the fourth largest sector of the Canadian agri-food economy, after grains, red meats and horticulture. In 2005, dairy farming generated \$4.6 billion in total farm cash receipts. During the same year, sales from Canadian dairy processors amounted to \$11.5 billion, representing 15.9 percent of all processing sales in the Canadian food and beverage sector. In 2003–2004, about 38,000 people were working on Canadian dairy farms, and some 26,000 workers were employed in just under 300 registered Canadian dairy plants.<sup>2</sup>

### HOW SUPPLY MANAGEMENT WORKS

Canada was founded by the *British North America Act* (BNA) of 1867 as a federal union of four provinces: Quebec, Ontario, Nova Scotia and New Brunswick. The BNA Act set out federal and provincial jurisdictions, giving provincial governments authority over production and marketing of goods and services within



their own boundaries, and the federal government jurisdiction over inter-provincial and international trade.

Supply management requires either delegation or sharing of federal and provincial powers through agreements among many signatories. In the dairy industry, that was initially accomplished by the 1971 Interim Comprehensive Milk Marketing Plan. Now, the delegation of the federal and provincial powers is achieved by the 1983 National Milk Marketing Plan (NMMP) and Memorandum of Agreement, and pooling agreements that have been developed and signed since. The NMMP is the federal-provincial agreement that sets out the structure for calculating Market Sharing Quota. The Canadian Milk Supply Management Committee (CMSMC), which is the federal-provincial decision-making body, administers the NMMP.

**Supply management**

*Canada’s dairy, chicken, turkey and egg industries are regulated by supply management systems. Established in the 1960s for dairy, and in the 1970s for the poultry industries, supply management regulates domestic production and imports to ensure that the supply of that commodity matches demand, and that the prices paid to farmers are steady over time, cover their production costs, and leave them with a pre-determined, predictable income. In return, processors and consumers are guaranteed a consistent supply of a top-quality commodity at a stable price.*

*Provincial marketing boards balance the supply and demand of each supply-managed commodity in their own jurisdiction. How much of each commodity is produced is regulated using a quota system. Commercial-scale operators must hold quota—the right to sell a specified amount of a commodity—in order to ship their product to market. (Small producers, like hobby farmers with a couple of dozen hens laying eggs, don’t need quota to produce.) Quota was initially given to producers who were already in the business when supply management was set up. New entrants to the industry must buy quota, usually in markets set up by the marketing boards that regulate the supply management system for that commodity in each province.<sup>3</sup>*

—Canadian Agriculture at a Glance, Statistics Canada, 2004

**Some 2005 Canadian Dairy Industry Facts and Statistics**

Number of dairy farms:	15,522
Number of dairy cows:	1,066,400
Average number of milking cows per farm:	69
Average production per cow (305 days of lactation):	9,422 kg of milk
Average milk components:	3.21% protein and 3.76% fat
Most common dairy breed:	Holstein (93% of the dairy herd)
Total net dairy farm cash receipts:	\$4.6 billion
Number of federally inspected dairy processing plants:	295
Dairy plant processing sales:	\$11.5 billion
Portion that these sales represent of the Canadian food and beverage industry:	15.9%
Percent of total farm cash receipts from dairy:	13%
Value of dairy semen and embryo exports:	over \$66 million

Sources: Agriculture and Agri-Food Canada, Canadian Dairy Commission, Canadian Food Inspection Agency, Statistics Canada.

**Endnotes**

1. Stuart Patton, *Milk. Its Remarkable Contribution to Human Health and Well-Being*, (New Brunswick, NJ: Transaction Publishers, 2004.), p. 1.
2. Agriculture and Agri-Food Canada, Dairy Section, Dairy Market Review, 2004, p. 1.
3. Statistics Canada, *Canadian Agriculture at a Glance*, catalogue no 96-325-XPB, p. 239.

# TIMELINE—HISTORY OF THE CDC

Man and milking equipment. Source: Dairy Farmers of Ontario



**February**  
Canadian Dairy  
Conference  
takes place.

**June**  
Canadian  
Dairy Advisory  
Committee  
forms.

**March**  
Agriculture  
Minister Harry  
Hays an-  
nounces a new  
two-phase  
dairy support  
program to  
the House of  
Commons:  
  
Phase 1:  
supplementary  
payments to  
producers pro-  
ducing more  
than 10,000 lbs.  
(4,536 kg) per  
year  
  
Phase 2: Bill  
C-205 to es-  
tablish the  
Canadian Dairy  
Commission.

**June**  
First reading  
of Bill C-205 in  
the House of  
Commons.

**October**  
Canadian Dairy  
Commission  
Act proclaimed.

**December**  
Government  
appoints  
first CDC  
Commissioners  
and  
Consultative  
Committee.

CDC issues  
Subsidy  
Eligibility  
Quotas to  
165,000 milk  
and cream pro-  
ducers.

CDC announces  
Export Price  
Equalization  
program, de-  
ducting money  
from subsidy  
payments.



1960

1961

1962

1963

1964

1965

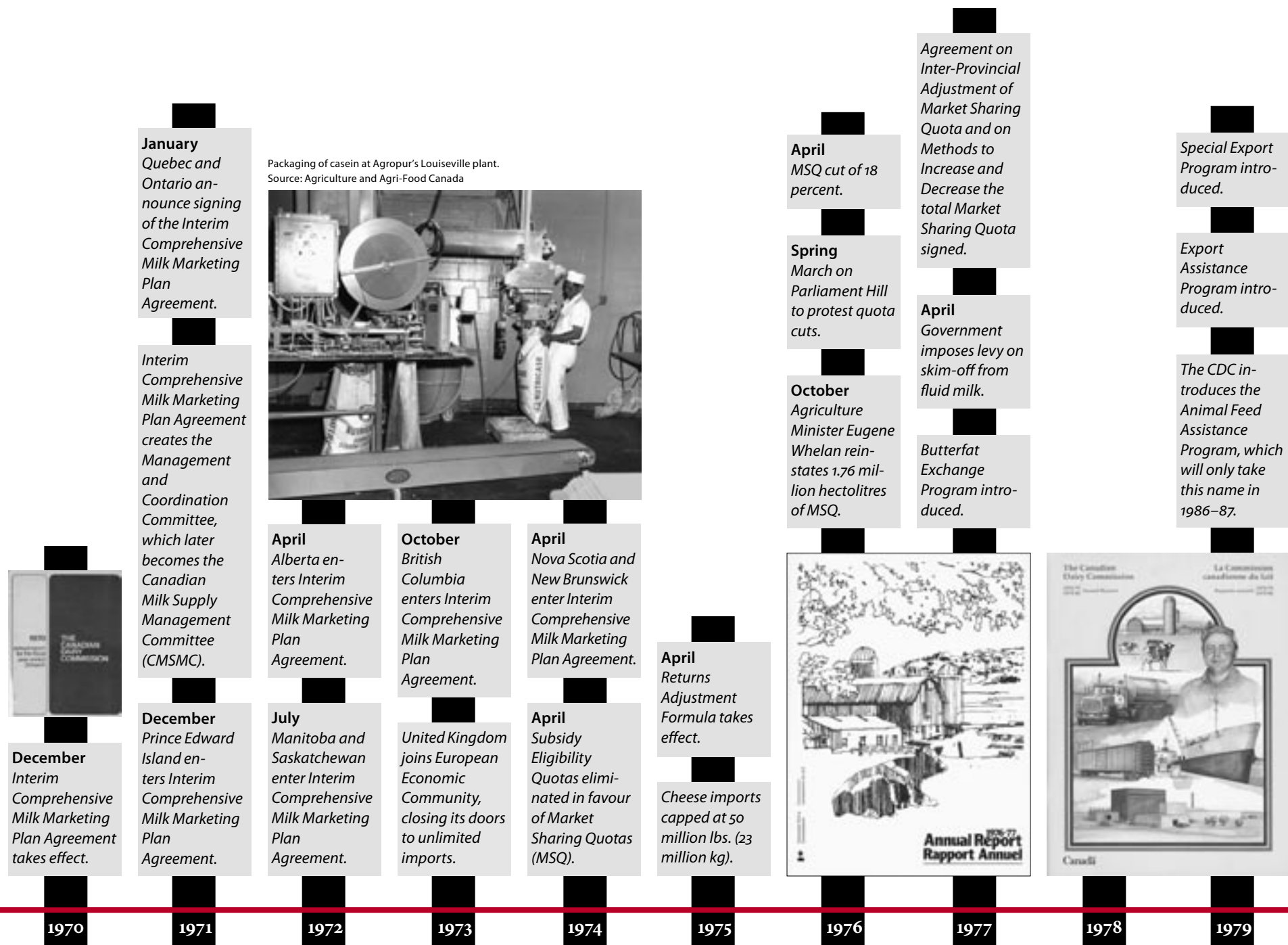
1966

1967

1968

1969

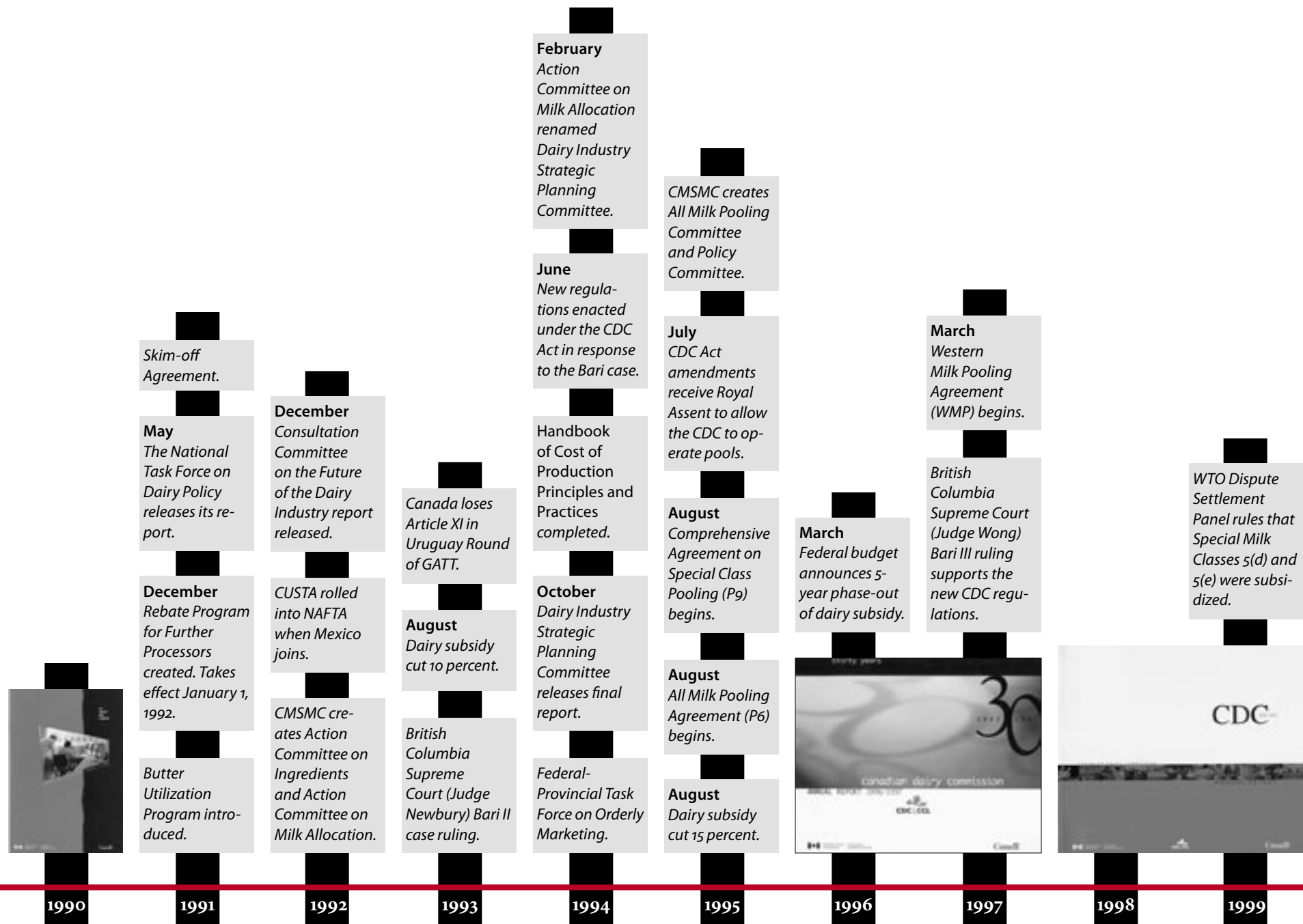
1960S



## 1970S

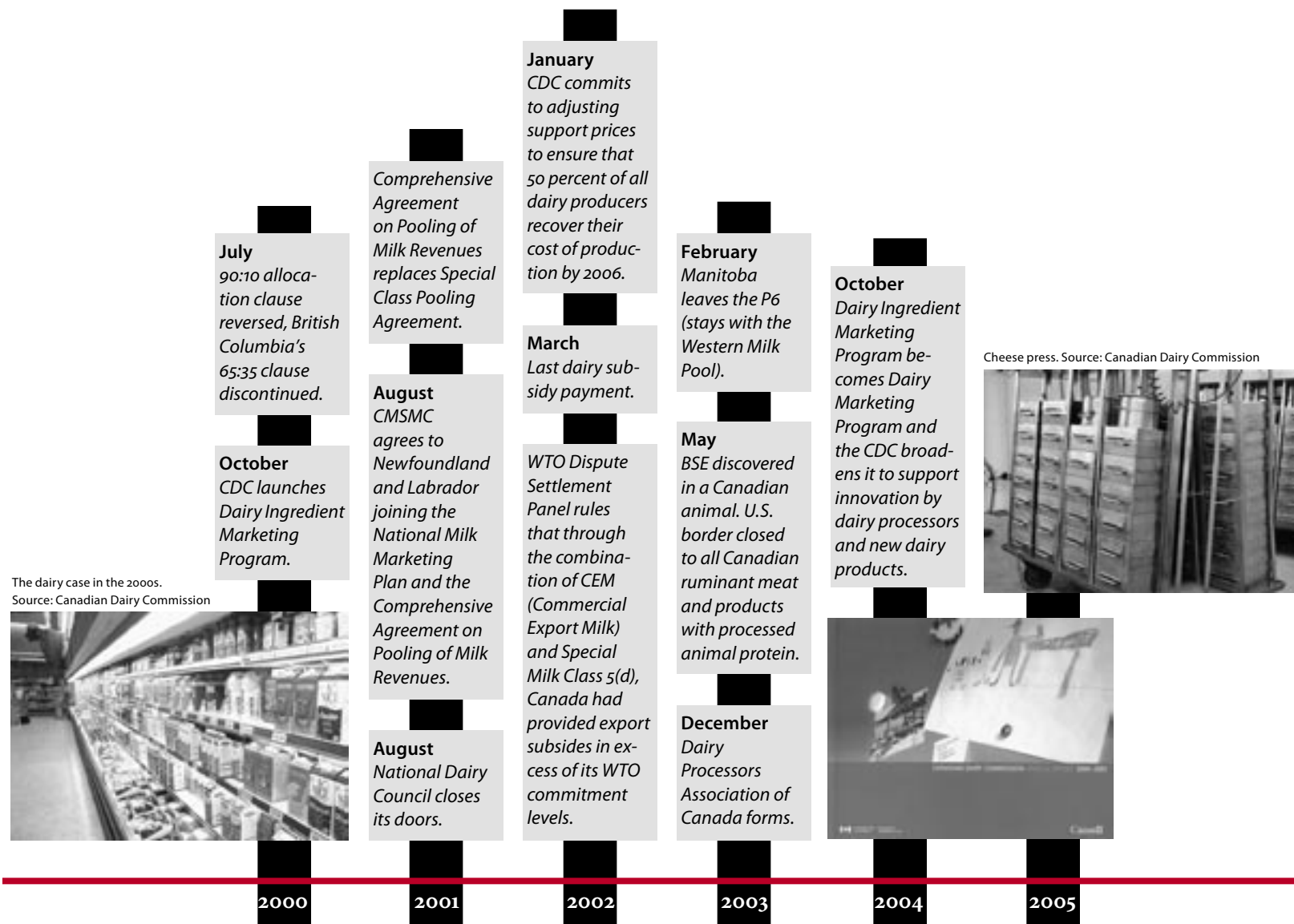


## 1980s



## 1990S





The dairy case in the 2000s.  
Source: Canadian Dairy Commission

Cheese press. Source: Canadian Dairy Commission

# 2000S

**THE CANADIAN DAIRY COMMISSION:  
A 40-YEAR RETROSPECTIVE**



Holstein cow of the decade: Jemima, bred by D. S. Dunton of Brampton, Ontario, was an All-Canadian and the mother of Rosafe Centurion and Rosafe Citation R. Citation R was the first influential Red factor sire to be used in Canada and helped gain red and white animals a place in the Holstein herdbook in Canada. Source: Holstein Canada Archives



*Our soil and climate are well adapted for dairying. The soil, more especially in Ontario and some parts of Quebec, is well suited for growing all crops needed for the production of milk. The Maritime Provinces have excellent pastures and grow large crops of hay and plenty of coarse grains. Manitoba and the North-West can furnish the bran, which is such an excellent food for cows. In British Columbia, creameries, where established, thrive remarkably well.*

*Ontario is almost surrounded by the great fresh water lakes, which temper the winter and moisten the atmosphere of the summer. The Maritime provinces feel the stimulus of sea breezes, which have been helpful in developing the dairy countries of Europe.*

*Our population is inclined towards dairying, as we are descended from the famous dairymen and dairywomen of Europe—English, Scotch, Irish, French, Germans—the blood of these dairy races runs through the veins of Canadians, hence we are predisposed to favour dairying.<sup>1</sup>*

HENRY H. DEAN, CANADIAN DAIRYING, 1903

# ♦ 1 ♦

## THE 1960s: THE FOUNDATION YEARS

### THE DAIRY INDUSTRY BEFORE THE CANADIAN DAIRY COMMISSION

#### *Introduction*

‘Chaotic’ would seem to be the word that best describes the state of the dairy industry before the Canadian Dairy Commission (CDC) was created in 1966. Provincial dairy farmer organizations, where they existed, were fragmented and disorganized. There were separate groups for various commodities—fluid milk, cheese, concentrated milk products, farm-separated cream—all, not surprisingly, vying to protect their own empires, such as they were. Shortages and surpluses of milk plagued the marketplace. There were inequities throughout the farming, processing and transportation sectors, and they differed by province. Dairy Farmers of Canada, the national producer organization, did its best to meet the challenges the industry faced, but it had few resources at the time.

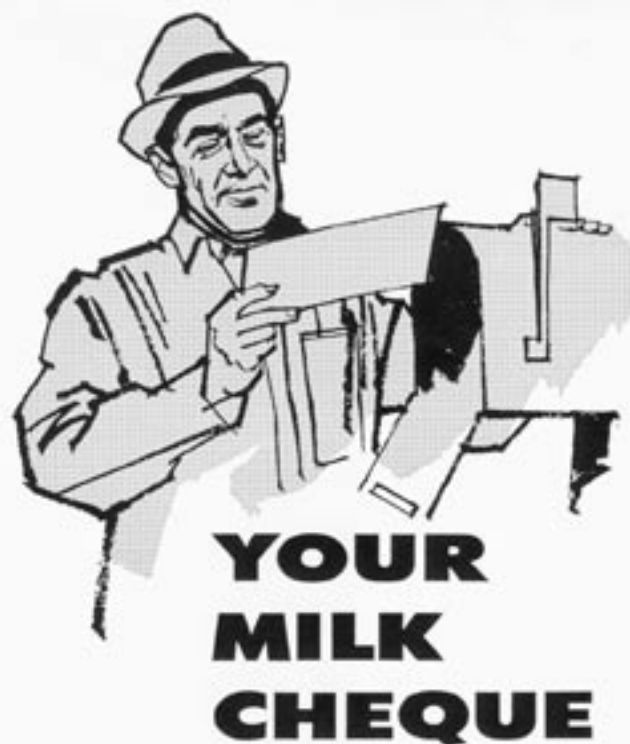
In the 1960s, there were nearly 175,000 dairy farmers across the country.<sup>2</sup> Most had limited knowledge about prices and

pricing systems. They knew little or nothing about what was happening across the industry.

There were a large number of processors and distributors (almost 1,300 factories or plants owned by nearly half as many companies),<sup>3</sup> and numerous small dairy farmers<sup>4</sup> with little collective bargaining power. Ontario and Quebec, by far the largest dairy-producing provinces, teemed with creameries. Ontario in particular seemed to have a cheese factory at every crossroad.

Stories abounded of producers paying kickbacks (illegal commissions) to processors for taking their milk, and of dairies taking milk one day and returning it the next because they had enough to meet their needs. There were stories of dairies receiving watered-down milk, of problems with transporters and dairy co-operatives. The list was endless.

By the 1960s, most provinces had some sort of agency, board



is subject to the buying attitude of the Canadian public.

The June Set-aside was developed as a means whereby you can influence the food purchases of the consumer.

If you are interested in building markets for milk...or even in holding what you presently have, there is no better way than in investing in the June Set-aside.

The more than \$400,000 spent on advertising this year by Dairy Farmers of Canada is *your money*. No matter whether your milk found its way to the market in the form of milk, butter or cheese, or any other dairy food, the market was better than it would have been without the Set-aside.

The Executive Committee of Dairy Farmers of Canada recently made representations to the Canada Department of Agriculture. In so doing they stated that the national organization would join in asking producers in every part of the country to make a greater advertising effort.

To do the kind of job that needs doing requires considerably more funds than are currently made available. Will you help build bigger markets for milk? Bigger markets mean bigger milk cheques.



A Division of  
**DAIRY FARMERS OF CANADA**  
147 Davenport Road, Toronto 5

Fact sheet explaining the  
breakdown of milk cheques.  
Source: Dairy Farmers of Canada

or statute governing milk production and marketing. If they didn't already have a marketing board to develop provincial milk marketing programs, they at least had laws allowing them to create one. Some of the boards managed fluid milk quotas, set or negotiated prices, and brought much-needed stability to the industry. But their effectiveness was undermined by not having any way to deal with dairy products that crossed provincial boundaries or were exported overseas. Despite their best efforts to manage their milk supplies, surpluses from other provinces, and even between districts within their own province, easily

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*Chaos is a great word to describe the 1960s. The market weight between processors and producers was tilted significantly towards processors. Processors were competing vigorously for market position, so much so that producers were often caught in between and became almost 'pawns.' When orderly marketing and provincial marketing agencies were introduced in the mid- and late 1960s, the weight shifted totally to the producer. Quota restrictions and limitations on milk supply, along with administered pricing at the provincial levels, were not appetizing features to processor entrepreneurs.*

*In hindsight, supply management was needed. Generally, it was a result of not managing industry affairs well. Specifically, it was a result of the impossible relations between processors and producers, as evidenced by the complete lack of trust on both sides and the inability to bring various negotiations to fair and satisfactory conclusions for all parties.*

—Carl Harrison, 2003, CDC Vice-Chairman

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### Federal and provincial jurisdictions

The *British North America Act* of 1867, Canada's first constitutional document, set out the division of law-making powers between the federal Parliament and the provincial legislatures. The federal government was given authority over inter-provincial and export trade; the provincial governments had responsibility for products produced and sold within their boundaries. Refrigeration was more rudimentary in the 1950s and milk could not be securely transported over long distances. It wasn't surprising, then, that the provincial governments created the first statutes dealing with the marketing of milk and establishing milk producer boards and agencies. Later on, though, when milk started moving inter-provincially, it was clear that the provinces needed to co-operate. And that created the need for the federal government to get involved and help create a national plan.

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disrupted their attempts at orderly marketing and weakened the boards' ability to regulate prices.

It was virtually impossible for most dairy producers to make a decent, stable living, with the possible exception of some fluid milk producers who lived close to large urban markets. This was the climate, then, that brought the dairy industry (industrial and fluid producers and the processing sector) together in search of a common solution.

## DAIRY PRODUCTION

### The milk streams

In the beginning, there were two distinct streams of milk: industrial and fluid.

- Industrial milk had two components, regular milk and farm-separated cream. Industrial milk was used to make cheddar cheese, condensed milk, butter and skim milk powder, as well as ice cream, cottage cheese and yogurt. Farm-separated cream was used to make butter only.
- Fluid or table milk was used to supply the fresh milk and table cream markets. Fluid milk in excess of domestic fresh needs was diverted into the industrial milk stream.



### *Industrial milk and farm-separated cream*

Industrial milk and farm-separated cream were used to manufacture dairy products that fell under the industrial category. Products made from industrial milk were less perishable and easier to store and transport than milk in the 'fluid' or 'table' stream.

In the early 1960s, industrial milk and farm-separated cream were subject to lower quality standards than fluid milk. Production was more seasonal, especially for cream, and herds were small, usually fewer than a dozen cows. Quebec, Ontario and the Prairies had numerous small cream producers.

Producers received much less money for industrial milk and cream than they did for fluid milk. Separating cream on the farm was labour-intensive and not very lucrative. Production of industrial milk or cream was seldom the sole source of income. A typical cream producer might have two or three cows (perhaps only one!), separate the cream for sale, and use the leftover skim milk to raise pigs or calves. Shippers of industrial milk had slightly larger herds, on average. Their milk production would still not have been a specialized business, but was part of a diversified farming operation.

It's important to remember that in the 1960s, industrial milk

Regions of the Ontario Milk Marketing Board as printed in the *Ontario Milk Producer* in April 1966.  
Source: Dairy Farmers of Ontario Archives

Cream cans being delivered at a transfer station.  
Source: Archives/La Terre de chez nous

and farm-separated cream production accounted for about 75 percent of all milk production in the country. In fact, the majority of dairy farmers were farm-separated cream shippers with small operations. In 1967, for example, of the 175,000 dairy farmers, 90,000 were cream producers, 65,000 industrial milk producers and just over 20,000 fluid milk producers. Not surprisingly, most industrial producers had marginal operations, with little collective strength and virtually no national political clout.

### *Fluid milk*

The fluid milk market was much different from the industrial. The fluid stream consisted of table milk and fresh cream, products that are more perishable than industrial milk products, like skim milk powder and butter, and expensive to handle.

Fluid milk producers in the 1960s were mostly large dairy enterprises that specialized in milk production. Providing a reliable

The loading platform,  
Dairyland, 1963.  
Source: "Milk Stories"



supply of daily milk all year round required a change in the natural pattern of milk production (in which most cows freshen in the spring and dry off in the fall). These farms tended to be more technologically advanced, with larger herds that yielded more milk per cow.<sup>5</sup> Fluid producers also tended to have more expertise in breeding and feeding practices, which needed to be substantially adjusted to meet the production needs of the year-round fluid market. Refrigerated bulk tanks had been introduced for the fluid milk stream as early as the late 1950s, for example, while most industrial milk continued to be shipped in cans until the early to mid-1960s.

Fluid milk was subject to higher provincial standards than was industrial milk. In certain cities, such as Montreal, the standards were even higher than provincial norms. Farmers were paid more for their fluid milk. If it was not a lucrative market, it usually—though not always—provided a more stable income. Good managers and herdsmen who lived close to an urban market, as many did, could make a living.

Most provinces had regulations restricting entry into the fluid market. Before marketing boards took over, farmers had what were called 'supply' or 'quota' contracts with fluid processing plants.

### **Overlap of the fluid and industrial markets**

Because of these supply contracts with dairies and the higher costs associated with producing milk for the fluid market, it was harder to break into the fluid market than the industrial market. A producer with a herd of 12 industrial milk-producing cows couldn't, for example, just decide that he wanted to sell his milk to the fluid market to get more money. He had to get a contract with a local dairy, which meant upgrading his facilities, and in any case contracts were not that easy to come by. An industrial milk producer might be producing the same quality of milk as a fluid producer, yet receive less money and be locked out of the fluid market.

Any fluid milk produced over and above the supply or quota contracts entered the industrial stream. The fluid producers would get less money for that portion of their milk, but it still added to the industrial milk supply and affected the industrial milk producers' market.





Billboard advertising for milk.  
Source: Dairy Farmers of Canada

The contentious issues of restricted entry to the more lucrative fluid market, and fluid milk entering the industrial stream, caused serious inequities and friction between the two sectors in the early to mid-1960s. Tough economic conditions for *all* farmers exacerbated the situation. The time was ripe for a collective effort to find a national solution for the troubled industrial milk and farm-separated cream sectors.

Industrial producers were frustrated because they couldn't get reasonable returns for industrial milk. The price of fluid milk could be adjusted to reflect need without much trouble. But industrial price changes had to be co-ordinated or processing would shift from provinces with high milk prices to those with lower prices. So the need for a national approach was obvious. Meanwhile the pressure to share the proceeds of the fluid market among producers within each province intensified.

### Importance of milk

In the 1960s, milk and dairy products were emerging as an important food group. New research was revealing the impor-

tance of milk for maintaining strong bones and good teeth, particularly in children. Interest in milk—its production, price and availability—was high. Milk had become an emotional issue for many people—consumers, politicians, producers, dairies, transporters and retailers.

Complicating the acceptance of new research extolling the virtues of milk, however, was rising consumer concern about the health effects of consuming too much butterfat.

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### Low-fat preferences

*The consumer preference for low-fat dairy products began to surface in the early 1960s. In British Columbia the first skim and 2 percent milk entered the market in 1959. In 1960, those products accounted for 8 percent of fluid milk sales. By 1970, that figure increased to 41 percent. By 1980, 58 percent of fluid sales were low-fat products. British Columbia was not unique. I think the same patterns would be closely reflected throughout Canada.*

—Neil Gray, 2004, former general manager of British Columbia's Fraser Valley Milk Producers Association and former CDC Consultative Committee member

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### It's better with margarine

*Margarine was introduced into Canada in 1949 and it has since replaced a large proportion of the market for butter....Per capita consumption of margarine reached a peak of 13 lbs. (5.9 kg) in 1960; in 1961 its sale was made legal in Quebec, and low levels of margarine consumption in that province, together with lower real prices for butter since 1962, have reduced average margarine consumption to about nine pounds (4.1 kg). Butter consumption per capita has declined from about 28 lbs. (12.7 kg) prior to 1949 to a current level of about 17 lbs. (7.7 kg).*

*...Not all margarine sales should be regarded as substitution for butter; in those provinces where it was available, about one quarter of margarine sales initially displaced sales of cooking oils and fats. The marketing of new oils and fats since 1949 has reduced total per capita consumption of butter and margarine.*

—Brian B. Perkins, Canadian Dairy Policies, a Research Report to the Federal Task Force on Agriculture, University of Guelph, January 1969

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### Dairy price support policies 1940 to 1967

*As the 1950s drew to a close, a new set of economic values was being imposed on the country by increased earning power in urban areas, the continued drain of manpower from the rural scene and the rapidly rising cost of materials, tools, and services. The farmer had to acquire machinery to replace hand labour and he had to buy more land and livestock to make economical use of the machinery. However, the rate of food price increases did not keep pace with the rises in other materials.*

*Some farmers were able to breast the current. By combining good management with financing and technological advances, they succeeded in establishing profitable enterprises. They produced volumes that qualified for federal price support programs and compensated for smaller per-unit profits.*

*But many farmers, especially those with insufficient equity to borrow their way out of the low-income category, faced a stalemate. They had to pay the higher rates for essential materials and services, but they were not receiving the higher returns for their products—except in a few crops where marketing boards looked after the producers' interests.*

—Backgrounder, Canada Department of Agriculture, April 28, 1967

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### THE ECONOMIC AND POLITICAL CLIMATE

In the early 1960s, a quart of milk delivered fresh to your door was \$0.18, a pound of butter was \$0.44, and a pound of cheese would set you back \$0.56.

The national agenda was shifting towards social policy. Where the 1950s had been a decade of development and expansion, the 1960s focused on income stabilization.

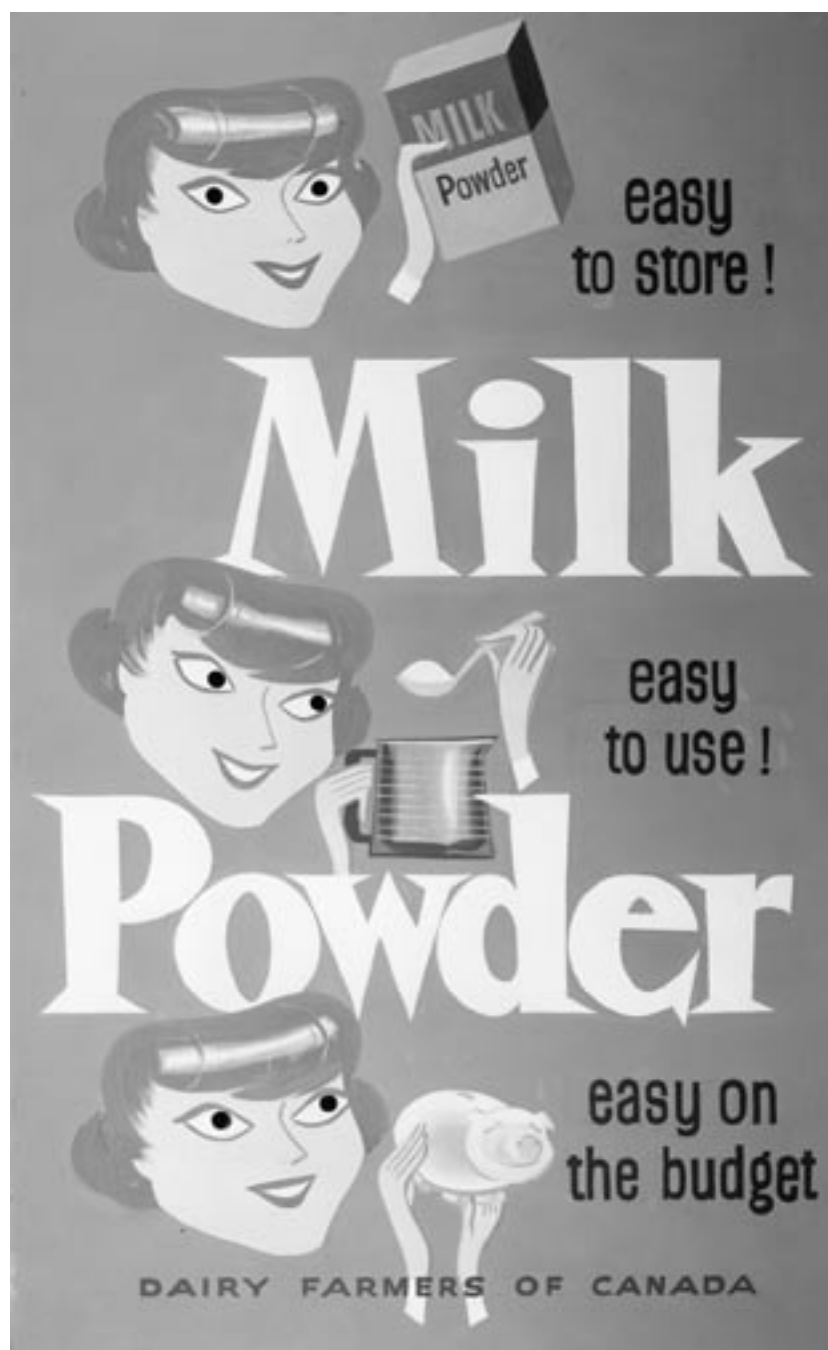
The 1960s started out with Prime Minister John Diefenbaker, a Progressive Conservative, in power. Liberal Lester B. Pearson succeeded him from 1963 to 1968. Pearson appointed Harry Hays, a Liberal from Calgary, as Agriculture Minister, from 1963 to 1965. In 1965, Hays was defeated as an MP and was replaced by J.J. “Joe” Greene, MP for Renfrew South (and later Niagara Falls). Although Greene was the one who introduced and saw the *Canadian Dairy Commission Act* through Parliament, Harry Hays is the man credited with its development.<sup>6</sup>

But in the early 1960s, the political power of individual farmers was waning. In 1939, the farm population had formed almost 32 percent of the total population. This represented a substantial number of votes. By 1961, though, that figure had fallen to below 12 percent.<sup>7</sup>

### The export scene

The largest part of world trade in dairy products consisted of butter, cheese and skim milk powder. However, trade in butter and skim milk powder moved in one direction only, countries with surplus milk production exporting to deficient areas of the world.<sup>8</sup>

It's important to understand the correlation between the Canadian dairy industry's milk production and the export markets for cheese, butter and skim milk powder.<sup>9</sup> When butter is made from whole milk, skim milk is a by-product. When butter is made from farm-separated cream, there is no residual skim milk, since farmers generally feed it to their livestock. But to dispose of the non-fat solids derived from whole milk, processing plants dry it into skim milk powder. In 1957, most butter (76 percent) was made from farm shipments of industrial cream. The volume of skim milk powder was low, so while world prices were low,



Advertisement promoting consumption of skim milk powder.  
Source: Dairy Farmers of Canada

Packaging skim milk powder in Agropur's plant in Bon-Conseil.  
Source: Agropur Cooperative

Canadian processors could sell their powder either in Canada or for export without much difficulty.

By the mid-1960s, the industry was changing. Only 42 percent of butter was made from farm-separated cream. The rest came from whole milk, which meant an increase in skim milk powder production. Fewer farmers were shipping farm-separated cream; it was too labour-intensive and not very economical. They were expanding their operations, so more whole milk was shipped to processors.

Domestic consumption of skim milk powder was decreasing, and Canada ended up with surpluses, as did other countries with large dairy industries, like the United States, the European Economic Community, Australia and New Zealand. The end result: surpluses on the world market, along with depressed and fluctuating prices. Canadian skim milk powder production increased from 120 million lbs. (54.4 million kg) in 1957 to 316 million lbs. (143.3 million kg) in 1967.<sup>10</sup> In addition, world markets for skim milk powder were scarce—mostly poor developing countries that had difficulty finding foreign currency for payment.<sup>11</sup>

To remain competitive, many countries introduced export subsidies to help their export trade and avoid a build-up of large stocks at home. Canada was no different. After the CDC was established, the cost of exporting the surpluses was charged to producers as a 'holdback' from their direct subsidy payments. Exporters would buy the skim milk powder at the support price set by the Commission, export it (and get a cheaper world market price) and submit the shipping papers as proof of sale in order to claim the subsidy. Or a processing plant would sell its own production for export and then submit its papers to claim the export subsidy. The export subsidy (in effect the 'holdback' from direct subsidy payments to producers)<sup>12</sup> was used to offset the domestic price to exporters so they could compete with lower world market prices.

When the Commission came into operation, it soon became clear that it would have to facilitate exports to avoid a rapid build-up of stocks, which could involve high storage costs and possibly a loss in value of the stored product. International buyers insisted on being supplied with skim milk powder that had been stored for no more than six months. Older skim milk powder often had to be sold at half the price for animal feed, which was of less interest to buyers.

## GOVERNMENT INVOLVEMENT IN DAIRY

### In the beginning

The federal government has been involved in the dairy industry since before the turn of the 20th century. To encourage the export trade in butter and cheese in 1897, for example, offers of assistance were made to steamship companies to install refrigeration equipment in their ships. Inland, creamery owners could get \$100 to build and use cold storage space— staggering sums in those days!<sup>13</sup>

After the Second World War, the dairy industry in Canada, as in the United States, was encouraged to increase milk production to help meet the growing food requirements of postwar Europe. Here at home, the government offered subsidies to dairy farmers as an incentive to produce milk, and to keep consumer prices down. The dairy industry's contribution to postwar reconstruc-

tion efforts in Europe tended to be through supplying cheese to the United Kingdom, historically a large market.

By July 1951, concerned over the impact of dairy imports into Canada, the government had put dairy products under the *Export and Import Permits Act*. At the same time, Parliament passed the *Agricultural Products Board Act*, which allowed the government to buy and sell agricultural products and enter into contracts with foreign governments. The Agricultural Products Board was responsible for taking surplus products off the market, storing them, having them processed, and reselling them or arranging for their export.<sup>14</sup> However, the Board could not, without prior approval, buy, sell or import at a loss. *And* it had to cover handling, storage and transportation costs.

In 1958, the *Agricultural Stabilization Act* came into force. The Agricultural Stabilization Board, which administered the Act, had to support the price of butter and cheese (and other commodities) at not less than 80 percent of the previous 10-year market or base price.<sup>15</sup> The Board could, as approved by the Governor-in-Council, support other products, and in 1959 it paid a direct subsidy to industrial milk producers.

The *Agricultural Stabilization Act* was designed to help stabilize agricultural commodity prices and ensure that farmers and the agriculture industry got a fair return for their labour and investment.<sup>16</sup> Agricultural policy thinking at the time was that a stable agriculture industry was in the interest of the national economy, and that farmers as a group were entitled to a fair share of the national income.<sup>17</sup>

While the Act did reduce the disparity between the prices received for fluid milk and for industrial milk, it had the effect of encouraging small producers to increase their production. Although happy to have the improved financial returns, the small producers were not encouraged enough to invest in new technology to improve their operations.<sup>18</sup> Still it was progress, and more was to come.

### During the 1960s

For the dairy industry, the Agricultural Stabilization Board administered two separate programs:



- it guaranteed the price of butter and skim milk powder under the **offer-to-purchase** plan, which grew out of wartime and postwar activities;<sup>19</sup> and
- it paid **direct subsidies** to industrial milk producers.

The **offer-to-purchase** plan was also referred to as the ‘price support program’ or ‘support price.’ This was a set price at which the Board would buy butter from processors—on the basis of stated quality and other specifications—generally during the spring and summer, the peak season for industrial milk production. Then, in the fall and winter seasons, when butter production was low, processors bought the butter back from the Board at the same price to put into one-pound prints and sell to retailers. With these supplies back in the market, prices did not rise in the ‘off season.’<sup>20</sup> The support price was generally set once a year.

The offer-to-purchase plan effectively enabled processors to pay producers a minimum equivalent to the support price all year round. The government could not set the price that processors paid to producers but offered them the means, through the price support, to pay a target price.<sup>21</sup> But since processors using milk for other dairy products had to compete for milk at the support level or higher, the support price effectively established a ‘floor’ for the whole pricing structure of the Canadian dairy industry.<sup>22</sup>

The government made **direct subsidy payments** to dairy producers in various forms over the years. Farmers generally referred to this as a ‘consumer’ subsidy, since it provided a portion of producer returns and lowered the retail price of dairy products. From 1959 to 1963, for example, the Stabilization Board paid a direct subsidy of \$0.25/cwt (0.57 \$/hl) of milk to industrial producers. Fluid shippers who sent their excess to the industrial market were not eligible for the subsidy at that time.

These were the programs that were transferred from the Agricultural Stabilization Board to the Canadian Dairy Commission when it opened its doors for business in April 1967.

### DAIRY FARMING IN THE 1960s

Milk production in the 1960s, as it is now, was concentrated in central Canada. In 1964, Quebec and Ontario together accounted



Making butter prints  
at the J.D. Mackenzie Creamery,  
Middleton, Nova Scotia.  
Source: Dairy Farmers of Nova Scotia

for almost 74 percent of total milk production in Canada. Land in Quebec and Ontario, as in the Maritimes, is well suited for dairying, although production in the Maritimes accounted for just under 5 percent of the national total. The Prairies accounted for approximately 17 percent of production, while British Columbia weighed in at just under 5 percent.<sup>23</sup> Newfoundland had little industrial milk production in the 1960s. Indeed, it had a hard time filling its own fluid needs, often resorting to reconstituting milk from skim milk powder<sup>24</sup> and canned condensed milk produced in other parts of Canada.

Co-operatives played an important role in the dairy industry. “Since the pioneers in most of the settlements in Canada found it necessary to co-operate for survival, it was natural that the co-operative spirit would be carried forward to the dairy industry,” Veronica McCormick writes in her book, *A Hundred Years in the Dairy Industry*.<sup>25</sup> Although there were 204 dairy co-operatives in Canada in 1965 (including 109 in Quebec, 63 in Ontario), McCormick suggests that these entities were “hampered in their



In the milking parlour. Source: Dairy Farmers of Ontario

growth by the lack of adequate [federal] legislation dealing with incorporation and operation.”<sup>26</sup>

By 1966, just over half of all industrial milk and cream farms had electric milking machines (the remainder used hand-milking) and only 8 percent had bulk milk tanks.<sup>27</sup> Industrial milk and farm-separated cream shippers produced over 75 percent of all milk in Canada.

But an agricultural revolution was taking place, according to *Canada 1960*, a federal government accounting of the state of the country. “Twenty years ago a worker in Canadian agriculture supplied, on the average, food enough for himself and nine other persons. Now he produces enough for himself and 22 other persons. This typifies what has commonly become known as the ‘agricultural’<sup>28</sup> or ‘green’ revolution.

This agricultural revolution, which was to continue throughout the decade, involved greater specialization and commercialization of agriculture, including the dairy industry. More and bigger equipment, more and better fertilizers, improved feeding and breeding practices all contributed.

*Canada 1960* predicted that capital investment in farming operations would continue to grow “with the trend toward larger and fewer commercial farm units. Economies that come from specialized, well financed and well managed farms will make it increasingly difficult for the small-sized, poorly managed farms to survive. Management will become a key factor in successful farm operations. Those who cannot develop their farms into economic units will eventually move to industrial occupations and the number of people on farms will continue to decline.”<sup>29</sup> That prediction was especially pertinent to the dairy industry, which from the 1960s onward saw the exit of many small and financially marginal industrial milk and cream dairy farms.

### **British Columbia**

In many respects, the British Columbia dairy industry was unique. Dairy production was highly concentrated in the Lower Fraser Valley. British Columbia had a larger proportion of fluid milk producers than any other province. In the early 1960s, the

British Columbia industry was still adjusting to the results of the Clyne royal commission on milk, a provincial commission called to make recommendations on regulating the fluid milk sector. The report of the commission in 1956 resulted in many changes to the dairy industry. While the new provincial legislation forced out smaller, marginal producers, it had an equalizing effect on industrial and fluid producers and settled long-standing animosities.

A new and expanded milk marketing board pooled all milk from licensed producers, allocated fluid quotas, and established producer and processor prices for all classes of milk. Fluid quotas were related directly to individual producer production and provincial fluid sales, and were established during periods of low milk production at the farm, a move that virtually eliminated the historical problem associated with seasonal fluctuation in the milk supply. Formula pricing was introduced so the weighted average producer price was a blend of the high Class 1 fluid value and the industrial milk value (based on the federal support prices for skim milk powder and butter).

The high Class 1 price reflected British Columbia’s economic conditions at the time and resulted in the highest consumer price for fluid milk in Canada.

The price a farmer got for industrial milk, however, was far too low (until the Returns Adjustment Formula of 1975) in relation to production costs. And even the blended price of fluid and industrial milk was considerably less than the actual cost of production. There was little incentive to produce more milk than needed to meet fluid quotas. In the end, the system produced enough milk to meet all fluid and industrial milk requirements for British Columbia, except for butter, cheese and skim milk powder, which were purchased from other Canadian processors as needed.

By the end of 1969, a program to convert all can milk shipments to the bulk tank system was completed. As a result, many marginal producers, and almost all cream shippers, left the industry. It simply wasn’t economical for them to convert their operations. At the time, British Columbia was producing just under 5 percent of Canada’s total milk supply.<sup>30</sup>



## The Prairies

Collectively, by the end of the decade, Alberta, Saskatchewan and Manitoba accounted for approximately 17 percent of Canadian dairy production: 8 percent, 4 percent and 5 percent respectively. Manitoba held the distinction of being the first province to enact any kind of fluid milk control legislation, which it did during the Depression years of the 1930s.<sup>31</sup>

The Prairies had proportionally more cream producers than the other provinces, so it made sense—with the advent of the CDC and its subsidy payments—for them to try to increase the number of industrial milk producers. An excerpt from an October 18, 1970 *Western Producer* article with the headline, “Policy aims to reverse milk production decline,” outlines the situation nicely:



Billboard showing the importance of the dairy industry in numbers for the city of Saskatoon. Source: Dairy Farmers of Canada

*On the Prairies, provincial governments are seeking to build up a manufacturing milk industry. At one time, one of the more reliable sources of farm cash income was the farm-separated cream industry, but in recent years, tens of thousands of Prairie producers have dropped out of this line of production in favour of grain, beef cattle, hogs and other enterprises....*

*Manitoba successfully halted the downward trend in dairy production for manufacturing purposes but Saskatchewan and Alberta are still struggling with the problem. Saskatchewan now has two major industrial milk plants operating and Dairy Producers Co-operative Limited is actively seeking out shippers to keep them operating. Former creameries are acting as gathering depots for the centralized plants.*

*So far more than 250 Saskatchewan farmers have launched into industrial milk production, and cheddar cheese and skim milk powder for human consumption have been added to the list of products on the market. Alberta has a much longer tradition of industrial milk production with the Alpha brand of Central Alberta Dairy Pool being familiar across the west....<sup>32</sup>*

The Prairies' two most important commodities in the 1960s were grains and cattle. Farm cash receipts from dairy were small—8 percent, 3 percent and 7 percent of income respectively, for Manitoba, Saskatchewan and Alberta.<sup>33</sup>

## Ontario

Ontario's dairy industry history is long and varied. By the mid-1960s, the provincial industry was mirroring the shape of the national one: price inequities between industrial and fluid producers, a lack of united leadership and no single strong voice.

*Livestock, dairy and poultry producers in Ontario tend to have several advantages over their counterparts in other provinces. Besides having proximity to the market, they are blessed with more fertile soil, a relatively mild climate and self-sufficiency in feed grains (including corn).<sup>34</sup>*

—Grace Skogstad, *The Politics of Agricultural Policy-Making in Canada*, 1987



Ontario dairy farm.  
Source: Dairy Farmers of Ontario

There were four major organizations in Ontario, representing cheese, cream, whole milk and concentrated milk producers.

To combat these problems, the provincial government established the Milk Industry Inquiry Committee in 1963, also known as the Hennessey inquiry after its chairman. It reported in 1965. That same year, based on the Hennessey report, the government introduced the *Milk Act*, which established the Milk Commission of Ontario, and one voice for milk producers: the Ontario Milk Marketing Board (OMMB). Agriculture Minister Bill Stewart appointed the first OMMB members, with George McLaughlin as Chairman.

The OMMB's powers in milk marketing were far-reaching. They included the authority for the following actions:

- establish minimum producer prices
- market milk and operate price pools
- license producers
- operate quota systems
- appoint agents

Board policies and programs were developed by Board members, who were elected from among milk producers.<sup>35</sup>

The first major program launched by the Board was Group I Pooling, which started in 1968. Through it, the Board bought all

fluid milk from producers and sold it to the processing industry. Trucking was done by Board-appointed transport agents.

The OMMB then issued its Market Sharing Quota (MSQ) system for industrial milk, which would be the basis for the national system agreed to in 1970. A presentation on the MSQ, date unknown, stated:



George McLaughlin, first Chairman  
of the Ontario Milk Marketing Board.  
Source: Dairy Farmers of Ontario

*At the outset, the Board wishes it to be known that the implementation of the MSQ in Ontario is dependent upon agreement among the other provinces in Canada, especially Quebec, to institute a similar program for all milk. The MSQ plan for industrial milk in Ontario is completely flexible and, because it is administered on a provincial basis, it can take advantage of whatever situations develop. However, it must be remembered that in the development of the MSQ proposal, Ontario has had to take into consideration the position of the other provinces throughout the Dominion.<sup>36</sup>*

The processing industry did not welcome these changes.

“Processors were very concerned with the concentration of authority in the OMMB,” says Tom Kane, now President of the Ontario Dairy Council, the association representing dairy processors. “In hindsight, the creation of the OMMB was probably a good thing, but at the time, there were many long and difficult negotiations around the table...trying to figure out how to do things. It was a whole new environment and most people didn’t like change. The processing industry was a very reluctant player.”

By the end of the decade, Ontario was producing 35 percent of Canada’s milk supply.<sup>37</sup> The sale of milk was Ontario’s largest single source of farm cash receipts, accounting for more than one fifth of the total.<sup>38</sup>

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#### **Ontario cream production in the 1950s and 1960s remembered**

*Ellard Powers, second chairman of the CDC and an appointee to the first Consultative Committee, was born on St. Valentine’s Day, 1934, in the midst of the Depression on a mixed farm in Ross Township, about a two-hour drive northwest of Ottawa. The 1950s were not good times. “I’m not saying we were hungry, but I had to quit high school at 14 to work in the bush,” he recalls now, as he sits reminiscing in his Beachburg, Ontario farm kitchen just a few days after celebrating his 70th birthday.*

*Powers looks as fit and trim as a 50-year-old man, a 50-year-old in good shape. His Irish red hair has faded to snow-white now, but his locks are still thick and wavy. He plays thoughtfully with a pencil as he sifts back through over half a century of memories.*

*Powers was the eldest of two brothers and two sisters. His dad needed him to help bring wood in from the woodlot to keep the small mixed family farm afloat. The father saw too many people lose their farms during the Depression and even though it was over, refused to borrow money. Still, the hard times didn’t discourage Powers from following in his father’s footsteps.*

*By 1954, 19 and married, he had a herd of six shorthorn cows that he kept and milked for cream on his own farm, about seven kilometres from where he was born. “In those days,” Powers recalls, “most of us had a dual-purpose herd. We raised beef calves and pigs with the skim milk left over from making cream.”*

*By 1956, Powers had increased his herd to 12 milk cows but then lost everything in a fire. He later rebuilt his barn. In the process, he increased his herd to 30 milk cows. “We needed more income because we went into debt to rebuild,” he explains. But things could be a little tricky in the dairy business, especially in cream.*

*“In those days, you got paid based on the butterfat percentage of your cream, and all the testing was done at the creameries and dairies. The cream man would come and pick up your cans, and then at the end of the month, or maybe it was every two weeks, you’d get a cheque,” Powers says. The cheque would indicate the amount of cream shipped and the butterfat test results.*

*Generally, farmers didn’t like selling to only one dairy or creamery because there was no way of checking the veracity of the testing, he says.*

*“I was selling cream to two, sometimes three, dairies. One in Quyon, Quebec, others in Pembroke and Renfrew. And so you’d sit down with the cheques, lay them side by side and compare. If they were close enough together, you wouldn’t say anything. But if they weren’t—and they should have been—you’d flag down the cream man, the driver, next pick-up and say, ‘Hey, your butterfat test is lagging behind the co-op’s.’ And the cream man would say, ‘Don’t worry, Ellard. I’ll look after it.’ And usually with the next cheque you’d get an adjustment. Don’t forget, the driver wanted to keep your business too, so he generally carried your message back.”*

*There was enough variance, and it happened frequently enough, that it wasn’t hard to notice. “It happened regularly. It wasn’t something that surprised you. If you were to ask me 30 years ago exactly how often it happened, I could tell you better than I can now. And no, I don’t remember it happening as often in milk,” Powers says. He does remember milk producers having to contend with their milk being returned because it was surplus to what the dairy needed. Their options? “Dump it, or feed it to the pigs if they were lucky enough to have some.”*

*Powers doesn’t attribute the butterfat test errors to malice. “Some of it was sloppiness, some of it was just everyone trying to make money out of the milk process; everyone would try to chisel a bit off the test and hope they didn’t get caught. And mostly they didn’t,” he says.*



## Quebec

Along with farmer unionism, the co-operative movement has been one of the distinctive features of Quebec's rural population. Quebec farmers set up Caisses populaires, electrical power co-operatives, work co-operatives, mutual insurance, as well as purchasing and sales co-operatives for products related to the farm economy.<sup>39</sup> While Ontario had a few co-ops, they never gained the same strength as those in Quebec.

In 1963, the Conseil de l'industrie laitière du Québec was established, a processor association representing private processors. The Conseil brought together the Association des industriels laitiers, the Association des fabricants de crème glacée and the Association des manufacturiers de lait concentré.<sup>40</sup> The Quebec provincial government delegated considerably more powers to producers to regulate the marketing of their products than did other provinces (with the exception of Ontario's 1965 *Milk Act*.)

In 1956 the Government of Quebec had enacted a law that introduced the concept of 'joint plans' to commercialize agricultural products. This legislation allowed producers to determine market conditions for their products, as long as the majority, by a referendum, voted to use the joint plan formula. This marketing scheme, known as a *plan conjoint* in French, enabled farmers—including milk producers—to create a framework that would allow them to negotiate agreements with buyers of their product, including the terms under which the products would be commercialized. In the early 1960s, new powers were added that governed the management of supplies, the equalization of revenues and the creation of mandatory selling agencies.

Milk producers adopted joint plans from the outset, starting at the local and regional levels, and only later arrived, through a referendum, at a single joint plan, to be managed by a federation of unions.

Some of the modalities of a joint plan were applied to producers through the organization's regulations (for instance, quotas and selling agency). The terms of sale, such as prices, though, were determined through an agreement with the buyers, or, in the case of disagreement, through compulsory arbitration. Moreover, the agencies responsible for administering joint plans were funded through mandatory contributions from producers.



Dairy farm in Granby, Quebec in the 1960s.  
Source: Dairy Farmers of Canada

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### Quebec cream production in the 1950s and 1960s remembered

*In Quebec, a large portion of the industrial milk was farm-separated cream. It was kept on the farm in eight-gallon cans. These cans were stored in a container, sort of a concrete trench, with fresh water running through it to keep them cold. Then the cans would be hauled away.*

*Ten or so farmers on a line would share the collection of the cans and take turns, weekly, to haul the cream cans to the creamery. As a 10-year-old, I remember working for the summer on my uncle's farm. After the morning chores, we would leave the farm on a horse-drawn carriage to collect the cream cans from the neighbours on our line. It was an occasion to go to the village, sort of an expedition into the world out there. I liked it a lot because on the way back, my uncle often treated me to an ice cream cone from the local general store. I was real spoiled, since my cousins, his very own children, had no access to that delight!*

*That practice of hauling cream cans went well into the early 1960s. Then separated-cream farms converted to whole milk. The co-ops and the Quebec government financed the switch to refrigerated bulk tanks and encouraged the construction of separate milk houses to shelter the equipment. Milking machines were introduced at the same time.*

—Raymond Cloutier, 2004, former CDC economist

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Joint plans were a great tool that allowed milk producers to take things into their own hands and establish the terms for producing and commercializing milk within their province. Eventually Quebec milk producers would recognize the need to work with producers from other provinces and the various governments to avoid futile inter-provincial competition, establish more appropriate market-based price levels, and share revenues more equitably. This collaboration would also be used to sell surpluses on the world market and promote their use in further processing.

By the end of the 1960s, Quebec industrial milk producers were aggressively modernizing the industry. Over half of industrial milk producers had bulk tanks, compared with one quarter in Ontario. Quebec was Canada's number one producer of dairy products,<sup>41</sup> producing 38 percent of the country's milk supply.<sup>42</sup> Quebec's provincial agriculture economy depended far more on dairy production than any other province. Forty-two percent of its farm cash receipts came from the dairy industry, in contrast to the next highest producing province, Nova Scotia, at 26 percent.<sup>43</sup>

Pasturing on the Dyke lands, Nova Scotia.  
Source: Dairy Farmers of Nova Scotia



## The Maritimes

At the end of the 1960s, the Maritimes were collectively producing less than 5 percent of Canada's milk supply, so they were relatively minor players in the larger scheme of national milk production. But the milk industry was an important component of all three provincial economies. In the 1960s, both Nova Scotia's and New Brunswick's farm cash receipts from dairy products accounted for a quarter of their total provincial farm cash receipts—even more than Ontario's, which represented one fifth.<sup>44</sup> Prince Edward Island's represented just under one fifth. Over half of Nova Scotia and New Brunswick's production went to the fluid industry. Cheese production in these two provinces was minimal.<sup>45</sup>

Prince Edward Island's dairy industry was a bit different from Nova Scotia and New Brunswick's. In 1966, less than 10 percent of PEI's production went to fluid milk and cream sales, the lowest percentage of any province in Canada.<sup>46</sup> But PEI led the Maritimes in cheese production.<sup>47</sup>

In the 1960s, the PEI dairy industry was just as fractious as those in the other provinces. In 1968, the provincial Minister of Agriculture appointed a commission to “inquire into and make recommendations on the efficiency and capability of existing dairy processing plants and to investigate why producer prices for manufacturing milk are the lowest in Canada.”<sup>48</sup>

At that time, the island was dotted with 22 processing plants<sup>49</sup> and had just under 200 industrial milk producers, over 2,000 cream producers and 121 fluid milk producers. The Co-operative Union of Prince Edward Island asked Phillipe Pariseault, General Manager of Quebec's Granby Co-operative, to conduct a survey of the industry. His report was not encouraging.

*Production per farm is small and normal growth per farm is curtailed by the absence of bulk tanks, a trend that normally increases unit production. This development is inhibited by the fact that farm lanes in the spring would not support the weight of bulk trucks.*

*In general, the industry is very inefficient, farms are small, there are too many plants with small volumes, poor productivity and a high summer-to-winter ratio of production leading to marketing problems.*<sup>50</sup>



## DAIRY PROCESSING IN THE 1960s

Between 1920 and 1950, the number of dairy plants stayed fairly stable and they could be counted by categories (creameries, cheese factories, concentrated milk plants). Beginning in the 1960s, operations began to consolidate—so much that they could no longer be tracked by category.<sup>51</sup>

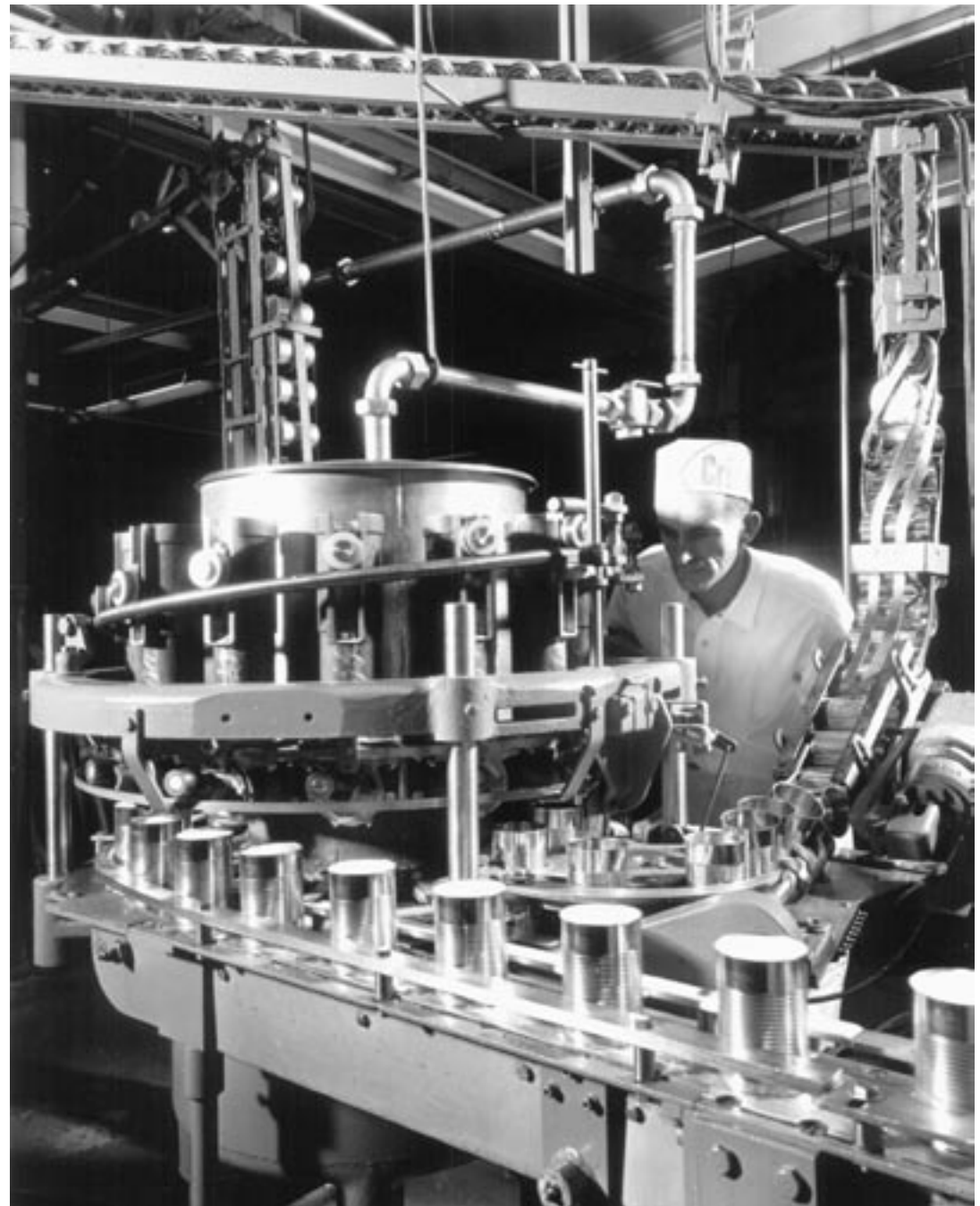
The number of dairy processing and fluid milk distributing plants continued to decline throughout the 1960s. According to the 1969 *Report of the Federal Task Force on Agriculture*, their number had fallen to 1,100 by 1969, from 1,700 in 1961.<sup>52</sup>

Small local fluid milk distributors and companies manufacturing butter or cheese in small single plants were still the norm. But large-scale, multi-product plants were gaining ground. Concentration in the sector was increasing. The fluid milk distributors' size and numbers were in proportion to the distribution of population across the country, and the processing sector was located mainly in Ontario and Quebec. Nearly three-quarters of all processing plants were in those two provinces,<sup>53</sup> mostly because of proximity to large population centres, provincial incentives, and lower costs to produce milk (compared with British Columbia, for example.) As well, other agricultural opportunities were limited, especially in Quebec.

Of 545 butter plants operating in 1965, 35 percent were in the western provinces and 60 percent in the central provinces, while 92 percent of the 202 cheese factories were located in Ontario and Quebec. Processed cheese and condensed milk plants were also heavily concentrated in the central provinces. Ice cream manufacturing, which is commonly associated with fluid milk facilities, was more widely distributed across the country.<sup>54</sup>

Concurrent with changes on the dairy farm through the 1960s—the demise of marginal producers, fewer cream producers, increased milk production per farm, better milk quality standards—was an increase in automation at the dairy plant. As dairy plants consolidated into larger production units, they had more money to invest in automation.

Evaporated milk processing in the Ste-Anne de la Pérade plant.  
Source: Agropur Cooperative



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*The increase in the productivity of dairy plants is one of the most striking results of the mechanization and automation of milk processing operations. For a long time, the dairy industry concentrated its efforts and directed its investments towards improving product quality, while labour productivity lagged behind. However, since the 1950s, the main emphasis has been on improving productivity, while maintaining, or even improving the quality of the finished product.*<sup>55</sup>

—Christophe Lacroix, “Automation,” in *Dairy Science and Technology*, 1985

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*Changes in technology and industrial structure have favoured large-volume plants. New forms of packaging and merchandising and changes in competition arising out of the development of the retail food chains have had a direct impact on the number and size of these processing firms. Condenseries, processed cheese plants and the larger ice cream plants, which typically have been operated by major corporations with wholesaling operations, are faced with the countervailing power of the retail chains.*

*The development of retail chains has had an important impact on fluid milk distributors, most of which were typically small dairy processors serving local markets, generally through home delivery routes. The retail chains have offered consumers lower prices for milk and other dairy items and a greater choice of container sizes. Competition at the retail level has been heightened by the emergence of milk specialty stores in many major cities which, by means of high volume sales and longer store hours, offer milk in two and three quart jugs at lower prices. The large capital requirements for modern pasteurizing and bottling plants, the need to meet the demand for diversified sizes and types of containers and types of products and the bargaining strength of the supermarkets which are accounting for an increasing proportion of their sales have combined to put great pressure on dairies to expand their businesses or to sell out to other distributors.*

—Federal Task Force on Agriculture, *Canadian Agriculture in the Seventies*, 1969

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## DAIRY ORGANIZATIONS AND THEIR INFLUENCE

Throughout the 1960s, a popular rebellion was taking place within the agricultural industries and across the country. The Ontario Farmers’ Union (OFU), which was folded into the National Farmers Union (NFU) in 1969, was skilled in fuelling the fires of change. It was a militant and controversial group—organizing marches, showing up at ministers’ homes and generally agitating for change. “When existing organizations like the Ontario Federation of Agriculture (OFA) were not doing the job they were supposed to be doing, the OFU was there to shake the tree,” says Bruce Dodds, a farm organizer and researcher who has written a history of the OFU. Nelson Coyle, the CDC’s current Chief of Policy and Strategic Planning, explains further: “It was often the farmers’ union that stirred people up and got demonstrations organized, and then the Canadian Federation of Agriculture would move in as the voice of reason and organize a compromise.”

Increasing discontent about prices and income across the whole farm spectrum boiled over in Quebec and Ontario, resulting in the 1967 march on Parliament Hill. As many as 10,000 Quebec and Ontario dairy farmers protested over low milk prices and the lack of a federal dairy policy. The headlines of the day tell the story: “Angry words exchanged at farmer-Cabinet talks,” “Parliament locks out farmers,” “Irate farmers storm House to climax milk price battle.” The demonstration was organized by the Ontario Farmers’ Union and the Union catholique des cultivateurs. The Ontario Federation of Agriculture participated as well.

“The doors of Parliament were damaged yesterday as hundreds of farmers tried to get inside to make their case for higher milk prices,” read the lead story in *The Globe and Mail* on May 25, 1967. It was hailed as the largest protest gathering ever seen on Parliament Hill and marked one of the first times the doors of the Centre Block were locked against Canadians.<sup>56</sup>

Establishment of the CDC had already been announced and was in process, as Agriculture Minister J.J. Greene pointed out to the crowd, but they were not appeased. The turmoil subsided

# *Near-riot when farmers march on Ottawa*

Headline in the *Western Producer*,  
June 1, 1967, front page.

Farmers rally on Parliament Hill in 1967.  
Source: Archives/La Terre de chez nous







Dairy Farmers of Canada exhibit.  
Source: Dairy Farmers of Canada

**An excerpt from a contemporary history of the PEI dairy industry paints as accurate a picture of the NFU as any. Region One of the NFU, made up of the entire province, was established at the beginning of 1970.**

*Previous to 1970, a large number of Island farmers became interested in a union that they felt would have greater persuasion with government as they strove to obtain a larger portion of the tax dollar to build up agriculture. The members of the NFU felt that their interests were being sacrificed to promote tourism and other industries.*

*The Union felt that existing farm organizations were too passive in their approach to government, and at meetings held throughout the province it was intimated that stronger and more vocal demonstrations could be expected if current demands were not met.*

*Probably one of the most appealing features of the NFU organizational pattern was the concept of family membership. Previously, membership in a farm organization was always thought of in terms of the husbands and fathers, who were in most instances the owners of the farm. The idea that farmers' wives and children in their teens could be members was almost inconceivable. However it was this concept that was one of the most vital factors in promoting the early growth of the National Farmers' Union in Prince Edward Island.*

—Merle Emms (ed.), *The History and Development of the Dairy Industry in Prince Edward Island*, 1978

after the crowd was told that their demands would be studied and new meetings with farm leaders held.

Was it a successful protest? “I don’t think you ever see a direct result of something like that,” says Ellard Powers, CDC’s second chairman, who co-chaired the 1967 demonstration with Lionel Sorel of Quebec. “But I don’t think there’s any doubt that 25,000 farmers on Parliament Hill had an impact on agricultural policy.”

### **Dairy Farmers of Canada and the Canadian Federation of Agriculture**

In the 1960s, Dairy Farmers of Canada (DFC) and the Canadian Federation of Agriculture (CFA) had a unique relationship. DFC was a member of CFA, but also an independent organization. In 1968, the Dairy Farmers contracted the Federation of Agriculture to provide the DFC’s secretariat. David Kirk served as Executive Secretary to both the CFA and DFC until 1985. (Kirk had already been Executive Secretary for the DFC from 1963. He also served as Executive Secretary to the Canadian Egg Producers’ Council from 1968 to 1985).<sup>57</sup>

The CFA made an annual presentation to Cabinet on behalf of all its members. As well, DFC always prepared its own briefs and government submissions.

As a national organization, DFC had considerable political clout and lobbying power. It was also the first national farm organization to embark on a national advertising campaign for dairy products in the 1960s.<sup>58</sup>

### **Union catholique des cultivateurs (Catholic Farmers’ Union)**

The Union catholique des cultivateurs (UCC) was founded in 1924 with the broad support of the Quebec clergy. It focused on education, farm credit, producing and selling agricultural products and, of course, the development of the Union itself. From 1935 onward, it offered fire insurance and general insurance to its members. Income from its popular insurance programs allowed the UCC to pursue its education programs and to lend money to agricultural co-operatives.

By the early 1960s, the UCC succeeded in getting the Quebec government to adopt various pieces of legislation to foster development of the farming community. This legislative environment, in turn, gave rise to services like crop insurance, improved farm credit, government-funded technical and financial consulting services, and a province-wide standardized price structure for electricity.

The UCC is also credited with procuring legislation that required producers to make annual contributions to their various organizations, which provided them with long-term, stable funding.

In 1972, the UCC changed its name to the UPA (Union des producteurs agricoles) and added the Fédération des producteurs de lait, an umbrella organization of regional milk producer unions, to its membership. The UPA is, in effect, a confederative entity.

### National Dairy Council

The National Dairy Council (NDC) was formed in 1918 to represent the interests of both producers and processors of industrial milk. The producer side, which eventually became Dairy Farmers of Canada, broke off from the NDC in 1936.<sup>59</sup>

The NDC's main role was to promote and protect dairy processor interests. By the 1960s, NDC members consisted of national and multi-national corporations, farmer-controlled co-operatives and family-owned businesses from every region of Canada. The Council lobbied decision makers, analyzed trends, managed issues and acted as a conduit between producers, governments, its members' suppliers and customers. Generally, it acted as a watchdog for processor interests. It did not, however, have the same political clout as Dairy Farmers of Canada. One reason for this was that NDC was an organization of competitors, while DFC was not.

After the Canadian Dairy Commission was born, the NDC took on a more institutional role, working closely with the federal government to update dairy product standards, process control parameters, set quality criteria, and institute testing methods. The NDC became a major player and contributor to the supply management system through its representation on the Canadian Milk Supply Management Committee and other committees.

### THE CANADIAN DAIRY CONFERENCE

By 1963, the dairy industry was plagued by troubles, with no end in sight. Attempts by Ontario and Quebec to establish or strengthen milk marketing plans were delayed when the Provisional Milk Marketing Board in Ontario disbanded. Butter stocks were high—200 million lbs. (90.7 million kg)—and milk production was outpacing consumption. The federal government introduced a \$0.12/lb. (\$0.05/kg) consumer subsidy on butter in May 1962 to help reduce that trend, but dairy producers and processors agreed more action was needed. It was time to take stock of trends and discuss constructive policies for the future of the industry.<sup>60</sup>

The Canadian Federation of Agriculture, on behalf of Dairy Farmers of Canada, proposed a national conference on the state of the dairy industry. CFA made its request at the 1962 Federal-Provincial Agricultural Outlook Conference. Ministers listened and responded. The national conference took place in Ottawa on February 21 and 22, 1963.

Seventy-seven people attended the conference, representing a wide range of organizations:

- the Advisory Committee to the Agricultural Stabilization Board
- the Canadian Federation of Agriculture
- the Co-operative Union of Canada
- Dairy Farmers of Canada
- the National Dairy Council
- the National Farmers Union
- provincial and federal governments

A couple of the conference's recommendations were particularly revealing:

*Because the federal government is directly involved in programs of dairy industry support and assistance as well as in some other dairy industry programs such as grading, plant standards, inspection and food and drug requirements, the conference recognizes that for some areas at least, the development of national policy in the dairy industry is inevitable and essential.*

*The conference moreover believes it possible that it will be found that there are some kinds of regulations, setting of standards or other functions which, while wholly or partly in provincial jurisdiction, cannot be effectively co-ordinated in the long run without means being found for the exercise of authority through a single national agency in some form. Opinions in the conference as to this need vary.*

A third recommendation outlined specific areas of importance for a national body to handle:

- price support and assistance
- pricing policy generally
- export and import policy
- marketing regulation
- quality standards
- composition standards (such as butterfat content)
- production and land-use policy
- research and promotion
- producer information, education and publicity
- nutrition

Finally, the conference asked for a Canadian dairy advisory committee to be set up with a mandate to address these issues.

#### THE CANADIAN DAIRY ADVISORY COMMITTEE

In response to the conference's recommendations, the Canadian Dairy Advisory Committee was formed. Its first meeting in Ottawa, in June 1963, was opened by Agriculture Minister Harry Hays. Its recommendations would be the foundation of the Canadian Dairy Commission.

#### Committee membership

The Committee's composition, again following the conference recommendations, included representatives from each of the five regions (Atlantic Provinces, Quebec, Ontario, Manitoba and Saskatchewan, Alberta and British Columbia), appointed by Dairy Farmers of Canada, the National Dairy Council and the provincial governments. The committee had one federal government appointee: Gordon Hill from Varna, Ontario.

Phillippe Pariseault chaired the Executive Committee, R. Gildner was Vice-Chairman, and Gordon Hill and George McLaughlin were members. The committee held meetings across the country. It tabled a report in March 1965, calling for the creation of a national dairy authority to accomplish the following tasks:

- co-ordinate dairy policies and the production and marketing of milk and milk products;
- provide long-term continuity in policies affecting the industry;
- raise the income of dairy producers; and
- maintain and enhance Canada's position in the international trade of dairy products.

Regions	DFC	NDC	Provincial governments
Atlantic	R.E. Wetmore	B.D. McKenzie	E.W. Adams
Quebec	Philippe Pariseault	Pierre Côté	Maurice Halle
Ontario	Harold Martin	Roy Gildner	George McLaughlin
Manitoba and Saskatchewan	Arthur Rampton	J.S. Turnbull	C.H.P. Killick
Alberta and British Columbia	A.D. Rundle	M.W. Baker	D.H. McCallum

#### Committee recommendations

The committee recommended legislation to transfer authority over dairy products from the Agricultural Stabilization Board to a national dairy authority. "The authority," the recommendation stated, "should be as autonomous as possible and report directly to the Canadian minister of Agriculture."

Other committee recommendations were that the authority have the following responsibilities and powers:

- act on export and import matters, subject to government policy (to import, for example, any dairy products at world prices, and if they were in short supply domestically, to resell them on the domestic market at a price that wouldn't undercut domestic prices);
- establish and administer producers' prices for raw milk when necessary, and make use of any programs in the pricing of manufactured products that would help stabilize the industry when necessary;
- channel or direct use of milk for the maximum long-term benefits of the industry; and
- negotiate and administer marketing quotas or standard quantities on a national basis in co-operation with provincial or regional authorities when necessary.

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*There was enough pressure from the provinces and producer organizations that we knew the government was going to do something, that there was going to be an act. But we didn't know what it was going to look like.*

— Ellard Powers, 2004,  
CDC's second Chairman

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*With the Committee, we pretty much wrote today's supply management system. We did not talk about subsidies in those days, we talked about quotas: national quota, provincial quota, individual quota. If the quotas were respected then we could, as much as possible, keep production in line with consumption and still have a small surplus in case we had a bad year and needed more milk for Canadians. And there was price support for dairy products to ensure a fair revenue to producers.*

*The Committee's recommendation was to create a Canadian commission to ensure that Canadians would always have the dairy products they wanted at a reasonable price and to ensure a normal revenue for the producers' operation. To achieve that, we had supply management.<sup>61</sup>*

—Jean-Louis Martel and Alain Côté, *Coopérateurs pionniers: premier entretien avec Phillipe Pariseault*, 1993

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## CREATING THE CDC

### ANNOUNCEMENT OF A NEW DAIRY SUPPORT PROGRAM

On March 26, 1965, Agriculture Minister Harry Hays told the House of Commons that a new dairy support program would be introduced in two phases.

Phase 1 was a new dairy policy intended to provide a national average return to producers of \$3.50/cwt (\$7.94/hl) for domestically used industrial milk. The policy included a combination of commodity price supports, a consumer butter subsidy, and deficiency and supplementary payments.

"It was the first time in the industry's history that an attempt had been made to provide an objective uniform price for all manufacturing milk, regardless of its use," wrote Veronica McCormick in her definitive history *A Hundred Years in the Dairy Industry*. But the policy still excluded surplus milk from fluid milk shippers.<sup>62</sup>

In an effort to discourage uneconomic dairy farm units, the supplementary payments were not made to producers who marketed less than 10,000 lbs. (4,535 kg) of milk during the 1964–65 year.<sup>63</sup> This would represent the production from one or two good dairy cows in that time. As well, under this new program, producers received supplementary payments inversely proportional to their output; in other words, the supplementary payments to producers declined as production increased.

Phase 2 would see the introduction of Bill C-205 to establish the Canadian Dairy Commission.

### THE EARLY SUPPORTERS OF THE CDC

It is difficult, and possibly unfair, to single out only a handful of people as supporters of the CDC. In fact, there were thousands of them. Probably far more deserve mention than are covered here. Still, it's clear that the following people, at least, deserve special mention.



Harry Hays  
Minister of Agriculture (1963–1965)  
Source: Senate of Canada

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Hays could also claim much success in his handling of dairy industry problems, beginning virtually within hours of his entering office, with helpful advice from Syd Williams and Deputy Minister Cliff Barry. His first one-year dairy program, running from May 1, 1963 to April 30, 1964, had been intended to divert milk from production of butter and skim milk powder into production of cheese. Cheddar cheese production that dairy year had risen to 137.2 million pounds (62.2 million kg) from 116.6 million (52.9 million) the year before. Less than two years later, by early 1965, he could also report that the huge butter surplus of 1963 had been liquidated....

With remarkable speed and comprehension, Hays had been able to grasp the whole position of agriculture within the Canadian economy. He had swiftly appreciated the complex reasons, for example, why the price for drinking milk had risen over the previous ten years from \$2.37 per cwt (\$5.37/hl) to \$4.79 (\$10.86/hl), while the manufacturing-milk price had only risen from \$2.52 (\$5.71/hl) to \$2.67 (\$6.05/hl). Surplus drinking milk could be diverted to the manufacturing market for production of butter, cheese and powder, to depress manufacturing-milk prices instead of drinking-milk prices. This was why Hays was now working so hard to establish a national milk marketing system that clearly separated the operations of the dairy industry's two very different sectors....<sup>64</sup>

—Don Peacock, *Barefoot on the Hill: The Life of Harry Hays*, 1986  
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Joe was so dedicated to the lot of Canadians that he died for them. He drove himself unmercifully, as he did those around him. He really wanted to improve the lot of farmers. I remember him telling me, "Ellard, when I came to Ottawa, I was going to shake up the bureaucracy. I've long thought that it was too strong. I thought, 'I'm going to replace it with my kind of people.' Only I didn't realize the strength the bureaucracy had."

—Ellard Powers, 2004, CDC's second Chairman

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## Harry Hays

*Minister of Agriculture, 1963–1965*

Harry Hays was an auctioneer, cattle exporter, rancher, Holstein breeder and mayor of Calgary, to name a few of his accomplishments. He was the only Liberal elected in Alberta or Saskatchewan in 1963. When he was defeated in the 1965 election by a few votes, he was bitterly disappointed.

Hays is credited with helping his successor as agriculture minister, Joe Greene, establish the CDC. Although it was Greene who introduced the bill to create the CDC, Agriculture and Agri-Food Canada gives credit to Hays, referring to "Hays' Dairy Commission Act" in *Serving Agriculture: Canada's Ministers of Agriculture, 1867–1997*. The same book describes him as "a colourful politician, using poor grammar and swearing, then telling reporters who smoothed the 'roughage' from his quotes that he was misquoted."

A year after losing the election in 1965, he was appointed to the Senate and continued to develop agriculture policy as a member of the Senate agriculture committee.

## John James Greene

*Minister of Agriculture, 1965–1968*

Known as "Joe" or "J.J.," Greene was a rare political figure, a non-farmer minister of agriculture. Born in Toronto, he established a law firm in Arnprior, Ontario. He was a man of action and was elected MP for Renfrew South in 1963.<sup>65</sup> After his re-election in 1965, he became Lester Pearson's Minister of Agriculture—the first easterner in 54 years to hold the post. Although he was criticized as an urban lawyer who knew nothing about agriculture, he cared passionately about the plight of Canadian farmers.

In 1968, Greene contested the federal Liberal leadership and made it to the third ballot before throwing his support behind Pierre Elliott Trudeau. Later that year he was re-elected, this time as MP for a new constituency, Niagara Falls, and was appointed Minister of Energy, Mines and Resources in Trudeau's first Cabinet. He had a heart attack in 1969 and a stroke a few years later. After retiring from Cabinet in 1972, he was appointed to the Senate. He took part in Senate debates right up to the week before he died in Ottawa in 1978.



### S.C. “Cliff” Barry

*The CDC’s first Chairman, 1967–1973*

Cliff Barry was born and educated in Vancouver, British Columbia. He joined the federal government in 1925. He resigned from his post as Deputy Minister of Agriculture in 1967 to become the CDC’s first chairman at the age of 63. “He had a reputation as a considerable intellectual force,” remembers Richard Tudor Price, a former director of international marketing for the CDC and now with Agriculture and Agri-Food Canada.

“My recollection was that he was a man of few words, but extremely knowledgeable. In those days deputy ministers were specialists. He knew a lot about agriculture.” An imposing man at close to 6’6” (1.98 m), Barry was considered austere, but was well respected, says Tudor Price.

He retired from the CDC in 1973, and Ellard Powers was appointed to replace him.

### David Kirk

*Executive Secretary, Canadian Federation of Agriculture, 1963–1985*  
*Executive Secretary, Dairy Farmers of Canada and*  
*Canadian Egg Producers’ Council, 1968–1985*

David Kirk was born in Saskatoon and graduated from the University of Saskatchewan. He went to work for the Canadian Federation of Agriculture (CFA) very early in his career and was renowned for his general knowledge of Canadian agriculture, not just dairy. He was involved in the dairy industry from the time he started with CFA and was appointed Executive Secretary for Dairy Farmers of Canada in 1968. He was considered to be one of the most influential people on dairy policy at the time.

### George McLaughlin

*Founding Chairman, Ontario Milk Marketing Board, 1965–1977*  
*Chairman, Dairy Farmers of Canada, 1966–1968*

George McLaughlin, a dairy farmer from Beaverton, Ontario, was appointed to CDC’s first Consultative Committee in 1967. He was the founding chairman and principal architect of the Ontario Milk Marketing Board (now Dairy Farmers of Ontario). He was highly regarded for his leadership skills and political

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*Cliff Barry was a very skilled administrator. He believed in strong input from the economic side. When he went over to the CDC, he developed an economic section and staffed it with good people.*

*Frankly, I think he did an excellent job of setting up the structure of the CDC to handle the business of the day. He was also a good listener. There are people who appear to be listening but have their own ideas and then don’t change their minds. Cliff wasn’t one of them. He wasn’t shy to come up with ideas after listening to everyone.*

—Archie MacDonald, 2004, Director,  
Economics and Market Research, Dairy Farmers of Canada

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*As a leader of farmers, David Kirk was diligent and loyal. He had an incredible vitality and an uncanny ability to sit through endless meetings, hours long, and then go home and summarize them quickly and succinctly for the farm community. He also had a knack for meeting people who could contribute to his causes. He made the most of any kernel of information he could raise hell on. His capacity for work was phenomenal and he could talk to anybody, from farmers to the Minister of Agriculture. That was his gift.*

—Hans Mestern, 2004, former CDC general manager

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*David was one of those people who believed in a national approach to issues. He didn’t believe it was prudent to have provinces competing with one another. He also didn’t like to get too close to politicians or bureaucrats.*

*He was a great guy. I can still see him rolling his own cigarette with one hand and using his other to make a point.*

—Archie MacDonald, 2004, Director,  
Economics and Market Research, Dairy Farmers of Canada

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*All told, George McLaughlin was probably one of the most capable guys I’ve run across. He seemed to have a good sense of what was important and what wasn’t. He concentrated on the priorities. He didn’t seem to get hung up on little issues and he had very little time for people who wanted to play politics. When I met him, he was a very bright, energetic, fiery young man who had little patience for people who were either ignorant of the issues he was interested in or asked what he considered to be dumb questions.*

—Archie MacDonald, 2004, Director,  
Economics and Market Research, Dairy Farmers of Canada

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S.C. “Cliff” Barry, first Chairman of the Canadian Dairy Commission (1966–1973).  
Source: Agriculture and Agri-Food Canada



David Kirk – “...was considered to be one of the most influential people on dairy policy at the time.”  
Source: Dairy Farmers of Canada



Benoît Lavigne was an important force in the Quebec dairy industry for 20 years. He was the Associate Deputy Minister of Agriculture of Québec (1966–1970) and Chairman of the Régie des marchés agricoles du Québec (1970–1985). Source: B. Lavigne

*George McLaughlin was a great leader. He was extremely well organized, frugal, and as a leader of farmers, he was outstanding in recognizing talent in his own group and in establishing contacts both at home and abroad. I remember an incident at the Royal York Hotel in Toronto where George was having a meeting. He ordered a peanut butter sandwich, which the hotel didn't have. But the hotel got it for him, somehow, and the next thing you knew, it appeared on the menu. That was George.*

—Hans Mestern, 2004, former CDC general manager

*Benoît Lavigne was a man with authority. He knew the lay of the land pretty well. He was a key figure. He could be a bit severe at times, but when we saw him, we felt he was really working hard for us farmers. To me, Lavigne was the best chairman of Quebec agriculture that the province ever had. We had to argue with him, and we had disagreements. But they were always resolved.*

—Pierre St. Martin, 2004, former Chairman of the Quebec Industrial Milk Producers Federation and signatory to the Interim Comprehensive Milk Marketing Plan

*Benoît Lavigne was a man with ideas. He had a much broader grasp of the dairy industry than a lot of people. He was very influential and had an 'in' everywhere. Everyone knew "Ben." He loved looking at problems and finding solutions even if they were not always immediately practical. He would arrive at a solution and he wouldn't have deviated from it. He was a very practical person with a strong personality.*

—Gilles Prigent, 2004, former CDC Chairman, legal advisor and successor to Lavigne as chairman of the Régie des marchés agricoles du Québec



Philippe Pariseault  
Chair of the Executive Committee  
of the Canadian Dairy Advisory Committee.  
Source: Agriculture and Agri-Food Canada

*Philippe Pariseault is quite willing to admit that collegiality is not one of his strongest points. Yet, his colleagues admire and respect him. He is a hard-working man who knows how to get the most out of his people, but at the same time recognizes each individual's contribution to the organization's achievements. Under his leadership, Coopérative de Granby is so successful that it attracts admiration and repels criticism.<sup>66</sup>*

—Claude Beauchamp, Agropur, Cinquante ans de rêves et de réalisations depuis la Société coopérative agricole du canton de Granby, 1988

*Philippe Pariseault was a man of action, he was self-assured, determined, dynamic and a very strong administrator. ...He inherited from his father, a military man, an incredible self-discipline. ...Mr. Pariseault has high expectation for himself and for others.*

—Michel Lemire, Agropur's former Chairman, Philippe Pariseault's eulogy, 2002

acumen. McLaughlin was president of the Holstein Association of Canada, founding chairman of the Ontario Sheep Marketing Agency, chairman of the Farm Debt Review Board and president of the Ontario Institute of Agrologists, among his many accomplishments.

### **Benoît Lavigne**

*Associate Deputy Minister of Agriculture of Quebec, 1966–1970  
Chairman of the Régie des marchés agricoles du Québec, 1970–1985*

Benoît Lavigne was born in 1926 on a mixed farm in Gentilly, today Bécancourt, Quebec. He finished a master's degree in agricultural economics in 1952 at the Faculty of Agriculture of Université Laval, which was then located in La Pocatière, and later received a Ph.D. in agricultural economics from Wisconsin State University. Lavigne taught agricultural economics at the newly centralized Faculty of Agriculture of Université Laval from 1962 to 1964 and held various positions with the federal Department of Agriculture from 1964 to 1966. He was a signatory to the Interim Comprehensive Milk Marketing Plan in 1970 and very well respected within the industry.

### **Philippe Pariseault**

Pariseault was general manager of Coopérative agricole de Granby, Quebec, the largest cooperative milk processing plant in Canada from 1956 to 1976. He chaired the Canadian Dairy Advisory Committee, formed after the Canadian Dairy Conference in 1963, which recommended creating the Canadian Dairy Commission. Pariseault was appointed to the original CDC Consultative Committee and was an influential and important figure in the Canadian and Quebec dairy industry.

### **Syd Williams and Don Goodwillie**

Syd Williams and Don Goodwillie also deserve special mention for their contributions to the CDC's creation and development. Goodwillie was with the Dairy Division of the Department of Agriculture before joining the CDC as marketing director. He served from 1967 until his death in 1972. Goodwillie was known as "Mr. Dairy."

Williams was Chairman of the Agricultural Stabilization Board. He succeeded Cliff Barry as the Deputy Minister of Agriculture in 1967.<sup>67</sup> “These two men were instrumental in the CDC, its policies and its overall development,” remembers Hans Mestern, CDC economic advisor and later General Manager (1966–1978). With Cliff Barry at the helm, the team was a formidable force. “They were loyal, and they were smart, and they knew what they were doing,” says Mestern.

### PASSING BILL C-205

On January 7, 1966, the federal Cabinet authorized the drafting of legislation to establish the CDC. In *Cabinet Conclusions*, documents summarizing discussions that took place behind closed doors and released to the public after 30 years, Finance Minister Mitchell Sharp stipulated that if any mistakes in judgement were made by the Commission, “losses should be made up by the producers concerned and not by the federal treasury.”

Agriculture Minister Joe Greene agreed, saying that the CDC would implement the federal dairy support program on a yearly basis, and not determine national dairy policy. There would be no provisions for it to apply to the government for further funds.<sup>68</sup>

Joe Greene introduced Bill C-205, *an Act to Provide for the Establishment of a Dairy Commission for Canada*, in the House of Commons on June 20, 1966, where it received first reading.

“It is not possible at this time, to indicate, other than in a broad way, the manner in which the Commission will operate,” Greene told the Commons. “The dairy industry is a complex and ever changing entity, and with these changes, different approaches will doubtless be needed on the part of the Commission.” Forty years later, it’s amazing how true those words still ring.

During the second reading in the Senate a few days later (June 29), the Hon. A. Hamilton McDonald reflected on the magnitude of the bill. “This bill is breaking new ground in that it will put into the hands of this Commission the responsibility for administering the production and marketing of dairy products from coast to coast in Canada,”<sup>69</sup> he said.

On July 11, 1966, the *Canadian Dairy Commission Act* received Royal Assent<sup>70</sup> and it was proclaimed on October 31.

### THE CANADIAN DAIRY COMMISSION ACT 1966

The CDC was created with a cross-delegation of powers from three pieces of federal legislation:

- *The Canadian Dairy Commission Act*, 1966 (See References, p. 219)
- *The Agricultural Products Marketing Act*, 1949
- *The Agricultural Stabilization Act*, 1958

“The establishment of the Canadian Dairy Commission is a significant historic event for Canadian agriculture,” Greene said in a December 2, 1966 press release. “Apart from the Canadian Wheat Board, it marks the first entry of the federal government into a national marketing agency for agricultural products.”<sup>71</sup>

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*I’m not surprised that the CDC Act passed that quickly, I can understand it. The dairy industry was in bad shape. The legislation was providing some hope. And in those days, agriculture policy was made by Cabinet, unlike today.*

—Richard Doyle, 2004, Executive Director, Dairy Farmers of Canada

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*I remember reviewing the Act, but don’t ask me to quote any of it now. What I do remember is that I liked what I saw, but was sceptical that it would work like they said it would. Words are one thing, actions are another. And the actions will depend on the conviction of the people who are in charge of administering the act. Without knowing who these people were going to be, I wasn’t sure. Also, don’t forget, when you read acts, there are a lot of “mays” rather than “shalls.” There’s a big difference between the two.*

—Ellard Powers, 2004, CDC’s second Chairman

### Bill C-205, *an Act to Provide for the Establishment of a Dairy Commission for Canada*: Timeline

June 20, 1966	1st reading (bill introduced)
June 23, 1966	2nd reading (Committee of the Whole—bill debated)
June 23, 1966	3rd reading (final approval)
July 6, 1966	Passes the Senate
July 11, 1966	Royal Assent
October 31, 1966	Proclamation



Don Goodwillie, a.k.a. “Mr. Dairy”, was CDC marketing director from 1967 to 1972. Source: Agriculture and Agri-Food Canada



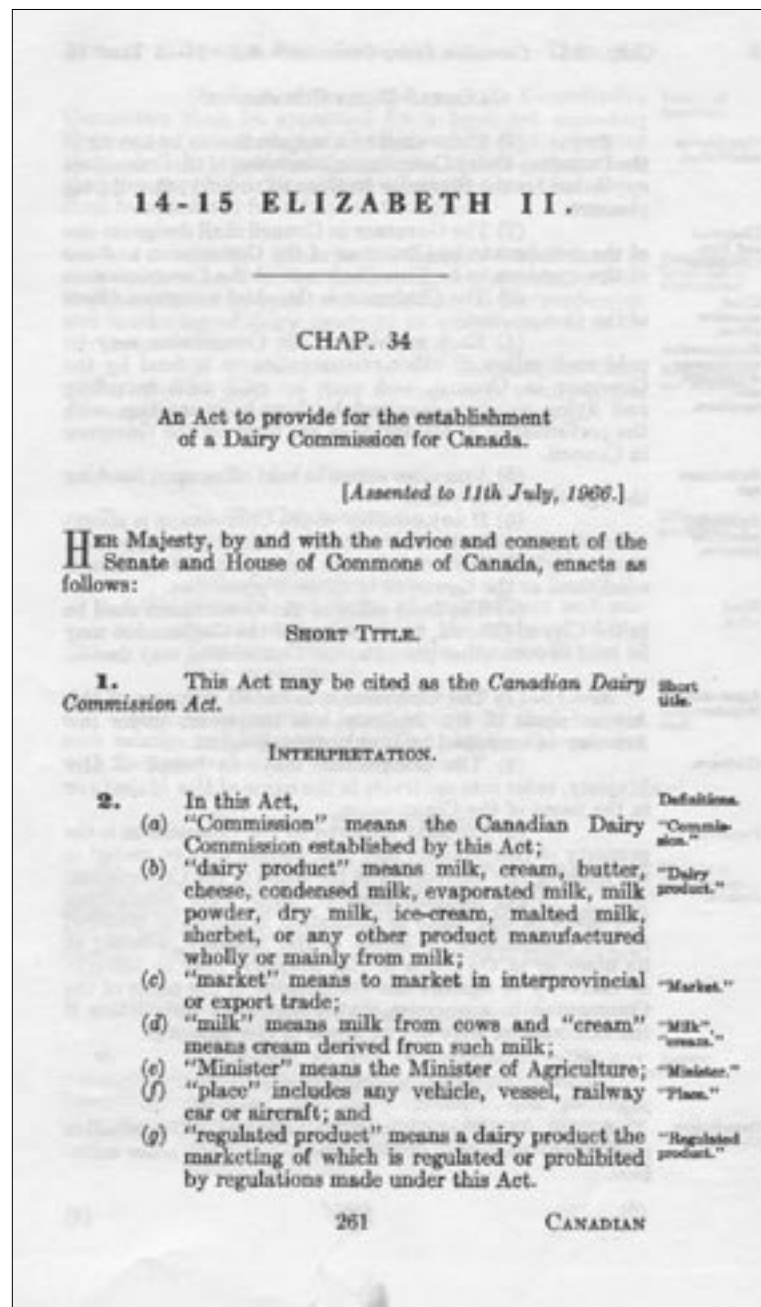


Lyle A. Atkinson of Vancouver, B.C., was appointed as the first CDC Commissioner (1967–1970). Source: Canadian Dairy Commission



Jules Thibaudeau of Thurso, Québec, was appointed as the first Vice-Chairman of the CDC (1967–1976). Source: Canadian Dairy Commission

Scan of the CDC Act, Royal assent given on July 11, 1966



Greene then announced appointments to the CDC and the Consultative Committee. The latter was created under the Act to help the Commission set policies for milk production, support prices and export policies.<sup>72</sup>

### Ellard Powers, CDC's second chairman, remembers joining the Consultative Committee

On Christmas Eve 1966, the day after Joe Greene was made Agriculture Minister, he called Ellard Powers and asked him to be his Executive Assistant. "I was the type of man who didn't like to say 'No,'" Powers recalls. "But times had been tough on the farm, we'd had three years of drought and I didn't want to leave it. I held him off until July. He kept sweetening the pot, offering me more money, summers off—little realizing that farmers didn't have summers off—and he kept the job open until June, when I had to finally tell him 'No.'"

But Joe Greene was a persistent man. A few years later he managed to rope Powers into the Consultative Committee membership. "I didn't really want to be on that committee. I was the dairy critic for the Ontario Farmers Union and I felt it would be a conflict of interest. I told Joe that. But he said not to worry. 'You can say whatever you want,' he told me. Joe had a large rural constituency and he respected my experience. So I agreed to be on the Committee. I didn't want to turn him down twice."

It was to be the beginning of nearly a decade of involvement in the CDC for Powers, taking him on a longer ride than he'd ever envisioned.

It's interesting to note that the executive powers from the Act were concentrated in the hands of the chairman—frankly, to the damnation of the other two commissioners. Under Cliff Barry's chairmanship, Memoranda to Cabinet were kept to their shortest form. I was told that the dairy policy that CDC was responsible for was all discussed very efficiently on the golf course or at lunch and dinner tables.

— Raymond Cloutier, 2004, former CDC economist



### Commission appointees

The first three members of the Commission were:

- S.C. Barry, Ottawa, ON, the Deputy Minister of Agriculture, who resigned that post to accept the Commission chairmanship
- Jules Thibaudeau, Thurso, QC, a dairy farmer active in dairy organizations, including the Fédération de l'Union catholique des cultivateurs des Laurentides, of which he was vice-chairman
- L.A. Atkinson, Vancouver, BC, General Manager of the Fraser Valley Milk Producers' Association

### Consultative Committee appointees

Appointed to the first Consultative Committee under the Act were:

- John L. Bailey, a dairy farmer from Clover Bar, AB
- Ulysse Bernier, a dairy farmer from Bedford, QC
- J. Lincoln Dewar, a dairy farmer from Charlottetown, PE
- Leopold Harvey, a dairy farmer from St-Cœur-de-Marie, QC
- George R. McLaughlin, a dairy farmer from Beaverton, ON
- William T. Murchie, Toronto, ON, President, Pet Milk (Canada) Ltd. and Director of the National Dairy Council of Canada

First Consultative Committee members at a meeting on February 6, 1967. Back row from left to right: (unidentified), J.L. Bailey, G. McLaughlin, J.L. Dewar, U. Bernier, L. Harvey, W. T. Murchie, E. Powers. Front row: J. Thibaudeau, S.C. Barry, P. Pariseault, L. A. Atkinson. Source: Agriculture and Agri-Food Canada

- Philippe Pariseault, General Manager of Coopérative agricole de Granby, QC
- Ellard Powers, a farmer from Beachburg, ON
- John S. Turnbull, Regina, SK, General Manager of the Saskatchewan Co-operatives Creameries Association

Under the Act, the Committee's function was to "advise the Commission on such matters relating to the production and marketing of dairy products as are referred to it by the Commission."<sup>73</sup>

### Funding

Funding for the Commission and its activities came from three sources:

- The federal dairy support program (subsidy) was funded under the *Agricultural Stabilization Act*.
- The CDC's administrative operations were funded by a vote of Parliament.
- The CDC was empowered to raise funds through levies and licences.<sup>74</sup>

### Objectives

- Provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment.
- Provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

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*Whoever wrote the Act did a very powerful job. Everything is in there that the CDC needed and more. It was a very visionary piece of legislation. An act like that would be unheard of today, but life was different then.*

— Chuck Birchard, 2004, former CDC Policy, Communications and Strategic Planning Director

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### Duties

- Stabilize the price of manufacturing milk and cream.
- Administer federal government support funds.
- Oversee interprovincial and export trade.

### Powers

- Purchase, package, process, store, ship, insure, import, export or sell or otherwise dispose of any dairy product purchased by the Commission.
- Make payments for the purpose of stabilizing the price of those products for the benefit of producers of milk and cream. Payments could be made on the basis of volume or quality or any other basis as the Commission deemed appropriate.
- Investigate any matter relating to the production, processing or marketing of any dairy product, including the cost of production, processing or marketing the product.
- Promote or help promote dairy products and the improvement of their quality and variety, and publish information about them.
- Do anything necessary or incidental to the exercise of any of its powers, or the carrying out of any of its functions under the Act.

It's not clear who wrote the act, although Cliff Barry, the CDC's first chairman, now deceased, was certainly thought to be one of the artisans, as was David Kirk, the Canadian Federation of Agriculture (CFA) executive secretary.

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*There would have been various lawyers involved, too, of course. They would have taken the "good intentions" of the key architects and put them into legal terminology. The provinces would have been involved, with legal input from their lawyers as well. So the masterminds behind the act would likely have been a combination of Cliff Barry and David Kirk, key provincial people, and some legal beagles, federal and provincial.*

—Archie MacDonald, 2003, Director, Economics and Market Research, Dairy Farmers of Canada

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## THE CDC STARTS UP

The Commission's activities in its first partial year of operation, 1966–67, were mostly organizational, “preparatory to assuming its responsibilities for dairy industry stabilization on April 1, 1967,” read the four-page 1966–1967 annual report.<sup>75</sup> The Consultative Committee and Commission members started travelling, attending producer and processor meetings in each province, and local meetings when they could. This helped broaden Canadian dairy producers’ understanding of national dairy problems and policies, as well as the functioning of the international market.<sup>76</sup>

It might not have been evident at the time, but the CDC was to play a key role in the evolution of federal dairy policy throughout its history. It was not a role for the faint of heart. The dairy industry was a politically important—and hot—industry. Farmers had political clout and milk was an important element of the Canadian diet.

The *Canadian Dairy Commission Act* gave the Commission the power to set a national target price for industrial milk and support it by offering to purchase butter and skim milk powder from processors under the *Agricultural Stabilization Act*.<sup>77</sup>

*When the CDC first came into operation, the first thing we thought was that this was another government bureaucracy that we would have to live and work with. It certainly was this, but we did find a way to work with them that was beneficial to both parties. We ended up having a very good relationship with the CDC.*

—Walter Pelley, 2004, former exporter with Ronald A. Chisholm Ltd.

*I thought it was a great thing. There was a lot of grumbling; you know, the farm population wasn't different than anyone else. There was a lot of frustration with some of the things going on. Maybe we didn't have all the facts, but we didn't think the government was being fair. It was sending all these low-priced products to Britain and meanwhile we were struggling to make a living. When the CDC came in at the time, it looked like a breath of fresh air. There were a lot of problems with the way farmers were being paid by the processors and the new system looked like pricing was going to be taken out of their hands, but everyone, including processors, would be ensured a fair return.*

—Sesel Wert, 2004, retired 3rd-generation dairy farmer, Avonmore, Ontario

Complicated policies had to be developed and implemented on all sorts of issues:

- pricing
- exports and imports
- subsidies
- buying and selling butter, skim milk powder, cheddar cheese
- storage

In January 1967, the Commission bought 1,000 imperial tons (1,016 metric tonnes) of butter from New Zealand “to guard against the possibility of a shortage of butter during the late winter.”<sup>78</sup> Under Trading Operations, sales activities were logged at just over \$1 million, leaving a net profit of almost \$210,000 after expenses, cost of sales and duty, less inventory.

By the fiscal year ending March 31, 1969, the CDC had handled over \$200 million, which included the subsidies and the sales of butter, skim milk powder and cheddar.<sup>79</sup>

Cover of the Canadian Dairy Commission's first Annual Report. The report explains that the CDC's activities were of an “organizational nature”.

Source: Canadian Dairy Commission

Statement of Operations in the CDC's 1969 annual report for the fiscal year ending on March 31, 1969.

Source: Canadian Dairy Commission



CANADIAN DAIRY COMMISSION		STATEMENT OF OPERATIONS FOR THE FISCAL YEAR ENDING MARCH 31, 1969	
Revenue			
Sales	\$1,016,000		
Subsidies	1,016,000		
Interest	1,016,000		
Other	1,016,000		
Total	4,064,000		
Expenses			
Cost of sales	(1,016,000)		
Operating	(1,016,000)		
Interest	(1,016,000)		
Other	(1,016,000)		
Total	(4,064,000)		
Net Profit			\$210,000



## THE POLICY ROLE OF EXPORTS, SUBSIDIES, QUOTAS AND PRICING

### The Quebec-Ontario milk subsidy war

In 1966–67, CDC's first year of official operation, a milk subsidy war developed between Ontario and Quebec. The federal subsidy was not enough to keep industrial milk and cream producers in business, so both provinces began to pay their own subsidy of \$0.25/cwt (\$0.57/hl) of milk. When they announced they intended to increase the subsidy to \$0.75/cwt (\$1.70/hl), the CDC stepped in.

More subsidies at the provincial level would have inevitably stimulated an increase in production, which in turn would increase the surplus product the federal government would have to deal with. To combat the problem, the Commission set its 1967 subsidy rate at \$1.21 per cwt (\$2.74/hl), up from \$0.85 (\$1.93/hl) the previous year, a 42 percent increase.<sup>80</sup> It did this only on the condition that Quebec and Ontario stop subsidizing industrial milk and cream production, except for unusual local situations. The provinces agreed.

At the same time as the CDC set its new subsidy rate, it announced Subsidy Eligibility Quotas (SEQs) and an Export Price Equalization program. For exports, the Commission deducted \$0.11/cwt (\$0.25/hl) from the subsidy to equalize export and domestic prices of dried milks, evaporated and condensed whole milk, cheddar cheese and casein.<sup>81</sup>

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*Prices received for industrial milk (market return plus federal subsidy) were considered insufficient to maintain producer profitability, which resulted in political unrest at the time. If a subsidy war developed, it was feared that provincial subsidies would be used by one province to undercut prices in another province in order to increase sales and market shares.*

*In the early 1970s, a chicken and egg war broke out. Quotas were coming; everyone knew they were inevitable. So a 'race for base' ensued in these commodities.*

—Raymond Cloutier, 2004, former CDC economist

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### First steps towards supply management:

#### Subsidy Eligibility Quotas

SEQs were allotted to all industrial milk and cream producers according to their previous year's deliveries. In 1967, the CDC issued SEQs to 165,000 milk and cream producers,<sup>82</sup> based on butterfat content, which was the common denominator for milk and cream shippers at the time.

Producers registered with the Commission, and processors—who received pre-printed monthly shipment lists from the Commission for each producer—dutifully recorded the producers' monthly shipment and returned the accounting to the Commission. The annual SEQ was divided into monthly percentages. Subsidy eligibility for the month was used to calculate the subsidy on shipments covered by quota. Producers received their subsidy cheques directly from the Commission.<sup>83</sup>

Each producer received a subsidy on his milk shipments up to the amount of his quota. If he produced more than his quota, he did not get a subsidy on the excess. Excess fluid milk shifted to the industrial market was not covered, except in provinces that had admitted qualifying industrial milk producers to share in the fluid market. British Columbia was the first province to qualify for subsidy payments to fluid producers in 1966, followed by Ontario in 1968 and Quebec in 1972.<sup>84</sup>

The SEQs were designed with the CDC's objective—as outlined in the Act—in mind: to give industrial cream and milk producers a fair return on their labour and investment while providing consumers with a reliable supply of high-quality dairy products.

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*The program this year establishes a new principle as a long-term policy. This is that the subsidy will be paid, in total, only on approximately the amount of milk and cream required to produce dairy products for the domestic market. That amount has been placed at the equivalent of 9.95 billion pounds (4.5 billion kg) of milk. This, also, is the approximate amount from manufacturing milk and cream shippers on which subsidy was paid in 1966–1967.*

—CDC, Press release announcing the 1967–68 Dairy Stabilization Program, April 27, 1967

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### Quotas versus SEQs

*A production quota is meant to tell an individual how many laying hens he can house in his poultry barn, for example. In principle, he could deliver to the market all the eggs these hens could lay. The farmer would be audited from time to time on the number of birds in his poultry barn. If extra birds were found on the premises, a penalty would be charged for each extra bird.*

*A marketing quota would tell a farmer how many pounds, for example, of chicken meat he could send to slaughterhouses. If more pounds were delivered, a penalty would be charged to discourage excess shipments.*

*The SEQs were none of that. They were a quantity of milk that the dairy farmer was entitled to receive the federal subsidy on. Any farmer, wherever he was in Canada, could have any number of cows in his barn, and ship to local processing plants all the milk his cows could produce. But above a set amount, the CDC would simply not send him any money.*

*In the later days of the SEQ regime, some farmers were shipping so much milk above their SEQ that the CDC, according to its rules for holdbacks on over-SEQ shipments, could not pay them any subsidy at all, not even on within-quota delivery. Their holdbacks were too high; they even owed money to the CDC. Some clever ones had sold their SEQs to other farmers and were shipping without SEQ. That's when the SEQ system started to break down. Eventually it was phased out and replaced with Market Sharing Quotas in the early 1970s.*

—Raymond Cloutier, 2004, former CDC economist

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*The Commission, however, will consider applications to reallocate quotas when a transfer of ownership of a farm or a complete herd takes place. The main objective of the Commission will be to manage such allocation of quotas so as to assist quota holders to develop economic units, to avoid perpetuation of uneconomic units or the setting up of new uneconomic units. ...*

*Since it is the policy of the Commission, in reallocating quotas, to assist existing quota holders to develop economic units, reallocation to persons who do not already hold quotas will be considered only in exceptional circumstances. In no case will the Commission reallocate a quota of 100,000 lbs. (4,535 kg) or less to a non-quota holder. ...*

—1967–1968 Dairy Stabilization Program paper

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*The Commission will maintain firm control of quotas, their award and transfer. It will seek to use quotas that change hands to build up economic units.*

—Canada Department of Agriculture, *Background, Dairy Price Support Policies 1940–1967*, April 28, 1967

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SEQs, then, essentially established a value, or type of currency, for industrial dairy producers, but the quota remained the property of the Commission. The system also guaranteed that industrial milk and cream producers would get the same price for their milk, even if other producers over-produced. This brought some equity into the industry. The SEQs were not designed to regulate production directly. But it was thought that they would influence production.

“They were designed to identify the quantity of milk on which the producer could receive a subsidy. And, as a side effect, they did help to curtail deliveries,” says Raymond Cloutier, a former CDC economist.

To allow for farm transfers, the Commission developed a system of reallocation. Under this system, if a farmer holding a quota stopped dairying, sold his farm or herd to someone else and returned his quota to the Commission, the new owner could apply to have the quota reallocated to him. During 1967–68, 3,468 quota reallocations were approved.<sup>85</sup>

The Commission served notice that it would not grant SEQs to anyone who entered the industrial milk or cream field after April 1, 1968, except when a new shipper bought the herd of an existing quota holder.<sup>86</sup>

### THE EXPORT PRICE EQUALIZATION PROGRAM

At the same time as the Commission announced its SEQ program, it announced an Export Price Equalization program, which involved deducting money from subsidy payments on all milk delivered by quota holders. The money deducted was then used to equalize export and domestic prices of dried milks, evaporated and condensed whole milk, cheddar cheese and casein.<sup>87</sup>

### THE CONSULTATIVE COMMITTEE

It's clear from reading minutes of Consultative Committee meetings in the late 1960s that members were heavily involved in all aspects of CDC development: the Commission, its policies, the SEQ system, the general administration of the dairy program. The committee was made up of six farmer and three

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**Cliff Barry explains the effect that the subsidy quota system initially had on the industrial dairy industry. Excerpt from “Canadian Dairy Commission, Its Objectives and Operations” by S.C. Barry, OECD Agricultural Review (1968).<sup>88</sup>**

*The Commission has given firm notice that no new person starting in dairying can receive a subsidy quota except by a reallocation. The purpose of this is to hold the industry to approximately its present size and prevent the present reasonably satisfactory prices from encouraging an undue expansion.*

*In the manufacturing milk and cream side of the Canadian dairy industry, there have historically been a large number of very small shippers. For many of them dairying is a minor part of their total farm operations. To illustrate the number of small shippers, over half of the total number shipped less than 50,000 lbs. (22,680 kg) of milk in 1966.*

*These small shippers are leaving the industry at a high rate. In addition, the policy of the Commission is designed to encourage producers to develop efficient production units. Those who shipped very small quantities in 1967 did not receive a subsidy quota in 1968.*

*The combination of those who are quitting dairying voluntarily and those who are being excluded from the subsidy by the Commission is resulting in a substantial reduction in the number who have subsidy quotas. In 1967, quotas were allotted to 160,000 shippers. The number in 1968 was about 110,000.*

*This change that is taking place in the structure of the farm side of the dairy industry is also taking place in the manufacturing plant side. Ten years ago there were some 1,300 dairy manufacturing plants in Canada. The number today is about 800, with the total volume of milk relatively unchanged from 10 years ago.*

*As the number of plants decreases and the size of the remainder increases, their efficiency also increases and the operating costs decrease. This is an important element in stabilizing the industry and improving its efficiency.*

*There is another basic principle of the Commission's operations related to the matter of surplus production. That is that if the industry produces more than is required in Canada and the surplus has to be exported at a lower price, the net price that producers receive is, in effect, a blending or pooling of the returns from the domestic and export markets.*

*We do not have the means in Canada to do this directly, but we do it indirectly by deducting from the subsidy the amount of money required to equalize export prices with domestic prices. This year, \$0.15/cwt (\$0.34/hl) of milk is deducted*

*from the subsidy payment for this purpose. The net effect, in terms of the payment received by producers, is the same as if prices in the domestic and export markets were blended in a “pool” price. Any cost of disposing of surpluses in export is, therefore, borne by the producers.*

*We have no surplus of butter, for which we consider ourselves fortunate under present world market conditions. We have some small historical export markets for a few dairy products, of which the main one is mature cheddar cheese to Britain.*

*Our major surplus problem is in skim milk powder. This is not due to an increase in our total milk production, but to the changing nature of our industry. About 70 percent of our manufacturing milk and cream goes into the production of butter.*

*Some farmers separate their milk on the farm, ship their cream to market and use the skim milk for feeding to calves or pigs. Others market their milk as whole milk.*

*As technology on the farm has changed, and as the size of individual production units has increased, fewer farms are separating milk on the farm and more are shipping whole milk. As more of our butter is made from milk, and less from cream, we have a proportionate increase in the amount of skim milk that plants must dispose of. This goes primarily into skim milk powder.*

*The extent of this change is shown in the statistics. Seventy-five percent of our butter in 1957 was made from farm shipments of cream. Last year, 1967, it was 42 percent. In 1957 Canada produced 120.7 million lbs. (54.7 million kg) of skim milk powder. In 1967 the production was 316.4 million lbs. (143.5 million kg).*

*In total, about 2 percent of Canada's total milk production goes into products that are exported. Each country, of course, has its own particular circumstances that dictate the nature of its policies for its dairy industry.*

*In many countries a basic problem of the dairy industry, as with other forms of agriculture, is to provide a suitable price to producers and, at the same time, avoid that price acting as an encouragement to surplus production.*

*Under the Canadian Dairy Commission operations we are using two means to that end. One is the quota system of limiting the amount of milk on which we will pay subsidy. The other is to charge back to producers the cost of disposing of any surpluses that the industry may produce.*

Copyright OECD, *Agricultural Review*, vol. 15, no. 4 (1968).  
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processor representatives (see p. 29 for membership list). Most of them held executive positions on dairy councils; they were not ‘yes-men’ by any means. They were experienced and respected professionals who brought dairy industry perspectives to the table and represented all regions.

At its June 19, 1967 meeting, the Committee suggested identifying a provincial official or organization as a point of contact for producers concerning their quota adjustments. By 1969, the Commission reported to the Committee that it had designated a senior Department of Agriculture official in each of the four western provinces to act as liaison officer with producers. Their job was mainly providing information, but they also had a supply of quota reallocation forms. The Commission and Committee members were clearly working together and making progress.

The role of the Consultative Committee would change through the decades, waxing and waning depending on the political will and the issues of the day.

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*Farm organizations were fairly lenient on the Commission in its start-up years. We were a new organization and we appeared to be doing something. The Commission would bring issues to the committee and we would hash them out—like the SEQ system and how it would work. We met once a month, and everyone was there. It helped that processors were on that committee. They really contributed a lot. The Consultative Committee was also involved, or consulted, on pricing. I remember we had a separate committee set up, out of the Consultative Committee, to look at the pricing recommendations.*

—Ellard Powers, CDC’s second Chairman, appointed to the first Consultative Committee, remembers the early years of the Committee as being “housekeeping” years.

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### Holdbacks:

Also called “export subsidies”: the amount of money the Commission would hold back from producers’ subsidies (based on hundredweight of milk produced) to help pay the cost of disposing of (exporting) any surplus industrial dairy product. In 1967, the Commission imposed an \$0.11/cwt (\$0.25/hl) holdback. Two years later, in an attempt to curb production and pay for mounting surpluses, an “up-to-quota” levy and “over-quota” levy were imposed. The terms “holdbacks,” “export subsidies” and “levies” continued to evolve during the next decade. Under the terms of the 1970 Interim Comprehensive Milk Marketing Plan, holdbacks were replaced with “levies,” which were collected by the provinces and remitted to the CDC.<sup>89</sup>

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## HEADING INTO THE 1970S

In 1967–68, when the CDC took over the dairy support program that had been previously handled by the Agricultural Stabilization Board, it faced two main problems. First, production was above domestic needs, and second, the industry was made up of a large number of marginalized small-scale operators who had limited economic alternatives.

At first the SEQ system helped introduce some stability into the system. But it had other, unanticipated results. As industrial milk became more economically attractive, for example, farmers began to ship more milk (even if they didn’t get subsidies on their overproduction). More milk meant more surplus of butter and skim milk powder. More surplus product meant a build-up of stocks resulting, in turn, in more storage and disposal costs.

The Commission tried to control the situation in several ways. In 1969, it imposed an additional holdback on over-quota production, known as the ‘over-quota’ levy. This levy was used to dispose of over-quota production on the world market. It was established at \$0.52/cwt (\$1.18/hl) of milk, which was double the ‘within-quota’ levy for export marketing costs.<sup>90</sup> The within-quota levy was used to cover the cost of disposing of the



Cheese ad by Dairy Farmers of Canada.  
Source: Dairy Farmers of Canada

Ad that appeared in the *Family Herald* magazine on June 13, 1968.  
Source: Canadian Dairy Commission

The controls to pasteurization, distribution and packaging machines. Dairyland plant in Burnaby, B.C. 1964. Source: Dairy Industry Society of BC



structural in-quota surplus.<sup>91</sup> But the situation was compounded by an unanticipated oversupply on the world market and world prices fell to unacceptable levels, well below the Commission's price support levels.<sup>92</sup> Clearly the system was not working as it was intended to work.

What's more, production under the SEQ system accounted for only about 80 percent of industrial milk production. The remaining 20 percent was filled by the overflow from the fluid milk sector. The fluid producers got the market price for industrial milk based on the CDC's offer-to-purchase program, but they weren't subject to any holdbacks, in-quota levies or over-quota levies. This created yet another inequity in the new system.

The CDC worked hard and made great strides in a relatively short time period. It could boast a number of accomplishments:

- setting up shop to develop and run a new national industrial milk program;
  - establishing a Subsidy Eligibility Quota system and issuing quotas to 165,000 industrial milk and cream producers;
  - establishing an export subsidy system;
  - starting to handle the buying, storing and selling of regional and seasonal surplus butter, skim milk powder and cheddar cheese; and
  - beginning to build bridges between provincial producers, processors and government officials.
- But the real work was yet to begin.

*Milk is a necessary article of food for which there will always be a demand.  
For a considerable length of time the young animal, man, lives almost exclusively upon milk.  
Milk and its products enter into the dietary needs of all civilized people at all ages,  
hence the dairy farmer knows that he is producing an article for which there will always be a market.  
Changes of fashion, or whims of fancy, will not rob him of a market for his produce.<sup>93</sup>*

HENRY H. DEAN, CANADIAN DAIRYING, 1903

## APPENDIX 1-1 COMMISSIONERS, MINISTERS AND PRIME MINISTERS

### Commissioners

Dr. S.C. “Cliff” Barry	Chairman	1967–1973
Jules Thibaudeau	Vice-Chairman	1967–1976
Lyle A. Atkinson	Commissioner	1967–1970

### Prime Ministers

John Diefenbaker	Progressive Conservative	1957–1963
Lester B. Pearson	Liberal	1963–1968
Pierre Trudeau	Liberal	1968–1979

### Ministers of Agriculture

Alvin Hamilton	Progressive Conservative, Qu’Appelle/Qu’Appelle-Moose Mountain, SK	1960–1963
Harry Hays	Liberal, Calgary South, AB	1963–1965
J.J. “Joe” Greene	Liberal, Renfrew South and later Niagara Falls, ON	1965–1968
H.A. “Bud” Olsen	Liberal, Medicine Hat, AB	1968–1972

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35. *The Ontario Milk Marketing Board paper* [date and author unknown], p. 1.
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Cheese making in Agropur's Bon-Conseil plant. Source: Agropur Cooperative

*In order to get the milk delivered in proper condition, the source and distribution of the milk must be under proper supervision. This is best secured by municipal control, such as that followed in Glasgow, Scotland, where all the shops that sell are licensed and inspected. . . . The advantages of this plan are that better prices are usually paid to the producers of milk, while the price is not, as a rule, increased to the consumer.<sup>1</sup>*

HENRY H. DEAN, CANADIAN DAIRYING, 1903

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# THE 1970s: BUILDING SUPPLY MANAGEMENT

### *Introduction*

If the 1960s were chaotic, the 1970s were turbulent. They opened with surpluses of skim milk powder, butter and cheese at home and abroad. World dairy prices were depressed. Disposing of surplus dairy products was getting expensive, gobbling up about a third of the dairy support budget.<sup>2</sup> The publication in late 1969 of a federal task force report entitled *Canadian Agriculture in the Seventies* set off a wave of protest from Canadian farmers. The main theme of this task force report was that government should decrease its direct involvement in agriculture.<sup>3</sup> As well, energy costs and inflation were out of control.

The Food Prices Review Board, a federal agency created to investigate the causes of food price inflation, was particularly critical of supply management. The United Kingdom, Canada's largest importer of cheese, closed its doors to unlimited imports when it joined the European Economic Community in 1973.<sup>4</sup> Improvements in dairy science, coupled with technological

change, resulted in declining numbers of cows and farmers, but an increase in production. Change was coming fast and furiously to the dairy industry.

Early on, cracks started to appear in the Subsidy Eligibility Quota (SEQ) system. In March 1970, to combat growing surpluses, Agriculture Minister Bud Olsen (who replaced Joe Greene in 1968) increased the surplus (over-quota) holdback to \$1.25/cwt (\$2.83/hl) of industrial milk—a huge increase over the previous \$0.52 (\$1.18/hl).<sup>5</sup> This meant that SEQ holders were penalized on their over-quota production *and* had to shoulder the cost of exporting dairy products. However, fluid producers who contributed to the industrial pool still got the market price for industrial milk based on the Canadian Dairy Commission's offer-to-purchase program, but without bearing any of the export costs.

From 1971 to 1973, production was substantially below demand. Canada had to import butter: 11.3 million lbs. (5.1 million kg)

Holstein cow of the decade:  
Bred by Roybrook Farm, Brooklin,  
Ontario, from the "White Cow" family,  
Roybrook Model Lass was the dam of  
Roybrook Telstar and Starlite. Telstar  
and Telstar's sons sired tremendous  
brood cows and Starlite was the first  
true production sire in Canada.  
Source: Holstein Canada Archives



in 1971, 28.5 million lbs. (12.9 million kg) in 1972 and 53 million lbs. (24 million kg) in 1973. Meanwhile, the Canadian Dairy Commission (CDC) was enticing provinces into a national structure, the Interim Comprehensive Milk Marketing Plan. Quebec and Ontario signed the agreement in 1971 (effective December 1970) and, after much negotiation, behind-the-scenes discussion, cajoling and arm-twisting, it was signed by all provinces (except Newfoundland) by 1974.

It was a great triumph but short-lived, because it was overshadowed by the quota cuts of 1976 and a near riot of dairy farmers, mostly Quebec industrial producers, on Parliament Hill the same year. The unheard-of had happened. After an outstanding spring and the advent of the new Returns Adjustment Formula in April 1975, which boosted the price of milk, there was too much product on the market. Industrial milk production rose only 2.5 percent in 1974–75 and although targeted to increase by 5 percent in 1975–76, it actually increased 17 percent, oversupplying the market.<sup>6</sup> For the system to survive, cuts had to be made. They were, and reality set in.

The move from surplus at the opening of the 1970s, to shortage, and then back to a surplus that led to the 1976 cuts was driven by the protein crisis of 1972–73. Feed and meat prices soared because of a shortage of grains and oilseeds. It was more attractive to slaughter dairy cows than to feed them and production fell. In response, dairy prices were raised to encourage more production. The Returns Adjustment Formula helped set industrial milk prices at more attractive levels. Then, cattle prices fell back to lower levels, reducing incentives to cull herds. Feed prices were now low—which meant farmers kept larger herds, so even more milk was produced.

Gilles Choquette, CDC's third chairman, joined the Commission in 1976, the year that Quebec, Manitoba and British Columbia threatened to leave the system over the imposition of a levy on the portion of milk from fluid producers that entered the industrial stream (used to make processed dairy products.) Choquette, who replaced Ellard Powers, would long be remembered for his colourful and controversial tenure. The Agreement on Inter-Provincial Adjustment of Market Sharing Quota was signed in 1977 and a year later work was to begin on a National Milk Marketing Plan to replace the interim plan of 1971.

In the latter part of the decade, the industry started converting to metric measurement and changed the dairy year to start on August 1 instead of April 1—both major adjustments. The decade ended on a cloudy note, with the opening of the Commission of Inquiry into Allegations Concerning Commercial Practices of the CDC.

It was a difficult decade for the dairy industry. But things were progressing.

## DEVELOPING THE QUOTA SYSTEM

### THE INTERIM COMPREHENSIVE MILK MARKETING PLAN

The industry, led by Dairy Farmers of Canada (DFC), came up with a plan that instituted Market Sharing Quotas (MSQs). MSQs were patterned on the fluid milk quota system in place in Ontario and Quebec. The system had an effective over-quota levy to help keep supply in check, and a safety margin, commonly called the 'sleeve,' to ensure, to the extent possible, that sufficient industrial milk and cream were produced to meet domestic demand for manufactured dairy products.

The new marketing plan also included excess fluid milk production that spilled into the industrial market, which hadn't previously been eligible for the industrial milk subsidy. For the first time, producing milk specifically for industrial processing started to look attractive to fluid milk farmers. Previously they just hadn't been interested.

The problem of excess milk from fluid producers spilling into

the industrial market was a thorny issue. Here were fluid producers making more money from industrial milk *and* displacing industrial milk market share for industrial producers.

Meanwhile, MSQ was allotted to producers as pounds of butterfat, with quantities based on the greater of either the producer's deliveries from April 1, 1969, to March 31, 1970, or the producer's SEQ at the time MSQ was established.<sup>7</sup>

On January 14, 1971, Quebec and Ontario reached an agreement and the Interim Comprehensive Milk Marketing Plan was announced. "The agreement, which took effect on December 1, 1970, establishes a supply management program for milk used in the manufacture of dairy products and is designed to keep production in balance with domestic requirements on a butterfat basis," read the CDC press release announcing the plan. Quebec's

### Supply management rather than price support

*Provincial programs often effectively vitiating [diluted] federal initiatives by various forms of subsidy. In addition to this lack of federal-provincial coordination, it was soon apparent, in the presence of increasing surpluses of industrial milk products, that a program of unrestricted price support was unacceptable. . . . By 1974 all provinces, with the exception of Newfoundland, and the Federal Government had entered into a Comprehensive Milk Marketing Plan to institute supply management for industrial milk and cream. A key deficiency in previous federal initiatives was thus rectified.*<sup>8</sup>

—Benoît Lavigne and Everett Biggs, "Report of the Review Committee on a Long-Term Dairy Policy for Canada", 1985

*The 'sleeve' was created to introduce flexibility in the MSQ system. It was a 'margin of error,' if you will. Without it, farmers looked at the system as very rigid. They didn't want to produce one pound above quota so they wouldn't have to pay an over-quota levy. If anything, they held back production, which was not good for the system.*

*The sleeve concept evolved quite a bit. At one point it was too high; I think I remember it being as high as 15 percent in the beginning. It was later adjusted downwards and used to adjust to changing demand.*

—Raymond Cloutier, 2004, former CDC economist



### Highlights of the Interim Comprehensive Milk Marketing Plan from the January 14, 1971 CDC press release

- Market sharing quotas are based on each producer's deliveries between April 1, 1969 and March 31, 1970 or on his Subsidy Eligibility Quota if that is greater than his deliveries.
- Each producer will receive a market price related to Canadian price support levels for deliveries up to his market sharing quota.
- Prices for deliveries over market sharing quota will be related to world prices for surplus dairy products.
- Effective with December deliveries, the holdback from subsidy payments used to offset the cost of surplus disposal will be discontinued.
- In place of the holdback from subsidy, there will be a levy on the market price paid to producers.
- The levy rates to March 31, 1971, will be \$0.26/cwt (\$0.59/hl) of milk on deliveries by a producer up to this market sharing quota and \$2.40/cwt (\$5.44/hl) on deliveries in excess of this market quota.
- These levies will be collected under provincial authority and the funds remitted to the Canadian Dairy Commission for its costs of surplus disposal.
- The levy on cream is to be \$0.01/cwt butterfat on deliveries up to market quota (*sic*) and \$0.5028 on deliveries in excess of market quota (*sic*).

First page of the Interim Comprehensive Milk Marketing Plan, January 14, 1971, signed by leaders from the Milk Commission of Ontario, the Ontario Milk Marketing Board, the Ontario Cream Producers' Marketing Board, Régie des marchés agricoles du Québec, Fédération des producteurs de lait du Québec, Fédération des producteurs de lait industriel du Québec, Office des producteurs de lait du Québec à la compagnie Carnation, Office des producteurs de lait fournisseurs à la Crèmerie Révélation Inc. and Syndicat des producteurs-fournisseurs de lait de J. J. Joubert Ltée de Nicolet

Source: Canadian Dairy Commission



initial MSQ allotment was 189.62 million lbs. (86.01 million kg) of butterfat; Ontario's was 128.80 million lbs. (58.42 million kg).

"Although the agreement now covers only Ontario and Quebec, producer groups in other provinces are working towards entry into a similar program," the press release added.

Having industrial milk from fluid producers included in the plan was one way of making membership more attractive. This meant that, in provinces that joined the plan, fluid shippers qualified for the federal subsidy for the first time. Healthy quota entitlements were another incentive for provinces to participate.

### **Integrating industrial and fluid milk pools**

There was a condition attached to allowing industrial milk from fluid shippers into the Interim Plan, though. Fluid shippers had to take steps to admit milk from industrial shippers who met farm and milk quality standards into their fluid pools. It was not a popular stipulation. The inequities between fluid and industrial shippers were narrowing, but there was still considerable animosity between the two sectors. Fluid producers were not happy about having to open their previously closed shop, but industrial producers were unhappy with the fluid sector's milk spillover into the industrial market. Still, the integration<sup>9</sup> of the fluid and industrial milk producers had begun and would evolve throughout the next two decades.

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*It was definitely the beginning of a new era. And it was the first step that brought us closer to industry integration. We could now argue for an integration of all markets.*

*There was a lot of lobbying by the Dairy Farmers of Canada to get that interim plan signed. The whole process united the provinces. Negotiations were on the basis that we would develop a quota system and DFC would petition the government to provide a price structure for industrial milk. That was the Returns Adjustment Formula, which came through in 1975.*

—Peter Oosterhoff, 2004, Ontario dairy producer and former DFC President

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### **Pooling and integration**

Pooling is an agreement between milk producers to share revenues based on the volume of milk collectively sold.

By the 1970s, most provinces had fluid milk pools and fluid quota systems in place, as well as separate industrial pools and industrial quota.<sup>10</sup> A central board or agency was responsible for handling, transporting and negotiating the price it would get for an established quality and quantity of fluid or industrial milk. The boards would then pay, or at least calculate, the negotiated price to producers who held fluid or industrial quotas.

Fluid pools and fluid quota allocations were a provincial responsibility. Industrial pools were *administered* by provincial boards, but MSQ for industrial milk was established by the Canadian Milk Supply Management Committee (CMSMC), a body created by the Interim Comprehensive Milk Marketing Plan, which was a federal-provincial agreement. The federal dairy support program—which set the support prices for butter and skim milk powder, determined the target returns for industrial milk and provided direct subsidies (see p. 9)—was administered by the CDC under the Minister of Agriculture.

Pooling systems varied from province to province, but the principle remained the same: sharing the revenue and the risk from the market—a controlled market, but subject to competition between dairies and milk processing plants and the vagaries of consumer demand.

Within the fluid and industrial provincial pools, there were different price classes of milk, based on end use of the milk. The provincial board pooled returns in each pool—which they received from the various processor buyers—and then paid producers a blend price.

As described previously, fluid milk in excess of domestic needs would go into the industrial market, thereby distorting that market. Before the Interim Plan was in place, fluid producers received less money for their industrial milk portion and did not receive the federal subsidy.

After the Interim Plan, if fluid producers wanted to get the federal subsidy for the industrial portion of their milk—and they did—they would have to start allowing industrial milk that met fluid standards into the fluid pools.



As well, provinces had graduated entry programs for industrial producers to gain entry to fluid pools, although particulars varied provincially. In some cases, industrial producers could obtain fluid milk quota (having to relinquish some of their MSQ in the process), which allowed them to get the high fluid blend price on a portion of their shipments. If they wanted to increase the portion of milk for which they could get that higher price, they had to buy more fluid quota.

Once industrial producers were allowed to participate in fluid pools, it was seen as neither logical nor justifiable to maintain two different categories of producers producing the same quality of milk—and milk that was now going for the same end use. Eventually, as a result of policies established in every province but Alberta (and Newfoundland), integration of fluid and industrial pools resulted in all producers in those provinces holding a single quota. In Alberta and in Newfoundland and Labrador, producers are still allowed today to hold any combination of MSQ and fluid quota to cover their shipments.

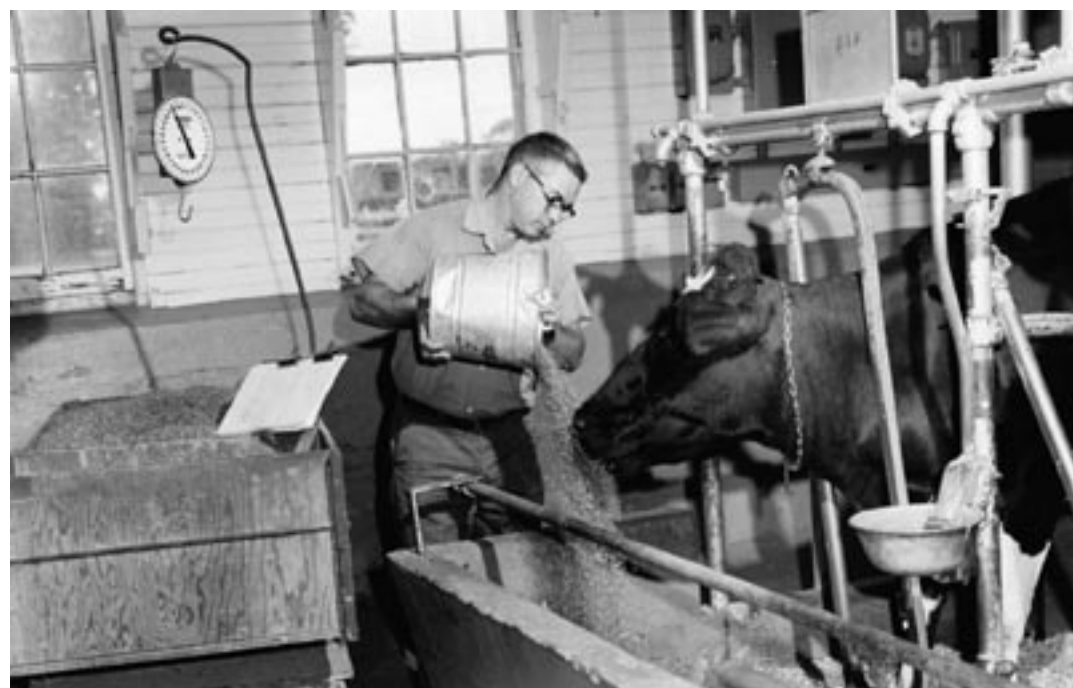
### Reactions to the Plan

While many saw the agreement as a breakthrough, others weren't so sure—but they did later come around. Dairy Farmers of Canada President Bill Woolfrey (1970–1973)<sup>11</sup> told the *Dairy Guide* in 1972 that he encountered a lot of opposition to the MSQ system when he was making the rounds promoting the concept across the country. In his home province of Alberta he had a rough reception. “I had an awful fear that I might be hanged by the neck before the series of meetings ended. The Atlantic provinces were no improvement either.”<sup>12</sup> To provinces that were not part of the program, Woolfrey had this to say: “No province can afford to abstain. Join it and you can sit right in at the table of decisions which grow out of the market-sharing concept. . . . An exciting period lies ahead to develop an effective and challenging Canadian dairy policy.”<sup>13</sup>

Harry Berry, President of British Columbia's Fraser Valley Milk Producers' Association from 1966 to 1972, agreed. At an annual meeting in March 1972, he had this to say:

*In the past several months, through the efforts of the Canadian Dairy Commission and the Dairy Farmers of Canada, market sharing quotas have been introduced in some areas. Originally, we believed that because we were a deficiency area and because production was controlled by the Milk Board through quotas, we should not participate in the National Plan. However, recent studies of the benefits that have resulted to the industry in Canada—reduction of surplus and increased support prices—have convinced the Board that we must consider seriously our responsibility in this area. We must endeavour if at all possible, in co-operation with all other producers in British Columbia, to make an arrangement with the Canadian Dairy Commission to participate with the rest of Canada in the scheme. Participation in the scheme, of course, would be dependent on protecting the interests of all British Columbia producers to ensure that we would not be at a disadvantage as compared with producers in other provinces.*

Feeding the cows.  
Source: Archives/La Terre de chez nous





Ellard Powers, Commissioner of the CDC from 1970 to 1973 and Chairman from 1973 to 1976.  
Source: Agriculture and Agri-Food Canada

**Ellard Powers, CDC’s second Chairman, remembers getting the plan signed.**

*The Commission knew that if it was to effectively control production—and have a true national plan—it would have to get all provinces on board. While getting Quebec and Ontario in was relatively easy, remembers Ellard Powers, convincing the other provinces was more taxing.*

*“Ontario and Quebec wanted this agreement. They represented 70 percent of the industry and were involved in hammering out and developing it in the first place,” says Mr. Powers, then a CDC Commissioner and later the CDC chairman.*

*Powers and Commissioner Jules Thibault visited each of the provinces during the early 1970s to try to get them on board. “I hate to tell you that we begged them to join, but actually we did,” he says.*

*They used incentives such as additional quota to sweeten the pot. “Well, we offered quota partly based on their needs, but the amount of quota they got also depended on how difficult they were to convince to join.” All of which, Powers adds, contributed to the milk surplus that was to lead to the quota cuts of 1976.*

*But by 1974, all provinces had joined except Newfoundland, which had little industrial milk production.*

*“I believe we signed the first agreement with Ontario and Quebec at a meeting of the Consultative Committee in Ottawa. But then I remember years later sitting at a table and all the provincial agencies’ documents coming around and around, and us signing, signing and signing. There was a large feeling of satisfaction on our part, the feeling of a job well done,” Powers says.*

*I remember sitting at the table negotiating our deal. I was amazed at how readily everyone listened to me, especially the big provinces. George McLaughlin from Ontario and Pierre St. Martin from Quebec, they were excellent men. Remember that New Brunswick represented just over 1 percent of the industry. But everyone was respectful of the little guys, whether it was Nova Scotia or Prince Edward Island.*

—Bill Sherwood, 2004, former head of the New Brunswick Milk Marketing Board

***Date of Provinces’ Entry into the Interim Plan<sup>14</sup>***

Prov.	Date of entry into plan	Original MSQ allotted in million lbs. (million kg) BF*	Special allotments /considerations
PE	Dec. 1, 1971	6.5 (2.9)	<b>December 1971: 0.5 million lbs. (0.2 million kg)</b> conditional on drawing on this amount within a three-year period
NS	April 1, 1974	4.1 (1.8)	None
NB	April 1, 1974	4.5 (2.0)	None
QC	Dec. 1, 1970	196.8 (89.3)	<b>August 1971: 7.2 million lbs. (3.3 million kg)</b> Allocation reviewed and method of determining requirements changed to Statistics Canada figures on butterfat used in all industrial products in 1970
ON	Dec. 1, 1970	148.8 (67.5)	<b>August 1971: 20 million lbs. (9.0 million kg).</b> Allocation reviewed and method of determining requirements changed to Statistics Canada figures on butterfat used in all industrial products in 1970
MB	July 1, 1972	18.1 (8.2)	<b>July 1972: 1.5 million lbs. (0.7 million kg)</b> conditional on drawing on this amount within a three-year period
SK	July 1, 1972	14.7 (6.7)	<b>July 1972: Allocation protected for five years, plus an additional 0.9 million lbs. (0.4 million kg) MSQ is granted,</b> conditional on drawing on this amount within a three-year period. (This meant that SK would have to increase its production.)  <b>April 1975:</b> special allotment withdrawn because the province did not meet its obligations <sup>15</sup>
AB	April 1, 1972	34.1 (15.5)	<b>April 1972: additional 1.9 million lbs. (0.9 million kg)</b> available to Alberta to provide MSQ to fluid milk shippers
BC	Oct. 1, 1973	11.5 (5.2)	<b>October 1973:</b> MSQ allotted to fluid producers equivalent to 10 percent of milk used for fluid purposes
Can.		439.1 (199.1)	

\* Original allocations based on SEQs or total deliveries in 1969–70 dairy year.

## THE ORIGIN OF THE CANADIAN MILK SUPPLY MANAGEMENT COMMITTEE

The new Interim Plan called for the creation of a Management and Coordination Committee that would handle “any matters concerning the operation of the plan.” The Committee was made up of three representatives from each province—one from the provincial government and two from producer boards—and the three CDC Commissioners, one of whom chaired the Committee. Meetings were called at the Chairman’s request. Observers from Dairy Farmers of Canada and participating agencies attended as required. The Management and Coordination Committee, considered a federal-provincial advisory board, started meeting every two months and drew up policies and guidelines to administer the new program.

By 1971, the Committee called itself the Market Sharing Quota Agreement Management Committee, officially changing its name the next year to its present title,<sup>16</sup> the more descriptive Canadian Milk Supply Management Committee (CMSMC). At the same time, the Committee realized that its mandate, though adequate to start with, was a little too broad. It was time to get down to more specific tasks, take stock of resources and develop clear terms of reference.

The key to balancing supply and demand was the power given to the CMSMC to adjust the total MSQ up or down depending on market need. Market needs, measured in pounds of butterfat, were defined as domestic consumption of industrial dairy products plus commercial exports minus imports.

The CMSMC used Statistics Canada estimates and projections of market needs to set MSQ, but this data tended to lag a few months behind reality. Once demand was estimated, the CMSMC made allowance for the butterfat that the fluid sector produced and for cheese imports. It then calculated the aggregate amount of MSQ and divided it among the provinces.<sup>17</sup> Not surprisingly, setting MSQ was never easy.

By 1974, with all provinces on board, the committee had grown substantially. It met at least every two months, usually in Ottawa but at least once a year in different provinces. They were interesting but tough times.

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### The Canadian Milk Supply Management Committee

*The CMSMC is undoubtedly one of the most important national dairy bodies in Canada. It arose out of a strong desire on the part of the industry to manage the total supplies of milk to keep them reasonably in line with effective demand, both domestically and abroad. The major responsibility of the Committee is to manage the national milk Market Sharing Quota program. The consensus approach to decision-making has been highly developed in this Committee, the work of which depends to an important degree on a dependable and frank flow of information. The Committee is chaired by the Chairman of the Canadian Dairy Commission and is made up of representatives of producer organizations and provincial governments from each of the nine provinces that are signatories of the national MSQ agreement. Sitting as permanent observers at Committee meetings are representatives of Dairy Farmers of Canada, the National Dairy Council and Agriculture Canada officials. Staff consultants of the various industry organizations are present as needed. The Committee meets six times a year. As well as managing industrial milk supply, part of the Committee’s value lies in the opportunity it gives both policy makers and administrators alike to compare notes on the dairy situation and outlook on a regular and fairly frequent basis.*

—Lorne Hurd, General Manager of the Ontario Milk Marketing Board, in an address to the 1982 Milk Marketing Seminar sponsored by Michigan State University



Lorne Hurd, General Manager of the Ontario Milk Marketing Board (1966–1990). Source: Dairy Farmers of Ontario

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*Whenever we had an impasse, we’d break for an early coffee break or lunch. And if we still couldn’t work things out, we’d break for the day and carry on, unofficially, at night. There was a fair bit of drinking going on in those days and I did like to take a drink. But I couldn’t on those nights. It wasn’t a job that lent itself to alcohol, believe me. You needed to have all your senses working properly.*

*What made it difficult for me as chairman was that I had to be very subtle about any proposals I put forward. I wasn’t working for the provinces, remember. I was working for the national system. And I worked hard to be neutral, because if I didn’t succeed, I would make my own job difficult. I loved a challenge but those meetings would just wring me out. I had more to lose in those meetings than in most meetings.*

—Ellard Powers, 2004, CDC’s second Chairman

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CANADIAN MILK SUPPLY MANAGEMENT COMMITTEE		
FEBRUARY 13-14, 1973		
Main Board Room, Sir John Carling Building, Starting: 9:45 a.m., February 13, 1973.		
A G E N D A		
	PROPOSED BY	
1. Review of Minutes of November 27-28, 1972 Meeting.	Secretariat	
2. Amendment to Agreement respecting producers living along border of signatory provinces - (Appendix "D" of Minutes, Nov. 27-28/72)	C.D.C.	
3. Provincial modification of Market Sharing Quota rules. - (paper attached)	F.P.L.I.	
4. Provincial request for Amendment in C.D.C. rules respecting maximum quotas. - (request attached)	F.P.L.I.	
5. C.D.C. proposal to amend C.D.C. rules respecting quota maintenance requirements - (proposal attached)	C.D.C.	
6. Under-utilization of SEQ. - (paper attached)	C.D.C.	
7. C.D.C. proposal to transfer to applicant(s) the "unpaid SEQ", following a complete quota transfer. - (a paper will be available)	C.D.C.	
... 2		

Agenda of a Canadian Milk Supply Management Committee meeting of February 13-14, 1973  
Source: Canadian Dairy Commission.

AGENDA - 2 -		
	PROPOSED BY	
8. Documentation on formula for adjusting Market Sharing Quotas - • A summary of points was attached to Minutes of Nov. 27-28 as Appendix "C". • Simulation of adjustment of MSQ on basis of average and fixed percentage utilization. - (will be available at meeting)	C.D.C.	
9. Secretariat's Report on Terms of Reference and Resources - (will be available at meeting)	Secretariat	
10. Market situation - (will be available at meeting)	C.D.C.	
11. Others (1) Waiving of Quota Maintenance for creation of 1973-74 quotas (2) A report by the Federation of Quebec Milk Producers on the method of distributing the 7% of additional MSQ as of Nov 1, 72 (3) Prospective Signatories (4) Next Meeting		

Adjusting and allocating MSQ

In the early days of the new system, there were no means to transfer unused quota from one province to another. Under the Interim Plan, if the MSQ for Canada as a whole needed to be changed, then the MSQ of each province would be adjusted in proportion to the provincial share of the national MSQ.

Between 1972 and 1974, quota use was high in some provinces and low in others, and Canada was still importing butter to meet its domestic needs. Ontario had a considerably lower quota utilization rate than Quebec, for example. And Quebec had demonstrated that it could produce more industrial milk if it could get additional MSQ to do so. To improve the situation, talks began about moving unused quota from low-use provinces to high-use provinces.

The talks soon turned into negotiations. “Ontario producers entered the negotiations with a very conciliatory attitude,” remembers Raymond Cloutier, a former CDC economist. “Ontario was apparently prepared to give Quebec additional quota it had

THE CMSMC ROLLS UP ITS SLEEVES

Throughout the 1970s, the CMSMC rotated its meetings city to city across the country. Its agendas were heavy and it grappled with all kinds of issues. For example: How to define a new producer? How long should quota be held by a producer who stopped shipping? How should provincial market share be adjusted after a three-year period? How should MSQ be transferred? “The year-end MSQ adjustments were always a big issue,” says Richard Doyle of DFC, who was heavily involved in CMSMC dealings from 1976 on.

The CMSMC was making some big decisions. Remember, the committee wasn't just coming up with new policies; in the beginning it was organizing how everything tied together. We were learning how to work together and we learned from each other. It was a process and it was the right way to do things. We met often and for a long time. We learned to listen to each other's needs. In the end, it's the people who make the system. The CMSMC, indeed, the supply management system, evolved because government, producers and processors learned to work together.

—Richard Doyle, 2004, DFC Executive Director

A great part of the success of the CDC chairman resided in his ability to reconcile the varying positions of each province. Cliff Barry was very successful in that department. At a crucial meeting in Montebello on inter-provincial quota adjustment in 1973, he was seen running back and forth from the Quebec delegation's meeting room to the Ontario one, mumbling to himself, “it will never work, it will fall flat on its face...”

At some point, Ontario had agreed that the first MSQ adjustment would take place on April 1, 1974, but that the low MSQ-using provinces, those below the national average utilization rate, would surrender only half the amount indicated by the calculations. And that formula would apply for all the years of the agreement. That clause was introduced to reduce the rate of loss of low MSQ-using provinces and give them time to build their production capacities and increase their quota utilization. Somehow, Cliff Barry convinced Quebec and Manitoba, the gaining provinces, that this deal was better than no deal.

By 1976, the spread between provincial utilization and the national average was reduced to 2 or 3 percentage points after it had been well into the 7 to 8 percent range in 1974.

—Raymond Cloutier, 2004, former CDC economist



asked for. But according to preliminary calculations, it was going to lose a great deal of quota and the Ontario government stepped in to protect Ontario's share."

In the end, a compromise was reached at Château Montebello in Quebec. The Agreement on Inter-Provincial Adjustment of Market Sharing Quota and on Methods to Increase and Decrease the Total Market Sharing Quota was signed on April 1, 1974, by Ontario, Quebec, Prince Edward Island, Manitoba, Saskatchewan, Alberta and British Columbia.

The agreement achieved two landmark objectives:

1. It established a method for determining the annual amount of national MSQ.
2. It established how MSQ adjustments would be shared among the provinces.

### Subsidy Eligibility Quotas phased out

On April 1, 1974, with all provinces (except Newfoundland) party to the Interim Plan, the CDC eliminated SEQs, which had been operating in parallel with the MSQ system in any event. The SEQ system did not work as intended for several reasons:

- Fluid milk producers in most provinces were not included.
- There were no limits on the federal government's offer-to-purchase program (which removed surplus butter and skim milk powder from the market at a set price, so it could be resold to the domestic market later when needed, or be exported if there was a surplus).
- The holdback from the subsidies, used to pay for exports, failed to induce producers to keep their production within their SEQs.<sup>18</sup>
- And finally, there was still no means for producers (or their provincial and national organizations) to accurately determine the size of the national market for industrial milk products. Data collected from processing plants, Statistics Canada, Agriculture Canada and producer organizations were inconsistent and imprecise.

SEQs were originally transferable with the farm but then lost if a farm was sold for purposes other than dairy. Then they became transferable with the herd, but became hard to keep track of because of 'drovers,' or middlemen who travelled around buying

and selling dairy livestock. Producers who didn't deliver a certain percentage of their SEQ, or didn't deliver a minimum of 420 lbs. of butterfat (191 kg) per year, also lost their SEQ.<sup>19</sup>

Meanwhile, the CDC was operating with the MSQ system. "And so the phasing out of SEQs was a natural progression of events," explains Raymond Cloutier, a former CDC economist. "They did not serve any purpose. Milk production was being controlled by MSQ deliveries. SEQs became redundant."

### THE CMSMC SECRETARIAT

According to a paper by Hans Mestern, a former CDC economic advisor and general manager, the CMSMC created a Secretariat of four people—from the staff of the Commission and agencies in Quebec, Ontario and the Prairies—to prepare research and background data on issues that the Committee grappled with.<sup>20</sup> In November 1972, the Committee asked the Secretariat to come up with new terms of references for itself, and to estimate the resources required to meet the demands of a new and growing system.

The Secretariat studied the Interim Comprehensive Milk Marketing Plan and identified four specific objectives of the plan:

1. establishing and allotting individual provincial MSQ
2. adjusting MSQ
3. collecting levies
4. ensuring that any orders or regulations that were relevant to the Plan weren't amended or modified without the other signatories' consent, and that they didn't contravene the Plan itself.

In its report, the Secretariat described how it fared in meeting these objectives and noted that it might need more resources for its planning function. Its work ranged from using basic straight-line projections of supply and demand to using sophisticated econometric models—and everything in between—to estimate demand for industrial milk products.

Raymond Cloutier was a CDC economist and Chair of the CMSMC Secretariat.  
Source: R. Cloutier





By 1974, the CMSMC added a representative, Geoff Thorpe from British Columbia, for Alberta and British Columbia, and another for the Maritimes. A second representative from Quebec and one from Dairy Farmers of Canada were added to the Secretariat in 1976.<sup>21</sup> Other provinces not represented on the Secretariat were given an option to attend “important meetings.”<sup>22</sup>

The Secretariat continued its advisory and research role throughout the 1970s as directed by the CMSMC. It initiated projects and carried out research into economic and technical issues. Like the supply management system itself, the Secretariat of the CMSMC continued to evolve into the 1980s. The Secretariat was, and remains, chaired by the CDC’s chief economist, but the chairman reports directly to the CMSMC and not the CDC itself, which is an important distinction. The lines between the relationship of the CDC and the CMSMC, and who’s responsible for what, are clear, but can sometimes appear cloudy because of overlap and collaboration.

## PITCHING PRICING

### How the dairy support program works

In April of each year, the Minister of Agriculture announced the following in a press release:

- the target price, also known as the ‘target return,’ per cwt of industrial milk (based on a percent butterfat basis);
- the support prices, at which the CDC would pay processors for the purchase of skim milk powder and butter (authorized under the “offer-to-purchase” program); and
- the federal subsidy, which is paid directly to producers.

**Target price:** The federal government set the target price per cwt (in hectolitres after Canada’s conversion to metric) of milk each year. The target price is an amount of money the government has decided is a fair return to efficient farmers for their labour, cash costs and investment. By 1975, the target price was calculated using the Returns Adjustment Formula. The target price is just that, a target or a goal (in terms of gross revenue) that efficient producers should receive.

**Support prices:** The support prices are the prices per pound (after metric, per kilogram) that the CDC would offer to buy or sell butter and skim milk powder to or from processors (sometimes referred to as the ‘floor price’). These support prices were used in the offer-to-purchase program, which removed surplus product from the market under two different plans. They acted as reference prices in the wholesale dairy trade and indirectly affected the wholesale prices of all industrial dairy products. They were established at levels designed to generate a fair return for producers and processors.

Under **Plan A**, when butter and skim milk powder were deemed surplus to expected domestic needs for the year, the CDC bought all product tendered to it by processors and exported (disposed of) it on the world market. This butter came in 50 lb. blocks (later 25 kg).

Under **Plan B**, to remove temporary (and seasonal) surplus butter inventory held by processors, the CDC would buy butter from individual processors and then sell the same butter back to the same processor, later in the year when production was lower than demand. This butter was most often in 1 lb. (0.45 kg) consumer-size packages (also known as ‘prints’), but could also be in 50 lb. blocks, which would then have to be reworked into consumer-size packages once the processor re-bought the product. The terms and conditions under which the CDC would buy products under Plan A and Plan B would evolve throughout the decades.

How it worked:

- The CDC established a target return level considered a fair return to producers, depending on market conditions.
- The CDC set the amount (in \$ per cwt of milk) that it determined processors should receive to cover their costs to process milk into butter and skim milk powder, and to achieve a return on investment (the assumed processor margin).
- The CDC determined how much butter and skim milk powder was to be derived from milk. It then set support prices at levels that would generate the desired target return to producers, after deducting the assumed processor margin, and adding the direct federal subsidy.

In other words, producers received the target return through the federal subsidy (a uniform rate across the country) and the revenues from the market (which varied from province to province, depending on the assumed processor margin and the price negotiated by provincial boards for industrial milk).

In reality the federal subsidy, which was paid directly to farmers, was considered a consumer subsidy. Without it, producers would have to get the equivalent from the marketplace—through higher dairy product prices—if they were to achieve the target price.

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*I remember when I first got to the Commission, as a Commissioner, sometime in February 1970. I didn't know what was happening internally when I got there, but Cliff called us (Jules Thibaudeau and me) in and told us he was putting in for a \$0.10/cwt (\$0.23/hl) increase. I was the new kid on the block, just 37, and didn't want to say anything. But later Jules came in and sat down and said, "Ellard, I'm not very happy, I don't think that's enough of an increase." So I said, "why didn't you say something?" And he said, "because that's the way it's always been around here. Cliff comes in with a proposal and we're expected to accept it."*

*So I told Jules I was prepared to go back in and discuss it with Cliff, which we did. Cliff said he'd sleep on it and get back to us. The next day, he called us in and told us he didn't sleep very well. But he said to us, "If you fellows really think we should raise the price more, I'm prepared to make that consideration." So we decided on a \$0.25/cwt (\$0.57/hl) increase instead of \$0.10 (\$0.23/hl) that year. And Cliff gave our input a lot more consideration after that.*

—Ellard Powers, 2004, CDC's second Chairman

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### Getting farmers their fair share

*The government was spending money by leaps and bounds and I wanted the farmers to get their fair share. So we at the CDC came up with support prices that we thought were fair and sent a copy over to the Deputy Minister of Agriculture, Syd Williams. It was a big increase, one dollar. And Syd came back to us and said, "I can't go along with this. I won't recommend it." And I said, "I don't care. You can do what you like with it but Gene's [Agriculture Minister Eugene Whelan] going to see it." So Syd said, "Okay, I'll take it to him, but I'm going to recommend that he not accept it." And I said, "Go ahead." Anyway, he gave it to Gene and Gene said, "Yes, I want to go with that number."*

*Meanwhile we were doing quite a bit of work with other ministers behind the scenes about the increase, because Gene needed their support. Otto Lang, who was Minister of Justice and Attorney General of Canada at the time, was not a fan of Gene and tended to vote against a lot of his proposals. So we talked to him in advance and he agreed to support it. When it was put to a vote, Lang approved it and Gene immediately started complaining about Lang's rejection. He wasn't even listening, just assuming that Lang would say no. So we were there pulling on his suit tail, saying "Gene, Gene. He said yes. We got it. Stop!"*

—Ellard Powers, 2004, CDC's second Chairman

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At pricing time, the CDC Chairman gave his recommendation to the Minister of Agriculture, who then took the proposal to Cabinet for approval. (This changed in the 1990s.) The increases were *not* rubber-stamped; there was always some discussion.

Ellard Powers remembers that the CDC had a small economic division during his tenure as chairman, from 1973 to 1976. It would be put to work on a pricing proposal that would consider inflation at the farm and processing levels. Powers also remembers pricing consultations with the Consultative Committee, which had two processors as members. "I remember that committee working really smoothly together," he says. Of course DFC was always heavily involved, although it was never happy with the price, or the way it was determined.<sup>23</sup>

There were kinks in the system. Some pricing recommendations sailed through more easily than others. The year 1974, for example, was one of high inflation and Ellard Powers was determined to get farmers more money.

## SUPPLY MANAGEMENT COMES OF AGE

### THE RETURNS ADJUSTMENT FORMULA OF 1975

The Interim Plan and the Market Sharing Quota system had brought some stability and unity to the marketplace. Feed and farm labour costs were being monitored and considered when setting the yearly target price. But producer returns were still low, so when butter imports doubled in 1973, a red flag went up. Canada was not producing enough industrial milk to meet its needs. The target price for industrial milk had to be adjusted three times in the 1973–74 dairy year and four times in 1974–75 to accommodate rising farm costs.<sup>24</sup> Agriculture Minister Eugene Whelan was uncomfortable with the situation, and directed the CDC and DFC to get together with the provinces to develop a system that would better reflect producer costs in their returns. He wanted a more transparent method of setting the target price.

The result was the new Returns Adjustment Formula, a watershed in the history of the industrial milk sector and a major

## Returns Adjustment Formula

### Base

The \$11.02 per hundredweight announced for April 1, 1975 is used as the Base Return.

### Components of Formula

#### (a) Index of cash input prices

Input	Corresponding Price Indexes from the Statistics Canada Farm Input Price Index	% weight
Grains, concentrates, roughages	16% dairy ration	13.4
Breeding fees	Artificial insemination	0.6
Veterinary medicine	Other materials and services index	7.8
Other livestock expense		
Misc. haulage and fees		
Machinery repairs	Machinery repairs	3.1
Auto expenses		
Gasoline and oil	Petroleum products	2.0
Machire hire	Custom work	0.4
Lime and fertilizer	Fertilizer	3.1
Seed and plants, other crop expenses	Seed	1.9
Land and building repairs	Building repairs	1.4
Property taxes and insurance	Property taxes	2.8
Hydro and telephone	Electricity	1.9
Hired labour	Hired farm labour – monthly rated	6.6
Total Cash Cost Items		45.0

The Returns Adjustment Formula explained in the CDC's Annual Report of 1975–1976. Source: Canadian Dairy Commission

accomplishment. The new Formula, which took effect on April 1, 1975, was based on three factors:

1. Statistics Canada indices of dairy production costs, given a 45 percent weight (including veterinary fees, feed costs and machinery repairs, for example);
2. milk production labour costs, indexed using the Consumer Price Index, given a 35 percent weight; and
3. an undefined discretionary factor which would allow the Minister of Agriculture to take extraordinary circumstances into account when setting the price (given a 20 percent weight)—in practice it was never used.

In announcing the formula, the government raised the target price to \$11.02/cwt (\$24.99/hl) of milk—a huge jump of \$1/cwt (\$2.27/hl) over the previous year's \$10.02/cwt (\$22.72/hl) price. The new target price became the base.

From then on, if the formula calculation resulted in an increase of more than 4 percent in relation to the base target price, a price adjustment would automatically be made. "It should be clear that the formula can move returns up or down," Minister Whelan announced at the time.

Dairy Farmers of Canada had been lobbying for a cost of production formula for some time. "When it was announced, it was different from what we wanted, but it was still a major accomplishment," says Richard Doyle, Executive Director of Dairy Farmers of Canada. "The timing was right and the potential for increasing milk production was huge."

With the Returns Adjustment Formula, the third pillar of supply management was in place. DFC would later describe these three elements as the three legs of the supply management milking stool:

1. Import controls were already in place.
2. Production planning was being handled by the CMSMC through the Interim Plan and MSQ.
3. Formula pricing would establish producer return levels.

The new formula was the big news of the 1975 federal government dairy policy announcement. But so too was the news that the policy would be in place for a five-year period. "This is about the right length of time to provide producers with sufficient assurances for their investment decisions . . . the government has



A strong image of the importance of the three pillars of supply management as represented by the three legs of a milking stool.  
Source: Dairy Farmers of Canada

### Returns Adjustment Formula negotiations remembered

*In the months leading up to the April 1 announcement, there were intense negotiations on the formula between CDC staff and producer organizations at the national and provincial levels.*

*The CDC, DFC and Ontario and Quebec dairy organizations all based their calculations on the same 1970–1972 data. But while there was no dispute on cash costs or capital costs, there was serious debate on the returns on labour.*

*The CDC, in its proposal to Cabinet, based its farmer and family labour costs on the average industrial hourly wage. That would be like what processing plant employees earned, for example. But DFC and Quebec used the hourly wages for specialty labour such as plumbers and electricians.*

*The CDC proposal called for an overall price of \$10.54/cwt (\$23.90/hl), while farmers lowered their asking price to \$11.50/cwt (\$26.08/hl). They had originally asked for more than that. I heard that to solve the deadlock between the farmers' demands and the CDC proposal, at a Cabinet meeting Minister André Ouellet simply suggested to couper la poire en deux (split the difference). The federal ministers and Quebec MPs were keeping a very close eye on these negotiations. And that's how we ended up with the \$11.02 (\$24.99/hl) base price.*

*This meant, then, that the returns on labour were established somewhere between the industrial and the specialized hourly wages.*

*In the end farmers got something like an additional \$50 million in annual returns through these negotiations.*

—Raymond Cloutier, 2004, former CDC economist

taken steps to provide that assurance, particularly as it relates to producer returns, and to avoid the kind of uncertainties that the recent period of rapidly rising production costs has created,” Whelan told the industry.<sup>25</sup>

The government explicitly said it wanted producer returns to come increasingly from the marketplace and not from government coffers. To this end, it announced that it would not raise direct subsidy payments, either per unit of milk and cream, or total dollar expenditures, above the set levels. “Consequently, the management of milk and cream supplies will be a very important part of the new policy,” Whelan said.<sup>26</sup>

The Returns Adjustment Formula continued until 1988, when it was replaced with a Cost of Production formula.<sup>27</sup>

### QUOTA CUTS OF 1976

In 1975, with the Returns Adjustment Formula in place and the domestic and international markets recovering from the protein shortage, things started looking up for industrial milk producers. The system was brimming with quota—incentives to provinces to entice them into the national plan had been plentiful—and there was money to be made. Feed prices were down and perfect weather appeared on the horizon. Canadian industrial milk producers geared up their operations and industrial milk started to flow. With it went an increase in consumer prices for manufactured dairy products.

Then the unthinkable happened. The market was flooded with too much product. “What everyone said couldn’t happen, did,” says Richard Doyle of DFC. “With the Returns Adjustment Formula, you could make more money now. So everyone produced. There was plenty of quota in the system. And yes, it happened in one year, as simple as that. All elements were there. Price, weather, the willingness of farmers to produce . . . No one believed it could ever happen. The driver of production was not the availability of quota, but the level of return a farmer could get for his milk,” says Mr. Doyle.

CDC commissioners knew in advance that a surplus was going to hit the market and had tried to stem the flood. But they were unsuccessful.

“We knew all winter that we were going to hit the wall,” remembers Ellard Powers, who was the CDC chairman at the time. In April 1975, the CMSMC had agreed to cut the national MSQ by 7.5 percent and later by 5 percent. “But there was still too much quota in the system. We asked CMSMC for another 10 percent reduction. They said no. Then we asked CMSMC members to go back and see if it could be taken out of their individual provincial allocations, and they said no. So we just braced ourselves. I just remember the worrying. We had to wait and see how big the surplus would be. Production stats were always six weeks to two months behind. So we waited until we had to do damage control.”

But in April 1976, the decision was taken out of CDC’s and CMSMC’s hands. “The Department of Finance got involved then,” says Powers. “Production was high and the government was on the hook for the mounting storage costs of the skim milk powder surplus. My memory tells me we were no longer asking provinces to reduce production; we were telling them, ‘this is what we have to do.’”

Powers remembers the establishment of a special government committee to review CDC figures. “I was a member of it but not

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*We were short of butterfat throughout the early 1970s, which meant that we weren’t getting enough milk to fill our needs. To entice the other provinces to join the Comprehensive Plan, we offered large quantities of MSQ, and then later of course we had too much quota in relation to our needs. But at the time, we didn’t realize it was a danger. We were just new to the system. Plus, in the mid-1970s, the best minds in the country had agreed that we would never, or at least not any time soon, be able to fill our dairy requirements from domestic sources. You think you know something and then you find out how little you really know.*

—Ellard Powers, 2004, CDC’s second Chairman

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*We supported the cuts. We supported the Minister of Agriculture. We supported the CDC. We knew there was too much milk in the system and skim milk powder stocks were piling up. Part of the bargain between farmers, the CDC and the government was that the farmers were going to control production. From a policy standpoint, the National Dairy Council was very concerned about excess production. It was going into storage, which was clearly an unsustainable situation. We were concerned about the market absorbing the surplus.*

—Kempton Matte, 2004, former President and CEO of the National Dairy Council

one who had much influence,” he says. “The committee reviewed all our numbers, the costs to the government for storage and disposal, losses on exports and so on. Then they took the previous year’s production figures and compared them to the current market requirements. The outcome was a quota reduction of 18 percent.” The reduction was from 425.6 million lbs. (193.0 million kg) of butterfat to 351.7 million lbs. (159.5 million kg).<sup>28</sup>

### **Turmoil in the industry**

The quota cuts of 1976 were devastating. And the impact was not the same for all producers, creating even more turmoil in an industry that had been working hard to stabilize itself.

Quebec was particularly hard hit because it had the largest number of small industrial producers. For producers who were using the majority of their MSQ, especially those new to the industry, the 18 percent cut meant a substantial loss of potential production and money. In contrast, fluid producers who held small amounts of MSQ barely noticed the cut.

The progress that had been made in reducing the inequality between fluid and industrial producers was seriously undermined.

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### **Taking abuse over the quota cuts**

*“It was a brutal time,” says Ellard Powers, who travelled across the country to meet with producers. No one would volunteer to join him. But he felt it was his duty to meet with producers, even if he knew there wasn’t much room to reason with angry farmers. “Under those conditions, you just took the flak. I think there were people who understood, but the immediate reaction of the provinces was to blame it on the feds. That was us.”*

*What was the purpose of the meetings? “Well, to give me some abuse,” he says with a laugh. “Seriously though, I think farmers were hoping to have these big meetings so the feds would see how upset they were and reconsider their decision,” he says. It didn’t happen, although some quota—14 million pounds—was later put back into the system.*

*“It was very unpleasant. I got booed, and I found it hard. But it was a heck of a financial blow to them, and I was the closest person they could get to,” Powers says.*

*“I remember attending a meeting in Nepean, and after taking some abuse, I said, ‘I know how you feel. I’m a milk producer too.’ And one fellow stood up and said, ‘Yeah, but you don’t need to worry about the cuts, you have a pretty good job.’ Well, at that time, I can tell you, I didn’t think it was a very good job.”*

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### March on the Hill

When approximately 10,000 farmers,<sup>29</sup> mostly from Quebec and eastern Ontario, organized a march on Parliament Hill in the spring of 1976 to protest the cuts, Powers attended with Eugene Whelan. Powers had just stepped away from Whelan's side to talk to a farmer when Whelan got hit with a bucket of milk. Whelan recalls the event in his memoirs, *Whelan: The Man in the Green Stetson*:

*The day they marched, I went out to face this huge crowd of angry farmers, many of them old friends. As a minister I had to support my government publicly even though personally I didn't agree with what we were doing—that has always been my approach. I began to speak. I said, “Mes chers amis . . .” That was about as far as I got. They'd been waiting for me and they threw milk all over me while the photographers snapped away. The next day the picture of my*

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### Quota cuts and processors

*The 1976 quota cuts were a temporary disaster. The cuts were very harsh and negative to a relatively new system. They clearly demonstrated that unused MSQ could not be allowed to float around and then suddenly, under certain favourable conditions, be used to increase the supply of milk dramatically. This was, of course, part of the learning curve. Single-purpose cheese manufacturers and butter/powder manufacturers were in dire straights since their milk supply was cut drastically while their market, in the case of cheese especially, required the volumes of at least the previous year. Multi-purpose plants (butter/powder and cheese) suffered a severe volume reduction too, but they were able to move milk volume internally from butter/powder to cheese and in general maintain their cheese output and business.*

*These shifts in production and milk shortages in the case of some cheese suppliers caused severe hardship for many small and medium-sized cheese companies. Considering the powers of the new supply management system, it was clear that milk production had to be brought under control at the farm gate. In the future, the supply of raw material had to equal domestic demand if we were going to obtain the stability that was expected under the new system. And benefit both milk producers and milk processors.*

—Carl Harrison, 2004, CDC Vice-Chairman

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Minister of Agriculture Eugene Whelan facing an angry crowd of dairy producers on the steps of Parliament Hill. Policemen are shielding Mr. Whelan from a shower of milk and other objects being thrown by the crowd. Source: Archives/La Terre de chez nous

*whitewash was in every major newspaper in the country—and every small-town paper in Quebec. Russell Mant, the photographer who took the picture that was in almost every paper, won four prizes for it as the best news-action photo of the year—so at least someone benefited.*

*Many of the farmers in the crowd—my friends and others who knew I was against the decision—broke down and cried when they saw what was done to me. They knew I was still on their side. Later, some of them asked me why I didn't get angry when the milk-throwing happened.<sup>30</sup>*

Quebec was hardest hit by the quota cuts. The province's dairy industry was the most important element of its agricultural economy—accounting for 42 percent of its farm cash receipts.<sup>31</sup> And, at the time, Quebec had by far the largest number of industrial milk and cream producers of all the provinces. Over 80 percent of its dairy farmers produced industrial milk and cream—just over 23,000. Only Prince Edward Island had a higher percentage—93 percent, but with a much smaller number, just over 1,400. So it made sense that Quebec producers were the angriest.

**Number of Dairy Farmers per Province in 1975–76**

	Industrial Milk	Cream	Fluid	Total
PE	681	728	99	1,508
NS	9	448	791	1,248
NB	105	734	502	1,341
QC	22,425	731	4,828	27,984
ON	8,151	3,519	8,679	20,349
MB	309	4,789	1,525	6,623
SK	444	7,663	513	8,620
AB	1,370	8,241	930	10,541
BC	40	225	1,354	1,619
CANADA	33,534	27,078	19,221	79,833

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#### Don't step on the tulips!

**Léandre Lamoureux, an industrial dairy producer from Richmond, Quebec, in the Eastern Townships, had just borrowed \$40,000 to buy industrial milk quota the week before the quota cuts. It was a lot of money. When the protest on the Hill was announced, he went. Mr. Lamoureux sold his farm in 1987.**

*We were six dairy farmers in the car. I drove. We all decided to go together. It was a big day and it was a nice day. We parked in Hull and marched across the Alexandra Bridge. The atmosphere was electric. There was a lot of camaraderie in the air. I was sure there was going to be a fight and was a bit scared at times. There were thousands of people on the Hill. If something had happened, it would have been pandemonium. And then there were other RCMP going around on horses telling us not to step on the tulips! Can you imagine?*

*You had a number of big, strong dairy farmers, some of them with sledgehammers, walking around. There was a bit of drink in some of us as well. I remember seeing the farmers pound the earth with the sledgehammers, just a few inches away from the feet of some RCMP officers. The police wanted to arrest them on the same day but they were told not to do that. So they took pictures of some of the offenders. The next day, police arrived in a bus and I know picked up some farmers from at least Wotton, Quebec, which is near Asbestos—I remember they were a rowdy bunch—and took them back to Ottawa for questioning.*

*Meanwhile, I had to pay back the money I had borrowed, but with no extra revenue from any milk. In fact I had less revenue. It took me five years to pay that money back. They were tough times, but we made it through them.*

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*Quebec's farmer unions led a fierce campaign of protests against the Canadian government and against this reduction in quotas. On the other hand, both producer federations religiously applied the decision at the individual level, not using the responsibilities obtained in the management of the system to try to obstruct its operation. This way, federations made a clean separation between their role as unions and their role as administrators of a policy. On one hand, they told producers that the problem was in Ottawa and on the other, they showed to governmental authorities that they could take their responsibilities under all circumstances in the management of the market.*

—D.M. Gouin and M. Morisset, 1988, *Vingt ans de contingents laitiers: l'expérience canadienne*, INRA, Cahiers d'économie et sociologie rurale, n° 7, p. 46

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Crowd control during the farmers' march in 1976 after massive quota cuts were announced by the federal government. Source: Archives/ La Terre de chez nous



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**Agriculture Canada News****Subject: Dairy Program Adjustments**

OTTAWA, Oct. 19, 1976—Agriculture Minister Eugene Whelan today announced adjustments in the 1976–1977 dairy program. “When I announced the 1976–1977 dairy program this past April, I said that dairy farmers would have to make some difficult adjustments in their production if we were going to get industrial milk supplies back in line with demand,” Mr. Whelan said.

*“The necessary cuts in milk production have affected all dairy farmers and hit some of them especially hard. I have a great deal of confidence in Canada’s dairy farmers and in the supply management system we have for industrial milk in this country. Last year, however, our supply management system didn’t work as well as it should have. Farmers produced too much milk. Two factors beyond our control contributed greatly to the problem. Good pasture conditions and good grain crops in 1975 pushed up dairy production. And world markets for dairy products were depressed and we couldn’t sell our surplus product outside Canada.*

*“This year, it was necessary to reduce quotas and impose levies on production in excess of domestic requirements. Canadian dairy farmers have co-operated successfully in the effort to reduce production. Thanks to their co-operation, our supply management system is now working very well and production is under control. . . .”*

The CDC will be meeting shortly with the provincial agencies to discuss the allocation of the additional quota on the basis of the following criteria:

- those producers who shipped between 85 and 105 percent of their 1974–1975 quota in 1975–1976 and whose 1976–77 quotas are below their 1974–1975 allotments;
- those who entered milk production last year with the expectation that they could retain or increase their 1975–1976 levels; and
- those other individual cases that warrant special consideration. . . .

*We expect assurances that any of the extra quota not used by producers will be withdrawn from the system by the end of the 1977–1978 dairy year, that no transfer of the new quotas will be allowed between producers before April 1978 and, in addition, that the provincial milk boards will retire a portion of any other quota transferred between producers.<sup>32</sup>*

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To help quell the turmoil, the Minister of Agriculture later reinstated some of the MSQ that was lost. On October 19, 1976, Eugene Whelan announced that 14 million lbs. of MSQ<sup>33</sup> (6.4 million kg) was to be put back into the system, increasing it to a level of approximately 366 million lbs. of butterfat (166 million kg), or adding 4 percent back in from the April MSQ cut of 18 percent.<sup>34</sup>

There was, however, a caveat and one that caused a lot of consternation among provinces and producers. “The extra quota will be allocated to provinces in accordance with existing market shares. But within each province they are to be distributed in such a way as to help the producers who have been hardest hit by the changes in production levels required this year and who are in the greatest need of additional quota,” the Minister stipulated.

It was a tough year for Canada’s dairy producers, the evolving CDC and federal dairy policy makers.

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*The reinstatement of some MSQ became almost as controversial as the cuts themselves. The federal government insisted that this quota be allocated to those producers with the greatest need, i.e., economic hardship. Needless to say, this was extremely difficult to accomplish. Provincial boards needed Solomon’s wisdom to make it work.*

—Peter Oosterhoff, 2004, Ontario dairy producer and former DFC president

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**GILLES CHOQUETTE BURSTS ONTO THE CDC SCENE**

In August 1976 Agriculture Minister Eugene Whelan called Ellard Powers to his office. Powers had been in and out of the hospital with heart trouble more than a few times during the preceding year and had just returned to work after triple bypass surgery. The quota cuts of April 1976 had definitely been detrimental to his health and had taken a toll. It was clear that the position was costing Powers too much and his time had come and gone. “Gene started out by talking about my health, and how I needed to take it a little easier, and then he offered me the job of vice-chairman,” Powers recalls. Powers had offered to resign earlier over the quota cuts, “but Gene wouldn’t hear of it. I knew

enough about politics to know someone needed to resign. I said, 'Gene, I need to resign.' And he said, 'No damn way. It's not your fault,'" Powers says.

But Powers didn't feel that accepting the vice-chairmanship would be fair to the new chairman. "I said, 'Gene, I can't be vice-chairman. It's not good for the new guy to have the former chairman working under him.'" Whelan offered Powers a position at the Farm Credit Corporation but he declined. "I do remember this well. I said, 'I came down here to do a job, and that was to bring in supply management. We have it. And I think it will continue to work well without me.' I believe he was disappointed, but I had seen a lot of guys come to Ottawa and give up their businesses. When their government job was gone, they had nothing to go back to. I remember Cliff [Barry] telling me at one point that I should sell the farm. And I swore I'd never do that. So I came back to farming."

On November 11, 1976, Whelan appointed his executive assistant, Gilles Choquette, 46, as the third chairman of the CDC. Choquette was raised on a Quebec dairy farm, had a degree in agriculture from the *Université de Montréal* and had worked at Dairy Farmers of Canada. He was brash, smart and full of ambition. He left a lasting impression on the industry.

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*I would characterize Gilles Choquette as a big bull of a man. He genuinely had the interests of the dairy farmers at heart. I saw him make many difficult decisions that were beneficial to farmers, whether they liked it or not. He had his failings: he was rambunctious, domineering and bullying. But you needed a bull to drive the ox.*

*His contributions? He helped control the industry when there were no farm controls. He pushed the industry to change its product mix. People either loved him or hated him, but he got the job done. He was accused of favouring Quebec, but I saw him make decisions that brought the Quebec farmers to their feet in anger. He was a very powerful guy in his day.*

—Kempton Matte, 2004, former President and CEO of the National Dairy Council

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*He was definitely the right man at the right time. He crashed through everyone until he got what he wanted. He got rid of the surplus of skim milk power. He helped diversify the industry. He got processors interested in developing specialized cheeses. In hindsight, he may have set up some questionable programs. But at least something was being done. Dairy products were being used in new ways.*

—Chuck Birchard, 2004, former CDC Policy, Communications and Strategic Planning Director

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*Gilles was indeed the right man for the right job. First, he pushed the industry to produce evaporated milk and whole milk powder for the export market, and then, when that was over, he pushed us to switch to other industrial products. I remember clearly when Gilles said to the co-operatives, "Okay, [the evaporated milk and whole milk powder markets] are over. Now we need to produce milk to make cheese. You can't just produce powder." And we agreed in Quebec to pay a premium for some milk to end up in cheese.*

*Quebec producers aren't shy. At assemblies they're outspoken and always have a lot of questions for whoever's speaking. Well, when Gilles got up, he pushed the assembly. In the end, a lot of people didn't have a lot of answers for the questions Gilles shot back at them. He pushed new thinking in Quebec.*

—Michel Beauséjour, 2005, Senior Director, Fédération des producteurs de lait du Québec

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*He certainly got things moving. Whether people agreed with him or not, he did it. He ran the show, he was chairman and manager all in one. He made the industry address issues that needed to be addressed. He made things happen. I know he could be pretty forceful, but I have a lot of fond memories of Gilles. I was a young man, just 21, when he joined the Commission.*

*He broadened the scope of the industry. He got exports moving. He got the funds to build plants in Quebec, which was the best place for them. It didn't make sense to put them anywhere else but Quebec. Quebec and Prince Edward Island were the only provinces with production that exceeded their provincial demand. He pushed hard for integration and he saw the skim-off [levy on fluid milk] through, providing a good rationale for it. (See p. 61).*

*Gilles played a key role in CDC's history. He fought some tough battles. But once you've won a few battles, it gets easier. Thanks to Gilles, we could see where the train was going. Yes, people got their noses out of joint and got upset with him. But those were the early days of supply management, and things had to move. He made them move.*

—Richard Doyle, 2004, Executive Director, Dairy Farmers of Canada

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Gilles Choquette, Chairman of the CDC from 1976 to 1986.  
Source: Agriculture and Agri-Food Canada



## THE CONSULTATIVE COMMITTEE IN THE 1970s

From its beginning to the mid-1970s, the nine-member Consultative Committee was an active force in the CDC's activities. Minutes show that the committee closely monitored ongoing Commission exporting, importing, long-term policy, quota and pricing activities—to name a few areas of interest. After the CMSMC was formed in 1970, the Consultative Committee also brought issues and concerns to the CMSMC table. But by 1976, the Committee was starting to question its own usefulness. Members were frustrated because it seemed that the Committee had evolved into a “reporting forum” rather than a group that the CDC should look to for views on policy development.<sup>35</sup> While the Committee's mandated role was broad, it had been heavily involved in specific issues, like support pricing, milk production and exports. But the CMSMC had clearly taken over those roles.

“With the development of the CMSMC, the role of the Consultative Committee has changed extensively and requires new terms of reference for the benefit of both the Commission and the Committee,” read the June 17, 1976 minutes. To that end,

the Committee asked for a review of its role. The final report, prepared the following October by Committee member Ken McKinnon with the help of others, made three recommendations:

1. the Committee's objective should be to review, with the CDC, industry strategy and problems “well in advance” of making any decisions about them;
2. there was no need for regular meetings, but there should be a minimum of four per year; and
3. the Committee should be made up of representatives from both the producer and processor sectors across Canada.

There was a gap in the Committee's activities from 1977 to 1980. In 1980, the Minister of Agriculture appointed an entirely new committee.

## DAIRY POLICY KEEPS EVOLVING

The dairy industry made a fairly quick comeback from the quota cuts of 1976. Just after the cuts, a CMSMC sub-committee was formed to review the Interim Comprehensive Milk Marketing Plan and the Agreement on Inter-Provincial Adjustment of MSQ. The sub-committee was asked to see where things had gone wrong and what needed fixing. Quebec and Manitoba industrial milk producers were particularly concerned about how inter-provincial adjustments were made. The sub-committee looked at producer equity, the minimum size of provincial dairy industries, the basis for getting more MSQ and other related issues. It met for the first time in May 1976, and managed to hammer out a new agreement on inter-provincial adjustments, signed by all provinces in 1977. The Interim Plan would be reviewed in more detail a few years later by another sub-committee.

Meanwhile, people around the CMSMC table continued to struggle with all kinds of other small, medium and large issues, on top of the bigger MSQ and national planning ones: levies (in-quota levies, over-quota levies), exports, metric conversion, allocating quota on volume rather than butterfat, product diversification, integration of fluid and industrial pools, milk production seasonality, the sleeve, the unevenness of butterfat test methods across the provinces . . . the list was long.



Leclerc, Metro and Provigo ice cream.  
Source: Agriculture and Agri-Food Canada

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#### 1977 New Agreement on Inter-Provincial Adjustment of Market Sharing Quota and on Methods to Increase and Decrease the Total Market Sharing Quota

Nova Scotia and New Brunswick, absent from the 1974 agreement, signed on to this one. Changes included the following:

**Total MSQ was redefined as:** The sum of Estimated Domestic Requirements, and appropriate sleeve, and any additional amounts required for implementation of special allocations.

**Estimated Domestic Requirements were defined as:** The amount of butterfat calculated on the basis of a full dairy year that is estimated to be required from Canadian production to meet market requirements for industrial or manufactured dairy products, and this amount shall be arrived at by taking account of expected exports, expected imports, the level of storage stocks of industrial or manufactured dairy products, and expected recovery of butterfat from the standardization of fluid milk (skim-off).

**The sleeve was defined as:** The amount of total MSQ that is in excess of Estimated Domestic Requirements less additional amounts required by Clause D2 (special allotments). It shall not at any time be less than 5 percent of, or exceed 10 percent of, the total MSQ.

**Special provision for Inter-Provincial Adjustment (also known as the “fluid clause”):** Inter-provincial movements of quota shall not reduce, for any province, its provincial share of market requirements to less than 20 percent of its fluid sales.

**PEI minimum requirements:** If total MSQ is reduced, PEI’s share of estimated domestic requirements cannot be reduced if the amount is at, or below, 6.5 million lbs. (2.9 million kg) of butterfat.<sup>36</sup>

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#### Sleeve increased to 5.79 percent, 1978–1979

*The sleeve is an amount of MSQ allocated to individual producers over and above the estimated Canadian requirements for milk. It provides flexibility and ensures there is sufficient milk produced, on a national basis, to meet Canadian requirements, by allowing some producers to make up for any lost milk production by other producers due to herd sickness, unfavorable weather, crop conditions, etc.*

*During 1978–1979, the CMSMC decided all special quota protection provisions previously agreed to for some provinces, should be brought within MSQ on Aug. 1, 1979. This was achieved when the sleeve was increased from 5 to 5.79 percent. The CMSMC agreed a re-adjustment of the sleeve would be considered if needed when there is a national quota change to reflect changing demand.*

—CDC, *Annual Report 1978-1980*, p. 24

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#### THE SKIM-OFF LEVY AND THE EXPORT DEBT

The levy on the skim-off from fluid milk was another contentious issue that polarized the entire dairy industry. Special meetings were called. Arguments arose. Quebec and Manitoba threatened to leave the national system over the issue, as did British Columbia. Despite opposition—and there was a lot of it—fluid levies (on the portion of fluid milk that went into the industrial milk stream) were eventually imposed, driving in yet another marker on the trail that would eventually lead to integrating the fluid and industrial markets.

“The two sectors are interconnected in more ways than it was assumed or recognized in the 1969–1970 period when the Interim Comprehensive Milk Marketing Plan came into existence . . .,” read a CDC presentation to a special committee established in April 1976 to review the Interim Plan. The presentation noted several factors to support the need to impose a levy on the Class 1 (fluid) milk that entered the industrial stream, including:

1. The standardization of fluid milk in 1975 (from 3.56 percent butterfat for raw milk on average to 3.25 percent, 2 percent milk, etc.) threw 30 million lbs. (14 million kg) of butterfat into the industrial pool. Fluid producers contributed to surplus butter production and subsequent exports in 1975, so, it was argued, they should shoulder export costs more equitably.
2. Industrial milk had the potential of being considered Class A milk (providing the farm meets certain standards and milk has a bacteria count of less than 100,000 per cc).
3. Whether it is explicitly recognized or not, the basis of the pricing structure for all milk sold in Canada is the target price for industrial milk, thus there is a need to develop a policy towards target returns for Grade A milk (fluid milk).

Also of note was that fluid shippers had to overproduce to assure that the seasonally variable requirements of the domestic fluid market would always be satisfied. In other words, because it was crucial to not short the fluid market, fluid producers automatically overproduced, and the overproduction was absorbed into the industrial market. Fluid producers were outside the industrial milk production system, but still contributing to it.

The levy on skim-off from fluid milk was announced as part of the 1977–78 dairy policy. It was not well received, to put it mildly.

In 1975–76, the government had set up an Export Equalization Account to help dairy farmers spread the losses they sustained in exporting surplus dairy products over a five-year period.<sup>37</sup> But by 1977, that account had a deficit of \$152 million because of the surplus production in 1975–76, both at home and abroad. The world prices for butter and skim milk powder had dropped drastically. And the export levies farmers paid did not come close to covering the cost of exports.

The government proposed to write off the CDC's \$152 million bill, conditional on a skim-off levy being imposed on Class 1 milk. In announcing the 1977–78 dairy policy, Agriculture Minister Eugene Whelan explained it this way: "Excess milk from the fluid sector goes into the industrial milk supply. For the past few years, shippers with Class 1 sales have produced an increasing proportion of the market requirements for manufacturing purposes. They were responsible, along with manufacturing milk producers, for overproduction in 1975–1976, and are benefiting from the write-off of the deficit."

Was it possible to institute such a dairy policy across Canada when each province had its own unique set of circumstances?

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#### No immediate solution for the fluid levy problem

*Whelan has said he will try to write off the previous losses of \$152 million, but he can only do this if the base of the levy collection is widened: as the distinction between fluid and industrial milk is largely arbitrary, fluid milk producers should also contribute the same. Quebec and Prince Edward Island agree as they stand to gain, they have few fluid producers. Manitoba and Saskatchewan are moving toward tentative support, but the rest are adamantly opposed. They have more fluid producers and would therefore contribute more, and would indeed be transferring money to the industrially dominated provinces, especially Quebec. Their battle cry is provincial jurisdiction.*

*This won't be solved for some time, and only at the highest political levels, I imagine.*

—John Pepperell, New Democratic Party Research Group,  
memo to party leader Ed Broadbent, March 23, 1977

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British Columbia didn't think so. Neither did New Brunswick or Manitoba. Dairy Farmers of Canada was not impressed. It definitely did not want the export debt write-off connected to the proposed 'scheme' of a levy on Class 1 production. Ontario, Quebec and New Brunswick called for a special meeting. Alberta thought that if fluid milk was to be levied, then it should be proven that its skim-off reached industrial markets. And if that was the case, then the federal government should also pay a subsidy on it. In any event, Alberta also said, it had no legal authority to apply a levy on Class 1 sales. Nova Scotia agreed. Ontario maintained there should be a better understanding of the issue and more time was needed to study it. Prince Edward Island liked the idea (since it had the highest volume of industrial milk as a percentage of total production). British Columbia had the highest percentage of fluid producers, so it naturally was the most opposed.

In the end, several proposals went back and forth among the provinces, producer groups, the CDC, the CMSMC and the federal government. When Alberta refused to collect the levy, Whelan reduced the federal subsidy to its dairy producers by the amount of the levy needed to finance the skim milk disposal deficit. According to agricultural historian Grace Skogstad, that sanction, coupled with Whelan's concession to allow provinces to collect the levy in any way they chose, ended the dispute. The levy on the skim-off from fluid milk stood.<sup>38</sup>

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*DFC had a major influence on resolving the fluid levy issue. I remember there was a blockage at the CMSMC table. They had an overnight meeting. It was a mess, going nowhere. The next morning, we called in the DFC board. The CMSMC was taking a very long coffee break while everyone was over here, trying to hash out a proposal acceptable to all. We went back in with a solution that carried the day, a solution that was designed around the DFC table.*

—Richard Doyle, 2004, Executive Director, Dairy Farmers of Canada

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Levy on skim-off from fluid milk

By reducing the Market Sharing Quota by the amount of the skim-off, the CMSMC has in effect recognized that the skim-off from Class 1 milk used in dairy products represents the equivalent of 10 million cwt (4.4 million hl) of industrial milk.

The table below demonstrates the process of calculation for Canadian requirements of dairy products and clearly indicates the allowance made for skim-off.

Market Requirements for Industrial Milk 1977/1978  
Demand by product in million cwt of milk:

Butter	62.6 (27.6 million hl)
Cheddar cheese	20.2 (8.9 million hl)
Other cheeses	17.0 (7.5 million hl)
Other products	15.7 (6.9 million hl)
Total demand for industrial milk	115.5 (50.9 million hl)
Supplied by cheese imports	-5.5 (2.4 million hl)
	110.0 (48.5 million hl)
Supplied by Class 1 skim-off	-10.0 (4.4 million hl)
Required under MSQ	100.0 (44 million hl)

... Some people object to the levy on skim-off on the grounds that the skim-off from Class 1 milk [fluid milk], used in the manufacture of industrial milk products, does not contribute to skim milk powder surplus cost. Technically speaking, this observation is correct. However, export costs are not assessed only on milk used in the manufacture of surplus products but rather are distributed over all industrial milk, irrespective of its use.

For example, milk used in the manufacture of the many cheeses produced in Canada, evaporated milk, etc. ... does not contribute to surplus skim milk powder. However, it shares in the export costs through the levy program.

—CDC, National Dairy Program brochure, 1977-1978

4. \$152million Debt Written-Off

What effect does \$152 million have on the levy you would have paid? To reduce such a debt, you would have had to pay an in-quota levy of \$1.91 per hundredweight for the next five years. But with the debt write-off, the levy was reduced to \$1.49. (This \$1.49 was further reduced to \$1.20 as you will see in item 5).

In 1975 / 76 as suggested by producers an "Export Equalization Account" was set up to enable you, the dairy farmer, to spread your losses on exporting surplus dairy products over a five year period. By March 31, 1977, the debt in the Account had grown to \$152 million because of low world prices for dairy products.

The above system was unfortunately introduced in 1975 / 76, at a time when there was high milk production in most major milk producing countries. The world prices for butter and skim milk powder dropped drastically. In addition Canada experienced a large overproduction of industrial milk, resulting in a costly surplus of skim milk powder. The result was the amount of levy paid by dairy farmers was not enough to cover the export losses and the debt grew.

The federal government has decided to write off the \$152 million debt, conditional on the skim-off from class 1 sales used in dairy products participating in the costs of exporting surplus dairy products.

As Mr. Whelan explained in the Dairy Policy Announcement:

"Excess milk from the fluid sector goes into the industrial milk supply. For the past few years, shippers with class one sales have produced an increasing proportion of the market requirements for manufacturing purposes. They were responsible, along with manufacturing milk producers, for overproduction in 1975 / 76 and are benefiting from the write-off of the deficit."

In 1975 / 76 fluid producers holding 25% of total Market Sharing Quota contributed approximately 50% of the excess industrial milk production.

MILLION DOLLAR SAVINGS BY PROVINCE  
(as a result of \$152 million debt write-off)

	Total levy owed without \$152 million debt write-off	Total levy owed with debt write- off	Savings per year per province	The 5 year savings per province
	(\$1.91 per cwt.)	(\$1.49 per cwt.)		
(In Millions)				
PEI	\$ 2.91	\$ 2.26	.65	\$ 3.25
NS	1.98	1.53	.45	2.25
NB	1.92	1.49	.43	2.15
QUE	92.03	71.58	20.45	102.25
ONT	56.69	44.09	12.60	63.00
MAN	6.06	4.72	1.34	6.70
SASK	3.03	2.35	.68	3.40
ALTA	9.51	7.41	2.10	10.50
BC	5.87	4.57	1.30	6.50

NOTE: Every province is getting the full benefit of the debt write-off indicated in the last two columns. These savings, including interest, could amount to about \$200 million.

The savings are related to each province's share of the National Market Sharing Quota.

Explanation of the \$152 million debt write-off.  
Source: Canadian Dairy Commission



## ADDRESSING THE SEASONALITY ISSUE

The seasonality of milk has been an issue since farmers started milking cows. Cows produce more milk in the spring and summer as pasture and light conditions improve. The high production point is June. In the winter, they produce less milk, with the low point in December. Compounding the problem is that consumption follows an opposite curve—peaking in December. That was the basis for the development of the industrial milk industry, most of which initially involved making butter and cheese. Cheese factories often closed down in the winter and reopened in the spring. Sam Ault of Ault Foods (now owned by Parmalat) remembers closing his cheese plants in the winter. “I remember wondering how they [dairy farmers] lived in the winter. They must have had a lot of salt pork, that’s all I can say,” he said in an April 2004 interview.

Cheese production.  
Source: Agriculture and Agri-Food Canada



When the CDC started, the dairy year began April 1, the beginning of the government’s fiscal year. Industrial producers would get their full year of quota, and would inevitably produce much of their yearly quota over the spring and summer, leaving less to produce in the fall and winter. It was easier and cheaper. But on the other hand, they’d subsequently have little income during the winter months to keep them going. Meanwhile consumer demand for fresh dairy products all year round was growing.

“The dairy market has changed,” reads a booklet on the 1979–80 National Dairy Program. “Years ago producing butter and cheese that stored easily was sufficient. Today consumer tastes are much more sophisticated. The demand for fresh dairy products requires more winter milk production.”<sup>39</sup> So the beginning of the dairy year was shifted to August 1, which provided incentives to encourage winter production. It also gave producers time to make fall production management decisions, such as which cows to keep or cull, when to breed, etc.<sup>40</sup> At the same time, some provinces implemented annual quota management rules, like reserving a certain amount of quota that each producer could use in the last four months of the dairy year. In other cases, provinces developed specific monthly quotas.

There was a 16-month transition period (April 1, 1978, to July 31, 1979) to facilitate the change.

The processing industry was keen to see the seasonality issue addressed. It had long argued that it could be more efficient with a regular supply of milk. There would be no plant layoffs during the low season, for example, and difficulties at peak periods would be eliminated.

## WORK BEGINS ON A NEW NATIONAL MILK MARKETING PLAN

It’s not surprising that cracks began to appear in the Interim Comprehensive Milk Marketing Plan in the mid- to late 1970s. The existing agreement was, after all, named ‘interim’ and evolved in a time when producers were struggling to make a decent living. Returns had stabilized and dairy policy had evolved. Provinces were asking for additional MSQ for various reasons—not in keeping with the principal basis of a national plan, which was to share the market among themselves (based on historical



market shares). “If the provinces’ attitude is to each become self-sufficient, the concept of a national plan would have to be changed,” CDC Chairman Gilles Choquette told a 1978 CMSMC meeting.<sup>41</sup> It was time to take another look at the Interim Plan and either adapt it to the changing times or create a new one.

A sub-committee, or working group, was struck to review the Plan. It met for the first time in May 1978.<sup>42</sup> David Kirk, DFC Executive Secretary, chaired the sub-committee. Richard Doyle, now DFC’s Executive Director, was the sub-committee’s secretary. He remembers the process well. “It was like the world trade negotiations where everyone had to have their little piece worded exactly right!” he says.

The initial areas to study included how dairy policies had evolved in relation to the existing agreement and how to clarify it when it came to resolving disputes.<sup>43</sup>

The sub-committee met several times through the late 1970s and into the early 1980s. Its work would culminate in the new National Milk Marketing Plan signed by all provinces except Newfoundland (which had little industrial milk) in 1983.

## INTERNATIONAL AND DOMESTIC MARKETING

### EXPORT DIVERSIFICATION— NEW PRODUCTS, NEW MARKETS

In the first half of the 1970s, the CDC was mainly involved in exporting surplus products, especially skim milk powder. Domestic industrial milk production was not stable and stabilizing it was the focus. For exports, the goal simply was to minimize losses on skim milk powder exports. But after the 1976 quota cuts, a different reality set in. The world market for skim milk powder collapsed, its price hit rock bottom, and CDC surplus stocks peaked at 351 million lbs. (159 million kg) in September 1976.<sup>44</sup>

While in-quota levies had traditionally taken care of the costs of exporting surplus, producers were now on the hook for far more than they could handle. Drastic action was needed, and it was taken.

“It was clear that the depressed state of the world dairy product market was not a short-term situation,” says Richard Tudor Price, who joined the Commission in 1975 as Director of International Market Operations.<sup>45</sup> “We knew that this depressed state affected the skim milk powder market more acutely, and for longer periods, than it did for other products,” he adds. “So in 1976–77 the CDC decided to re-enter some geographical markets, like those in Southeast Asia, in which it hadn’t traded for several years. We also decided to try and hasten development of certain new product markets, such as infant foods.”

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*I remember my first trip to Algeria in 1977 to sell evaporated milk. Algeria was just emerging from a revolution around that time. Life was obviously very tough. You got an overwhelming impression of overcrowding. Lots of people standing in the streets. Crazy taxi drivers in broken-down vehicles.*

*Politics there were very extreme. You never knew whose interest came first. It was commercially very confusing.*

—Richard Tudor Price, 2004, former CDC Director of International Market Operations

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*The 1976–1977 dairy year will go down as one of the most difficult years ever in the international market for dairy products. Essentially, these difficulties came about through a gross imbalance between the supply of dairy products available to world markets and the demand for them. This imbalance grew acute from early 1975 onwards as a consequence of falling demand in both producing and importing countries brought on by unfavourable economic circumstances and higher prices for dairy products, coupled with very favourable weather and high prices for dairy producers in many countries. This imbalance was reflected by the development of a surplus of skim milk powder of mountainous proportions in the main producing countries totalling, by March 1976, some 2.4 billion kg (5.3 billion lb).*

*As a consequence, world market prices for skim milk powder fell in April 1976 to the minimum level specified in the General Agreement on Tariffs and Trade. In our view, they would have fallen even further had not the government of Canada reestablished, at the CDC’s request, the existing rights under that agreement for skim milk powder to be sold for animal feed at prices below the minimum specified to countries other than Japan and Spain.*

—CDC, Annual Report 1976–1977, p. 8

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Secretary to the committee struck to review the Interim Comprehensive Milk Marketing Plan, Richard Doyle is Executive Director of Dairy Farmers of Canada.  
Source: Dairy Farmers of Canada



Richard Tudor Price, former CDC Director of International Marketing.  
Source: R. Tudor Price

## BUTTERFAT EXCHANGE PROGRAM

The Butterfat Exchange Program was born from this new direction. Instead of selling skim milk powder on the world market at a huge loss, Canada started exporting whole milk products (whole milk powder and evaporated milk), which netted a smaller loss than skim milk powder did. “The world market for these products is presently expanding at world market prices or the program would not be economically feasible,” read the 1977 CDC press release announcing the program. “Butterfat at Canadian prices is too expensive to export. The only way to nullify losses on exports of Canadian butterfat in such products as whole milk and evaporated milk is to replace the equivalent amount with imports of butter at the world price. The increased value of skim milk solids exported in this manner, as opposed to being sold as skim milk powder, reduces Canadian export losses.”

To make up for the butterfat leaving the country, the CDC imported butter from Australia and the United Kingdom; hence

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### International market development

*In 1976–1977, the Commission started to re-enter world markets for other dairy products like evaporated milk and whole milk powder in reaction to extremely difficult conditions in skim milk powder markets. In 1977–1978, this aspect of the Commission’s activities was expanded substantially and during the year some 1.7 million cases of evaporated milk and 20.2 million pounds (9.2 million kg) of whole milk powder were exported, compared to 0.3 million cases of evaporated milk and 5.2 million pounds (2.4 million kg) of whole milk powder in 1976–1977.*

*In order to replace the butterfat contained in these exports, the Commission imported during the year some 11.5 million pounds (5.2 million kg) of salted butter from Australia and the United Kingdom for sale on the Canadian market. The Commission continues to seek opportunities to expand trade in these and related products in order to diversify as far as possible away from the most volatile world dairy commodity markets and obtain secure long-term markets for Canadian dairy exports.*

—CDC, *Annual Report 1977–1978*, p. 15

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*Sales of evaporated milk grew rapidly from 1977 on. In the beginning, the main destination was Algeria. But in the late 1970s, Mexico was also buying large quantities. This program was so successful that the CMSMC decided to supply these markets with Canadian milk, which led to the Special Export Program.*

—Richard Tudor Price, 2004, former CDC Director of International Market Operations

the word ‘exchange.’ This meant, then, that there was no effect on domestic requirements or on the MSQ, since MSQ was established on a butterfat demand basis. It did mean, though, that processors had to rework the imported butter to sell on the domestic market, and they encountered various difficulties in the process.

The CDC’s marketing efforts were clearly successful. In 1975, Canadian exports of dairy products totalled 42,000 tonnes. Skim milk powder represented 87 percent, by volume, of those exports. By 1979, dairy exports had climbed to 187,500 tonnes, with skim milk powder representing only 50 percent.<sup>46</sup>

## SPECIAL EXPORT PROGRAM

Exports became such a hot commodity that in the late 1970s the CMSMC started looking at designating special MSQ for it. “Foreseeable exports could top 9 million cwt (4 million hl)[on a milk equivalent basis],” the CMSMC was told in May 1979. That was far too high an amount to be handled under the Butterfat Exchange Program, because it would result in large imports of butter.<sup>47</sup> So, later that year, the CMSMC developed the Special Export Program and issued an export quota of 1.32 million hectolitres, effective August 1, 1979. Products were either exported by the CDC or directly by private companies under the Export Assistance Program.<sup>48</sup>

Under the Export Assistance Program, processors could ask the CDC for permission to sell their products directly on export markets—without going through the CDC, which meant savings on storage, interest and transportation costs.<sup>49</sup> They would then remit claims to the CDC and receive the difference between the domestic and the world price.

The Special Export Program would evolve, expanding and contracting, into the 1980s.

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*The interesting thing was that the CDC actually made some of our exporting business easier. It was, for example, easier to buy skim milk powder for export from the CDC than to go to, say, eight different plants to try and fill a large order. The CDC quite often had large volumes on hand from several different plants and at varying specifications. This helped our business grow considerably.*

—Walter Pelley, 2004, former exporter with Ronald A. Chisholm Ltd.

## QUEBEC PROCESSING PLANT EXPANSIONS

In 1979, with evaporated milk exports going strong, the CDC hit a snag. Processing plants had reached their maximum production capacity. What to do? For one thing, the CDC helped finance expansions at plants with large milk supplies that had been making butter and skim milk powder. For another, plans were made to build a new facility in St-Alexandre, Quebec, to manufacture instant whole milk powder in consumer-sized packages. The new plant, built by the Coopérative agricole de la Côte du Sud, was hailed as a first for North America. “This important development . . . will allow the Commission to participate from 1981 onwards in this growing market, which is believed to have considerable long-term potential,” read the CDC’s 1978–1980 annual report.<sup>50</sup>

It was new and exciting territory.

Two other plants, one owned by the Coopérative agricole du Bas St-Laurent (Trois-Pistoles) and the other by Coopérative laitière du Sud du Québec (Ste-Claire), also received financial assistance to expand their facilities to increase their evaporated milk capacity, but not until the next decade.

Of course not everyone was happy with the expenditures. Nor was it clear at the time exactly how the financing was being handled. While there was some grumbling about the money going to Quebec and Quebec alone, it was generally accepted that Quebec was the most logical province to build a new plant and expand existing ones. It was the only province with enough surplus milk to feed the new and growing demand for export products. Still, these investments would come back to haunt the CDC in the 1980s. Although there were no illegal dealings, it would later appear that the CDC did not conduct this business as rigorously as would befit a Crown corporation handling public and producer purse strings.

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*There’s no doubt that it made the most sense to make those investments in those parts of Quebec. They were close to both Quebec and Maritimes harbours, which had the capacity to store and ship the product. We had the milk and we had the facilities. You don’t invest in plants in the middle of the country where there’s no milk and no place for exporting.*

—Michel Beauséjour, 2004, Senior Director, Fédération des producteurs de lait du Québec

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Can of evaporated milk.  
Source: Agriculture and Agri-Food Canada

Canada’s Best instant whole milk powder was produced in 2 kg and 500 g cans at the St-Alexandre plant.  
Source: Canadian Dairy Commission

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### Richard Tudor Price, CDC international marketing Director at the time, remembers the building of the St-Alexandre plant.

*The international market for dairy products was definitely changing. Remember that evaporated milk was expensive to transport. It was 75 percent water and packaged in little cans that had to be sterilized. Instant whole milk powder, on the other hand, was much different. It was easier and cheaper to transport; it was easier to reconstitute; and there were few competitors.*

*Meanwhile, Quebec had surplus milk, so the most logical place to build a new plant was there. Although the St-Alexandre plant was built from scratch, two other Quebec plants were expanded to accommodate additional evaporated milk production: the Coopérative laitière du Sud du Québec in Ste-Claire and the Coopérative agricole du Bas St-Laurent in Trois-Pistoles.*

*The financing of the St-Alexandre plant was as follows. The Coopérative agricole de la Côte du Sud borrowed or raised the money to build the plant, essentially on the basis of a CDC contract that stipulated we would buy so much product each year. What we paid for the product was based on its cost and a certain amount of depreciation. Basically it was a commercial arrangement under which the CDC took the risk and the co-op was assured of getting its capital investment back over three years. I recall a \$10 million figure to build the plant, which was a lot in 1980 dollars.*

*I think everyone was pretty happy with the deal. We all wanted to get the next generation of products for export. World prices were good, we were producing a modern product against an old-fashioned one, and there was limited competition. The Dutch and the French were making the product, but New Zealand and Australia weren’t. So this all added up to better returns for producers.*

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## IMPORT CONTROLS

In 1975, the government, using the *Canadian Dairy Commission Act* and the *Export and Import Permits Act*, capped cheese imports at 50 million lbs. (23 million kg). This action was justified by Article XI of the General Agreement on Tariffs and Trade (GATT). Previously, there had been no quantitative limit on imports, although there had been a prohibition on imports of cheddar and cheese used in further processing. Import caps were necessary because the domestic price of cheese had gone up substantially—as a result of the Returns Adjustment Formula and the subsequent high milk production—and cheaper imports (particularly from the Europeans, who heavily subsidized their agricultural products through domestic and export incentives) were flowing into the country faster. The specialty cheese market (statistically accounted for as any cheese other than cheddar, cottage or processed) was experiencing phenomenal growth whereas cheddar consumption was not. In effect, imports were displacing domestic production for a commodity that was in growth mode. Not an attractive situation.

The import quota was cut to 45 million lbs. (20 million kg)<sup>51</sup> in 1978, thanks to successful arguing by the domestic lobby, which said the impact of the 1976 quota cuts should be reflected in the level of imports allowed into the country.

### Cheese imports

*Production of variety cheese more than quadrupled during the 10-year period 1965–1975. During the same period, consumption increased 3½ fold and imports 2½ fold. However, the proportion of imports to total consumption has been declining. In 1965 imports constituted 47 percent of the consumption figure. In 1975, they dropped to 33 percent, and in 1977 they declined further to 27 percent.*

*Cheese has been imported to supplement the domestic production and provide varieties that were not produced in Canada.*

*Imported varieties are considered a prestige item. They have attractive and eye-appealing packages and some are selling at less than the cost of production in Canada. As a result, the domestic manufacturers have been confronted with very strong competition from their foreign counterparts.*

—Agriculture Canada, Dairy Division, Market and Merchandising Program, *Specialty Cheese Industry in Canada*, 1978, p. 2



Book published by the CDC on its research program. The program's objective was to "increase the consumption and utilization of dairy products." Source: Canadian Dairy Commission



## EXPANSION OF PROMOTION, ADVERTISING AND RESEARCH ROLES

It's not surprising that the Commission's domestic marketing efforts didn't take shape until the late 1970s and coincided with a growing interest in specialty cheeses. The 1977–78 federal dairy policy allotted the CDC—for the first time—a \$4 million research, advertising and promotion budget. Product research concentrated, for example, on increasing the domestic consumption of skim milk solids in veal feed, cheese and new dairy products. Advertising was directed at promoting butter, cheddar and specialty cheese consumption.<sup>52</sup> While specialty cheese consumption was rising, butter consumption was falling. According to the CDC 1978–1980 Annual Report, butter consumption had been dropping 4 to 5 percent a year since 1972.<sup>53</sup> The decline tapered off by the end of the decade, in part, it was thought, because of marketing efforts.

The Canadian Dairy Foods Services Bureau (a producer-funded organization renamed the Dairy Bureau of Canada in 1979) was also involved in advertising efforts, matching federal money dollar for dollar. By 1980, however, the Commission was telling producers that they would have to progressively take over more of the federal portion of the funding, and eventually fund the entire promotion and advertising program themselves.<sup>54</sup>

Agriculture Canada inspector testing Canadian-made cheese for export. Source: Agriculture and Agri-Food Canada







Dairy Foods Service Bureau advertisement for milk. Source: Dairy Farmers of Canada.



## CHANGES ON THE FARM, ON THE PLATE, AT THE PLANT

### ON THE FARM

The 1970s were marked by numerous technological and organizational changes. Artificial insemination, better feeding programs, mastitis prevention, for example, all helped milk producers improve farm efficiency. Most farms had completed the move to bulk tanks, and quality standards for industrial milk were comparable to those for fluid milk. By the end of the decade, the CDC was no longer keeping track of fluid producers, explaining in its 1978–1980 Annual Report that the term ‘fluid producer,’ meaning one who made no industrial shipments, was no longer valid.<sup>55</sup>

Under the Interim Comprehensive Milk Marketing Plan, admitting industrial producers to fluid pools was a condition for fluid producers to get the federal subsidy on the portion of their

Farm in Ontario.  
Source: Dairy Farmers of Ontario



milk that hit the industrial milk market. The 1970s saw great progress in that direction. By 1975, all provinces had integrated pooling in place.<sup>56</sup> In 1972–73, the ratio of industrial milk producers to those who shared in a common pool was 2:1. By the end of the decade, the ratio was to 1:1.<sup>57</sup>

According to CDC statistics, the number of industrial and farm-separated cream producers dropped by 70 percent or more in each province from 1969 to 1979.

Other changes on the farm included new insulated barns, new haylage and silage silos (which improved nutrition) and individual water bowls. The number of farms milking fewer than 17 cows decreased by 70 percent over the decade (from 94,708 to 29,274); the number of farms milking more than 178 cows increased almost 225 percent (from 51 to 165)!<sup>58</sup>

On the milking side, the industry continued to move to vacuum milkers with pulsators, and pipeline milking and milking parlour systems became more prevalent. All the technological changes meant less labour and increased milk production per cow, resulting in lower costs. Farmers also had more time to turn to improving other aspects of their farming operations, while a number of farmers worked feverishly on developing the national supply management system.

There was also a series of changes at the provincial level over the decade:

- In the early 1970s in Quebec, the Union catholique des cultivateurs became the Union des producteurs agricoles (UPA). By the end of the decade, the fluid and industrial milk federations merged and established a single joint plan.<sup>59</sup>
- The Manitoba Milk Producers' Marketing Board was set up by the provincial government in 1974. The Board assumed all responsibilities for marketing fresh milk in Manitoba, including operating the pool, paying producers, administering the Market Sharing Quota system and transporting milk.<sup>60</sup> Manitoba established its integrated pool on May 1, 1974, and reached full integration by 1977.<sup>61</sup>
- The Saskatchewan Co-operative Creamery Association amalgamated with the Saskatoon Dairy and Poultry Pool in 1972, as part of a larger policy to reverse the decline of Saskatchewan's milk production.<sup>62</sup> This move meant the

virtual elimination of diversified farms that produced milk and cream to supplement income mainly generated from producing other agricultural products.<sup>63</sup> In 1974, Saskatchewan's Milk Control Board established a fluid milk pool and appointed the Dairy Producers Co-operative to handle the sale of all Saskatchewan's milk to processors.<sup>64</sup>

- The New Brunswick Milk Marketing Board was established in 1973, with Bill Sherwood as Chairman.<sup>65</sup>
- A 1975 Task Force on the Newfoundland Dairy Industry recommended that a milk regulating agency representing all phases of the dairy industry be established, but that didn't occur until 1983.<sup>66</sup>
- And, by 1979, British Columbia producers were starting to make grumbling sounds about the size of their share of the national MSQ pie.

### British Columbia's size of the MSQ pie

*It's hard to fault the intent of the national MSQ program. Production of milk in Canada should be regulated to meet the domestic requirements of our country. All dairy producing countries are subsidizing exports and it is not in our long term interest to continue to produce a surplus of industrial milk and then ask you as dairymen to subsidize the surplus production through a system of levies, just so we as a country can be competitive on the world market. That does not make sense.*

*A regulated production of industrial milk benefits all dairymen, but the system of regulation must recognize that needs and circumstances are different in each province and must recognize our needs never stay the same. The system must reflect the growth and shifts in population. Our industry in British Columbia must be allowed to expand with the needs of our market. We must continue to have sufficient supply to process our cottage cheese, our ice cream and our yogurts from fresh milk and cream. And we cannot permit our production to fall below that needed to sustain our fluid market.*

*Your board and management are using all available means, both political and otherwise, to tell our story and I am confident that we will negotiate a regulated minimum size industry for the benefit of all dairymen in British Columbia.*

—General Manager's report to the Fraser Valley Milk Producers' Association, March 1979

### ON THE PLATE

Besides all the ups and downs of federal dairy policy, unstable world markets, and the monumental task of building and developing a dairy supply management program, the dairy industry faced another serious challenge: changing consumer tastes.

In 1970, Canadians were eating an average of 7 kg of butter per year. By 1979, it had fallen to 4.4 kg, a decrease of almost 40 percent. Consumers drank less whole milk (which has a fat content standardized to 3.25%)—almost 30 percent less than in the 1960s—while they drank more 2% and skim milk—over 150 percent more.

Consumer demand for specialty cheeses rose dramatically through the decade: over 100 percent more than in the 1960s. And per capita consumption of yogurt rose seven-fold. (Specialty cheese covers a wide range of fresh, semi-soft, semi-hard, firm and hard cheese types other than cheddar, cottage and processed cheese, which Statistics Canada tracks separately.)

In the 1977 edition of Canada's Food Guide, the milk category was expanded to include a variety of milk products.  
Source: Agriculture and Agri-Food Canada

Ad promoting the benefits of butter compared to margarine.  
Source: Agriculture and Agri-Food Canada



Reasons for the changes were varied. Health professionals had been sounding alarm bells about the perils of Canadians eating too much fat. Imports of specialty cheeses increased. Consumers were shifting to non-dairy drinks. Soft drink consumption, for example, rose dramatically in the 1970s.<sup>67</sup> And Canadians continued to eat more margarine, increasing their intake to almost 2.5 kg in 1979 from just under 2 kg in 1970.<sup>68</sup>

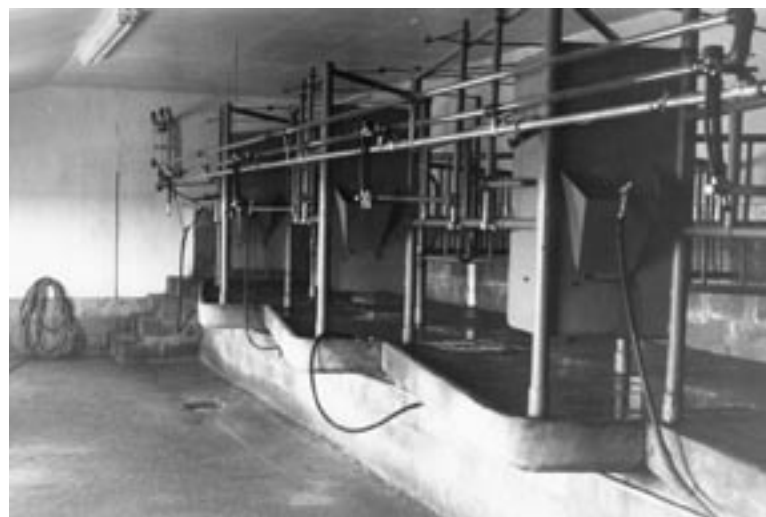
The consumer trend to lower-fat products took its toll on the industry, and was to continue into later decades. The amount of skim-off cream from fluid milk also increased because of higher consumer demand for low-fat products; so there was more residual butter to dispose of.

## AT THE PLANT

Throughout the 1970s, dairy processors grappled with as many technological, political and industrial challenges as did industrial dairy producers.

A high level of seasonal variation in industrial milk production had several results:

- a high percentage of non-use of plant capacity during a good part of the year (low production in winter months);
- higher average operating costs for processing plants; and



Milking parlour.  
Source: Dairy Farmers of Ontario

- additional storage costs because of surplus production in the summer.

According to a National Dairy Policy discussion paper, there was a lot of rationalization and consolidation of dairy processing plants, especially before 1975. Consumer tastes were changing, technology was advancing, and other economic factors—like rising energy costs—together forced processing plants to consolidate their operations. It was more economically efficient to make products in one place, taking advantage of by-products on site, and packaging operations.<sup>69</sup>

From 1961 to 1978, the number of dairy plants fell to 485 from 1,720.<sup>70</sup>

## Ownership of dairy processing

*About 50 percent of the dairy processing industry in Canada is owned by co-operatives, 35 percent by corporations and 15 percent by private firms. Industrial milk plants are mainly operated by co-operatives while the processing of fluid milk and the production of specialty cheeses and other products are primarily done by corporations and private firms. The degree of corporate concentration in the dairy processing sector is lower than in other sectors in the food and beverage industry.*

—Interdepartmental Committee on Dairy Policy Review, *Discussion Paper on the National Dairy Policy*, February 1981

*The NDC [National Dairy Council] helped stabilize things for the processing industry in the 1970s. They helped with issues like metric and nutritional labelling, for example. The government wanted to change to pure metric, which would have cost us a fortune, so we worked closely with the CDC on these matters.*

*Processors were also missing a lot of information about what was happening on the national front, and the NDC would provide that information to them by its close contact with the CDC and CMSMC.*

*Farm organizations raised a lot of money from farmers and also got money from the government, much more so than the processors. Processors weren't handed anything, and rightly so, I didn't mind it. In the end, we felt that the CDC was a big help to processors, especially in stabilizing exports and stabilizing the amount of butter and skim milk powder.*

—Sam Ault, 2004, retired, of Ault Food Ltd.



## Small milk plants offered subsidy to leave industry

Small milk plants and creameries have been offered payments up to \$100,000 to leave the industry under a new Provincial Government program.

The purpose of this program is to provide a means by which operators of industrial milk plants might be encouraged to either merge or consolidate with other plants, or to close out their operations entirely without undue dislocation or distress to either the operator or the milk producers in his area.

Phasing-out grants will be based on the milk processed at the plant over the past year. They will be calculated on the basis of 10 cents per pound of butterfat for the first 200,000 pounds of butterfat processed within the plant supply quota, and .5 cents per pound for the remainder of the plant's quota output. No grants will exceed \$100,000 and the program will be

applicable for the next three years beginning September 1, 1970, and ending August 31, 1973.

In return for the cash payment the owner must close down the premises, sell his plant supply quota, and pay off his debts. Each application for a grant under this program will be subject to review and approval by the Milk Commission of Ontario; it will include a financial statement, a balance sheet, and a list of creditors.

The purpose of this new plan is to provide benefits to both farmers and consumers through a more efficient dairy processing industry. A recent study of milk manufacturing indicated that many small and medium-sized cheese and condensing plants are not viable and it is expected that this new plan will speed the consolidation of dairy plants into more efficient units.



A program to assist small dairy processors who leave the industry in Ontario is explained in the October 1970 edition of the *Ontario Milk Producer*. Source: Dairy Farmers of Ontario Archives

Opening of Gay Lea's Clayton Road Head Office and Plant in April 1973. From left to right: T. E. Brady, CEO; Ontario Minister of Agriculture, William A. Stewart (cutting ribbon); and Martin Baan, President. Source: Gay Lea

## TROUBLE ON THE HOME FRONT

### COMMISSION OF INQUIRY INTO CERTAIN ALLEGATIONS CONCERNING COMMERCIAL PRACTICES OF THE CDC

In late May of 1979, a federal Commission of Inquiry was called under the *Inquiries Act* to look into allegations that the CDC unfairly took markets in Mexico during 1966–77 from Schafer Bros. Ltd., a Montreal firm headed by David Schafer, then 82, and his son George. The inquiry was headed by the Honourable Mr. Justice Hugh F. Gibson, who delivered a 200-page report at the end of 1980, exonerating the CDC of any wrongdoing.

David Schafer lived in the NDG area of Montreal, in Liberal MP Warren Allmand's constituency. Allmand apparently convinced Prime Minister Pierre Elliott Trudeau to create the commission. Although the Schafer allegations had been investigated previously by officials including the Department of Justice, they were found to be without merit. Nonetheless, the Schafers persisted until they got a Commission of Inquiry appointed, in what

was one of Mr. Trudeau's last acts before he was defeated in the 1979 election by Progressive Conservative leader Joe Clark.

The hearings were long and arduous. Witnesses called to testify included CDC officials and staff, and private traders such as Tim Chisholm and Walter Pelley of Ronald A. Chisholm Ltd., an international merchant trading company. Judge Gibson went as far as Mexico to interview officials there about the allegations.

Besides providing a long list of allegations concerning CDC practices and export behaviour, the Schafers insinuated that some individuals, not only from the CDC, were dishonest and acted improperly. They were particularly critical of Dr. Cliff Barry, the CDC Chairman. Justice Gibson found these allegations abhorrent and said so in his findings.

*My finding is that Dr. Barry was a competent, experienced and outstanding public servant, and there was not a tittle of support in the evidence for the attack upon his character or his integrity. While there is and was, of course, nothing wrong with questioning or criticizing any policies Dr. Barry*



The Hon. Eugene Whelan,  
Minister of Agriculture, 1972–1979.  
Source: Canadian Dairy Commission

### A Commission of Inquiry conclusion

*Although there may be something to be said for a highly flexible export marketing policy that permits all major decisions by the CDC to be made in accordance with competitive market pressures . . . the benefits appear more theoretical than real. Furthermore, and more importantly, too great a price must be paid for this flexibility. That price results from having a system that is wide open to abuse, with no effective way to detect or police against acts of personal favoritism. Members of the public, including private exporters, are entitled to reasonable assurance that there is no abuse or incompetence, or even the appearance of such, that may be injurious, or appear to be injurious, to particular private traders. Not surprisingly, some traders, as was the case here with Schafer Bros. Ltd., will readily suspect some form of abuse or incompetence whenever they suffer, or believe they have suffered, from a purely discretionary act done by the Commission or by one of its officers or employees.*

*There is also a real risk that at least in some degree, 'flexibility' will amount to little more than an unrelated, perhaps inconsistent, series of ill-considered, ad hoc decisions made without reference to, or sense for, longer term direction or policies.*

*This inquiry probably would not have been necessary had the CDC acted in accordance with published practices and procedures and on the basis of information that was readily known or available to the public. A system administered in such a way would leave little room for suspicion and distrust. . . . Guidelines and practices should be adopted by the CDC in the disposal of Canadian skim milk powder surplus.<sup>71</sup>*

—Report of the Commission of Inquiry into Certain Allegations Concerning  
Commercial Practices of the Canadian Dairy Commission, 1981

*formulated or judgments he made in the course of his public duties as Chairman of the Canadian Dairy Commission, it was highly improper, without basis and most reprehensible for David Schafer, George Schafer, Michel Choquette [a Montreal writer/journalist who became involved in the case] and their counsel to make, without any evidence, the allegations and comments that were made. Once the media publicized such irresponsible allegations, as was done in this case shortly prior to the commencement of the public hearings, it is difficult to erase any effect.<sup>72</sup>*

After reviewing extensive written evidence and conducting in-depth interviews, Justice Gibson went on to methodically dispute and refute each allegation from Schafer's long list. Indeed, the report is replete with such phrases as "there is no evidence," "allegation not proven," "no basis for any complaint," "no basis for this allegation." Justice Gibson concluded that the allegations were entirely unfounded, both legally and morally.

What the inquiry did do, when it was made public in May 1981, was to raise questions about the policies, or lack thereof, surrounding the CDC's handling of skim milk powder disposal. They weren't, it seemed, quite as clear, or used as consistently, as they should have been.

Publicity surrounding the inquiry cast a pall over the CDC, a pall that was to continue into the early 1980s, when Agriculture Minister Eugene Whelan asked the Auditor General of Canada, Ken Dye, to conduct a comprehensive audit of the Commission, paying particular attention to how the Commission spent producer export levies.<sup>73</sup> The call for the audit was made shortly after the Gibson report was made public.

## HEADING INTO THE 1980s

By the late 1970s, the CMSMC had recovered from the shock of the quota cuts. Some people say that it was when the cuts were made that the national supply management really came of age. Producer discipline was needed to make the system work, and



until the cuts took place, none had been evident. Now, Canada could say it had a true supply management system with controlled imports, controlled production and controlled pricing.

The Commission navigated through some pretty treacherous stretches over the decade, but made it through intact, managing to achieve many things:

- sign up all provinces (except Newfoundland) to the Interim Comprehensive Marketing Plan;
- iron out methods of granting MSQ to provinces;
- refine the operations of the CMSMC;
- introduce ways to equitably facilitate inter-provincial adjustments of MSQ;
- convert to metric;
- change the dairy year;
- herd the industry towards the integration of fluid and industrial milk;
- face the challenge of decreasing per capita consumption of dairy products;
- create markets for new products, at home and abroad; and
- start work on the new National Milk Marketing Plan.

The grumbling and struggling of provinces for MSQ was still an issue at the end of the decade. Ontario, for example, wanted more quota for its cheese production. Eugene Whelan, for one, was not impressed. In a speech to DFC's 1979 annual meeting, he said:

*I hear complaints, and I read newspaper articles . . . where the same criticism is being leveled over and over again. That the federal Minister of Agriculture is killing Ontario's cheddar cheese industry because he won't climb down off his political perch and give that province more quota. . . . I hope*

*it's clear in everyone's mind that this Minister of Agriculture has no quota to give away. He has nothing whatsoever to do with the allocation of quota at any level . . . the body that decides both global and provincial quota allocation is the Canadian Milk Supply Management Committee, which is made up of representatives of all the milk producing provinces. . . .*

What bothered Whelan the most, he said, was that provinces were looking to their own needs and not considering the national picture.

*I suppose it's very easy to adopt a purely provincial view now that the industry has reached a high degree of profitability and stability. When there was little profit and less stability in the industry, provinces were eager to get together . . . but you just can't have it both ways. You can't be all for Canada when the going is rough and you need the resources of your country behind you, only to turn around when things are looking up and play the provincial interest because there would be more in it for you.<sup>74</sup>*

Still, industrial dairy producers had come a long way since the CDC swung open its doors in 1966. Producers had made it through some turbulent times, and were stronger because of it. Producer target returns\* for milk increased to \$32.62 per hectolitre by the end of the decade, up almost 200 percent from \$11.00 in 1969. Most certainly Canada's industrial milk producers entered the 1980s—considered by many industry watchers the most stable decade of the Commission's existence—in much better shape than they had entered the previous decade.

\* The producer target return, sometimes referred to as the 'target price,' is a calculated minimum price per hectolitre of standard milk an efficient farmer should get. Prices based on the target return can be charged to processors by provincial boards because the CDC buys butter and skim milk powder at the support price. Actual returns for most farmers would be higher, but they vary from province to province, depending on the agreement or negotiation between provincial processors and producer groups. (The target price is the price before expenses).

*Our markets are of two classes—home and foreign.  
The demand for dairy products of fine quality is growing in our home markets.  
We are consuming more butter and cheese each year as our population grows.<sup>75</sup>*

HENRY H. DEAN, CANADIAN DAIRYING, 1903

## APPENDIX 2-1 COMMISSIONERS, MINISTERS AND PRIME MINISTERS

### Commissioners

Dr. Cliff Barry	Chairman	1967–1973
Jules Thibaudeau	Vice-Chairman	1967–1976
Lyle Atkinson	Commissioner	1967–1970
Ellard J. Powers	Commissioner (replaced Atkinson)	1970–1973
	Chairman	1973–1976
Ken Savage	Interim Chairman (for Powers on medical leave)	1976 (August–November)
Gilles Choquette	Chairman	1976–1986
Elwood Hodgins	Vice-Chairman	1977–1986
H.M. “Scotty” Johnson	Commissioner	1973–1980

### Ministers of Agriculture

Bud Olsen	Liberal, Medicine Hat, AB	1968–1972
Eugene Whelan	Liberal, Essex South / Essex- Windsor, ON	1972–1979
John Wise	Conservative, Elgin, ON	1979–1980

### Prime Ministers

Pierre Trudeau	Liberal	1968–1979
Joe Clark	Conservative	1979–1980

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Signing ceremony to unify fluid and industrial milk producers in Quebec (from left to right: Roger Ménard, St-Hyacinthe region, Pierre St-Martin, Abitibi-Témiscamingue region, Réjean Grégoire, St-Jean/Valleyfield region, Marcel Bourbeau, Mauricie region.)  
Source: Archives/La Terre de chez nous

*Men cannot co-operate successfully if the sole bond between them is self-interest,  
hence one of the chief advantages of co-operative dairying is, that it tends to make those engaged in this form of dairy work less selfish.  
The private dairyman is concerned chiefly in the furtherance of private interests, while the co-operative dairyman is interested  
also in the welfare of the whole. He takes pride in our factory rather than my dairy. This form of dairying  
also gives farmers a knowledge of business, as the business is frequently managed by the producers of milk.  
It also promotes neighbourliness, courtesy, intelligence, and good citizenship.  
Where co-operative dairying is followed in its highest sense,  
the best class of dairymen and more general thrift will be found.<sup>1</sup>*

HENRY H. DEAN, CANADIAN DAIRYING, 1903

## ♦ 3 ♦

# THE 1980s: NEGOTIATING A NEW SYSTEM

### *Introduction*

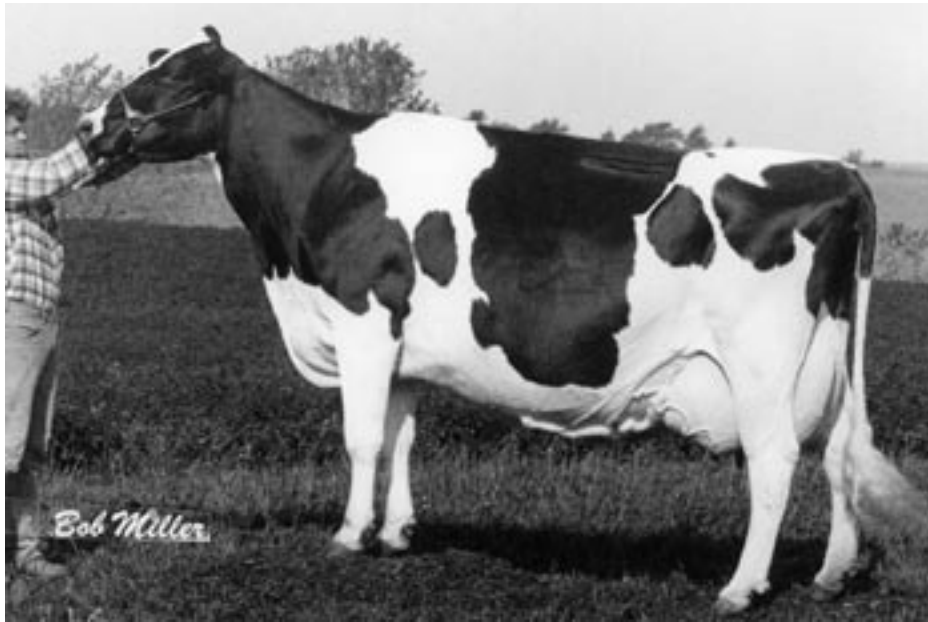
If the 1960s were chaotic and the 1970s were turbulent, the 1980s started out more smoothly. At the beginning of the decade, the Canadian Dairy Commission (CDC) had 14 years of history behind it and had made considerable progress. The system had stabilized, relationships had formed, planned exports had taken a good foothold, and checks and balances were in place. By the end of 1981, industrial milk production was within 0.07 percent of domestic and pre-planned export requirements—a very respectable balance.<sup>2</sup>

But it wasn't long before the CDC and the industrial dairy sector had to gear up for battle on other fronts. The 1981–82 recession, described by the 1985 *Canada Year Book* as Canada's deepest and longest recession since the Second World War,<sup>3</sup> affected the dairy industry as it did the rest of the country, and indeed, the world. Prime Minister Pierre Elliott Trudeau brought in a two-year program to limit wage and price increases to 6 and 5 percent<sup>4</sup> on all activities under the federal government's jurisdiction.

The world market for dairy products plummeted, as did the economies of once-rich countries. Major importers like Mexico, Algeria, Libya and Nigeria, which had been buying substantial quantities of Canadian milk products, suddenly found themselves cash-strapped. The CDC had made considerable efforts to develop these markets, and helped create some of them, but was now forced to look for alternative markets for its planned exports and structural skim milk powder surplus. Industrial Market Sharing Quota had to be reduced a number of times in the 1980s—by just under 2.5 percent in 1982, and by 1.6 percent the next year, for example—although this was nothing compared to the magnitude of the 1976 quota cuts.

In July 1982, Auditor General Ken Dye released an audit report that chastised the CDC for many of its business practices. Meanwhile, work was under way to get the new National Milk Marketing Plan (NMMP), and its accompanying Memorandum of Agreement (MOA), signed by all provinces. That process





Holstein cow of the decade:  
Bred at Glenridge Farm,  
Grenfell, Saskatchewan, Roxy  
transmitted dairyness, soft  
udder texture and great udders,  
through her daughters, sons and  
grandsons. Her son Cittamat and  
her grandson Raider still have an  
impact in the breed today.  
Source: Holstein Canada

was compared to United Nations negotiations. Just when it was within reach, British Columbia served notice that it intended to withdraw from the agreement because it felt short-changed on quota. The calm that had been evident at the very beginning of the decade had been short-lived. British Columbia didn't rejoin the plan until 1985.<sup>5</sup>

Prime Minister Trudeau took his famous walk in the snow and resigned in 1984. In the race to succeed him, Agriculture Minister Eugene Whelan took a run at the Liberal leadership and faced a humiliating defeat, placing last on the first ballot. The winner, John Turner, appointed Ralph Ferguson as his agriculture minister, and Whelan's tenure came to an end. The Turner victory was short-lived. He called an election in September of the same year and lost the 1984 federal election to a landslide Conservative victory.

The Tories remained in power under Prime Minister Brian Mulroney until 1993. John Wise took over the reins of Agriculture from Ferguson and was followed by Don Mazankowski in 1988. Under Mulroney, Canada was to sign the Canada-United States Trade Agreement (CUSTA, also known as the Free Trade Agreement, FTA) effective January 1, 1989. CUSTA would be incorporated into the North American Free Trade Agreement (NAFTA) in December 1992. Also on the trade front, the Uruguay Round of the General Agreement on Tariffs and Trade (GATT)



Clifford McIsaac was a Commissioner  
at the CDC from 1980 to 1991.  
Source: Canadian Dairy Commission

was launched in 1986, the results of which would have a huge impact on the Canadian dairy industry in the 1990s.

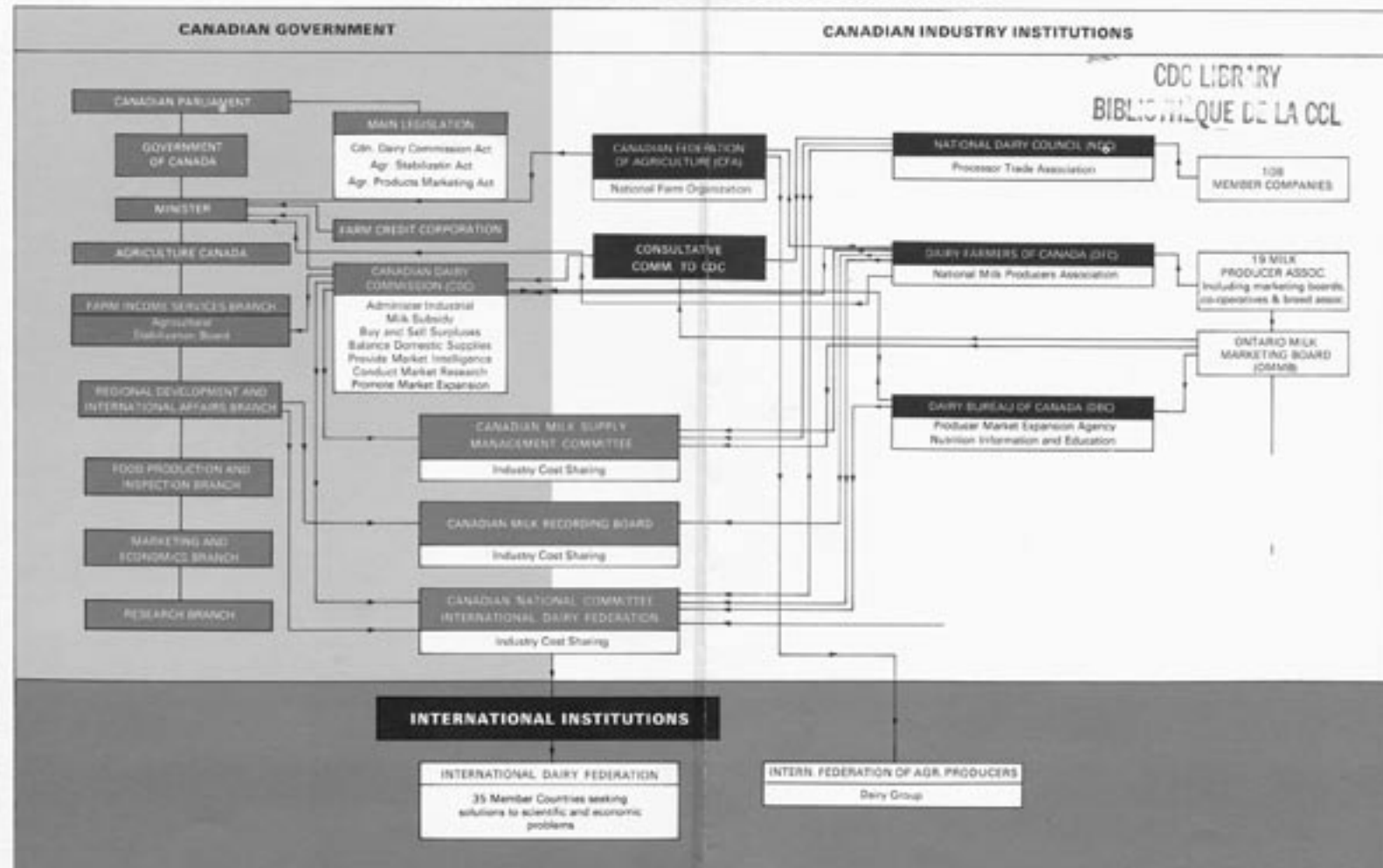
The reign of Gilles Choquette ended in 1986 with his abrupt removal as the CDC's chairman. CDC Vice-Chairman Elwood Hodgins, a former executive director of the Ontario Dairy Council, was Interim Chairman until Roch Morin was appointed six months later by Wise. Morin had been raised on a dairy farm near St-Hyacinthe, Quebec, and had been general manager of the Fédération des producteurs de lait industriel du Québec.<sup>6</sup> He was known for his quiet, honest demeanour, a man who played by the rules but could also be tough when necessary. Ken McKinnon, a dairy producer from Port Elgin, Ontario, and former Dairy Farmers of Canada (DFC) President, replaced Hodgins as vice-chairman during the decade and Dr. Cliff McIsaac, a veterinarian and former Saskatchewan Cabinet minister, joined the team as commissioner.

The federal government's fairly generous dairy policy was under attack throughout the 1980s. As the deficit ballooned, the government started chipping away at the national dairy program. It began when the government ended its funding of carrying charges (storage, interest and transportation costs) for butter in 1985–86, as recommended in the report by Benoît Lavigne and Everett Biggs on long-term dairy policy. At the end of the decade, the federal subsidy on special exports was dropped, along with government funding of carrying charges for surplus skim milk powder.

The Commission and the dairy industry suffered and celebrated other trials and successes throughout the decade:

- stable or declining consumption of higher fat dairy products, particularly butter, which was not offset by an increase in specialty cheese and yogurt consumption;
- programs to increase the domestic use of dairy ingredients, such as the Animal Feed Assistance Program and the Domestic Dairy Product Innovation Program;
- unpredictable export markets;
- an unsuccessful attempt to add ice cream and yogurt to the Import Control List; and
- a new and controversial cost of production formula replacing the outdated 1975 Returns Adjustment Formula.

**CHART 2 – NATIONAL AND INTERNATIONAL DAIRY INDUSTRY STRUCTURES**



The latter half of the 1980s saw a new CDC team in place, the new National Milk Marketing Plan signed, a new Conservative government, new agriculture ministers and ever-changing domestic and international markets for industrial dairy products. In 1989, the National Dairy Task Force was launched. It would result in many changes during the 1990s. The economics of the 1980s were far different from those of the 1960s and 1970s. All this, coupled with new gains in technology both on the farm and in the plant, made for an interesting decade for everyone involved with the milk industry.

*In some ways, the 1980s were a bit more stable than the 1960s and 1970s. There was still a lot of change and upheaval, with the government cutbacks, British Columbia pulling out of the system, and negotiating the new plan, to name but a few. But at least we had an infrastructure in place to help us get through these issues. We had the CDC and its staff, we had the CMSMC and the Secretariat, we had formed relationships with industry stakeholders. So, from that perspective, it was a period of stability. But it's been a struggle to maintain that stability every since.*

—Peter Oosterhoff, 2004, former Ontario dairy producer and former DFC president

An overview of the organizations involved in the dairy industry in the 1980s and linkages.  
Source: Canadian Dairy Commission

National Milk Marketing Plan		Plan national de commercialisation du lait	
<b>Introduction</b>	<b>A.</b> This Plan is a federal-provincial agreement in respect of the establishment of a National Milk Marketing Plan for the purpose of regulating the marketing of milk and cream products relating to Canadian domestic requirements and for any additional industrial milk requirements in Canada.	<b>A.</b> Ce Plan est un accord fédéral-provincial relatif à la mise en place d'un Plan national de commercialisation du lait visant à la réglementation de la commercialisation des produits du lait et de la crème en regard des besoins canadiens et de tous besoins additionnels de lait de transformation au Canada.	<b>Introduction</b>
<b>Preamble</b>	<b>B. WHEREAS</b> it is recognized there is a necessity for a National Milk Marketing Plan providing for the management of milk and cream products relating to Canadian domestic requirements and for any additional industrial milk requirements for approved exports of whole milk products;  <b>WHEREAS</b> it is desirable that a supply management program for industrial milk products be continued in the long term best interest of consumers, producers and processors;  <b>WHEREAS</b> it is desirable that such a National Milk Marketing Plan be ratified by the appropriate agencies in all provinces and in Canada;  <b>WHEREAS</b> the participation of the Federal and Provincial authorities is required to assure the adoption and implementation of such Plan;  <b>WHEREAS</b> the signatories hereto have agreed to revise and replace the Interim Comprehensive Milk Marketing Plan of 1971 together with subsequent amendments thereto;  <b>WHEREAS</b> many of the decisions taken by the Canadian Milk Supply Management Committee related to the marketing of the industrial milk in Canada, have also resulted in substantive changes to the original 1971 interim agreement;	<b>B. ATTENDU QUE</b> la nécessité d'établir un Plan national de commercialisation du lait prévoyant la gestion des produits du lait et de la crème en regard des besoins canadiens et de tous besoins additionnels de lait de transformation pour des exportations approuvées de produits de lait entier est reconnue;  <b>ATTENDU QU'</b> il est souhaitable qu'un programme de gestion des approvisionnements des produits du lait de transformation soit continué dans le meilleur intérêt à long terme des consommateurs, des producteurs et des transformateurs;  <b>ATTENDU QU'</b> il est souhaitable qu'un tel Plan national de commercialisation du lait soit ratifié par les agences compétentes au niveau de toutes les provinces et au niveau du Canada;  <b>ATTENDU QUE</b> la participation des autorités fédérales et provinciales est requise pour assurer l'adoption et la mise en œuvre de ce Plan;  <b>ATTENDU QUE</b> les signataires des présentes sont d'accord pour réviser et remplacer le Plan global provisoire de commercialisation du lait de 1971 ainsi que les amendements subséquents à celui-ci;  <b>ATTENDU QUE</b> plusieurs des décisions prises par le comité canadien de gestion des approvisionnements de lait se rapportant à la commercialisation du lait industriel au Canada ont également eu pour résultat d'apporter des changements relatifs aux fonds de l'entente originale provisoire de 1971;	<b>Preamble</b>
	<b>NOW THEREFORE</b> the Signatories agree: - to abide by the terms of this Plan on and after August 1, 1983; - that this agreement replaces the Interim Comprehensive Milk Marketing Plan of 1971 as amended from time to time; - that the aforesaid Interim Comprehensive Milk Marketing Plan is hereby deemed to be no longer in effect as of July 31, 1983; - and that they may mutually agree on postponing the date on which this Plan will become effective.	<b>EN CONSÉQUENCE</b> , les signataires: - s'engagent à se conformer aux termes de ce Plan à compter du 1 <sup>er</sup> août 1983; - conviennent que cette entente remplace le Plan global provisoire de commercialisation du lait de 1971 tel qu'amendé à l'époque; - conviennent que le Plan ci-haut mentionné est censé par les présentes cesser d'avoir effet à compter du 31 juillet 1983; - peuvent convenir mutuellement de retarder la date de mise en œuvre de ce Plan.	

The National Milk Marketing Plan. Source: Canadian Dairy Commission

## THE NATIONAL MILK MARKETING PLAN

### GETTING THE PLAN SIGNED

The work that started in 1978 culminated in the signing of the National Milk Marketing Plan by all provinces in 1983 (except Newfoundland, whose industrial milk industry was almost non-existent). The NMMP replaced the Interim Comprehensive Milk Marketing Agreement, which was signed in 1971, but was retroactive to December 1, 1970.

The new plan was initially one document, but later got separated into two parts: the Plan itself, and a Memorandum of Agreement, with an appendix setting out how to calculate provincial Market Sharing Quota (MSQ). An amendment to the plan, known as the 'BC clause,' was added later. The MOA was designated as the working framework for the operation of the Plan.<sup>7</sup> It stipulated that changes to the system could be negotiated and made by CMSMC members only, rather than all official signatories to the plan—as long as amendments were consistent with the plan itself. This approach gave more flexibility in changing or adjusting policies.

The National Plan had three objectives:

1. to manage the supply of industrial milk, measured on a butterfat basis, to meet the needs of Canadians for processed dairy products;
2. to provide a basis to determine provincial market shares of Canadian requirements for industrial milk; and
3. to provide a basis for collecting funds from producers to pay for losses incurred by the CDC on the export market.

The MOA outlined the procedures for the operation of the national plan and the CMSMC, specifically:

- determining provincial shares of the estimated Canadian requirements;
- making annual MSQ inter-provincial adjustments;
- determining over-quota levies; and
- collecting fees for surplus disposal.

One of the plan's main accomplishments was to formalize how the CMSMC should establish or estimate Canadian requirements



of industrial milk in order to allocate provincial MSQ. The percentage shares were based on those that existed on August 1, 1982:

Province	% share	Million kg BF
Prince Edward Island	1.9	3.2
Nove Scotia	1.3	2.2
New Brunswick	1.3	2.3
Quebec	48.0	82.1
Ontario	31.2	53.6
Manitoba	3.9	6.5
Saskatchewan	2.6	4.3
Alberta	6.7	11.5
British Columbia	3.1	5.3
Canada	100.0	171.0

Source: National Milk Marketing Plan, p. 4

*We travelled across the country, probably three times. I remember the crowd in one place being downright ugly when we came to discuss the national plan and how it was working. People were not happy. There was a lot of misunderstanding about each other's markets. The West didn't understand the Quebec industry; Quebec didn't understand the West. Ontario and the east had their own issues.*

*But we set out to develop a milk marketing plan that would work the best under what we thought the new GATT would be. Just coming up with a final proposal among ourselves was a challenge! I remember many heated discussions. Basically, we beat every issue to death and yet no one got upset. And then, we came up with a plan that we thought was the very best, no matter what happened with the GATT. We were quite pleased with ourselves. And as soon as we let it out at a producer meeting, it got blown out of the water. Bang! But then bits and pieces started to come together, the dust settled and we eventually satisfied most people.*

*We all knew that we had the best system in the world. And we all knew that we didn't want to let it slip through our fingers, so everyone gave a little here and there.*

—Bill Sherwood, 2004, former chairman of the New Brunswick Milk Marketing Board and DFC President in 1981 and 1982

THE 65:35 PROPOSAL: BRITISH COLUMBIA OPTS OUT

The signing of the agreement was a short-lived victory. For the second time, British Columbia served notice it intended to withdraw from the national plan, and for the first time, it did.

Historically, British Columbia had always been short of MSQ—and for a number of reasons. For one, British Columbia's provincial 1956 Clyne Commission had stipulated that all milk had to be of fluid milk standards, which forced out many of the

*I remember Cliff McIsaac personally taking the national plan to each and every province to get it signed. He went from coast to coast, saying that the only way it would be agreed to by everyone was for him to go and see everyone in person. And he was right.*

—Chuck Birchard, 2004, former director of CDC Policy, Communications and Strategic Planning

**Richard Doyle, now DFC's Executive Director, was secretary to the sub-committee that developed the plan in consultation with all the provinces and stakeholders from 1978 to 1983. (David Kirk was the sub-committee's chairman.)**

*I remember after three years of drafting the plan, it was drafted in such a way that every province had their little piece in it just the way they wanted. And we were taking it around for a final review to everyone. We were in a committee meeting when Ken McKinnon, Chairman of the Ontario Milk Marketing Board at the time, took a look at it. And he said, "This is nonsense. There's no way I can get my minister to sign this. It's way too complicated. You go back and write just the principles of what we want, and write it well."*

*Meanwhile, David and I had been working really hard on this, and for years! Do you have any idea how hard it is to take the opposite of what various sides want, and draft something that everyone would be happy with? And McKinnon asks us to get it down to a few pages. The idea of getting David (Kirk) to put something in one page? Ha, that was funny. Anyway, we came back with five or six pages and then everyone had another go at it. And they said, "No, no, you have to put that in . . . and that . . . and that . . ." So finally McKinnon came back to us and said, "oh the hell with this," and we went back to the original document, except that we split it into two parts: the principles of the Plan itself and the supporting Memorandum of Agreement.*



Bill Sherwood, member of the CMSMC study team, former Chairman of the New Brunswick Milk Marketing Board and DFC President (1981–1982). Source: Dairy Farmers of New Brunswick

# B.C. opts out of supply management

Headline appearing on the front page of the *Ontario Farmer* after BC announced it was opting out of the national supply management system.  
Source: *Ontario Farmer*

smaller marginalized industrial cream and milk producers in the 1960s and early 1970s. For another, producer returns for industrial milk (set in Ottawa by the CDC and the Agriculture Minister) were low, especially when compared to the much higher price that British Columbia producers received for their fluid milk, which was set under provincial regulations and calculated using a British Columbia cost of production (COP) formula.

As well, a large proportion of the milk processed in British Columbia was handled by co-operatives, which were owned by producers themselves. So, given that the industrial milk return was below the cost of production of many producers (according to the British Columbia COP formula), it simply made more economic sense for the producer-owned co-operatives to bring in butter and cheese from other provinces, particularly Quebec.

Quebec producers were more willing to accept the relatively low industrial milk price because they had few other agricultural opportunities in many regions of the province. Additionally, in the early days, many small Quebec producers with only a few cows could not supply fluid markets due to milk quality, as well as production continuity issues. So, to keep costs low, many of these small producers milked only in the summer months when cows were on grass, but not in the winter when higher-quality feed would have to be purchased or stored.

Money from these milk sales was frequently considered to be family income and thus was important in covering household expenses. For all of these reasons, Quebec was willing to produce the milk needed to meet any shortfall in the supply of butter and cheese, primarily for markets in other provinces and for export. And processing plants were built to handle the demand for these industrial products.

But then along came the new federal Returns Adjustment Formula of 1975, which raised the industrial milk price to \$11 per hectolitre. Producing industrial milk became a much more attractive proposition. Provinces that previously had little interest in producing any more milk than was necessary to satisfy high-

priced fluid markets suddenly found that it was economical to produce at industrial milk return levels. But, in order to avoid paying high over-quota levies, they needed to get more MSQ.

So the push was on, by British Columbia and all the other provinces, to acquire more quota. Quebec, with the lion's share of national MSQ, argued that it had developed its industrial milk production and processing infrastructure to serve markets that had previously been unattractive to producers in other provinces.

Meanwhile, for several years, in the late 1970s and early 1980s, British Columbia had been able to borrow unused MSQ from Alberta and Saskatchewan, which had allowed British Columbia's industrial milk production to keep pace with its growth in the fluid and semi-fluid (cottage cheese, ice cream and yogurt) markets. The borrowed MSQ also allowed British Columbia to maintain its historical production pattern of about 65 percent fluid and 35 percent industrial milk, a ratio that British Columbia argued it needed to ensure an adequate milk supply to meet the fluctuating consumer buying habits for fluid milk on a daily basis. The first priority of milk utilization is to fill fluid market needs and British Columbia said it always had to have milk available to meet those needs.

But when returns for industrial milk started to improve after 1975, Alberta and Saskatchewan began to produce their full quota. So they needed their borrowed quota back. That, coupled with a 4 percent cut in national MSQ during dairy year 1982–83, meant that British Columbia was about to lose at least 15 percent of the quota it was currently using<sup>8</sup>—an unacceptable amount. British Columbia then proposed what came to be called the 65:35 principle. Under this principle, British Columbia would always have a ratio of 65 litres of Class 1 milk to 35 litres of industrial milk. British Columbia made several arguments in support of this proposal, providing numerous statistical analyses to the CMSMC. British Columbia's population was growing at a far faster rate than the rest of the country (an 11 percent increase from 1976 to 1981, compared to only a 6 percent increase for Canada as a



whole).<sup>9</sup> Fluid milk (Class 1) sales and semi-fluid products sales were increasing dramatically. The true industrial milk base was being seriously eroded, British Columbia argued, affecting the supply and viability of its industrial milk plants.

“There is not any logic under a national supply management system to effect inequitable production restraint on a province which would require that province to purchase increased quantities of manufactured milk products outside its boundaries,” wrote E.D. Daum, Chairman of the BC Milk Board, to CDC Chairman Gilles Choquette, in 1982.<sup>10</sup>

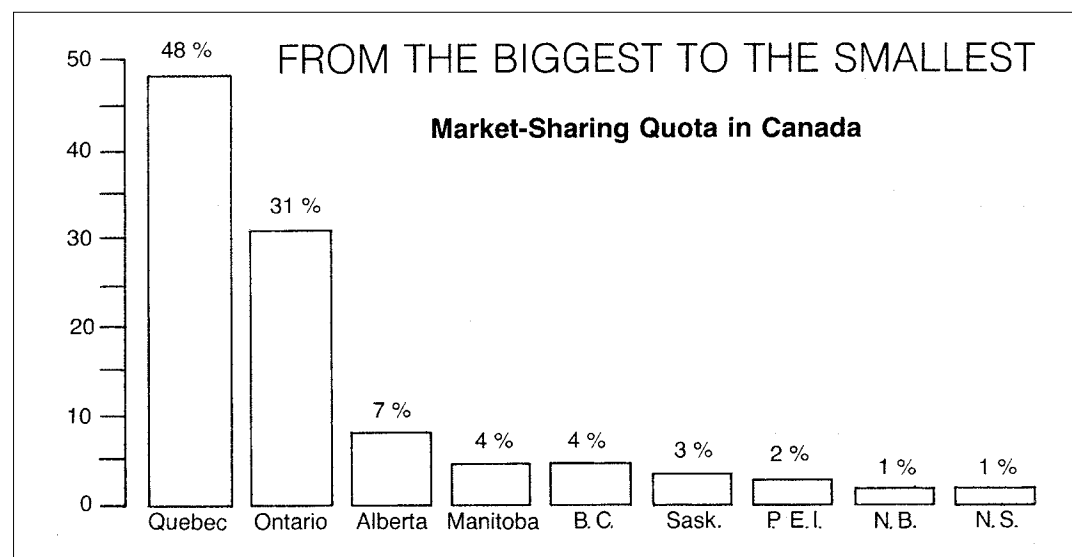
The CMSMC was sympathetic but unable to agree on how best to accommodate British Columbia’s request for additional quota. Producers in other provinces, understandably, were not interested in giving up any of their quota. The CMSMC discussed options such as an infusion of permanent quota allocation through an expanded national sleeve, reduction of market shares of all other provinces in favour of British Columbia, and temporary use by British Columbia of unused and unfinanced export quota for 1982–83.<sup>11</sup> In the end, British Columbia’s 65:35 proposal, and the additional MSQ it would provide, were turned down. British Columbia served notice it would withdraw from the national plan but proceeded to operate a parallel supply management program, albeit one that allowed industrial milk production at a higher level than its CMSMC-designated share of MSQ.

The danger with British Columbia opting out of the national plan, of course, was that the whole system might fall apart. Everything everyone had been working towards for almost two decades previously would be destroyed. Without a national system, the havoc of the 1960s could return, with dumping of surplus and provinces undermining and undercutting each other’s markets. There had to be a solution.

DFC appointed a committee to solve the problem. The committee travelled across British Columbia to meet with producers and their organizations. Members included Jacques Boucher of Quebec, Richard Doyle of DFC, Ken McKinnon of Ontario, Bill Sherwood of New Brunswick and Geoff Strudwick of Saskatchewan.

In 1984, after extended negotiations with producer organizations, the provinces accepted British Columbia’s 65:35 proposal.

## Should Quebec Surrender Quota?



### The British Columbia Problem

*British Columbia producers are very much aware of the overall advantages of the National Milk Supply Management program. Although the subsidy is not being paid to our producers, we continue to benefit from the program in other ways. One is the protection from cheap imports, and secondly the cost of production formula that establishes fair returns to producers.*

*At the last annual meeting of Dairy Farmers of Canada, held in January of 1983, both the Minister of Agriculture, Honourable E.F. Whelan, and the Chairman of the CDC, expressed concern over these developments and warned producers that unless a solution was found to the BC problem, this could eventually lead to the total collapse of the industrial milk supply management program in Canada.*

—Jim Waardenburg, 1983, British Columbia’s Fraser Valley Milk Producers’ Association Director, address to the FVMPA annual meeting

*Everyone knew that British Columbia was short of MSQ. But, understandably, no province was willing to give up any of its MSQ share.*

—Chuck Birchard, 2004, former Director of CDC Policy, Communications and Strategic Planning

Headline appearing in the FPLQ’s magazine the *Producteur de lait québécois* covering the issue of quota sharing among provinces under the national plan.  
Source: Le Producteur de lait québécois  
MSQ shares in 1987. Graph appeared in the *Producteur de lait québécois*.  
Source: Le Producteur de lait québécois



Peter Friesen, past President of the Fraser Valley Milk Producers' Association. Source: Historical Society of BC Archive

### British Columbia returns

*A very important event during 1984 was the re-entry of British Columbia into the National Milk Supply Management System. Since leaving the program in August of 1982, your representatives on the B.C. Advisory Committee and the Milk Board have continued to negotiate in an effort to achieve a satisfactory understanding that would allow us back into the national program. . . .*

*In this new agreement, our concern about being able to meet our Class I needs for the province has been met. The agreement is a good one and should enjoy our full support.*

—Peter Friesen, 1985, Fraser Valley Milk Producers' Association President, address to the annual meeting

*In the end, we agreed to the amendment. When you're in negotiations, there are a lot of things that you have to take into consideration. It wasn't worth losing the National Plan over it. British Columbia's population was increasing and was looking to the south to see what its potential for industrial production might be. We didn't agree with the 65:35 argument, and it's not a criterion of the National Plan that a province's quota has to be in line with their population.*

—Michel Beauséjour, 2005, Senior Director, Fédération des producteurs de lait du Québec

*We had all sorts of little problems. Everyone brought different things to the table that needed to be addressed. So the CMSMC decided to establish a study team to go around to the provinces and meet with all stakeholders and come up with solutions to some of the problems. The fluid levy was a big one. There was surplus butterfat in the system and we needed to increase the financial contribution to the Dairy Bureau so they could promote the consumption of butter and cheese. British Columbia was still not happy with its MSQ share.*

—Jim Waardenburg, 2004, Fraser Valley Milk Producers' Association Director, CMSMC Study Team member



Jim Waardenburg, former Director of the Fraser Valley Milk Producers' Association and past President of Dairy Farmers of Canada. Source: British Columbia Milk Marketing Board

An amendment to the National Milk Marketing Plan, known as the BC Clause, was drafted and signed. British Columbia was back in. "From a practical point of view, the points involved in the marketing agreements have been settled," Jacques Boucher, Chairman of the Fédération des producteurs de lait du Québec, wrote in the Fédération's 1984 annual report. "The important thing to remember is that the Fédération is dedicated to defending the interests of dairymen and is moving slowly but positively in a very difficult economic environment."<sup>12</sup>

### THE CMSMC STUDY TEAM

It didn't take long for the National Milk Marketing Plan to attract criticism by members. It wasn't, it seemed, quite as flexible as needed. A CMSMC Study Team was put together in December 1987 to study the issue. Its task: to recommend ways to improve the allocation of MSQ to provinces and improve the flexibility of the system so processors could take advantage of market opportunities. This team travelled across the country and met with all stakeholders, from government officials to producer groups, from consumers to processors to further processors. It was a major undertaking.

The Study Team found that the 65:35 formula for allocating quota to British Columbia was not working as intended. The figures used in the formula were from the two previous years and didn't reflect British Columbia's current situation. It needed still more quota. A rapidly increasing population was cited as one reason. And then there was Expo '86 in Vancouver, which had also pumped up consumption of fluid as well as industrial milk products for an extended time period.<sup>13</sup>

Many proposals were presented and rejected for various reasons over the years. Of paramount importance was finding a way to keep all provinces in the plan. It was also one of the Study Team's objectives.

Finally, three general recommendations of the Study Team—and a number of specific elements aimed at addressing British Columbia and Nova Scotia concerns—were agreed to at the May 1989 CMSMC meeting. Nova Scotia, like British Columbia, had a high number of fluid producers and complained about a lack of industrial quota.

1. There was a need to provide milk for new products and innovative market development opportunities.
2. There was a need to supply milk for unassisted export market opportunities.
3. A committee should be established to look at potential mechanisms for the inter-provincial transfer of quota.

Other elements of the Study Team's recommendations included:

- **90:10 allocation:** The CMSMC agreed that beginning August 1, 1989, increases in provincial shares of MSQ resulting from an increase in domestic requirements would be allocated with 90 percent based on existing shares and 10 percent in proportion to provincial populations. As a result, some MSQ was redistributed to British Columbia and Nova Scotia in 1988–89, and a corresponding redistribution for the other provinces was made the next year.

There were numerous arguments for and against changing the allocation rules to 90:10 and some clarification was later required. Quebec, for example, wanted it made clear that quota issued on the 90:10 basis would also be *withdrawn* on that basis.<sup>14</sup>

- **One-time MSQ increase:** British Columbia and Nova Scotia received a one-time increase of 5 percent of their MSQ, because their milk production was so heavily weighted towards the fluid market compared to other provinces. This reflected the fact that these provinces had been apportioned a lower level of industrial milk quota than was needed to meet their fluid milk market demands.
- **British Columbia MSQ increase:** On August 1, 1989, British Columbia's MSQ would be further increased by 43,000 kg per year for the five-year period ending July 31, 1994. The total entitlement, which brought British Columbia's MSQ share to 6.6 million kg, would represent the maximum possible unless British Columbia's underlying 65:35 calculation resulted in a higher amount. As well, if there was a national MSQ cut, British Columbia's share could be reduced again, unless the 65:35 formula kicked in.<sup>15</sup> These increases recognized the MSQ that British Columbia would be entitled to if it wasn't losing so much fluid milk sales to the United States because of cross-border shopping.

- **Opt-out clause:** All signatories to the national plan agreed that they would not use the opt-out clause in the plan during the next five years.<sup>16</sup>

The five-year moratorium on using the opt-out clause was a sticking point that worried the other provinces. "Some [CMSMC] members, concerned about long-term stability, noted British Columbia's positive attitude and expression of intent to participate in the Plan on an ongoing basis. However, the threat of opting out could cause significant instability in the industry," read CMSMC's August 1989 minutes.<sup>17</sup> Still, all provinces finally agreed.

- **Skim-off fluid levy:** The basis for collecting the fluid levy was changed to a province's contribution to the national skim-off, calculated at a fixed rate of \$1.25 per hectolitre of *net skim-off* (as opposed to a basis of each province's Class 1 sales, calculated at \$0.30 per hectolitre).

It was a hard-won package. Producers were living in a climate of unknowns. The Dairy Task Force was about to start its work, the Canada-United States Trade Agreement resulted in more competition from made-in-America further processed products, and the Uruguay Round of GATT negotiations was clearly heading to a freer trading environment for agriculture products, including dairy.

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*We argued, on a constant basis, that a system where provincial market share percentages are fixed in perpetuity, based on historical patterns, was inequitable. We said that we have to bring in some sort of mechanism that would recognize other factors. British Columbia was a growing province. There was support for this argument from other provinces.*

—Peter Knight, 2004, former administrator, British Columbia Milk Marketing Board

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*It must be remembered that it is the very success of Canada's national supply management system in making the production of milk for industrial uses worthwhile and attractive to producers that creates the demand in the system for the opportunity to increase production. Without the national dairy policy this demand would not exist. Against this it is also critically important to recognize that supply management means there are limits to what can be produced if the system is not to be undermined. The rewards must be matched by the exercise of the necessary disciplines.*

—Report of the Study Team to the CMSMC, July 27, 1988. no. 10, p. 5

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The Study Team's report was accepted by all provinces in May 1989, but as late as August, there was still some resistance. British Columbia said it was prepared to participate in the plan on an ongoing basis while some issues—including an agreement to develop a mechanism for inter-provincial transfer of quota—were resolved, but the majority of British Columbia producers thought the MSQ increase was still too small.<sup>18</sup>

Claude Rivard of Quebec noted the major evolution of the Study Team's proposal, but said that processors in Quebec faced the same pressures of milk supply as those in British Columbia and other provinces. "From the perspective of Quebec producers and government officials, the consensus reached in May could not be altered, including the five-year commitment [to not opt out of the National Plan] for all provinces," he told the CMSMC. Bill Sherwood of New Brunswick pointed out that committing to *not* using the opt-out clause for five years did not mean there wouldn't be continued discussion on issues that still needed to be resolved, including the need to negotiate for additional quota. And Louis Balcaen of Manitoba said that the upcoming work of the newly appointed Task Force on National Dairy Policy—which would look at all policies and issues facing the industry—would go more smoothly if all provinces operated "in a climate of unity and solidarity by committing to stay in the National Plan for five years."<sup>19</sup>

### THE 1989 SKIM-OFF FLUID LEVY

Changing how the fluid levy—also called the skim-off levy—was calculated was a huge issue. The fluid levy, first established in 1977, was initially based on the amount of producers' Class 1 fluid milk and cream sales. That move acknowledged the fact that the national MSQ was reduced because butterfat from fluid milk flowed into industrial milk products. It was only reasonable, then, that fluid producers should contribute to the costs associated with the disposing of surplus milk products from the industrial milk market.

Although not a popular move in 1977, the skim-off levy was initially set at \$0.57 per standard hectolitre of Class 1 sales. In 1978, it was reduced to \$0.45 and lowered again in 1980 to \$0.30,

where it stood in 1989. The skim-off levy was handled by each province according to its own regulations and Class 1 fluid sales.

In 1989, the basis for calculating the skim-off levy was changed to make it more equitable. Instead of being based on *sales* of Class 1 milk, it became based on the actual *volume of skim-off*—at \$1.25 per hectolitre—that each province produced. In other words, if a province produced a lot of cream or 3.25% milk, that province would have less skim-off displacing industrial milk than, say, provinces that produced more 1% milk, 2% milk or skim milk. It was still left up to the provinces to decide how to collect and remit the skim-off levy.

Not surprisingly, the fluid levy was welcomed by provinces that had a relatively low proportion of their milk production used in the fluid milk market, like Quebec. But provinces with a high proportion of fluid milk sales, like British Columbia and Nova Scotia, and individual producers with relatively greater fluid quota, were opposed.

But everyone made compromises for the sake of accepting the CMSMC Study Team's proposal—particularly to keep everyone in the national plan—and this included the new 90:10 provision (allocation based on population) as well as additional MSQ for British Columbia and Nova Scotia—which Quebec was not happy with, for example.

The skim-off had stayed fairly constant up to the mid-1980s, when it started to increase rapidly. Although the 1989 change helped make the skim-off more equitable among provinces, it would continue to increase and erode provinces' MSQ shares. The issue would come up again in the 1990s, and result in one last skim-off agreement and another amendment to the National Milk Marketing Plan.

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**Definition of skim-off:** The quantity of butterfat recovered when whole raw milk is standardized and processed into various fluid milk products, like homogenized and 2% milk. Some of the recovered butterfat is used in fluid cream products and the rest (net amount recovered) is used to make industrial dairy products. The net amount recovered is what is commonly referred to in the industry as skim-off.

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Scotsburn's milk processing plant in Sydney, Nova Scotia. Source: Scotsburn

## MORE LEVIES

Under the National Milk Marketing Plan, producers were responsible for paying the cost of disposing of skim milk powder that was surplus to domestic needs, as well as paying for some of the CDC's marketing operations and programs.

Calculating levies was a complex job and involved considerable forecast work by the CDC. The CDC would have to take industrial milk production figures, look at estimated sales and purchases of SMP and butterfat, forecast the world price for these commodities, which fluctuated constantly, and set a levy. "We'd look at world prices, estimate what our costs would be to finance our surpluses and set an in-quota levy spread over total MSQ," says CDC Chief Economist Erik Kramar. Then there were over-quota levies to be calculated, and levies for planned exports. "And if world prices were good, sometimes the over-quota levy would not deter producers from over-production, so some other process would have to be developed," he says.

In 1985, the CMSMC decided that the levy system needed a three-tiered approach:

- An *in-quota levy* for the cost of disposing of surplus skim milk powder (and certain other marketing activities) was set at \$5.14 per hectolitre.
- An *export quota levy* to finance planned exports of whole milk products was set at \$29.73 per hectolitre on export quota production only.
- An *over-quota levy* to cover the disposal of any milk above an individual producer's MSQ, if the milk was not needed for domestic use, was set at \$38 per hectolitre on over-quota production only.<sup>20</sup>

Two years later, because of high world prices for skim milk powder and improved market practices, the initial levies set for the year were reduced. When this happened, producers would either receive a year-end refund or decide to keep the money in the levy fund to apply to the following year's export marketing operations.

"We would have a lot of discussions about our estimates and a bit of dickering here and there, but not a lot," remembers Kramar.

No one likes to be levied, naturally, but everyone understood that this was the way to run the business.

Although the CMSMC would determine the levies, how they were collected was left up to the provinces.

In the 1990s, producer levies would be considered an export subsidy under new trade rules and have to be phased out.

## THE SECRETARIAT

With a new National Milk Marketing Plan in the works, the CMSMC Secretariat also needed new terms of reference. Yet another sub-committee was struck and in 1982 the Secretariat's responsibilities and composition were redefined.

The Secretariat, it was decided, would be a technical advisory committee reporting directly to the CMSMC. Its members were chosen for their "competence in statistical, market and other analysis." It would elect its own chairman annually, and the CDC provided staff resources. Secretariat membership was made up as follows:

- one member each from the Maritimes, Ontario and Quebec (for Quebec, up to two members if required during the merger of their fluid and industrial producer organizations)
- two members from the four western provinces combined
- one member to be named by the CDC
- one member each from Dairy Farmers of Canada, the Dairy Bureau of Canada and the National Dairy Council

The Secretariat's work was complex and wide-ranging. It included making detailed calculations on such things as the cost of production, various CDC levies and stock reconciliation; preparing statistical analyses for MSQ calculation; forecasting milk supplies; and anything else the CMSMC might want.

The Secretariat's terms of reference were reviewed in 1987, apparently at the behest of CDC Vice-Chairman Ken McKinnon. This time, the Secretariat's membership was opened up. Any province could participate in Secretariat meetings, as long as they kept in mind that, first, the Secretariat was a technical committee, and second, it was project-oriented and confined to compiling data and providing technical analysis. The CDC, Dairy

Farmers of Canada and the National Dairy Council could participate in all meetings, as could a representative from Agriculture Canada and the Dairy Bureau of Canada.

Also different this time were nomination and tenure and naming of the Secretariat's chairman. Although the Secretariat originally could elect a chairman annually if it had wanted to, it had kept CDC Chief Economist Erik Kramar in place since 1980, when previous chairman Raymond Cloutier left to work for the Quebec provincial agriculture ministry. The 1987 Terms of Reference said the Secretariat would choose a chairman from among its members for each proposed project. But it was later agreed that might prove too cumbersome and inefficient.

Instead, the CMSMC decided that the CDC's Chief Economist would be the Secretariat's permanent chairman. He was the one who would be responsible for the ongoing gathering, co-ordination and analysis of all technical data. The CMSMC could, when it wanted, ask that a chairman be appointed for a specific project.<sup>21</sup>

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*During the 1980s, the Secretariat had lots of frank discussion and exchange on a lot of issues. We certainly spent much time on BC issues, the national plan, and how to deal with levies. There were a lot of heated debates around the planned exports and MSQ cutbacks.*

*Remember that the Secretariat is a 'technical' committee. The committee's mandate is to provide analysis in support of the management and policy decisions of the CMSMC. But it's an ongoing struggle to keep the technical facts separate from the politics because the reality is that things do become technically political whenever provincial politics favour one option over another. And not dealing with the realities of provincial politics and positions can restrain the effectiveness of the committee. It's simply impossible to compartmentalize everything. But I think the Secretariat as a whole did a good job of keeping the political reality separate from the technical. And I think that's continued into the 1990s.*

—Phil Cairns, 2004, Senior Policy Advisor,  
Dairy Farmers of Ontario, Secretariat member since 1980

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## LONG-TERM DAIRY POLICY

The federal government's commitment to—and financial support of—Canada's industrial milk industry had been substantial during the 1960s and 1970s. Agriculture Minister Eugene Whelan was a staunch supporter of the dairy industry and of supply management in general. He helped usher in national egg, turkey and chicken marketing agencies during his tenure. The financial stakes for the dairy industry were high. Throughout the 1970s, the government had invested, by way of federal subsidies, carrying charges and export write-offs, over \$2 billion dollars.<sup>22</sup>

This support ensured producers received a fair price for their product and helped keep the price of dairy products lower for consumers than they otherwise would have been. The Commission's offer-to-purchase and subsidy programs allowed Canada's industrial dairy producers to make a stable and decent income, and producers and processors to make long-term plans and substantial financial investments in their operations.

By the early 1980s, though, the industry was getting itchy for the completion of a promised long-term dairy policy review. When he announced the Returns Adjustment Formula in 1975, Agriculture Minister Eugene Whelan had promised that the government's policy would be in place for five years. "This is about the right length of time to provide producers with sufficient assurances for their investment decisions," Whelan had said.<sup>23</sup> But circumstances kept pushing the review back. In January 1981, he told DFC's annual meeting that he was honouring that commitment, and extensive consultations would be held. But by the end of 1981, the government said it wanted to research the costs of milk production before it made any new long-term dairy policy commitment.<sup>24</sup>

Then in July 1982, Whelan said the dairy review would be put on hold until the impact of the government's wage and price restraint program could be seen.<sup>25</sup> Finally in 1984, there was a change of government and a new Agriculture Minister, John Wise, took over, setting the policy back yet again.<sup>26,27</sup>



Erik Kramar, CDC's Chief Economist and Chairman of the CMSMC Secretariat from 1980 to 2006.  
Source: Andrews-Newton Photographers Ltd., Ottawa



John Wise, Minister of Agriculture (1979–1980 and 1984–1988) called on Benoit Lavigne and Everett Biggs to consult the industry concerning the establishment of a new long term dairy policy.  
Source: Agriculture and Agri-Food Canada



CDC Commissioners from left to right:  
Commissioner Cliff McIsaac,  
Chairman Roch Morin and  
Vice-Chairman Ken McKinnon.  
Source: Andrews-Newton  
Photographers Ltd., Ottawa



### Biggs and Lavigne

On July 10, 1985, Agriculture Minister John Wise announced that Benoît Lavigne and Everett Biggs, two independent and experienced dairy industry consultants, would talk to industry and consumers and design a new long-term dairy policy. Biggs had been Deputy Minister of Agriculture when the *Ontario Milk Act* was passed in 1965. Lavigne was an economist and former Quebec deputy minister of agriculture who had signed the 1970 Interim Comprehensive Milk Marketing Plan.

Biggs and Lavigne delivered their report a mere three and a half months later. While they noted that not everyone agreed on where the industry was or the direction it should take, they said there was “sufficient unanimity and sense of direction” to allow them to make recommendations.

The review report concluded that the current policy structure should stay as it was and that the following components in particular should “not be disturbed”:<sup>28</sup>

- the CDC as the body responsible for administering the national dairy policy;
- the direct federal subsidy of \$6.03 per hectolitre;
- the offer-to-purchase program (butter and skim milk powder support prices); and
- import controls.

Certain modifications were in order, though. These included the following recommendations:

- eliminating federal funding of the Special Export Program;
- eliminating federal funding of costs associated with buying, storing and marketing butter for the domestic market;
- replacing the 1975 Returns Adjustment Formula with a new pricing mechanism that should, at the very least, use available, freshly sampled data on cash costs;
- reviewing the CDC’s export marketing practices (to ensure the private export sector of the dairy industry had a fair chance to participate in the dairy export trade);
- extending Canada’s import controls to include dry blends;
- pressing for an increase in Canada’s cheese exports in the next multi-national round of GATT trade negotiations.<sup>29</sup>

The industry was pleased and, truth be told, somewhat surprised. The *modus operandi* of the Conservative government was restraint. It was running a deficit and had a bent towards deregulation and free trade. “The Biggs-Lavigne report basically maintained the status quo,” remembers Chuck Birchard. “It only chipped around the edges.”

Meanwhile, Erik Nielsen, Deputy Prime Minister at the time, had headed the 1985 Task Force on Program Review. Nielsen was not known as a staunch supporter of government involvement



in the dairy industry. He essentially called for the dismantling of the CDC and all federal funding, and suggested that dairy supply management be put under the supervision of the National Farm Products Marketing Council.<sup>30</sup> But Cabinet approval of the Biggs-Lavigne report went through before any of the Nielsen task force recommendations were seriously considered.

### Plan A and Plan B program changes

Although the Biggs-Lavigne report was accepted, the industry lost government support for the carrying charges the CDC incurred when buying or selling butter for domestic use<sup>31</sup> (see Chapter 2, “Pitching Pricing,” p. 50). There was a lot of talk about where to get the money to make up for the loss of government funding. And it wouldn’t be the last time in this decade that the federal government reduced its financial support to the dairy industry. In the end, the CMSMC decided to use the export levy account to pay the charges from April 1 to July 31, 1986, provided the CDC reduced its butter inventory, searched for ways to save money under both Plan A and Plan B, and developed a long-term solution.<sup>32</sup> After extensive consultation and discussion, the CMSMC agreed that the carrying charges would have to be recovered from the marketplace.<sup>33</sup>

### COP pricing method replaces Returns Adjustment Formula

Agriculture Minister Eugene Whelan had noted that the formula to establish the cost of producing milk needed review back in 1981, after talking to industry stakeholders. Price Waterhouse Associates was hired to develop a COP estimate using existing data from Ontario and Quebec, and tabled its report in 1982. But it wasn’t until after the Biggs and Lavigne report came out in 1985 that more serious efforts got under way. Producers had felt for some time that the Returns Adjustment Formula wasn’t as up to date as it could be. It simply wasn’t reflecting the changes in the costs to farmers in a timely enough way. What was needed was actual cost of production, not indexed changes of production costs as applied to a base price set in 1975. Meanwhile, according to Biggs and Lavigne, consumers were equally frustrated, but in the opposite direction: “Consumers think there appears to be an overestimation [of producer costs].”<sup>34</sup>

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*I wasn’t completely happy with our report. I thought we should have analyzed the Returns Adjustment Formula more thoroughly and dealt with a pricing mechanism, the cost of production issue, in more depth. As a former chairman of the Régie des marchés agricoles du Québec, I knew firsthand the problems and difficulties of what was involved in setting prices. We were hounded every year when we set the price for fluid milk. So I wanted to go further with that issue, but Biggs didn’t want to. I didn’t want a COP to dictate Canadian dairy policy. In any event, we had to make the report politically acceptable, which wasn’t easy.*

—Benoît Lavigne, 2005, co-author of the *Report of the Review Committee on a Long-Term Dairy Policy for Canada*

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*We were just blessed with the fact that John Wise was named Agriculture Minister. The hierarchy of the civil service had no love for the dairy industry in the mid-1980s. John was a dairy farmer and a Jersey breeder. He knew and understood the dairy industry and its issues. No one on his staff could give him advice on dairy issues that would blindside us.*

—Bill Sherwood, 2004, former Chairman of the New Brunswick Milk Marketing Board and DFC president in 1981 and 1982

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*Wise was very transactional. He was a pragmatic, careful, low-key minister. He came from Elgin County, Ontario, and had a lot of dairy producer constituents. He was a believer in the dairy program.*

*In 1985, he decided to have a review of long-term dairy policy, which was overdue and the department was put to work on it. They came up with all kinds of proposed cuts to the program and Wise refused them. He was at loggerheads with the department. He wanted to keep the program as it was, and the department wanted to make cuts. So he hired Biggs and Lavigne, two retired dairy industry professionals, and then accepted their report.*

*By late 1985, Wise was gearing up to go to Cabinet with his dairy proposal, which was asking for something like \$289 million per year in dairy subsidy and other federal payments, when he had a stroke of luck. Ultramar had just closed an oil refinery in East Montreal. Cabinet thought it would be better not to make any changes that had consequences for Quebec, which would have been hardest hit by any changes to the dairy policy, so they approved his program. The program brought in some minor cuts, but it really ran against the fiscal restraint policy of the day. So pragmatic John Wise gave up some money, but not the subsidy rate or its application to domestic requirements. Everyone was surprised.*

—Richard Tudor Price, 2004, former CDC Director of International Market Operations

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Don Mazankowski,  
Minister of Agriculture (1988–1991),  
announced the target price  
setting mechanism based  
on costs of production.  
Source: Agriculture and Agri-Food Canada

The pricing mechanisms for setting the support prices of butter and skim milk powder were also under fire, and new mechanisms were called for. Biggs and Lavigne recommended that the CDC hold open debates with all dairy industry stakeholders, which it did. Dairy Farmers of Canada, the National Dairy Council and the Consumers' Association of Canada, to name a few, all got into the act. There were some touchy issues: how to define an efficient producer was one. Whether or not to include equity or debt-financed quota purchases in a COP formula was another. How to develop a mechanism that would be sensitive to market conditions was still another.

The months passed. Formulas flew back and forth, numbers were analyzed and heated discussions took place. On January 1, 1988, with Don Mazankowski now at the helm as Agriculture Minister, a new pricing mechanism for industrial milk was finally announced. The total estimated cost for producing one hectolitre of milk was set at \$47.06, which became the target price. Provincial boards then used that target price as a reference

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*Initial reaction to the new COP was generally positive. All stakeholders had been involved in the process. The sample survey was statistically sound. Provinces eventually all had experienced, competent field men in place to collect the data—and field men who developed close working relationships with their producers. They had excellent expertise.*

—Erik Kramar, 2005, CDC Chief Economist and  
Chairman of the CMSMC Secretariat from 1980 to 2006

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*What flashes through my mind about the COP was that we producers felt that casting off the 30 percent of the highest cost producers from the sample, and then taking the average of the remaining producers, was going too far. Here we were casting 30 percent of producers aside to get an average of the most efficient farmers. But what about the little guys who were struggling and whose cost of production was higher than the bigger guys? That was hard. But we had no choice. We, the dairy industry, had to show ourselves in the right light or we weren't going to have the support of a long-term dairy policy. I do think the new COP helped push the industry to more efficiencies. It did drive producers to take advantage of technological changes so they could improve their efficiency more quickly.*

—Bill Sherwood, 2004, former Chairman of the New Brunswick  
Milk Marketing Board and DFC President in 1981 and 1982

to establish the price paid to producers for their milk. Actual market returns varied from province to province depending on provincial pricing and end use of milk.<sup>35</sup>

Subject to Cabinet approval, the following were the highlights of the announcement:

- The target price was now set on August 1, the beginning of each dairy year, based on actual dairy farm costs surveyed in the previous year.
- A review and update of the COP calculation was performed midway through the year. In February, if a change in the target price calculation was 2 percent or more in relation to the prevailing target price, the target price was adjusted accordingly.
- Initially, the new COP formula was calculated on data collected from roughly 300 farms in Ontario and Quebec. Manitoba was later included, followed by New Brunswick. The survey size was then increased to a random sample of 350 farms and would eventually include data from all provinces.
- To calculate the COP, 30 percent of the sample, representing producers with the highest costs in each province, was eliminated. Data from the remaining 70 percent were used.
- Taken into consideration were:
  - cash costs—representing the day-to-day cost to operate the farm;
  - capital costs—associated with financing farm assets and working capital;
  - producer and family labour—as represented by hourly industrial wage rates and including a management fee.

By 1989, though, some producers were concerned that survey results from the previous calendar year did not reflect current production costs. By that time, Agriculture Minister Don Mazankowski had already launched his Growing Together program and appointed a Task Force on National Dairy Policy, which he directed to look at alternative price-setting mechanisms at arm's length from the government. At that time, Mazankowski had already delegated the price-setting authority to the CDC on a year-by-year basis. The Task Force, chaired by Ken McKinnon, would see major changes to the dairy program. It would report back in 1991.

## THE CONSULTATIVE COMMITTEE

In 1980, the Minister of Agriculture appointed all new members to the CDC's Consultative Committee. The committee had suffered an identity crisis in the 1970s. While the *CDC Act* specifically called for the creation of a Consultative Committee, its mandate could be interpreted as being fairly open-ended. The committee's function was to advise the CDC on whatever dairy production or marketing issue, concerning dairy products, the CDC referred to it.<sup>36</sup> When the CMSMC arrived on the scene in the early 1970s, it took over many of the issues that the original CDC Consultative Committee, appointed in 1966, had been handling. The CMSMC was handling the levies, financing, export and supply issues, leaving the committee a little bewildered as to its role.

In 1980, Claude Chevalier, Director of the Dairy Bureau of Canada, dairy producers' marketing and promotion arm, was appointed Chairman and the committee became more market-oriented. It turned to issues like product quality, research, nutritional labelling, and promotion and advertising.<sup>37</sup> The committee looked at the food service industry to see where it could increase its use of dairy products. And it busied itself with other issues like the lack of import controls on imitation dairy products.<sup>38</sup> There was lots of work to be done, and the Consultative Committee found its niche.

Although the membership changed over the decade, it always included a producer and a processor from Ontario and Quebec, and one representative of consumer advocates from either the retail or the wholesale sector.

The committee met several times each year until 1987, when it met only once before the terms of all members expired. In July 1988 a new committee was appointed. This time, Neil Gray, former general manager of Dairyland Foods of British Columbia, was at the helm as Chairman. According to the 1988–1989 *CDC Annual Report*, the committee had several focuses:

- risks and opportunities within the dairy industry;
- research in Canada and the United States on butterfat production and consumption; and
- advertising and collaboration between the government and the private sector in dairy research.

In the 1990s, the Consultative Committee's role would expand into developing a new cost of production model, following the recommendation of the Task Force on National Dairy Policy.

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*It's interesting to note how much more diverse the membership became in the 1980s. Having input from all sectors, particularly from a consumer advocate and the retail/wholesale sector, was well received by the Commission. In fact, I think it was beneficial for all concerned. The give and take worked both ways and was a good learning experience for everyone.*

—Neil Gray, 2004, former Consultative Committee Chairman and General Manager of Dairyland Foods of British Columbia

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## EVOLUTION OF GOVERNMENT SUPPORT FOR THE FEDERAL DAIRY POLICY

The direct federal subsidy payment to producers remained unchanged from 1975. It was still set, by the end of the 1980s, at \$1.675 per kilogram of butterfat (\$6.03 per hectolitre of milk having a butterfat content of 3.6 kilograms per hectolitre). The setting of the target price and support prices for butter and skim milk powder, however, had changed significantly by the late 1980s. The Minister of Agriculture used to announce the target price and support prices (based on the 1975 Returns Adjustment Formula ) on April 1—the beginning of the former dairy year, which coincided with the government's fiscal year. By 1984, the announcements were made on August 1, the beginning of the new dairy year. The dairy year had been changed to allow producers to more effectively manage their quotas in relation to the seasonal pattern of milk production (high yields in the spring, low in the fall). When the new COP came into use, the target price was based on real farm costs.

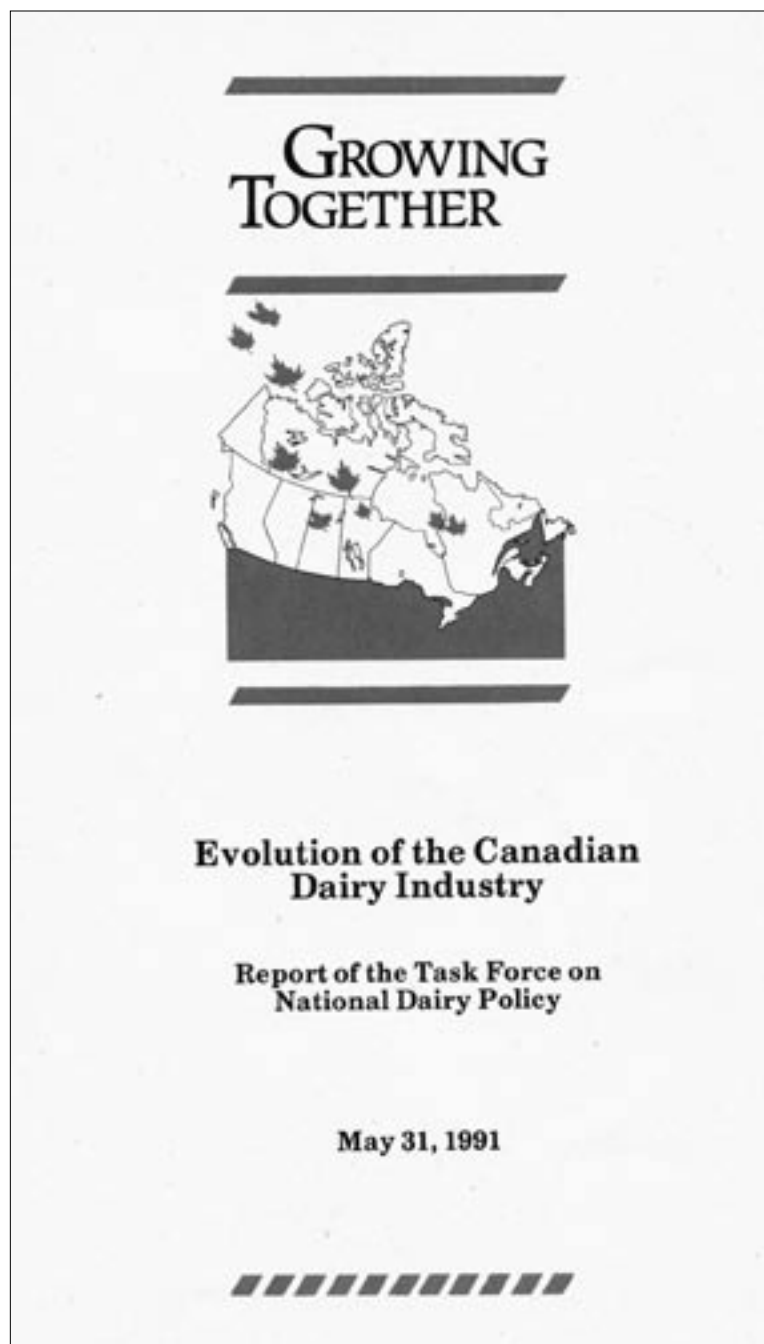
Meanwhile, the federal government gradually stopped funding some other dairy programs. For a number of years it had covered the carrying charges involved with financing the buying, handling and storage of butter and skim milk powder for domestic consumption. In 1982, producers started paying the carrying charges for anything that was surplus to domestic needs and stopped receiving any subsidies on export production.<sup>39</sup> In 1986,



Neil Gray, former Consultative Committee chairman (1988) and general manager of Dairyland Foods of British Columbia.  
Source: Historical Society of BC Archives



Ken McKinnon, Vice-Chairman of the CDC (1986–1991) and Chairman of the Task Force on National Dairy Policy. Source: Canadian Dairy Commission



Final report of the Task Force on National Dairy Policy, May 31, 1991. Source: Canadian Dairy Commission

the government stopped paying all carrying charges for butter, part of which producers absorbed and part of which was passed on to consumers by an increase in milk prices.<sup>40</sup>

In 1989, more cuts were announced. The feds stopped paying a direct subsidy on the 1.1 million hectolitres of within-quota milk produced for export. It stopped paying the carrying charges on skim milk powder, and it stopped paying CDC administration costs associated with exporting dairy products.<sup>41</sup>

Reductions in federal funding resulted not so much from lack of political support as from pressure of changing international trade laws, the ballooning federal budgetary deficit, and the government's overall shift in focus to self-sufficiency and market responsiveness.

Biggs and Lavigne had made some small waves in altering the federal dairy policy with their 1985 policy recommendations. In the previous 10 years, Canada's dairy policy had seen few changes. But the real change would start at the end of the 1980s when Agriculture Minister Don Mazankowski would launch *Growing Together—A Vision for Canada's Agri-food Industry*. It was billed as the "most comprehensive agricultural review ever undertaken in Canada."<sup>42</sup> That initiative would later introduce the concept of the "Second Generation of Supply Management" and result in the Task Force on National Dairy Policy—also known at the "McKinnon Task Force" after CDC's Vice-Chairman Ken McKinnon, who headed it.<sup>43</sup> The Task Force would review the 1985 long-term dairy policy which was set to expire in 1990.

#### Success of Canada's dairy policy

*There will always be advantages and disadvantages to a supply management policy, economic and financial costs to be borne along with positive and negative effects. It is up to the individual to weigh the pros and cons. Nevertheless, Canada's dairy policy stands as an international model which an increasing number of milk producing countries are trying to emulate, an indication that it has achieved some measure of success.*<sup>44</sup>

—Jean-Denis Fréchette and Sally Rutherford,  
"National Dairy Policy" Backgrounder, 1986



## INTERNATIONAL TRADE

### THE EXPORT MARKET

The world market for dairy exports was volatile during the 1980s. Keeping up with the peaks and valleys was as tricky for Canada as for any other country. During the first half of the decade a downturn in the world's economy affected the export market. The recession was felt everywhere. "General economic conditions suffered an unexpected and rapid downturn beginning with OPEC [Organization of the Petroleum Exporting Countries] members and spreading quickly throughout the world, especially to major [dairy] importing countries such as Nigeria and Mexico, to name only two," reads the CDC's 1981–1982 Annual Report. "The impact of this development caused near chaos in many nations, sending some to the edge of bankruptcy."<sup>45</sup>

By the mid-1980s, oil prices had recovered and economic activities started to pick up again. The Special Export Program, which began in the late 1970s, was growing. By the 1984–85 dairy year, for example, the CDC exported a record high quantity of evaporated milk: 7.1 million cases were sold to Nigeria, Algeria and Libya. "With [this sale] Canada's share of the world [evaporated milk] market reached 20 percent in 1984–1985 compared to about 15 percent in previous years," reads the annual report for that year.<sup>46</sup>

The highs and lows of the export market fluctuated over the decade in response to world and individual country issues. Oil-rich countries and key CDC buyers such as Libya, Algeria, Nigeria and Mexico overproduced oil in the early 1980s, causing crude oil prices to plummet, and this left them less money

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#### American competition

*During the last few years, marketing measures taken by the United States to undersell, barter or even give away their surplus dairy products have contributed to drive prices downward. The country most seriously affected by the American policy is Canada.*

—CDC, Forecast of Marketing Operations for the 1983–1984 Dairy Year, May 18, 1983

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for importing goods, especially the more expensive evaporated milk. Sales to Algeria essentially disappeared overnight after that country decided to switch to instant whole milk powder—a much cheaper product due to the large number of competitors in this market. Canada faced increasing competition on the world front, partly because other countries, such as European nations and the United States, also had to unload their surplus dairy products. New Zealanders, who produced 95 percent of their dairy products for the export market, were particularly aggressive in marketing their dairy commodities to the same countries as Canada.

The world market was always difficult to predict. In 1986–87, world prices for dairy products were good, partly because of Chernobyl contamination, a drought in New Zealand and the United States dairy herd buy-out program.<sup>47</sup> But a few years later, they dropped because there was too much product available.

Meanwhile, what started out as a surplus skim milk powder and butter disposal program in the 1960s and early 1970s—and developed into an export diversification program during the late 1970s and early 1980s—needed a new direction by the mid- to late 1980s. The evaporated milk market dried up, domestic demand—indeed world demand—for butterfat decreased, and skim milk powder and butter stocks were on the rise. No one wanted to cut MSQ, although it was reduced somewhat in 1982, 1983 and 1985.<sup>48</sup>

The CDC turned to increased exports of cheese as one solution to the declining demand for evaporated milk on the world market. In 1980, Canada negotiated improved access to the European Economic Community (EEC) for aged cheese—to 2.7 million

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#### Cheese exports to Japan

*Canada has attempted to diversify its exports of whole milk products by placing greater emphasis on cheese as other whole milk product markets have become more difficult. These exports are made partly under the export milk production quota and also to assist in moving surplus butterfat out of the country. Exports to Japan at about 2,500 tonnes for 1987, while significant to Canada's dairy export performance overall, are a small portion of Japan's requirements. EEC export subsidies for cheese moving to Japan have increased in the past year, making that market more price-competitive.*

—CDC, Corporate Plan 1987–1992, p. 13

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kilograms at a nominal tariff—a far cry from what was once exported to its traditional United Kingdom market. The market was so strong that it made economic sense to export cheese in excess of the allowable amount, even though it meant paying substantial tariffs. Between 1980 and 1989, cheese exports to the EEC, the United States and other countries more than tripled (increasing to 13.4 million kilograms from 3.8 million kilograms).<sup>49</sup>

Increasing domestic production for a growing specialty cheese market was becoming another solution. The CDC and the Dairy Bureau of Canada commissioned research into that untapped market as early as 1983. “The major issue affecting the current and future development of the specialty cheese market in Canada is the lack of a total marketing thrust including and integrating the combined forces of product promotion, advertising, and physical distribution,” read a *Study of Specialty Cheese Marketing and Distribution in Canada*, prepared by the Dairy Bureau of Canada and funded by the CDC Dairy Research Program.<sup>50</sup> Per capita consumption of specialty cheese almost doubled from 1977 to 1987—from 2.96 kilograms in 1977 to 5.46 kilograms in 1987.<sup>51</sup>

The long list of countries to which the CDC exported Canadian dairy products included at least 40 countries. Besides those mentioned previously, they included Peru, the Philippines, Jamaica, Nicaragua, Barbados, the Dominican Republic, Japan and some South East Asia countries.<sup>52</sup> The CDC handled over \$2.5 billion worth of exports in the 1980s, and commissioners’ meeting minutes are rife with export issues and details that attest to the challenge of dealing with an ever-changing world market. By the end of the decade, the export market for Canadian dairy products looked considerably different than it had at the start. Changing world trade rules would alter the landscape even more in the 1990s.

### Other export highlights

**Evaporated milk** exports hit a high in 1984–85, when 7.1 million cases were sold to Nigeria, Algeria and Libya.<sup>53</sup> Almost all of the evaporated milk for export was processed in Quebec, Ontario and Prince Edward Island. In 1980 and 1981, British Columbia was allotted a small share of the business. By the end of the decade, evaporated milk sales fell to a record low (just under 400,000 cases)<sup>54</sup> and continued to decline into the 1990s. The

reason? As mentioned previously, countries that had traditionally imported large quantities of evaporated milk were shifting more and more to instant whole milk powder, which was cheaper to import and filled the same needs. Some of them also began building their own recombining plants to produce evaporated milk from imported skim milk powder and fat or oil.

The market for **whole milk powder** was up and down during the 1980s. Exports jumped to 10.4 million kilograms in 1983–84, up from 2.3 million kilograms in 1976–77, for example.<sup>55</sup> But the market continued to decline over the rest of the decade. At one point, the CDC amended the long-term contract with the plant in St-Alexandre (owned by Coopérative agricole de la Côte du Sud) to close down the manufacturing line that had been producing two-kilogram tins of whole milk powder. The demand simply wasn’t there any more.<sup>56</sup>

**Skim milk powder** exports steadily declined throughout the decade. By the end of the 1980s, they had dropped to just under 60 million kg,<sup>57</sup> a far cry from the extremes of the 1970s, when they soared beyond 172 million kg.<sup>58</sup>

The CDC started to export more **butter** throughout the mid-to late 1980s. Butter exports increased from over 1 million kg in 1987–88 to 2.5 million kg the following year and almost 6 million kg by decade’s end. Although the Canadian market was mainly for salted butter, processors started to cater to world market tastes, making unsalted butter for export.

### A MAJOR PRESENCE ON THE ST. LAWRENCE RIVER

At the height of its export activities in the 1980s, the CDC was leasing much of the available dockside warehouse and shed space in the ports of Quebec, Charlottetown and Gros Cacouna (near Rivière-du-Loup). It had three general cargo ships under long-term charter. Dairy products being readied for shipment out of those three ports could reach as high as 21 million kilograms at any one time. Warehouse space required to store that volume would have filled the equivalent of two football fields!

On no fewer than three occasions, the three CDC-chartered ships were loading at the same time at the port of Quebec City, employing most of the available labour.

## IMPORT CONTROLS AND INTERNATIONAL TRADING RULES

Although import controls are one of the pillars of supply management, they were being challenged by the late 1980s. World trade rules were being bent—if not broken—left, right and centre and everyone was looking for more lucrative markets for their dairy products, surplus or otherwise. These products were often heavily subsidized themselves.

Two important trade developments in the 1980s were the Uruguay Round of GATT, which got under way in 1986, and the signing of the Canada-United States Trade Agreement

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**Mark Lalonde, CDC's Chief of Marketing Programs, started his career with the CDC in 1983 as Marine Officer. He spent much of the decade in those port facilities, overseeing the assembly, loading and safe delivery of milk powder, evaporated milk and other dairy products to Mexico, Libya, Algeria, Nigeria and Peru. It was an exciting and very challenging period for the CDC.**

*The CDC overcame most of the challenges that ice and frigid weather conditions can throw at a vessel navigating on the St. Lawrence River during December through March. Thank goodness we benefited from the ideas and support of stevedoring companies and ship owners such as Quebec Stevedoring, McQuaid Trucking and Warehousing, Logistec Navigation and the Spliethoff Group.*

*I remember one time we were loading canned evaporated milk on to one of our ships in Prince Edward Island. It was -45°C. That managed to freeze the hydraulic fluid in the ship's crane, but not the milk, which was stowed below the waterline. A Canadian Coast Guard ice breaker stood by, waiting to escort the vessel out through the packed ice that had formed in the short time the ship was in port.*

*We encountered the other extreme when discharging a ship full of refrigerated butter and cheese in Libya in 30°C weather conditions. Few people there could speak English and our Arabic was poor, to say the least. We had to innovate with the local equipment and the ship's gear. The CDC managed to safely discharge, and deliver to warehouses in Tripoli, some 3.5 million kg of refrigerated and frozen goods.*

*Co-ordinating shipments of dairy products throughout the year—shipments from many ports including Saint John, New Brunswick, and Montreal—proved daunting at times. Everyone in the marketing section was busy selecting specialized ships, negotiating complex maritime transport agreements, consolidating*



Butter in 25 kg boxes being loaded on a ship in the Port of Quebec.  
Source: Canadian Dairy Commission

*cargoes, and co-ordinating the tendering, inspection and lab analysis requirements for the products.*

*And then there were the mountains of paperwork that had to follow each shipment! You needed dock receipts, health certificates, sanitary certificates, lab analysis reports, cargo inspection certificates, bills of lading and a working letter of credit. A slight typing error on any one of those documents could translate into a delay in payment for the cargo by the confirming bank. Sometimes the ship was moving ever closer to the port of discharge while documentation problems were being ironed out with the many partners involved.*

*There were a lot of unknown factors that came into play when moving milk products by land and sea to offshore destinations, especially given the perishable nature and limited shelf life of the products we shipped. It kept us on our toes!*

*I remember vividly a labour dispute in the Port of Quebec in 1986. It was a real test for us, and for the longshoremen who had worked closely with us for several years at that point. We had a shipment of perishable evaporated milk in the shed and a delivery date to respect with a government buying agency in a North African country. We had to convince the union to allow the CDC's contracted truckers to drive across the picket lines and take away 75,000 cases of evaporated milk to another port facility to place on board a ship. Denis Dupuis at Quebec Stevedoring played a crucial role in helping us to broker a deal. The truckers and myself were able to load the milk into the trucks, under the watchful eye of the longshoremen. They let us take out what was needed to meet our obligations with the buyer, but not a case more!*

*The fact that we were able to get our precious cargo out, and without incident, really says something about the good working relationship that the CDC enjoyed with all these groups—relationships that only grew stronger as time went on.*

The *Al Rakeeb*, destination Algeria, the *Ikan Tamban*, destination Mexico and the *Adventure*, destination Nigeria in the Port of Quebec, June 1984. The three ships were being loaded with evaporated milk and skim milk powder from CDC storage sheds leased at the port.  
Source: Canadian Dairy Commission



(CUSTA)<sup>59</sup> in 1988. CUSTA called for a gradual phasing out of tariffs between the two countries over a 10-year period.

In anticipation of changing world trade rules, and to protect its supply-managed commodities, in 1986 Canada added dairy product blends—products that contained 50 percent or more milk powder—to the Import Control List. Ice cream and yogurt were added in 1988. Before 1986, only the pure forms of dried dairy products (whey, skim milk and whole milk powders) were subject to import controls and generally not allowed into the country. Enterprising importers, however, soon started getting around the rules by blending in small amounts (as low as 5 percent) of other products, mainly sugar, into some dairy products. Even the new 50 percent restriction didn't stop them. Soon products with 49 percent dairy content began to appear. Even at this lower concentration, imports were profitable because prices for dairy products on the world market were low.

After signing CUSTA, Canada added the following to its Import Control List:

- ice cream, ice cream novelties and ice cream mix
- ice milk and ice milk mix
- yogurt
- liquid forms of skim milk, buttermilk and blends of these products

“While the value of the imported products being added to the list is relatively small—currently less than \$1 million per year—future imports could undermine the Canadian dairy supply management program if not restricted. That's why the government is taking this action,” Agriculture Minister John Wise announced at the time.<sup>60</sup>

CUSTA allowed products to be added to the Import Control List if, and only if, they were consistent with GATT obligations. Under Article XI of the GATT, if a country controlled the



domestic supply of an agricultural product, it was allowed to limit the import of 'like' products.

The United States was not pleased with Canada's move, and in 1989 countered it by launching—and later winning—a GATT challenge against Canada's listing. Ice cream and yogurt were *not* 'like' products to milk, the United States argued. And their addition to Canada's Import Control List was inconsistent with Canada's GATT obligations, it said. A GATT panel agreed with the Americans a year later, in 1990. But while Canada claimed it accepted the panel's ruling, it said it would wait until the Uruguay Round of GATT negotiations was finished before taking any action. In the end, Canada was able to place protective tariffs on ice cream and yogurt under the World Trade Organization agreement.

Two objectives of the Uruguay Round negotiations in regard to agriculture were to improve market access by reducing import barriers and to reduce the use of subsidies.<sup>61</sup> Although scheduled to finish in 1990, negotiations stretched into 1993. During the round, Canada fought valiantly to strengthen Article XI, but in the end lost out to "tariffication."

The CDC monitored the progress of all trade negotiations, since their outcome would have a great effect on CDC activities and dairy industry policies. It also rolled up its sleeves and worked with federal trade officials on the Canadian submission to the GATT panel.<sup>62</sup>

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#### Article XI

GATT Article XI was actually set up to prevent countries from imposing restrictions on imports. But it had an "exception" clause, Article XI:2, which stipulated that such import restrictions did not apply to a variety of circumstances where it was necessary to protect domestic production. Article XI:2(c)(i) allowed import restrictions on any agricultural product where the domestic production of that product was limited by governments. In the Uruguay Round of GATT, these restrictions were tariffed or converted into tariffs.

**Tariffication:** The process of converting non-tariff trade barriers to tariffs in order to improve the transparency of existing barriers and facilitate their reduction.

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## DOMESTIC MARKETING

The 1980s saw an expansion of promotion, advertising and research roles for the CDC. There was a strong push to develop a more progressive and aggressive domestic market for all dairy products, including finding innovative uses of surplus skim and whole milk powders. Joint promotion and advertising ventures for butter, cheese and ice cream were common, particularly in partnership with Agriculture Canada and the Dairy Bureau of Canada—the producers' marketing and promotion division that merged back into Dairy Farmers of Canada in 1994<sup>63</sup>—as well as other industry groups. "The CDC financed numerous and substantial research and marketing programs throughout the decade," says present Chief of Marketing Programs Mark Lalonde.

There were several reasons for this push. Necessity was one. Consumer demand for dairy products remained flat or declined throughout the decade. Per capita butter consumption dropped 20 percent to 3.6 kilograms in 1989, from 4.45 kilograms just a decade earlier.<sup>64</sup> Worse, at 3.6 kilograms per capita, consumption was exactly half of what it had been in 1968.<sup>65</sup> The once hot export market for some products was cooling off. Canadian domestic requirements for butterfat were waning and no one wanted to see an MSQ cut. Better to find or create domestic markets for surplus products than sell at a loss on the world market.

The Animal Feed Assistance Program launched in the 1980s was one way to do this, and it was a very successful effort. Under the program, feed manufacturers could buy Grade A surplus skim milk powder when the market was short of second-grade (also referred to as feed grade) skim milk powder. The CDC did charge a premium of \$100 a tonne above the world price, but it was still being sold at competitive prices to feed manufacturers compared to domestic prices. During the 1984–85 dairy year, this program saved the federal government about \$1 million in carrying charges that it would otherwise have had to pay for buying, storing and marketing surplus product. Dairy producers also received more money than they would have on the world market.

The animal feed program grew almost 30 percent in 1986–87 over the previous year, consuming 15.6 million kilograms.



The Milk Bread Program promoted the use of skim milk powder in bread.  
Source: Canadian Dairy Commission



Dairy Bureau of Canada



an International Study, May 12-29, 1982

Funded by: The Canadian Dairy Commission  
Dairy Research Program

Results of the international butter study mission to Australia and New Zealand in 1982. The purpose of the mission was to study why some countries sustained strong per capita butter consumption. Source: Canadian Dairy Commission

Thanks to it, the milk-fed veal industry in Canada experienced a renaissance.<sup>66</sup> The CDC also launched a Milk Bread Program, which was designed to increase the use of skim milk powder in bread.

By the end of the decade, the CDC had started the Domestic Dairy Product Innovation Program (DDPIP), designed to stimulate the industry to develop new products. The program provided up to 1 percent of additional MSQ for this purpose. While the DDPIP was not expected to dramatically increase the overall demand for milk, it was designed to help. After two rounds of applications, the program had approved 18 varieties of cheese not yet produced in Canada, six products containing mostly cheese, and nine dairy foods to be manufactured on an industrial scale for ethnic markets.<sup>67</sup>

The CDC, in conjunction with DFC, held a number of nationwide butter sales in the 1980s. In 1985, for the second year in a row, the Minister of Agriculture announced the Commission would sell butter in bulk at “30 cents per kilogram below the current support price.”<sup>68</sup> Thirteen million kilograms, in 25 kg blocks, were offered to butter processors between February 15 and February 28. “It is expected that most of the price reduction will be passed directly to consumers by retail stores. And, as occurred last year, it is likely most retailers will use this butter in specials to attract consumers to their stores,” the press release announced.

All of these activities helped reduce producer export costs, and encouraged the industry to find new ways to serve the domestic market.<sup>69</sup>

#### Reducing costs to be competitive

While opportunities exist for successful market expansion using milk at full domestic prices, some production activities can only proceed in Canada if the milk ingredient costs are reduced to those of similar ingredients in competing imported products. Because of its unique position in the industry, the Commission has concentrated in this latter area of market development. It must be emphasized that the initiatives in this area of price reduction are financed by dairy producers and not by the government.

—CDC, *Annual Report 1986–1987*, p. 15



## CHANGES ON THE FARM, ON THE PLATE, AT THE PLANT

### ON THE FARM

Dairy producers, like all business people, continually worked to improve their operations. Where farmers used to improve their dairy herds by simply buying superior animals, by the 1980s selective breeding and artificial insemination (AI) were the norm. The science of embryo transfer had also advanced. Embryo transfers were superior for improving herds, but they also cost more than AI. Science and technology continued to improve. By the end of the decade, embryo transfer was moving from an in-clinic surgery to an on-farm procedure.<sup>70</sup>

The industry in general spent considerable time examining the implications of bovine somatotropin (bST), a controversial hormone introduced by Monsanto that could significantly increase the amount of milk a cow produced. Although approved for use in the United States and other countries, Canada never did approve the use of bST.<sup>71</sup>

Children eating cheese strings, one of the products developed through the Domestic Dairy Product Innovation Program.  
Source: Canadian Dairy Commission

*We did a lot in the 1980s to stimulate interest in developing new uses for our surplus powder in the domestic market. Our industry was more efficient; there was more research going on. We really wanted to stimulate Canadian product innovation and promotion.*

*The Animal Feed Assistance and Milk Bread programs were examples. It was looked upon as a new market, and producers were willing to sell powder cheaper than the domestic price for the domestic market, providing the product didn't compete against existing products. The theory of the day was that it was better to get these products started in the market at a lower price than to not have them at all, or to have the surplus production go out at the world price, which was so much lower.*

*I think the programs were quite successful. There was a lot of support for, and interest in, what we were doing.*

—Elwood Hodgins, 2004, former CDC Vice-Chairman

### Farms down, production changing

*The number of producers shipping industrial milk and cream is declining annually. ... Between 1975–1976 and 1985–1986, the total number of farms with commercial shipments of milk or cream declined from about 80,000 to 42,400, or 46 percent. ... In the same period fluid/industrial shippers increased by 5,379 or 28 percent.*

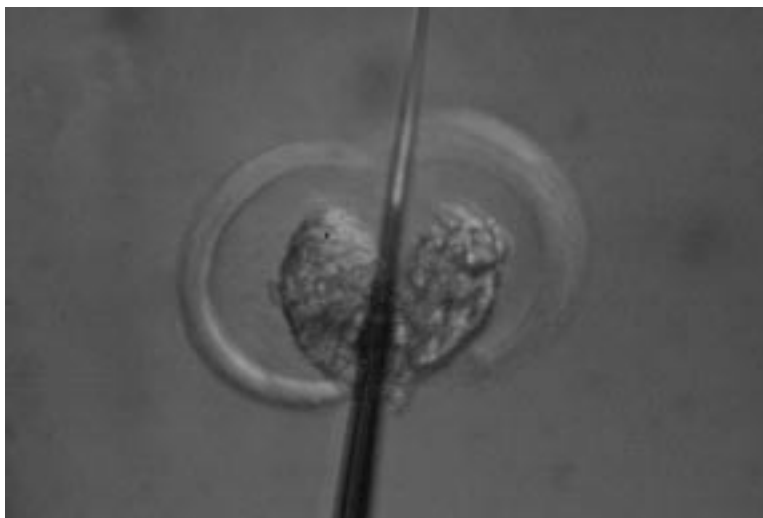
—CDC, *Corporate Plan 1987–1992*, p. 14

### Efficiency increases

*Rationalization within the industry, at producer and processor levels, continues to be significant. Producer numbers have declined substantially in the past decade. Cow herd sizes have increased, as has total milk production per cow as well as average butterfat yield. Fewer plants now process approximately the same volume of fluid and industrial milk as was produced 10 years ago.*

—CDC, *Corporate Plan 1986–1991*, p. i

Embryo splitting—significant technological progress was made in the 1980s to improve herds.  
Source: Canadian Dairy Commission



As the use of computers and other electronic systems became more widespread, so too did improved farm efficiencies. When to breed, when to cull, what to feed and in what proportions all got easier. Average milk production per cow increased almost 20 percent over the 1980s, and almost 40 percent since 1970—both substantial jumps.<sup>72</sup>

Various changes took place on the provincial front as well. The Quebec Milk Producers' Board administered the single Joint Plan for fluid producers (the Fédération des producteurs de lait du Québec) and industrial milk producers (the Fédération des producteurs de lait industriel du Québec) between 1980 and 1983. The two organizations then merged to become the Fédération des producteurs de lait du Québec (Quebec Milk Marketing Board).<sup>73</sup> "The reunion of all Quebec milk producers under a sole joint plan within a single unionist structure is truly a major achievement," Jacques Boucher, Chairman of the Fédération des producteurs de lait industriel, wrote in the industrial federation's last Annual Report—1979. Boucher was then elected chairman of the newly formed organization.

It was a hard-won merger, the beginnings of which took place in the mid-1970s when industrial milk shippers asked the Quebec Agricultural Marketing Board to abolish the provinces' four

milk joint plans (fluid, industrial, Delisle and Carnation). While the Union des producteurs agricoles supported the merger, the Quebec Fluid Milk Producers' Federation did not, being concerned, understandably, about losing some of its rights.<sup>74</sup>

"It took the efforts and diplomacy and sometimes hard, harsh words and actions by many individuals, both from the more syndicated UPA and the co-operatives, and also from a special conciliator, Marcel Trudeau, before a solution could be found," recalls Gilles Prigent, who was then Chairman of the Régie des marchés agricoles du Québec.

In 1983, the Newfoundland Milk Marketing Board was established, with Eric Williams as Chairman.<sup>75</sup> In 1988, it asked for entry into the National Plan.<sup>76</sup>

## ON THE PLATE

During the 1980s, the number of health-conscious consumers continued to increase. The perils of high-fat diets were front and centre in media reports, and consumers were increasingly looking for low-fat, reduced-fat or fat-free alternatives. Traditional full-fat dairy products like milk, butter and ice cream did not fit the bill, and consumption of these products dropped. This in turn pushed the industry to diversify and look for alternative dairy products to satisfy new consumer demands.

During the decade, per capita consumption of dairy products either declined or remained the same, except for specialty cheese, which increased 59 percent, and yogurt, which increased 102 percent.

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### Low-fat alternatives

*We recognize that there is a general trend in North America for low-fat products, but we believe that the largest trend we have seen so far pertains to substituting non-dairy fat for dairy fat.*

—Marketing Activity Recommended Report, *Dairy Bureau of Canada*, May 16, 1983, presented at the May 19, 1983 CMSMC meeting

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## AT THE PLANT

The processing industry continued to be characterized by concentration and rationalization throughout the decade. The number of industrial milk processing plants dropped by more than half between 1970 and 1983, for example.<sup>77</sup> The decrease corresponded to a sharp decline in the number of independently owned and operated businesses.

With milk production more in line with domestic needs, processors faced a new challenge. They no longer had an over-supply of milk. But they did have growing needs, especially for specialty cheese and yogurt, products that Canadians were eating in greater quantities than before.

“Consolidation was driven by the need to acquire more milk,” says Kempton Matte, former president and CEO of the National Dairy Council. “CMSMC managed supply well relative to agreed production quotas during the 1980s, and, depending on the province, the only way a processor could get more milk was to buy another plant.”

*While the CDC encouraged processors to be innovative and develop new products and markets, the National Dairy Council said the processing sector needed more milk to do so. There wasn't enough milk sloshing around in the system to warrant the investment in new product technology. For that, you needed to have milk that didn't have a home. So it became fairly clear to dairy industry leadership that if something wasn't done to spur innovation, the system would come under fire. They had to do something to show that the dairy industry was a modern innovative one. The CDC's Domestic Dairy Product Innovation Program helped address that need. On that issue, they listened to us.*

—Kempton Matte, 2004, former President and CEO of the National Dairy Council

### Benefits of a structured national system

*The various studies agree on this point; that milk producers have fared better than other agricultural producers, primarily because the dairy policy makes for a structured national production system and enables improved long term planning. Furthermore, as a result of stable supplies, a dynamic processing industry has emerged, one which promotes aggressive marketing techniques.<sup>78</sup>*

—Jean-Denis Fréchette and Sally Rutherford,  
“National Dairy Policy” Background, 1986



Further processing of dairy ingredients in St-Hyacinthe, 1980.  
Source: Archives/La Terre de chez nous

### Per Capita Consumption of Dairy Products in Canada, 1980–1989

Year	Fluid milk and cream	Butter	Cheddar <sup>1</sup>	Ice cream	Specialty cheese	Yogurt
	Litres	kg	kg	kg	kg	kg
1980	106.84	4.44	1.02	12.72	3.61	1.61
1981	106.25	4.34	1.03	12.57	3.79	1.64
1982	105.74	4.20	0.63	12.08	4.00	1.70
1983	104.82	4.28	0.64	12.28	4.02	1.86
1984	104.48	4.17	0.99	11.76	4.30	2.08
1985	103.59	3.99	1.26	12.00	4.64	2.37
1986	104.85	3.81	1.50	12.19	5.18	2.69
1987	105.89	3.80	1.43	11.76	5.44	3.04
1988	104.45	3.70	1.07	11.97	5.59	3.21
1989	101.25	3.47	1.22	11.44	5.73	3.26

<sup>1</sup> These amounts do not include cheese used in processed cheese.

Source: Statistics Canada and Agriculture Canada, “Per capita consumption of milk and cream” and “Per capita consumption of dairy products.”



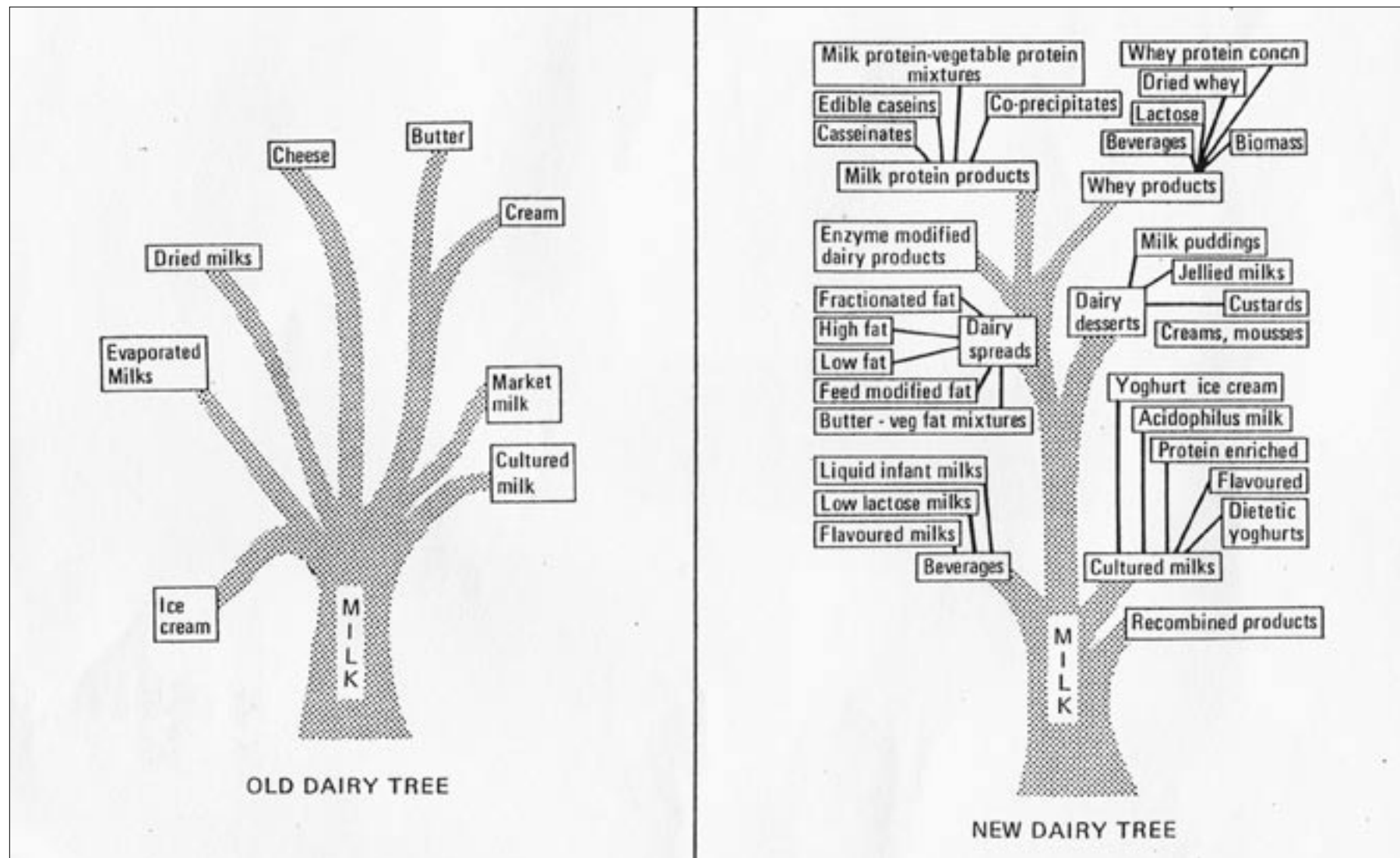
### Importance of dairy processing

*The dairy processing industry ranks second in terms of value of production, to the slaughtering and meat processing industry among food manufacturers in Canada. Dairy processing is carried on in all provinces but almost 70 percent of the value added by dairy processing establishments is located in Quebec and Ontario.*

*Producer cooperatives, small family businesses and large corporations are all involved in the ownership and operation of these plants. Cooperatives play a dominant role in Quebec and Western Canada, especially in the processing of industrial milk and cream. In Ontario, large and small privately owned businesses are more common.*

—CDC, *Corporate Plan 1987–1992*, p. 15





**Above:** The “old” and “new” dairy tree of products. Source: Unknown

**Preceding page, left:** Poster promoting Scotsburn’s Daisy Lite chocolate milk drink. Source: Scotsburn

**Preceding page, right:** The cover of Butter-Fat magazine showing the opening of a new Dairyland plant in Abbotsford. “From left to right: general contractor, Randolph Allan; Dairyland General Manager, Neil Gray; FVMPA President Gordon Park; and Matsqui Mayor Harry DeJong, 1980.” (cited from “Milk Stories” page 304). Source: Dairy Industry Historical Society of BC

## TROUBLE ON THE HOME FRONT

### REPORT ON THE COMPREHENSIVE AUDIT OF THE CDC TABLED IN THE HOUSE OF COMMONS

In May 1981, Ken Dye, the Auditor General of Canada, received a letter from Agriculture Minister Eugene Whelan asking Dye to carry out a comprehensive audit of the CDC.<sup>79</sup> The call for the audit came shortly after Justice Hugh Gibson released findings from his Commission of Inquiry into Certain Allegations Concerning Commercial Practices of the CDC (see Chapter 2, p. 73). Even though Gibson had exonerated the CDC of any wrong-doing, he had cast some aspersions on how the Commission handled exports. When Whelan asked Dye for an audit, he requested him to pay particular attention to the Commission's export activities and how it spent producer levies. A little over a year later, on July 16, 1982, the audit report was tabled in the House of Commons.<sup>80</sup>

These were not good times for the CDC, and most people who were around at the CDC at the time don't even like to recall the audit. A team of auditors descended on the Commission and pried into every nook and cranny. It was time-consuming and unnerving. Everything and everyone was questioned.

The report found the CDC's management infrastructure inadequate and its export marketing operations insufficiently controlled. The report noted that the CDC was using some "questionable business practices," particularly related to buying evaporated milk from two Quebec co-operatives whose expansions CDC had helped finance. But the subsidy system was properly run, the report noted.

Other findings:

- Marketing activities were not structured as a single co-ordinated unit.
- The absence of a sound management infrastructure reduced the ability of the CDC to prevent problems in its export marketing operations.
- Losses arising through questionable business practices had added to the levy burden.
- The Commission had engaged in transactions that exceeded

its mandate and reflected certain characteristics of private business.<sup>81</sup>

Chuck Birchard, Director of CDC Policy, Communications and Strategic Planning at the time, says the CDC "made a spirited defence of its operations and practices. We responded to each criticism and either said, 'you're wrong and here's why' or 'yes, you're right and we're taking that into consideration and acting on it.'" Indeed, the CDC issued its own explanation of events and had its response to each of the 36 recommendations included as an attachment at the end of the audit report.

On March 29, 1983, the Standing Committee on Public Accounts presented to the House *its* response to the Auditor General's report.<sup>82</sup> Committee members said they were pleased that the Minister of Agriculture had instructed the CDC to conform to each of the recommendations. They noted that work (Bill C-85 on the dissolution of Canagrex) was already under way to

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*It seemed that a lot of people, especially at high levels in the bureaucracy, were out to get the Commission in those days.*

*The CDC had caused, or facilitated, a number of changes to the industry that were not universally appreciated at the time. We had developed new export markets, partially subsidized by government. We had forced fluid producers to share in export costs. We had sourced milk for exports from provinces that had a surplus of industrial milk in relation to their domestic needs, all the while hammering out a new national system. These were not little things.*

*But federal treasury was providing significant funding to an industry that some people felt was already receiving enormous benefits, i.e., administered pricing, import controls and supply management. Remember, too, that we were creating new programs, and adequate operating controls were not always developed simultaneously. As well, there were those in government who still wanted to see a smaller domestically focused industry.*

*As for the fallout from the audit, let's be generous to everyone, while still being true and fair. The audit provided guidance to the Commission to change and put in place better policies and procedures for its activities. And the CDC complied.*

—Chuck Birchard, 2004, former Director of CDC Policy, Communications and Strategic Planning

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make Crown corporations more responsible and accountable, but they still suggested the Minister consider amending the CDC Act to include similar provisions. The committee also asked for a progress report, before June 30, 1983, on how the CDC was implementing the recommendations.<sup>83</sup>

In response, the CDC developed an extensive manual, *Administrative Policies*, which answered most of the auditors' concerns and recommendations. "Most of the 36 recommendations resulting from the Comprehensive Audit were non-contentious and the CDC has implemented them or is in the process of implementing them,"<sup>84</sup> Whelan reported back by the deadline. He declined to amend the *CDC Act*, though. "I see no need to go to Parliament for processes already being complied with," he wrote in a letter to Bill Clarke, Chairman of the Standing Committee on Public Accounts.

The national press had a field day with the issue, but the CDC soldiered on with its work.

## CDC'S AUTHORITY TO COLLECT LEVIES CHALLENGED

Another issue brought out in the audit was the authority of the CDC to collect levies. The audit recommended that CDC seek legal advice to clarify the rules and powers of the Commission and provincial boards in regard to establishing, imposing, collecting and using levies. The Auditor General thought that power was outside the CDC's authority and had noted his concern in the CDC's yearly audited financial statements in the first three annual reports of the 1980s. The Comprehensive Audit report went after the issue again.

The levy issue was complicated, as were legal arguments and opinions from both sides. But the reality was, as one opinion said, that the CDC *could* levy. "The issue is a very complex one . . . however, from the point of view of questioning the commercial practices of the Commission, the issue is not that important. There is no question that the Commission *could* have the power

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### Examples of recommendations from the Comprehensive Audit of the Canadian Dairy Commission and the CDC's responses:

#### Section IV Recommendation C, Capital Assistance to Processors

(See Chapter 2, "Quebec processing plant expansions," p. 67)

\* Programs introduced by the CDC should conform to the Commission's mandate and be supported by appropriate legislation.

\* Assistance should be available to all producers/processors who meet specific published criteria.

\* All programs should be fully reported to the Minister and to Parliament.

**CDC comments:** In general, the Commission agrees with the three recommendations. The Commission will continue the practice of seeking legal advice as to the need for regulations in support of programs. It should be noted that consideration of the Capital Assistance Program came as a consequence of the establishment of the export program for evaporated milk and instantized whole

milk powder. This export program was agreed to by provinces and approved by Cabinet. The Capital Assistance Program represents the financing and amortization and interest costs of processing facilities. These costs are normally included in the price of products produced. However, under this program total amortization and interest costs have been paid over a period of three years. The short payment time period reduces processor financial exposure due to the relatively volatile world market for dairy product.

#### Recommendation D, Differential Pricing on Evaporated Milk Purchases

The CDC should establish standard procedures calling for the issuance of competitive tenders for all purchases of dairy products not subject to fixed support prices.

**CDC comments:** The Commission recognizes the benefits of the tender process under certain circumstances and employs tenders to secure a range of services. However, as a result of the limited number of potential suppliers of evaporated milk and whole milk powder for export, the Commission had opted principally for the cost accounting and negotiation process as a more effective mechanism of obtaining the best price in the interest of dairy farmers.<sup>85</sup>

to levy. The argument is over which legislative framework should be used to give it the power.”<sup>86</sup>

The Commission went on to get a legal opinion from the Department of Justice that suggested the Auditor General’s opinion was inaccurate. The Auditor General dropped his objection and noted such in CDC’s 1983–1984 annual report. But the issue over legislative rights would not end there. It would come up again in the 1990s—and be dealt with once and for all—because of a protracted legal action the British Columbia Milk Marketing Board brought against a group of dissident milk producers in that province.

The fallout from the British Columbia court decision would result in the CDC creating new regulations under the *CDC Act* in the next decade.<sup>87</sup>

## HEADING INTO THE 1990s

The CDC and the CMSMC exerted tremendous effort during the 1980s to get their house in order. While much of the 1970s had been spent building a new system, the 1980s were a decade of settling, refining and renegotiating. A new National Milk Marketing Plan was negotiated, signed and then amended. When things still weren’t right, a CMSMC Study Team set out on several trips across the country to solve outstanding problems. Concessions by all members of the national plan were continually made to keep the industry together.

A new, more accurate method of calculating the industry’s cost of production was brought in. Estimating domestic requirements for industrial dairy products was fine-tuned to an art, as were the calculations of provincial quota shares. The export market, ever a moving target, was being handled as well as possible. But the time had definitely come to concentrate more marketing efforts on growing the domestic market. The Animal Feed Assistance and Domestic Dairy Product Innovation programs were the beginning of this push. The 1990s would see the introduction of additional programs, like the Butterfat Utilization and the Rebate for Further Processors programs.

With the National Milk Marketing Plan, the CMSMC’s role was solidified. It busied itself with setting MSQ and levies and implementing the National Milk Marketing Plan, while CDC staff kept it up to date on issues like trade, research and policy. At the same time, with all the policy reviews and changing trade laws, a new role, more along the lines of a facilitator, was developing for the CDC, both for its staff and commissioners.

Other changes afoot as the industry headed into the 1990s included the government handing over the responsibility of setting target and support prices for butter and skim milk powder to the CDC. The Minister of Agriculture at the time, Don Mazankowski, wanted that job done at arm’s length from the government. By the end of the decade, it also became clear that the winds of trade liberalization were blowing hard. Once the United States won the GATT panel decision that disallowed Canada from adding yogurt and ice cream to its Import Control List, it was clear that GATT’s Article XI (see p. 101) was in jeopardy.<sup>88</sup> The industry, with the help of the CDC, then focused its trade efforts on getting Article XI strengthened and its wording clarified. But the 1990s would see Article XI lose out to tariffication (see p. 101), despite immense efforts by all parties.

The implications for the dairy industry of losing Article XI were enormous. If Canada’s exports were considered subsidized, and it couldn’t control imports—at the same time as consumer demand for butterfat was falling—the only option was to relax the quota system and disband administered pricing. Indeed, there was a major cut in MSQ between August 1, 1989, and August 1, 1990, of 9.8 million kilograms of butterfat, a 6 percent decrease.

Meanwhile, the size and shape of the industry were changing. The trend to fewer but larger farms and fewer but larger dairy processors continued throughout the 1980s and into the 1990s. That decade would be spent adjusting to new trading rules which turned the national milk marketing system on its head, National Task Force on Dairy Policy recommendations, a declining demand for butterfat and increasing skim-off. Redefining the workings of the industrial dairy system would be the norm once more for the next decade.

### APPENDIX 3-1 COMMISSIONERS, MINISTERS AND PRIME MINISTERS

#### Commissioners

Gilles Choquette	Chairman	1976–1986
Elwood Hodgins	Vice-Chairman	1977–1986
Elwood Hodgins	Interim Chairman	1986–1986 (when Choquette left)
Clifford McIsaac	Commissioner	1980–1991 (replaced Johnson)
Roch Morin	Chairman	1986–1994 (replaced Choquette)
Kenneth McKinnon	Vice-Chairman	1986–1991 (replaced Hodgins)

#### Ministers of Agriculture

John Wise	Progressive Conservative, Elgin, ON	1979–1980
Eugene Whelan	Liberal, Essex South/ Essex-Windsor, ON	1980–1984
Ralph Ferguson	Liberal, Lambton- Middlesex, ON	1984–1984
John Wise	Progressive Conservative, Elgin, ON	1984–1988
Donald Mazankowski	Progressive Conservative, Vegreville, AB	1988–1991

#### Prime Ministers

Pierre Elliott Trudeau	Liberal	1980–1984
John Turner	Liberal	1984–1984
Brian Mulroney	Progressive Conservative	1984–1993

### CONSULTATIVE COMMITTEE MEMBERS APPOINTED NOVEMBER 4, 1980

- Claude Chevalier, Executive Director of Dairy Bureau of Canada: Chairman
- Ken McKinnon, a Port Elgin, ON dairy farmer and Ontario Milk Marketing Board chairman
- Jacques Boucher, a dairy farmer from St-Alexandre, QC, and President of la Fédération des producteurs de lait industriel du Québec
- Raynald Giroux, Québec-Lait Inc. President and General Manager, Granby, QC
- Dwight Stacey, Stacey Brothers Ltd. president, Stratford, ON
- Neil Gray, former Dairyland Foods manager and Fraser Valley Milk Producers' Association General Manager, Vancouver, BC
- François Goulet, M. Loeb Ltd., Vice-President of Marketing, representing the Canadian Grocery Distribution Institute
- Eugène J. Vallée, a grocery retailer from St-Lambert, QC, representing the Association des détaillants en alimentation du Québec
- Vicki Billingsley, consultant and consumer advocate from Inuvik, Northwest Territories<sup>89</sup>

### CONSULTATIVE COMMITTEE MEMBERS APPOINTED JULY 1988

- Neil Gray, former Dairyland Foods manager and Fraser Valley Milk Producers' Association General Manager, Vancouver, BC: Chairman
- Vicki Billingsley, consultant and consumer advocate from Inuvik, Northwest Territories
- Roger Daoust, a Quebec milk producer
- Betty Duizer, a Nova Scotia milk producer
- André Forcier, Agrinove Director General
- Graham Freeman, Ault Foods Ltd. Chairman and Chief Executive Officer
- Doug Lunau, President of Intersave, a subsidiary of Loblaw Companies Ltd.
- Bill Sherwood, a milk producer and New Brunswick Milk Marketing Board Manager
- Eugène J. Vallée, a grocery retailer from St-Lambert, QC, representing the Association des détaillants en alimentation du Québec<sup>90</sup>

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The Canadian Milk Supply Management Committee met frequently at the Lester B. Pearson Building in Ottawa. Source: Canadian Dairy Commission

*Co-operation, in its widest sense as applied to the dairy industry, should include the producers of milk, the manufacturers, the carriers and the distributors of dairy products.<sup>1</sup>*

HENRY H. DEAN, *CANADIAN DAIRYING*, 1903

## ♦ 4 ♦

# THE 1990s: SURVIVING THE NAFTA AND GATT

### *Introduction*

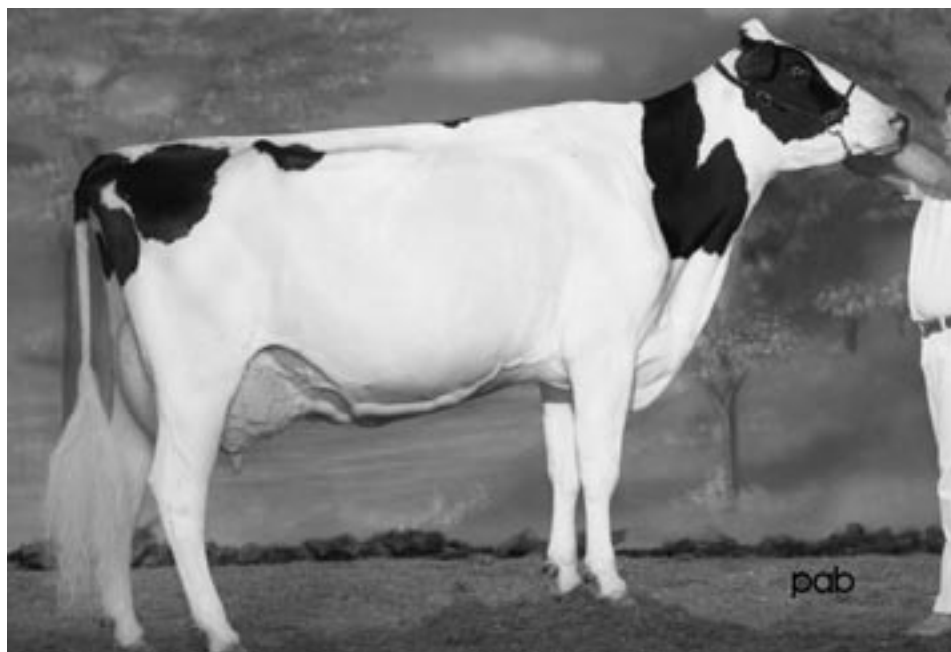
The 1990s were the years that saw the dairy industry essentially reinvent itself. They ushered in what many industry watchers would have found unthinkable, even in the early 1990s, never mind the 1980s or 1970s: a true harmonization of milk policies and prices across the country and a national pooling of revenues, though with some regional differences. In short, the industry built a brand new system dictated by the rules of the North American Free Trade Agreement and the General Agreement on Tariffs and Trade/World Trade Organization. It was a tremendous operational change, and a strain on all fronts, provincial and national, for all industry stakeholders and their businesses.

The decade opened with the biggest cut in Market Sharing Quota (MSQ) since 1976 and continued on a significant downward slide for the first few years. On August 1, 1989, national MSQ was sitting at 171 million kilograms of butterfat. A year later, it was set at 161 million kilograms, a 6 percent decrease. By

1992, it had dropped to 148 million kilograms, the lowest since MSQ was introduced in 1970.

The consumer trend to eating lower-fat dairy products was a large part of the problem, as was an increase in imports of dairy blends from the United States and New Zealand. Another contributing factor was the increase in butterfat flowing from fluid milk skim-off, as consumers turned from full-fat to skimmed, 1% and 2% milk. But increased industry efforts, including the Canadian Dairy Commission's (CDC) Rebate Program for Further Processors and Butterfat Utilization Program, helped push the numbers back up, as did an increase in consumption of specialty cheese, yogurt and some cream products.

The 1990s also saw the formation of committee after committee and task force after task force—all of which created a tremendous workload for the CDC. One would wrap up and another would follow. The Task Force on National Dairy Policy, headed



Holstein cow of the decade:  
Comestar Laurie Sheik. Bred by  
Comestar Holsteins, Victoriaville,  
Quebec, Laurie Sheik and her daughters  
have produced a number of successful  
proven sires in Canada and Europe.  
Leader, Lee and Outside have been used  
internationally and have put Laurie  
Sheik in the pedigree of many  
Holstein cows worldwide.  
Source: PAB Photographie

by CDC's Ken McKinnon, reported in 1991. It was followed by the report of the Consultation Committee on the Future of the Dairy Industry (not to be confused with the CDC's Consultative Committee), a Dairy Farmers of Canada (DFC) initiative with CDC collaboration. Then there was the Canadian Milk Supply Management Committee (CMSMC) Action Committee on Milk Allocation, later renamed the Dairy Industry Strategic Planning Committee (DISPC). The DISPC overlapped with, and ended up being integrated into, the Federal-Provincial Task Force on Orderly Marketing (also known as the Vanclief Task Force after Lyle Vanclief, the federal Parliamentary Secretary of Agriculture who headed it). And there were others as well.

International trading laws, and how to adapt the industry to them, were the issues that ruled the decade. In 1993, Canada lost its battle in the Uruguay Round of GATT negotiations to maintain Article XI:2(c)(i), a provision that, among other things, had been used by Canada to control imports of dairy products. Under the new Agreement on Agriculture, which fell under the newly created World Trade Organization, the exception in

Article XI was replaced by high tariffs on imports of dairy and poultry products (see Chapter 3, p. 101). These were products that the Article XI exception had previously allowed to be restricted, if a domestic supply management program for the same products was in place.

The right to protect the industry from import competition, using the Article XI exception or equivalent protection, was but one of many international trade battles that would be waged to maintain the status quo for the dairy industry in the 1990s. Under the Canada-US Free Trade Agreement (CUSTA), which was rolled into NAFTA when Mexico agreed to join the agreement in 1992, all tariffs were to be phased out over a 10-year period from 1988 to 1998, except for certain dairy and poultry products that had previously been protected by the Article XI exception. The Americans would nonetheless launch, and later lose, a NAFTA Dispute Settlement Panel on Canada's right to keep these tariffs on certain dairy and poultry products.

The Canadian further processing industry was faced with a special problem. Food products containing less than 50 percent dairy ingredients were not subject to volume import controls, but they had been subject to tariffs which, under NAFTA, were to be phased out. So Canadian food manufacturers were looking at having to buy their dairy ingredients at domestic prices set by marketing boards, and sell the finished product in competition with products—mostly from the United States—that had been manufactured with lower-cost dairy ingredients and imported tariff-free.

Canadian frozen pizza makers were particularly upset, so much so that the McKinnon Task Force was expressly asked by the Agriculture Minister to examine the issue of the competitiveness of frozen pizza manufacturing in the new trading environment.

Meanwhile, the trend to less government support for the dairy industry, which had begun in the 1980s, continued into the 1990s, partly because of looming world trade rule changes, but also because the government's deficit was still ballooning out of control. In 1993, the direct subsidy to producers was reduced—for the first time since 1975—by 10 percent, to \$1.51 per kilogram of butterfat, from \$1.68.<sup>2</sup> In 1995, the federal government announced that it



would reduce the subsidy by 30 percent over the next two years, at the same time as it was ending its historic Crowsnest Pass Freight Rate Agreement with western grain producers, which had been costing \$550 million a year. The Feed Freight Assistance program, which provided almost \$20 million yearly to livestock producers in grain-deficient areas (particularly Atlantic Canada) in order to lower their costs, also went by the board.

Cross-border consumer shopping continued to be an issue. Canadian import regulations specified that small amounts of milk and dairy products could be imported (outside quota) for personal use by returning Canadians. This became a problem when the lower cost of American dairy products was no longer being offset by currency exchange and transportation costs.

On the political front, the industry saw Conservative Agriculture Minister Don Mazankowski replaced by Bill McKnight in 1991. By 1993, Canadian voters were fed up with the Conservatives and voted in a Liberal majority with Jean Chrétien at the helm as Prime Minister. The Conservatives were virtually annihilated, losing all but two of their previous 151 seats, and the Bloc Québécois became the Official Opposition.<sup>3</sup> Ralph Goodale and his successor, Lyle Vancilief, would see out the decade as agriculture ministers.

On the Commission front, Gilles Prigent of St-Léonard, Quebec, replaced Roch Morin as CDC Chairman in 1994. Prigent joined Commission Vice-Chairman Louis Balcaen, a dairy and grain farmer from Manitoba and past president of Dairy Farmers of Canada, and Alvin Johnstone, a past National Dairy Council (NDC) chairman from Red Deer, Alberta. Prigent was followed by Guy Jacob in 1997.

Like all the previous decades, the 1990s would see their share of trials and successes. The sky did not fall as predicted when the government ended its funding of dairy subsidies, or when producers were no longer allowed to subsidize their exports with levies under new WTO rules. Throughout the turmoil, the CDC and the industry soldiered on.

## FROM TASK FORCES TO COMMITTEES TO POOLING

### 1989

**National Task Force on Dairy Policy** (part of “Growing Together”). Created by Agriculture Minister Don Mazankowski to review the dairy industry’s five-year policy. Headed by CDC Vice-Chairman Ken McKinnon. The goal was to make agriculture more market-responsive, make participants in the sector more self-reliant and improve the sustainability of agriculture.

Issued a report in May 1991 with 23 recommendations including national pooling, multiple-component pricing and harmonization of provincial milk standards.

### November 1991

CMSMC established a **Sub-committee on the Harmonization of Provincial Programs**.<sup>4</sup>

### July 1992

**Consultation Committee on the Future of the Dairy Industry.** Created by Dairy Farmers of Canada and the Dairy Bureau of Canada in response to looming changes in GATT trade rules. Headed by DFC president Louis Balcaen. Other members: Bill Sherwood (Dairy Bureau of Canada), Richard Doyle (DFC), Kempton Matte (NDC) and Roch Morin (CDC). Consumers’ Association of Canada invited to participate in the process.<sup>5</sup> Issued two reports in December 1992 with 23 recommendations, including:

- development of a single national quota for fluid and industrial milk;
- a single price revenue pooling system for milk; and
- the appointment by CDC of a committee of industry stakeholders to design a national milk classification system with uniform definitions and prices. To do so, they should take into account the introduction of a national milk component pricing system and the need to establish a mechanism to price milk sold to processors on the basis of its end use.

## 1992

The Commission struck two committees in response to the Consultation Committee report, both chaired by the CDC:<sup>6</sup>

- **Action Committee on Milk Allocation:** to consider the provincial systems that control milk allocation to plants and other factors in the industry's ability to respond to the market and export market objectives.<sup>7</sup>
- **Action Committee on Ingredients:** to address competitive pressures on the market for dairy ingredients (the Ingredients Committee membership was made up of industry stakeholders).

## February 1994

The CMSMC Action Committee on Milk Allocation was re-named **Dairy Industry Strategic Planning Committee (DISPC)** and got a revised mandate because broader GATT changes were coming.

## 1994

**Federal-Provincial Task Force on Orderly Marketing.** Created by Agriculture Minister Ralph Goodale to look at opportunities and challenges facing supply-managed commodities under the new world trade rules. Headed by Lyle Vanclief, Parliamentary Secretary of Agriculture. Created an ad hoc committee for each of the supply-managed commodities. Identified DISPC as the Ad Hoc Review Committee for Dairy.

## October 1994

**DISPC** issued its final report. Recommendations: implement a national pooling system and co-ordinate milk allocation mechanisms.<sup>8</sup>

## October 1994

The CMSMC created the **CMSMC Negotiating Sub-Committee** following DISPC recommendations.

## January 1995

The CMSMC Negotiating Sub-Committee presented its final report to the CMSMC.<sup>9</sup>

## 1995

The CMSMC, under the leadership of the CDC, created the **All Milk Pooling Committee** and the **Policy Committee**, which provided the structure for the detailed negotiations needed to develop and implement pooling and harmonized pricing. These committees developed the elements of the new special milk class system and the mechanics and principles of pooling producer returns from milk sales for an August 1, 1995 implementation date.<sup>10</sup>

## July 1995

**CDC Act amendments** received Royal Assent, allowing the CDC to work with provincial authorities to administer the pooling system on behalf of the industry.<sup>11</sup>

## August 1, 1995

**The Comprehensive Agreement on Special Class Pooling (P9)** began operation.

## August 1, 1995

**All Milk Pooling Agreement (P6)** between CDC and Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, and Prince Edward Island took effect.

## August 1, 1996

Start of revenue sharing in the **All Milk Pool**.

## March 1, 1997

**Western Milk Pooling Agreement (WMP)** between British Columbia, Alberta, Saskatchewan and Manitoba took effect.

## March 1, 1998

The sharing of transportation costs under the **All Milk Pooling Agreement** (excluding Manitoba) took effect.

## THE NATIONAL TASK FORCE ON DAIRY POLICY

In 1991, after almost two years of extensive consultations, the National Task Force on Dairy Policy delivered its report. The Task Force, headed by CDC Vice-Chairman Ken McKinnon, had been launched as part of Agriculture Minister Don Mazankowski's *Growing Together—A Vision for Canada's Agri-Food Industry* initiative, also known as the Minister of Agriculture's National Agri-Food Policy Review.

McKinnon, a dairy farmer from Port Elgin, Ontario, had a long list of accomplishments before he arrived at the CDC in 1986. He was named to the Ontario Milk Marketing Board (OMMB) when it was set up in 1965. He did a stint as Dairy Farmers of Canada President. And he spent nine years as OMMB Chairman, leaving there to join the CDC as Vice-Chairman. The task force included members from the CDC, DFC, NDC, Consumers' Association of Canada and other federal government departments. By the time it reported, Bill McKnight was Minister of Agriculture.

There was significant fallout from the Task Force recommendations, which were the precursors of many new dairy policy initiatives in the 1990s. The report's 23 recommendations were based on a 20-month study of dairy issues that included pricing, quota distribution, and the need for the dairy industry to be more market-responsive, especially in the wake of changing consumer demands and the trend to eating lower-fat products.

The Task Force reported that it was time to increase harmonization of regulations among provincial systems, to head towards regional pooling and inter-provincial movement of milk and quota, and for all provinces to go ahead with Multiple Component Pricing.<sup>12</sup> "[A] review should focus particularly on initiatives towards greater harmonization of systems, the feasibility of establishing national classifications for both fluid and industrial milk and a national approach to directing milk supplies towards optimum product usage."<sup>13</sup> To that end, the CMSMC established a Sub-committee on the Harmonization of Provincial Programs.<sup>14</sup>

The Task Force also recommended that the industry get more input from processors and consumers and that the Consultative Committee's mandate expand to include advising the CDC on

pricing and cost of production (COP). The CDC acted on both recommendations. Representatives from the National Dairy Council and the Consumers' Association of Canada were invited to join the CMSMC in December 1991. "Although, through the provisions of the [National Milk Marketing Plan], voting privileges at these meetings are reserved for signatories, [you] will be welcome to contribute to any discussion at the table, and will be invited to participate in sub-committees formed to discuss particular issues," CDC Chairman Roch Morin wrote in the letters of invitation. Also, based on the Task Force's recommendation, the CDC established its Rebate Program for Further Processors, which was the precursor of 'special classes'.

### Rebate Program for Further Processors

When the National Task Force on Dairy Policy was announced, the frozen pizza industry started to sound alarms, saying that it would not be able to compete with American imports, which under CUSTA and NAFTA could enter Canada tariff-free by 1998. Canadian cheese input costs were higher than American ones, argued manufacturers, putting the industry at risk of a competitive disadvantage with frozen pizza imports under diminishing tariffs. Cheese made up between 40 and 50 percent of a frozen pizza's material cost, so there were few other corners to cut.

The Agriculture Minister took note and asked the Task Force to look at the issue as a priority and come up with solutions. It became, not surprisingly, a contentious issue. Was American mozzarella really that much cheaper than Canadian? Canadian manufacturers thought it was—by as much as 30 percent.

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*It was the first time the industry really came together to discuss issues that needed to be resolved. It was a really good examination of what was on the horizon. It got all these 23 issues down on paper and fostered a lot of good will between players. Ken [McKinnon] was an extraordinary producer representative, a brilliant man and a very dogged individual. He pushed and pushed. He was the right man to do what needed to be done at the time. He was a producer, and even though he was from Ontario, he was accepted by the East, the West and Quebec.*

—Chuck Birchard, 2004, former CDC Policy,  
Communications and Strategic Planning Director

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Indeed, McCain Foods and Pillsbury, two of the largest frozen pizza manufacturers, said they would have to move production of finished pizza to the United States and then export to Canada duty-free unless they could buy their domestic cheese at more competitive prices.<sup>15</sup>

The Task Force, however, concluded differently. It commissioned a comparative study on Canada-United States cheese prices that showed that the differences were modest and that the tariffs still in place covered some of the price discrepancy. There were other issues that complicated price comparisons between the two countries, of course. In the end, the Task Force concluded that the pizza issue should not be separated from the larger issue of CUSTA's impact on the further processing sector and the outcome of the Uruguay Round of GATT. "A long term solution will be difficult until the GATT review is completed," the report stated.<sup>16</sup>

As a result of the Task Force recommendations, the CDC announced the creation of the Rebate Program for Further Processors on December 19, 1991, to come into effect January 1, 1992. "The rebate is aimed specifically at manufacturers facing increased competition from imports, as tariffs are gradually reduced under the Canadian-US Trade Agreement," said the CDC press release. But it also noted that the program was a "temporary measure" and that long-term answers were being looked at on other fronts.<sup>17</sup>

Further processors who used cheese ingredients in their products—like pizza, pasta, and macaroni and cheese dinners—benefited the most from the Rebate Program. It ended on August 1, 1995, when it was replaced with the Special Milk Class Permit system (see box, p. 130) to accommodate the new international trade rules.<sup>18</sup>

Although processors initially contributed to the Rebate Program through a levy of 2 cents per hectolitre of milk used in supplying cheese and other ingredients to further processing, they later negotiated direct volume discounts with their further processor customers. Further processors applying for the rebate had to meet eligibility criteria. The rebate covered 60 percent of the difference between the cost of dairy ingredients in Canada and the United States.<sup>19</sup>

By 1995, when the Special Class system came in, producers had doled out a total of over \$33 million—from their levy fund—in rebates to the further processing industry.<sup>20</sup>

### **CDC and support pricing authority**

In 1989–90, Agriculture Minister Don Mazankowski handed back to the CDC the hot potato of setting the industrial milk target price, the processor margin and the support prices for butter and skim milk powder, along with some 'guidelines.' The authority was delegated on a year-by-year basis, pending the outcome of the National Task Force on Dairy Policy, which Mazankowski had specifically asked to consider the need to determine pricing at 'arm's length' from government.

"It was always a battle to get the establishment of dairy support prices out of Cabinet," remembers Chuck Birchard, former director of CDC Policy, Communications and Strategic Planning. "We'd have to prepare a discussion paper for bureaucrats and a Cabinet memo. Then the Cabinet would have to agree. Some bureaucrats would tell their minister not to approve it, and they wouldn't. Others were okay with it. But there were always battles. It was a nightmare for everyone involved."

The Task Force backed up Mazankowski's pricing delegation directive and recommended that the CDC continue setting prices with input from the Consultative Committee, whose mandate was broadened accordingly.

But the pricing issue, and the question of who was truly in charge of it, weren't to be solved for a few years yet. Part of the difficulty in settling the matter had to do with changes of agriculture ministers as well as an understanding of what 'arm's length' really meant. In 1991, for example, Bill McKnight replaced Don Mazankowski as Agriculture Minister and was directing the CDC to comply with Mazankowski's guidelines. "I would like to make it clear that I expect the Commission to make the methodology and data used converge with the guidelines, not diverge from them," McKnight wrote in a letter to the CDC in July 1991.<sup>21</sup> DFC, which was heavily involved in pricing issues, was not impressed and took up the issue with McKnight as well as subsequent ministers. Said DFC President Peter Oosterhoff in a June 1993 letter to Agriculture Minister Charlie Mayer:



*There was a lot of confusion within the Consultative Committee, the Canadian Dairy Commission and Dairy Farmers of Canada on this approach to delegation of authority at arm's length from government. On one hand, the Minister was recommending that the CDC seek advice on pricing issues from the Consultative Committee and make a decision, and on the other hand the Minister was providing detailed calculation guidelines that left little flexibility for any changes or input.<sup>22</sup>*

In February 1995, the issue remained unresolved. The CDC still needed Cabinet authority to set the support prices each year. And no one was happy. By that time, Ralph Goodale was Agriculture Minister. Goodale wrote to Oosterhoff:

*I have noted your preference for a fully 'arm's-length' process with regard to milk prices and that the Canadian Dairy Commission be solely responsible for setting them. However, I am sure you recognize that the pricing issue has broad implications and that it affects stakeholders throughout the industry. Because of the complexity and the importance of these questions, I would prefer that it be dealt with in a comprehensive manner, with a view to ensuring that any solution be of benefit to the industry as a whole. I have therefore asked my officials to look into this matter within the framework of overall agricultural policy.<sup>23</sup>*

How that was being carried out wasn't clear at the time, but by then other forces were coming into play. For one thing, there was the question of whether the CDC Act gave the CDC pricing authority. The Commission thought so, but others didn't. Section 9(1)(j) of the original CDC Act said only that the Commission may "do all acts and things necessary or incidental to the exercise of any of its powers or the carrying out of any of its functions under this Act."<sup>24</sup>

CDC Chief of Policy and Strategic Planning Nelson Coyle remembers going to a meeting sometime in 1995 to prepare the yearly Memorandum to Cabinet about the pricing announcement. Various ministerial and CDC staff attended.

*And someone asked the question, "Why are we here? Why are we doing this? We don't need to." And someone else, I think from the Privy Council Office, said, "Yeah, why are we? It's not stated anywhere that the CDC needs Cabinet approval to set prices." We went ahead with the Memo to Cabinet that year. But I think that meeting was a signal to Agriculture Canada officials that Cabinet did not need to be involved in setting the support prices for butter and skim milk powder.*

The Commission had indeed announced the support prices during the 1960s. But Cliff Barry, CDC's first chairman, had always gone to Cabinet first. In the 1970s, the Agriculture Minister started announcing the support prices himself, because, it's been suggested, it was politically advantageous for him to do so. By the 1990s that was no longer the case and Agriculture Minister Mazankowski decided to make a change.

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**Frank Claydon, now retired, was Interim CDC Commissioner from 1991 to 1993, at the same time as he was Assistant Deputy Minister of Policy at Agriculture Canada. He remembers a lot of talks about pricing issues, both as Commissioner and as a government official who was privy to Cabinet discussions before the CDC was given pricing authority.**

*Dairy pricing was always a contentious issue among Cabinet ministers. Cabinet had to approve the pricing, based on the recommendation of the Agriculture Minister, who would have received input from the CDC. But I don't think the Cabinet always rubber-stamped what the Minister and the CDC gave them.*

*As for why pricing decision making was given to the CDC, I think the rationale was that the Cabinet didn't set the price for any other agricultural commodity; why would it do it for dairy? There might have been some rationale for that in the 1960s, but it became clear that it was something that the industry should take responsibility for. And of course, once the decision-making power was handed over to the CDC, Cabinet was no longer the arbiter of contentious policy issues within the industry.*

*Pricing is a tough call. There are obviously a lot of different interests around the table. Producers were never happy when the price didn't go up and processors weren't happy when it did. There was a lot of discussion around pricing formulas during my time, as well as a number of studies and recommendations from the industry. I remember a lot of meetings and a lot of tension.*

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Frank Claydon, Interim Commissioner from 1991 to 1993.  
Source: Canadian Dairy Commission

Meanwhile the National Dairy Council and Dairy Farmers of Canada worked out a Memorandum of Agreement on May 26, 1995, known at the St. Sauveur Agreement. The two bodies agreed that they would:

- maintain a viable and growing dairy industry;
- work together to respond to new challenges;
- work together to manage all the changes happening in the industry; and
- continue regular discussions about common issues.<sup>25</sup>

Some stability descended on the pricing front. Finally, in July 1995, amendments to the *Canadian Dairy Commission Act*—to allow the CDC to administer pooling on behalf of the provinces—received Royal Assent.

“At that point we didn’t see the need to have Cabinet involvement,” says Richard Tudor Price, Director, Supply Management,

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*The Cabinet came to the conclusion that it would be a lot better not to be involved in setting the support prices. Because if they weren’t high enough, or were too high, who would get blamed? Well, the Minister. So it was better practically and, no doubt politically, to let a specialized government body, close to the industry as a whole, determine support prices. The CDC had always been involved with the calculations about what the support prices should be. And with the full authority being transferred to it, the CDC would be taking the heat from anyone who wasn’t happy with the support prices. The CDC was glad to get it. Support price setting became much less of a struggle. And even if the producers or the processors—or sometimes both—were not always happy with the CDC’s decisions, it was agreed that it was better for the decision to be made at arm’s length.*

—Gilles Prigent, 2004, former CDC chairman

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*When I came to the Commission in 1993, one of the first pieces of paper faxed to me was a memo from Agriculture Canada to the Minister concerning pricing. In my mind, the Commission had been tasked with setting the price. So in one of our first Commission meetings, we discussed it and basically decided that if the government was going to continue to do this, then it really didn’t need us. We weren’t here to rubber-stamp government decisions. I recall having a meeting with the Minister later on, where we discussed the issue and he agreed there would be no more interference from senior bureaucrats or anyone else.*

—Louis Balcaen, 2005, former CDC vice-chairman

Agriculture and Agri-Food Canada. “And we had legal advice that it wasn’t necessary for the CDC to go to Cabinet for support pricing approval, so that was the end of it.”

#### **REPORT OF THE CONSULTATION COMMITTEE ON THE FUTURE OF THE DAIRY INDUSTRY**

Although many of the National Task Force on Dairy Policy recommendations were taken seriously and implemented, it was becoming clearer that new constraints were on the horizon. Other countries weren’t supporting Article XI. Things were not looking good for Canada to maintain, never mind strengthen or clarify, the Article. The outcome of that reality would spell the end of import quotas on dairy products, along with other supply-managed commodities. Under the new rules, exports would be limited, and export subsidies (which is how producer levies were defined) would be eliminated.

What was the industry to do? Dairy Farmers of Canada decided to take the matter into its own hands. In July 1992, it formed a Consultation Committee on the Future of the Dairy Industry made up of Louis Balcaen, DFC President; Bill Sherwood, Dairy Bureau of Canada Chairman; and Richard Doyle, DFC Executive Director. Their mandate? Travel the country, meet with all industry stakeholders, and develop a consensus on what direction the dairy industry should take to deal with the reality of new trading rules. The CDC also called a meeting of industry stakeholders, and the National Dairy Council of Canada was considering doing the same. So CDC Chairman Roch Morin and National Dairy Council President Kempton Matte were invited to join the team. Consumers were also invited to participate.<sup>26</sup>

The Consultation Committee tabled its report in December 1992 with 23 recommendations. The most notable of these made the following suggestions:

- provincial boundaries for milk allocation to plants be removed and a national system be adopted;
- a single national quota for fluid and industrial milk, and a single-price pooling system for milk, be developed as soon as possible;

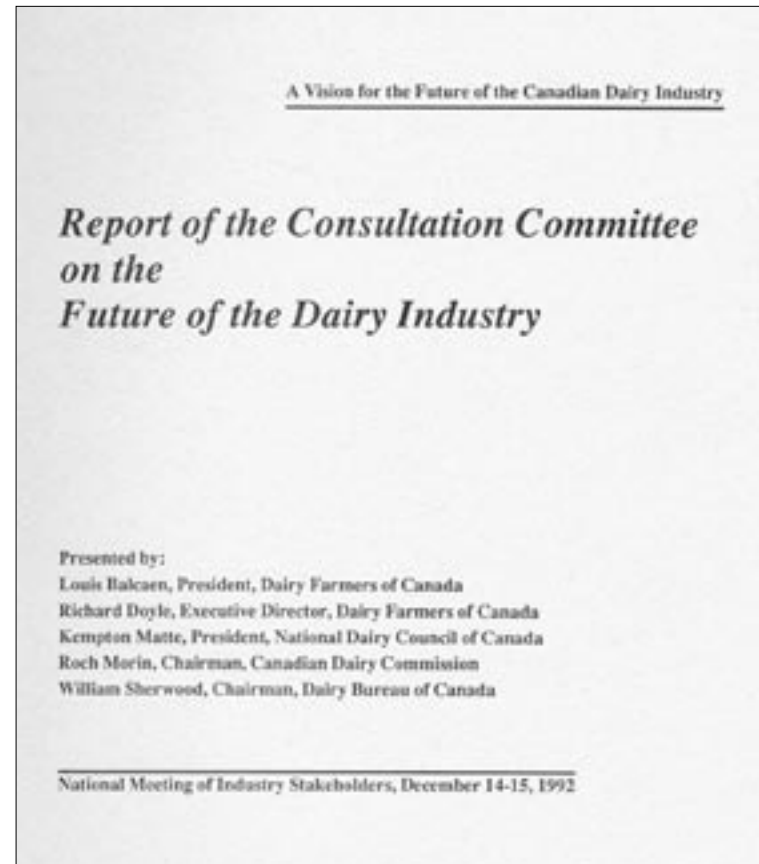
- the CDC appoint a committee of industry stakeholders to design a national milk classification system with uniform definitions and prices, taking into account the introduction of a national milk component pricing system and the need for end-use pricing; and
- that a class of milk be established for further processors.<sup>27</sup>

In short, the report's central thrust was that a national milk supply management program be established to cover fluid and industrial milk, administered initially by the CDC. The system would include an integrated fluid and industrial milk quota with national harmonized pricing based on end use and national milk allocation to processors. Special classes of milk would be created for new products, further processing and certain exports. The system would be based on separate butterfat and solids-non-fat quotas issued to individual producers.

It was, to understate the situation, not a universally well received report. Integrate fluid and industrial milk quotas? How would that work? How could you compensate for the changes that it would inevitably bring to certain producers? Give over provincial jurisdiction to the feds?—which was not what the report proposed but was the way some people interpreted it, and it was not a popular concept. Harmonize provincial systems? How long would that take?

The report and the consultation process also made the industry realize that the status quo was no longer an option. The world was changing before their eyes. Either they climbed on board the bus, or they got left behind in a cloud of dust. Pooling, integration, harmonization, Multiple Component Pricing (MCP) and special classes—daunting tasks? Yes. Do-able? Was there a choice? Most industry members realized there wasn't. Others eventually, and reluctantly, were forced to agree—if they still wanted a national dairy supply management system.

Still, much work remained ahead. The industry couldn't arrive at a consensus on how to implement these recommendations, but because they affected the National Milk Marketing Plan, producers turned to the CMSMC as the most logical place to start the work.<sup>28</sup>



Report containing the final 23 recommendations of the Consultation Committee on the Future of the Dairy Industry.

Report produced following industry consultations held across Canada by Louis Balcaen, President of DFC, Kempton Matte, President of the National Dairy Council of Canada, Roch Morin, Chairman of the Canadian Dairy Commission and William Sherwood, Chairman of the Dairy Bureau of Canada

Vision: "To serve the Canadian consumer and the market place by creating an environment and a marketing system which permits cost effective Canadian milk producers, processors and retailers to equitably share, in a profitable manner, returns generated from an expanding market. This market expansion will be made possible by industry determination to meet import competition and develop all domestic and export niche market opportunities."

Source: Canadian Dairy Commission

*One of my favourite stories about this report was when, in the late 1990s, a new CMSMC member from Saskatchewan came up to me after a meeting. He told me about how, after being named to the CMSMC, he had taken the time to read the report. And he remembered thinking at one of the original Consultation Committee meetings, "You guys don't have a chance in hell of doing anything near what you're proposing." And then he said, "You know, I was really surprised to see how many of your recommendations have come into force today."*

—Louis Balcaen, 2005, former CDC Vice-Chairman and Co-Chair of the Consultation Committee on the Future of the Dairy Industry

#### Reaction to the report

*This report was far from unanimously received by industry stakeholders, but there is a strong chance that it will influence discussions at the national level, at least in the coming year.*

—Fédération des producteurs de lait du Québec, *Annual Report 1992*, p.6



Louis Balcaen, Vice-Chairman of the CDC (1994–2004).  
Source: Canadian Dairy Commission

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*Fundamentally what it did was to introduce the notion that we needed a more market-driven industry. That was the gist of it. We also introduced the Gate to Plate theme. Previously, we had been an industry of producers and processors. But there was a lot of pressure from further processors. These people wanted to be at the table. All the changes that were coming down the pipe affected them as well. One of our recommendations was to create a fund to further the development of the ingredients market, and the CMSMC Action Committee on Ingredients was the result of that recommendation. The report also discussed the idea of special class prices for ingredients.*

*National pooling was the heart and soul of our report. The theme I remember running through the report was that in order to respond better to the market, we needed the right amount of milk at the right place, at the right time and for the right price.*

—Louis Balcaen, 2005, former CDC vice-chairman and co-chair of the Consultation Committee on the Future of the Dairy Industry

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**Richard Doyle, DFC Executive Director, remembers the work of the Consultation Committee.**

*We had meetings in each province with all industry stakeholders. Let me tell you, these were not easy meetings. In fact, they were pretty rough meetings. We had a lot of justifiably concerned farmers who just weren't willing to accept what was being thrown at them. Remember, we're talking about an industry that affects tens of thousands of people, and they all think differently. What we had on the other side was a bunch of people in Geneva deciding the future of our industry. People were angry!*

*So, on the one hand, we had to explain that we were not conceding on the negotiations. But on the other, we were asking, can we do a better job within our industry so that these negotiations won't make a difference, one way or another? We were trying to promote a different way of thinking and it was not a smooth process.*

*Our original report was 80 pages and contained all the rationale for our recommendations. But some people on the committee thought that it was too long and wouldn't get read, so we divided it into two parts, the recommendations themselves, and the explanations for how we got there. In retrospect, I think that was a mistake. I think that most people read the first document and not the second document. And when we hit the [DFC] general meeting, everyone got stuck on the first recommendation, which was to move to national pooling. We got blocked there and never went beyond that recommendation!*

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## **ACTION COMMITTEE ON MILK ALLOCATION BECOMES DISPC**

In 1993, the CDC rose to the challenges posed by the Consultation Committee and established two new committees. The Action Committee on Milk Allocation was to look at the main issues the Consultation Committee report called for:

- a single, national pool
- a national milk classification system
- a standardized system for supplying processors
- a new quota allocation method

The Action Committee on Ingredients was asked to address competitive pressures in the market for dairy ingredients.<sup>29</sup>

But shortly after, on December 15, 1993, the results of the GATT negotiations were made clear. Canadian negotiators had worked hard, with considerable support and input from the dairy industry, to convince other governments to strengthen and clarify Article XI. While there was initially some support for this position, in the end Article XI was lost and tariffication was in. Canada lost considerable control over its dairy imports. As well, producer levies, which had been used to help finance exports, were defined as a subsidy and had to be eliminated. The deadline to implement all required changes was set for August 1, 1995.

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### **The role of the CDC**

*Because of its participation in key industry policy-setting bodies like the CMSMC and the Consultative Committee, the Canadian Dairy Commission is well positioned to understand strategic challenges in the industry. As a result of the work of the National Task Force on Dairy Policy, industry and non-industry stakeholders now view the Commission as a mediator and facilitator between the sectors, in particular now that processors and consumers are represented on the CMSMC, and now that pricing issues are considered by the Consultative Committee. These changes have improved the transparency and accountability of decision-making in the industry.*

—Briefing Note to the Honourable Ralph Goodale,  
Minister of Agriculture and Agri-Food Canada, on the CDC,  
National Dairy Policy and Current Industry Issues, November 10, 1993

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There was no time to waste. The CDC had to remove the producer levies that supported its dairy exports. More strategic thinking was needed. Since the CMSMC already had a committee set up to grapple with many of the same issues, the CMSMC renamed the Action Committee on Milk Allocation the “Dairy Industry Strategic Planning Committee” (DISPC) and expanded its mandate.

The committee had a three-part mandate and corresponding goals:

1. to determine, review and assess the changes needed in Canada’s dairy policy to reflect new GATT rules and maintain the industry for the long term;
2. to develop a strategic plan with options that the industry could use to build consensus through existing committees like the CMSMC and national producer and processor organizations; and
3. to design policies that would ensure the appropriate amount of milk would go to the appropriate processing plants.<sup>30</sup>

### Dairy Industry Strategic Planning Committee

The DISPC, which was chaired by the CDC and consisted of both producers and processors, had its work cut out for it. And members knew it. The committee was given the moniker “Despicable Committee” partly for levity’s sake, but also so everyone could easily remember the acronym!

There was a rocky road ahead and nothing to do but set out. Meanwhile Agriculture Minister Ralph Goodale initiated a Federal-Provincial Task Force on Orderly Marketing, headed by Lyle Vanclief—who would succeed Goodale in 1997 as agriculture minister—to help supply-managed commodities adapt to the new trade rules. Vanclief immediately set up ad hoc committees for the other supply-managed commodities (turkey, eggs and chicken) but identified the DISPC as the Ad Hoc Review Committee for Dairy.<sup>31</sup>

The challenge was to come up with a system that would conform to GATT and CUSTA/NAFTA and not include any subsidies. In the GATT Agreement on Agriculture Article 9:1(c), subsidies were defined as



*Payments on the export of an agricultural product that are financed by virtue of governmental action, whether or not a charge on the public account is involved, including payments that are financed from the proceeds of a levy imposed on the agricultural product concerned or on an agricultural product from which the exported product is derived.*<sup>32</sup>

This included, then, the levies—in-quota or over-quota—that the CDC used to cover export losses. Under GATT, Canada had agreed to reduce its subsidies and not introduce new ones or apply subsidies on products not previously subsidized. Now, under CUSTA/NAFTA, Canada agreed not to subsidize any exports to the United States.

After considerable work and evaluation of numerous options, the DISPC concluded that the best solution was national price discrimination. It was the only viable option if Canada was to continue exporting to the United States and protect domestic markets from increased competition from imports.<sup>33</sup> The DISPC report noted that negotiators had said price discrimination was explicitly excluded from the GATT definitions of export subsidies.

CMSMC members also discussed issues in the hallways. Left to right: John Durham, BC, Erik Kramar (Chief Economist of the CDC), Gilles Prigent (CDC Chairman), John Core (Chairman of Dairy Farmers of Ontario). Source: Canadian Dairy Commission



Butter curls.  
Source: Peter Baumgartner

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#### DISPC Final Report, October 1994

*This report details the DISPC rejection of the status quo as a future option, given the need to comply with GATT, to address the political environment and to meet market requirements.*

##### Recommendations:

1. that national price discrimination be endorsed as the only viable option to continue current programs designed to export to the US and maintain domestic markets facing import competition;
  2. that the industry recognize that the preferable method of sharing returns from price discrimination at the national level, that is equitable and GATT acceptable, is price pooling of all milk classes;
  3. that whatever system is adopted in the future must make provision for co-ordinated allocation mechanisms, which facilitate processors' ability to access milk supplies for the manufacture of a particular product on the same competitive basis. Such co-ordinated allocation mechanisms would include harmonized classes and prices;
  4. that if it is found necessary to adopt interim mechanisms to manage the system to meet GATT constraints in the short run, these be consistent with the adoption of national pooling and co-ordinated allocation in the longer term; and
  5. that the CMSMC urgently establish objectives, timeframes and a negotiating process to arrive at consensus on how national pooling and co-ordinated allocation of milk supplies be implemented, in the short and long term, in a manner that is equitable to all industry participants.<sup>34</sup>
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Price discrimination was defined in the DISPC report as selling milk at different prices according to end use of the dairy product. The best way to implement a price discrimination system, according to DISPC, was to develop an all-milk pooling system (see pooling definition, p. 128).

Pooling would not only address the new WTO constraints and eliminate the need for levies, it would also help resolve two outstanding and acrimonious issues that had been plaguing the industry for years:

1. the difficulty of ensuring that milk was available for all product demand at all times
2. equity between producers in sharing market returns

In the recent past, the industry had found itself experiencing shortages of fresh milk at a time when the CDC had been buying surplus butter, the report pointed out, explaining that was because of changes in the butter/powder market. "Historically, butter production from whole milk acted as a buffer, as it could be diverted to supply fresh product market needs. Consumer preference for light products and increase in skim-off have changed all of this. Eventually, all butter requirements are expected to be met from skim-off," the report stated.<sup>35</sup>

In other words, the historic flexibility in managing milk markets was gone. Meanwhile, Canada had to reduce its exports under GATT, which meant the system would have to be more tightly managed than ever. The fact that milk allocation was managed exclusively within provincial boundaries made the situation worse. "If all milk was available to service all markets, the difficulties described above would be alleviated," the report pointed out.<sup>36</sup>

As for the issue of equity between fluid and industrial producers, some of it had been resolved through the 1991 Skim-off Agreement or at least, in signing the agreement, producers and other stakeholders had realized that the fluid and industrial markets were directly linked. Clearly, fluid producers benefited from the industrial system because it provided a way to get rid of their surplus butterfat on the domestic market rather than on the less lucrative international market.<sup>37</sup>

Although international constraints are important, "it should be understood that changes are required far more as a result of the need to address the political environment, the requirements

of the markets and the maintenance of equity among stakeholders, than as a result of GATT,” the report emphasized.<sup>38</sup>

“It should be clear,” the DISPC noted, “that the concept of price pooling across all milk implicitly assumes markets are fully integrated. In other words, growth or decline in markets is also shared equally by all producers through a single quota system. Processors across Canada would have access to the milk pool on a competitive basis.”<sup>39</sup>

While all provinces agreed that the status quo was not acceptable, not all agreed with the DISPC recommendations. Alberta, Saskatchewan and British Columbia were against pooling all milk. Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario and Manitoba were for it and endorsed the recommendations.

### **POOLING IT IS...FINALLY!**

Pool all milk? Co-ordinate quota rules? One blend price for all? What would have been considered blasphemous even a few years earlier was now to become reality for the Canadian dairy industry, at least to a certain degree.

After the DISPC delivered its report in the fall of 1994, the CMSMC set up a broadly based Negotiating Sub-Committee. Its task: to find a deal that would allow the DISPC recommendations to be implemented across the country.

The sub-committee did some heavy lifting from its first meeting in October 1994 to its last in January 1995. It left behind a detailed proposal on what issues needed more work leading up to the August 1, 1995 deadline imposed by the WTO, and how to deal with them. On its recommendation, the CMSMC created two committees, the All-Milk Pooling Committee and the Policy Committee.

The Policy Committee was to hammer out a new special milk class system (to replace the subsidized Butter Utilization and Rebate for Further Processors programs) which everyone could agree to, and develop the mechanics and principles required to pool producer returns from milk sales in these classes. All of that was to become an agreement among nine provinces, known informally as P9.<sup>40</sup> It would include agreement on a nationwide

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*The DISPC report definitely got mixed reviews. PEI was initially excluded from the DISPC—I think they were trying to prevent the committee from getting too unwieldy and they wanted regional representation—but when the board objected, the DISPC agreed to take me on as a resource to the committee. So that meant we had a line of communication from the committee to the board, and I still had an opportunity to put forth PEI’s views when appropriate.*

*PEI was initially opposed to pooling. We really didn’t see the need to change the system. We had a strong co-operative movement, and we were already pooling and sharing the profits. But remember, PEI production was about 85 percent industrial, so we had only 15 percent fluid at risk.*

*But we later came to the conclusion, in the East anyway, starting from Ontario, that we didn’t see any alternative. We recognized that price discrimination was the only way to go, we recognized that we had to be united and that we, as producers across the country, had to share the risks. The West, however, except for Manitoba, didn’t feel, at that time, that the risks were that great.*

—Murray Myles, 2005, Prince Edward Island Agriculture and Forestry Marketing Council Officer, DISPC resource person



Murray Myles was a member of the DISPC representing PEI and is now PEI Agriculture and Forestry Marketing Council Officer.  
Source: M. Myles

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*What I remember most about the DISPC is all the meetings. We came so many times to Ottawa! Coming up with the final report was definitely an evolutionary process. The more we all got together, the easier it was for us to think together. As a producer organization, Quebec was always in favour of national pooling. But it was hard for a lot of people to imagine it.*

*The DISPC pushed really hard. Pooling was really the only solution to the new trade rules. And one of the ideas behind pooling was that a producer is a producer. It was time to stop thinking of different classes of producers.*

—Guylaine Gosselin, 2004, Director General, Fédération des producteurs de lait du Québec



Guylaine Gosselin was a member of the DISPC Committee representing the FPLQ and is now the organization’s Director General.  
Source: Fédération des producteurs de lait du Québec

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### **The end of a supply management**

*Overall, 1994 was a good year for the Canadian and Quebec dairy industry with the confirmation of higher Canadian butterfat requirements and the increase in the price of milk to producers. However, let us not forget this marks the end of the era of supply management put in place by our predecessors in the 1970s.*

—Claude Rivard, Chairman, Fédération des producteurs de lait du Québec, *Annual Report 1994*, p. 2

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**Pooling of revenues:** Pooling of revenues, in simple terms, means that the revenue from the sale of milk sold for all defined markets goes into one pot. The revenues are accumulated and then paid back to individual producers based on the volume of milk components that they supplied. Producers get a blend price equalling the total revenue from all milk sales, divided by the total volume sold. Thus returns, or costs of each specific market, are fully shared by all.

**Example**

Without pooling: Farmer A produces 100 hl of milk that goes to make cheese at \$50/hl and so receives \$5,000 in revenue. Farmer B produces 100 hl of milk that goes to make butter at \$40/hl and so receives \$4,000 in revenue.

With pooling: Farmers A and B, based on the same data as above, would both get a blend price of \$45/hl (100 hl at \$40/hl + 100 hl at \$50/hl = 200 hl at \$45/hl).

**Pooling of markets or market sharing:** All markets are shared among the pool participants. This implies that all producers share equally in any growth or decline in markets based on butterfat requirements. (By 2005, industrial markets are shared nationally while fluid markets are shared within two regional pools. The four western provinces are members of the Western Milk Pool; the five eastern provinces, with the exception of Newfoundland and Labrador, are members of the P5 pool.)

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*I am always amazed at the capacity of the Canadian dairy industry. It's held together by a national plan that is essentially a good-will agreement among a bunch of provinces. And we go from crisis to crisis and yet always manage to stay together.*

—Richard Lamoureux, 2004, Senior Economist,  
Fédération des producteurs de lait du Québec

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standardized milk classification system, a standardized method of Multiple Component Pricing, and a uniform method of billing plants according to end use of milk. The deadline for everything to be up and running was August 1, 1995.

The All-Milk Pooling Committee continued to work on an all-milk pooling agreement, while the Policy Committee worked on the P9 agreement.

**COMPREHENSIVE AGREEMENT  
ON SPECIAL CLASS POOLING (P9)**

Although it didn't seem as if progress was being made with all these committees, task forces, special reports, sub-committees and so on, in the first few years of the 1990s, it was. Harmonizing provincial milk classes into a national system, pricing milk according to its end use, sharing revenues in an all-milk pool, were discussed, debated and argued in meeting after meeting. Slowly but steadily, the pieces began to fall into place. Everyone—from producers to federal and provincial staff to processors—slaved over long and detailed computations, formulas, calculations and equations. These were not easy tasks.

“These were huge issues,” remembers Chuck Birchard, former CDC Policy, Communications and Strategic Planning Director.

*And it was a really tough job to get everyone to agree, as you can imagine. All provinces had historic milk classifications, some had fewer classes than others and still others had different end-use prices. Provinces had to negotiate with their processors. If you changed a milk classification in one province, it could open up competition from another processor in another province. There were always some anomalies, which created friction between processors and producers. It had to be uniformly done, and nothing is done in a uniform way all at once.*

Signed in 1996, the Comprehensive Agreement on Special Class Pooling, informally known as the P9 for the nine provincial members, was back-dated in order to officially take effect August 1, 1995 (Newfoundland would not become a signatory



until August 1, 2001). It was arrived at after heavy negotiations and give and take from all parties. British Columbia and Alberta did not sign the original agreement because they did not want to officially yield control over pooling of any milk revenues to the national level. But they always abided by it.

But putting the Special Milk Class systems in place for the August 1, 1995 deadline took a toll on the CDC and its staff. It was a brutal time.

“We created a system in a vacuum. We had nothing to go on, no guidelines from other like systems or previous work. We didn’t have the benefit of learning from previous mistakes,” remembers Nelson Coyle, CDC Chief of Policy and Strategic Planning, who was heavily involved in the process. “There was so much to be created.”

It wasn’t a huge stretch for producers to go to a Special Class Pool, the intent of which was to provide milk, on a component basis, to further processors at American-competitive prices. The dairy products would, in turn, be used as ingredients to make other products that would be price-competitive with American-produced products sold in Canada.<sup>41</sup>

### Multiple Component Pricing

Before Multiple Component Pricing (MCP), producers were paid based on the volume of milk they delivered to a processor, with a differential based on its butterfat content. With MCP, producers were paid based on the amount of milk solids they delivered. The payment for these milk solids was based on three different components:

- butterfat (yield per hl of milk approximately 3.6 kg)
- protein (yield per hl approximately 3.3 kg)
- other milk solids (yield per hl approximately 5.7 kg)

This changeover made sense from both producer and processor perspectives *and* it acknowledged that protein was a valuable component of milk.

The proportion of butterfat and protein components in a hectolitre of milk can be influenced by genetics and feeding practices—although obviously not overnight. But the price of these components can be changed quickly at the provincial level. So if consumers wanted lower fat products—which required less

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**CDC’s Nelson Coyle, Chief of Policy and Strategic Planning, was involved in pooling negotiations. He served as an advisor to the Policy Committee and chaired the Technical Committee of the Action Committee on Ingredients. Both helped develop the special class permit and audit systems.**

*So here we were left with two months to put the special class system in place. It was a terrible summer. The CDC was just overwhelmed with work. We were turning the whole system on its head.*

*Instead of further processors submitting a proof of purchase of dairy ingredients to the CDC and then getting a rebate, they now had to apply for a permit and take the permit to the processing plant. We had to design the permit and put all sorts of administrative procedures into effect. Processors had to report the sales to the boards. Boards had to pool these returns nationally on a component basis using a new classification system. We did have the companies on file, but can you imagine the work that had to be done? And on the provincial and industry sides as well.*

*Processors and further processors were definitely upset about the amount of paperwork they were going to have to do. And there was concern that they weren’t going to remain as competitive. I have to say, though, everyone appreciated that there really wasn’t any choice and we were painted into a corner. The good thing was that the further processors had some strong representation from organizations like the Grocery Products Manufacturers of Canada (now Food and Consumer Products of Canada), the Baking Association of Canada, and the Confectionery Manufacturers Association of Canada. The National Dairy Council had a strong staff representing processors. We met steadily to deal with policy changes and to design the new system. The CDC’s Action Committee on Ingredients was heavily involved and its technical committee was often tasked to work on issues in more depth. Slowly but surely we pulled the thing together, with the CMSMC Secretariat handling the pricing formula for special classes.*

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### “The industry has accepted the system”

*The implementation of special classes and the pooling of their returns has gone very smoothly considering the far-reaching nature of the changes that were involved for producers, processors, further processors, provincial governments and the Commission. While some remarks have been made on the additional paperwork required, we did try to keep new requirements in this regard at a minimum, while still ensuring proper auditing; and in general, the industry has accepted the system.*

—Speech by Gilles Prigent, CDC Chairman, to the Dairy Farmers of Canada  
Annual Dairy Policy Conference, 1996

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Nelson Coyle, CDC Chief of Policy and Strategic Planning.  
Source: Canadian Dairy Commission

butterfat and more protein to make—provincial marketing boards could put a higher price on the protein component of milk and decrease the price for fat. This would provide an incentive for producers to produce milk with less butterfat content and more protein. And if, as happened in the 2000s, the trend reverses and there's a higher demand for butterfat than protein, the provinces can change the component prices accordingly. MCP, then, helped dairy producers tailor their production to respond to the signals of the marketplace.

For processors, it meant paying for exactly what they got. Before MCP, if Processor A was making cheese, which required higher protein, and the milk he received had a slightly higher protein content than Processor B, who was also making cheese, then Processor A could make more cheese with his milk supply than could Processor B. So Processor A had a competitive advantage over Processor B, even though they both paid the same amount for their milk. After MCP, the playing field was level because all processors paid the same for the ingredients they used to make a dairy product.

### National Milk Classification System

In order to have a national pool, the industry had to have a harmonized milk classification system in which the price producers received for their milk would be the same across the country, in accordance with the *end use* of the milk.

The National Milk Classification System agreed to at the CMSMC in May 1995 developed the following classes:

- *Class 1* included fluid milk and table cream.
- *Class 2* included ice cream and yogurt.
- *Class 3* included cheddar and specialty cheese.
- *Class 4* included butter, milk powder, condensed milk and milk ingredients used in animal feed.
- *Class 5, Special Class Milk*, included milk used for further processing ingredients for domestic and export use, and milk used for planned exports.<sup>42</sup>

**End-Use Pricing** is price discrimination based on the end use of the milk component being sold.\* The classification pricing system was generally based on perishability of the product and on the related issue of priority in milk allocation. So fluid milk commands the highest price and highest quality of milk on demand, while butter and skim milk powder command a lower price.

\*Some exceptions apply, such as skim milk powder and butter. They are still end-use products but are widely used to make other products as well.

**Special Class Milk** is directed to the further processing sector and the export market. Its prices are based on American or world milk prices for competitive reasons. In order to get the milk at the special class price, which is generally lower than the other classes of milk, a further processor had to apply to the

CDC for a Special Class Permit. This allowed the CDC to monitor the volume of milk used under this classification.

The Special Class system has evolved over the years. Initially it was broken into five separate classes:

- 5(a) cheese ingredients for further processing for the domestic and export markets;
- 5(b) all other dairy products for further processing for the domestic and export markets;
- 5(c) domestic and export activities of the confectionery sector;
- 5(d) planned exports and other exports; and
- 5(e) unplanned exports.

Under Classes 5(a), 5(b) and 5(c), an unlimited amount of industrial milk was made available and priced according to end use.

### Special Milk Class Permit System

The Commission issued two types of permits under the Special Milk Class Permit System:

1. An annual permit for further processors using dairy products for certain specific uses: butter in fresh pastry products and all dairy products used in Canadian frozen finished products that were likely subject to competition from imports. There was no volume limit.
2. A permit issued to exporters on a transaction-by-transaction basis. These permits were limited to a certain volume of milk for planned exports—from in-quota production including the structural surplus—and unplanned exports that resulted from over-quota production.

## P6 AND THE WESTERN MILK POOL

By the time P9 was finally agreed on, though, it was clear that the idea of an all-milk national pool wasn't going to fly. Everyone agreed on the principles of pooling, but not on the details or the timeframe in which it should be implemented. Six provinces were ready for it: Manitoba, Ontario, Quebec, Prince Edward Island, Nova Scotia and New Brunswick. This group became known as the P6 or Eastern All-Milk Pool. But the three western provinces British Columbia, Alberta and Saskatchewan were not ready for a pool of the same magnitude, in particular not to immediately have the same rules on every element of milk pricing, revenues, marketing, sharing of industrial and fluid milk markets, promotion and transportation costs.

There were several reasons for this. First, the whole point of pooling was to develop a system that would be WTO-compliant. Under the new WTO, export subsidies were limited and producer levies were considered a subsidy. Since there were no references to pooling, it wasn't prohibited. But then the question became how far did pooling have to go? Some provinces were worried that if a pool was too shallow (i.e., not enough milk was put into a pool) it might look like subsidization (as the WTO later ruled regarding Special Milk Classes 5(d) and 5(e)—see page 157). But the western provinces weren't convinced that pooling would solve the problem in the first place, and so they were not in as big a hurry to pool as central and eastern Canada.

Another sticking point for the West was the sharing of quota, markets and revenues. In order to pool all milk, the provinces had to move from a two-quota system—industrial and fluid—to one quota, which was easier said than done. Fluid producers had paid more for their quota and got more money for their milk than industrial producers. How could the two quotas be equitably merged into one, without some winners and some losers? Certainly it was a long, complicated process in the East. Sealing the P6 deal involved compensation, quota credits and some lump-sum payments. British Columbia's production was heavily weighted to the fluid sector, as was Alberta's. Saskatchewan's was less so. The West's population was growing more rapidly than

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### Highlights of the Comprehensive Agreement on Special Class Pooling (P9)

- defined special classes of milk to sell to processors at US and world-based prices for further processing and exports
- established a national special class pool where the revenue was shared equitably among the provinces
- adopted the proposed national milk classification and Multiple Component Pricing processor billing system for regular or "full-priced" domestic markets for fluid and industrial milk
- established a Plan C offer-to-purchase, surplus removal program for butter, administered by the CDC (which was only briefly in place)
- developed and implemented common provincial policies on over-quota milk declaration by August 1996
- established an Optional Export Program
- set a Dispute Settlement Procedure<sup>43</sup>

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### Manitoba moves to MCP

*The primary reason for moving to MCP is to put in place a more market oriented pricing system. Because of the growing pressure on butterfat consumption, as evidenced by the increasing trend to low-fat dairy products, there is a need to move away from a system driven by butterfat alone. MCP gives us the opportunity to get a full return from the market place, where the relative importance of butterfat is declining. It allows for the flexibility to place new emphasis on protein and other milk solids.*

*Secondly, MCP will bring about greater equity in milk pricing for both producers and processors. Producers will be more accurately rewarded for the true value of the solids in the milk they supply. Conversely, processors will pay according to all of the components in the milk they received. For example, more protein (casein) in milk enables processors to obtain a higher yield of cheese. Thus, the milk is more valuable and should be priced accordingly.*

—Manitoba Milk Producers' Marketing Board, Annual Report 1993, p. 6

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Computerized feeding. Source: Canadian Dairy Commission

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Gilles Prigent, a former president of la Régie des marchés agricoles et alimentaires du Québec, quickly gained a reputation for his conciliatory approach and diplomatic skills. He would be the CDC chairman who would usher in the Special Class system and then the milk pools. A lawyer by training, he had been a legal advisor to, and a colleague of, Benoît Lavigne, one of the early champions of supply management. Prigent was appointed CDC Chairman on June 4, 1994.

*I was getting ready to leave—I had another year to go as chairman of the Régie des marchés agricoles et alimentaires du Québec—when I got a call from Jean-Jacques Noreau, the federal Deputy Minister of Agriculture, asking me if I would be interested in becoming chairman of the CDC. I knew Roch [Morin] was leaving. I suspected Noreau had already talked to a number of people, organizations and associations, most of whom knew me; actually, I know he did. I'd been around for 20 years in the industry so I was a 'known commodity.'*

*So I said, "Well, give me a day to think about it, but I would probably be very interested." And it didn't take me long to say yes.*

*After being in Ottawa for a few weeks, I met with Minister Goodale. He basically didn't put any restraints on me. He was a very open-minded, likeable person. He told me that I'd have to create a new world for the dairy industry and that things would have to change dramatically. He knew that all the signatories in the different provinces—producers, government officials and processors—weren't in agreement on what had to be done. And he said I'd have to find a way to get everyone on board, without making the processors any madder than they already were. "I won't interfere and I won't impose any method," he said. "We'll provide whatever help you need. You can have access to all staff as if they were your own. But it's your own show," he told me, adding, "you have quite a job there to do." He was right about that!*

*I knew the problems that were creeping up with GATT and WTO and I thought they would be extremely interesting. We had to find a way to meet these challenges and as I got further into it, I said to myself, "Oh boy, there doesn't seem to be anything that anyone agrees on!"*

*We had to get everyone at the table and find a way. And in the end, with the help of a lot of people, endless meetings and patience, it was done. It wasn't easy, but we did it.*

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the East's, and to them, joining the P6 would mean the western provinces were essentially sending their growth to Quebec and Ontario. Not surprisingly, they declined.

There was also the issue of underlying East-West tensions. It was no secret that there had always been rivalry between the East and the West, and not just in the dairy industry.

"A national milk pool was an attractive concept at first glance," says Peter Knight, former administrator of the British Columbia Milk Marketing Board. "But in-depth comparison of the historical development and the existing structure of the dairy industry in British Columbia, relative to the two largest milk-producing provinces in eastern Canada, convinced us it was not the best direction for us to take. We were just too different. Furthermore, there was a better alternative."

"Many provinces wanted to form a national pool," says Stan Barber, CEO of the Saskatchewan Milk Control Board at the time. "But we conducted an economic evaluation of the impact on the western provinces of joining the Eastern All Milk Pool, and determined that it was not in the best interest of the western provinces. It would erode our market share and result in an economic loss for western consumers and producers. Having undertaken that extensive analysis, we concluded that it wasn't appropriate to even consider joining the Eastern Pool, and we didn't."

Lloyd Johnston, former Alberta Milk Control Board executive director who was involved in negotiating the Western Milk Pool, agrees. "Basically, as far as we were concerned, for us to join the P6 would have meant a direct transfer of dollars from the West to the East. Now, why would we have been interested in doing that?"

The eastern provinces, as well as Manitoba, though, believed that ultimately revenue and market sharing were the only viable options that would allow dairy product exports to conform with WTO requirements. They were keen to harmonize and integrate their fluid and industrial milk sectors, and so they continued to work out the details.

### Agreement on All Milk Pooling

For those involved, it was an incredibly arduous journey. Nonetheless, the reinvention of the Canadian milk supply management system was done in a surprisingly short timeframe.

The Agreement on All Milk Pooling was signed in 1996. Informally referred to as P6, it involved resolving complex issues that required all kinds of calculations and formulas on market sharing and pricing to be devised, revised and agreed to by the member provinces. Market shares, pricing flexibility percentages, lump-sum transfers, quota credits, harmonized milk allocation

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*We joined the P6 because the national pool negotiations had broken down. British Columbia, Alberta and Saskatchewan had decided that they weren't going to participate in a national pool. Manitoba was committed to a national pool because we felt there was strength in numbers, and stability in market and revenue sharing. Manitoba's leadership at the time, namely Louis Balcaen and Neil Van Ryssel, saw the national pool as the right thing to do for Manitoba and Canadian dairy farmers. The concept was perhaps easier for Manitoba because our fluid/industrial split mirrored that of Canada, 37/63.*

—Jim Wade, 2005, General Manager, Dairy Farmers of Manitoba

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*There's no question that we had to move to pooling, and everyone saw that. Dairy Farmers of Ontario had made it one of its strategic goals. We had already integrated our fluid and industrial pools and moved to a single pool. We firmly supported the idea of an all-milk pool because it would give us the flexibility we would need in the future. And we felt that the argument around the need for P9 would apply to the fluid class in the long term.*

*As well, agriculture ministers had met and decided that inter-provincial barriers to trade were to come down by 1997. We saw a much bigger threat in that, here in the East, than the West did. We did not want to get into a price war with Quebec, so we made a strategic decision to negotiate an agreement to prevent that from happening. Ontario did give up some of its fluid market, as did Nova Scotia, but we were compensated. Prince Edward Island and Quebec, which benefited the most from pooling fluid milk with industrial because their industrial proportion was so much higher, transferred money to New Brunswick, Nova Scotia, Ontario and Manitoba. And then there were a number of quota credits issued.*

—John Core, now CDC Chairman and  
Chairman of Dairy Farmers of Ontario from 1990 to 2001



Gilles Prigent, Chairman  
of the CDC (1994–1997).  
Source: Canadian Dairy Commission



Lloyd Johnston is the former Alberta Milk  
Control Board Executive Director  
and was part of the negotiations  
to create the Western Milk Pool.  
Source: Alberta Chicken Producers Board



Claude Rivard was Chairman of the Fédération des producteurs de lait du Québec, President of Dairy Farmers of Canada and a key player in the negotiations of the All Milk Pooling Agreement. Source: Fédération des producteurs de lait du Québec Archives

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### Quebec and P6

*Producers in all six provinces, from Manitoba to Prince Edward Island, will now share an immense market of over 5.5 billion litres of milk, representing farm revenues of more than \$3 billion. Along with these important changes, we also moved from a two-quota system to a single quota, expressed in kilograms of butterfat per day. This is a much simpler method, which eliminates the pressure of a common dairy year-end, but it's also more restrictive, requiring more regular production than ever from producers. Also, an inter-provincial quota exchange between Quebec and Nova Scotia became a reality.*

—Claude Rivard, Chairman, Fédération des producteurs de lait du Québec, *Annual Report 1996*, p.3

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*Potentially, Nova Scotia had the most to lose going into the P6. We had the highest fluid milk price and highest ratio of fluid to industrial milk. People were asking us, "why would you want to do this?" Really, there were a couple of reasons. One, our fluid market wasn't growing any more, and the prospect of it growing in the future didn't look good. Two, definitely we felt that inter-provincial barriers would come down and fluid milk could start flooding into Nova Scotia. These were the main reasons, but it would have been difficult to proceed without strong leadership from the Nova Scotia Milk Producers Association, primarily President Barron Blois and Vice-President Elspeth McLean-Wile. The leadership became convinced that this was in everyone's long-term best interest, and they were able to convince their fellow producers of it.*

—Gabriel Comeau, 2005, Nova Scotia Dairy Commission manager from 1989 to 2001

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### Highlights of the Agreement on All Milk Pooling (P6)\*

- Pools all revenues from milk sales among producers under Multiple Component Pricing system;
- Shares all market adjustments and, in support of market growth, establishes a joint promotion fund (except Manitoba);
- Establishes common target prices for components with a margin of flexibility for provinces around those common target prices; and
- Establishes a dispute settlement procedure.<sup>44</sup>

\* All revenues were shared effective August 1, 1996. Transport costs were shared in a separate pool, except for Manitoba, effective August 1, 1998.

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policies, a policy on future quota adjustments, revenue calculations, component pool pricing—the list went on.

It's impossible to give sufficient credit where credit is due—to all those who made the P6 agreement happen. But no one mentions P6 without bringing up the names of John Core, the Ontario Milk Marketing Board Chairman and now CDC Chairman, and Claude Rivard, Chairman of the Fédération des producteurs de lait du Québec. Many attribute getting the P6 signed to the close personal and working relationship they had, and their determination to keep the supply management system for milk intact. Barron Blois, now Vice-Chairman of Dairy Farmers of Nova Scotia, is also frequently mentioned. Not coincidentally, all three were on the executive of Dairy Farmers of Canada at the same time in 1995. Neil Van Ryssel, Chairman of Manitoba Milk Producers, made an eleventh-hour offer to Nova Scotia to seal the deal. Blois Dingwell, PEI Milk Marketing Board Chairman, and Jacques Laforge, New Brunswick Milk Marketing Board Chairman, worked incredibly hard with everyone at the table. Provincial board and government staff provided much help and technical expertise. They are too numerous to mention.

"Remember that we had all been working together for some time," says John Core, now CDC Chairman.

*A lot of the issues—different pricing, milk allocation—had been defined and identified by all the different, and many, previous industry and CMSMC committees. So once we knew there was a willingness to sit down and find a solution, it was relatively easy. We knew we were going to do it, it was a question of negotiation. Plus we knew we could trust each other. We knew how far everyone could go and still have their province behind them. And if there were issues that someone couldn't move on, you had to accept that.*

By the 1990s, Ontario was producing 33 percent of Canada's total milk production, and Quebec, 40 percent. The Maritimes' production totalled just 5 percent and Manitoba's 4 percent. The three western provinces produced the rest: British Columbia, 7 percent; Alberta, 8 percent; and Saskatchewan, 3 percent.

P6, then, brought all-milk pooling to 82 percent of Canadian

milk production. “It had to be an equitable agreement in the end, otherwise no one would have agreed,” says Gilles Prigent, CDC chairman at the time. “But it was really a hard, difficult task, and the leadership of the producer organizations was tremendous.”

The agreement was signed in August 1996, but was retroactive for sharing markets to August 1995.

### Inter-provincial quota exchange

The P6 agreement included a provision for a pool-wide quota exchange for producers to sell quota. It would later prove difficult to implement. Under the provision, if a province lost more than 1 percent of its quota within a year, it could opt out of the exchange for one year, but was then supposed to rejoin the exchange.

Nova Scotia in particular had insisted on the exchange. “We had a number of producers who wanted to increase their holdings and when we looked at pooling, we realized that the compensation and concessions that everyone was making still wouldn’t address Nova Scotia’s need to increase its MSQ,” says Barron Blois, now Vice-Chairman and National Director of Dairy Farmers of Nova Scotia. “So we pushed for an inter-provincial quota exchange. This wasn’t the first time we had tried to introduce the concept. We were talking about this back in the 1980s.”

Quebec and Nova Scotia joined first and within the first year, quota went back and forth between the two provinces, with no net quota winner or loser. Then, in September 1997, Ontario joined the exchange. (Under the P6 agreement, Prince Edward Island, Manitoba and New Brunswick were to “consider” joining the exchange at a later date, and the exchange was to be reviewed in 1998.)<sup>45</sup>

Within the first six months, though, Ontario lost 2.1 percent of its quota—a lot of it to Quebec—so it pulled the plug. Nova Scotia and Quebec continued with the exchange. When its one year out of the exchange was up, Ontario did not, as expected, rejoin. It asked the P6 Supervisory Body for a study to look at a number of issues, including an analysis of long-run comparative advantage between provinces and the impact that individual provincial quota policies could have on quota exchanges.<sup>46</sup>

The study was presented at the end of the decade, but did not clearly identify specific problems. In the 2000s, Nova Scotia

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*I’m not sure how many people know that Quebec and New Brunswick had already negotiated a pooling agreement before the P6. With New Brunswick having the state of Maine on one border and Quebec on the other, we were very concerned about pricing and what could happen to our market. So Quebec and New Brunswick developed a very simple pool. Revenues weren’t pooled initially, but would be gradually, and there weren’t any quota or dollar transfers.*

*Quebec wanted an example of how a pool could work, and we were looking for protection. It’s like the mouse and the elephant. We thought it would be better to be on the elephant’s back than under its foot.*

*But the closer we got to finishing the agreement, the more the other provinces were interested. We did finish, and both sides were ready to sign. And then Quebec sat down with us and said, “Should we sign this and then negotiate with the others? Or should we get all six provinces at the table and try to get an agreement together?” By this time, Ontario was very interested and had been talking with Quebec. And Quebec had said if it didn’t work out with the other provinces, we would go ahead with our agreement.*

*It was a big decision for us to not go forward with what we already had, and to say “okay, let’s hold off.” We weren’t happy, but we agreed to put it aside pending more discussion with the other provinces. You see, if Quebec and New Brunswick had signed an agreement, and others wanted to join later, they’d have to follow the principles of what we had negotiated. Meanwhile, the dynamics of the agreement changed completely when the other provinces started negotiations. And we got into quota credits, compensation, transportation costs. In the end, though, I think it all worked out. But as far as I’m concerned, our agreement with Quebec definitely stimulated getting to a P6.*

—Jacques Laforge, 2005, DFC President and former Chairman of the New Brunswick Milk Marketing Board

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*We all came from different corners. Our demographics and industries differed greatly, even within our own provinces. Also remember, Ontario and Quebec were a lot more sophisticated and had been organized for a long time. Manitoba wasn’t as big, but it had a strong producer organization. The smaller provinces were at a disadvantage. We didn’t have a team of economists helping us out, advising us on the most advantageous ways to do things. Sometimes we had to be quick on our feet and go with a gut reaction. The toughest part was working out the details of how we would share the markets and the revenues. We all had to make sure that we didn’t lose too much. We had to balance risk with money, or quota, which is indirectly money. It wasn’t easy.*

—Murray Myles, 2005, Prince Edward Island Agriculture and Forestry Marketing Council Officer



Barron Blois, Vice-Chairman of Dairy Farmers of Nova Scotia and former President of Dairy Farmers of Canada. Source: Dairy Farmers of Canada



Arne Mykle, former Chairman of the British Columbia Milk Marketing Board.  
Source: A. Mykle

would also pull out of the exchange and call for a Dispute Settlement Panel to resolve the issue.

### Western Milk Pool

Considerable consolidation in the dairy industry took place across the West in the 1990s. In 1992, the Fraser Valley Milk Producers Cooperative Association (FVMPCA, also known by its trade name Dairyland Foods) merged with the Northern Alberta Dairy Pool (Nu-maid Dairies) and the Central Alberta Dairy Pool (Alpha Milk Co.) to form Agrifoods International Cooperative. In 1996, the Dairy Producers Cooperative of Saskatchewan merged with Agrifoods, making it Canada's second largest dairy co-operative.

British Columbia, Alberta and Saskatchewan were initially involved in the national all-milk pooling discussions, which were taking place parallel to P9 talks, but decided to withdraw from negotiations. Some people in the West thought that they would eventually need to pool, but didn't agree with harmonizing everything to the same extent, or as quickly, as the East did.

Still, the western provinces, including Manitoba, started talking about a Western Milk Pool, even though there was no urgency involved—not until a number of things happened in quick succession to make the West rethink that lack of urgency, particularly when Alberta milk started flowing into British Columbia. (It should be recognized at the outset that British Columbia producers got considerably more money for their fluid milk than Alberta, Saskatchewan and Manitoba producers, sometimes as much as \$5 more a hectolitre.)

What happened was this. On May 1, 1996, Westfair Foods, a wholly-owned subsidiary of Loblaw Companies Ltd., closed its Foremost Dairy fluid milk plant in Burnaby, British Columbia—which had been experiencing labour difficulties. Loblaws still needed to supply milk to its British Columbia stores, so it sourced that milk out of a fluid plant in Calgary, Alberta. The British Columbia and Alberta milk boards had an arrangement to account for the fluid milk within the British Columbia pool so that the 65:35 clause of the National Milk Marketing Plan would

not be affected. Then Agrifoods initiated an arrangement dubbed "Operation Farmgate" to protect its British Columbia membership from lower prices.

Before this, an Alberta dairy plant that had been shipping fluid milk into British Columbia, and paying the British Columbia board the difference between the two fluid milk prices, decided to stop paying the difference.

"I remember sitting at a meeting, wondering how that was going to play out," says Bruce Beattie, chairman of Alberta Milk at the time and now a director. "We were definitely looking at the threat of a price war."

"That meant a huge shift in milk production, and almost overnight," remembers Jim Waardenburg, a dairy producer and former director of the Fraser Valley Milk Producers' Association. A significant portion of the British Columbia milk market being supplied by Alberta, needless to say, did not sit well with British Columbia producers.

Then Agrifoods International, the co-operative consisting of British Columbia, Alberta and Saskatchewan producers, stepped into the fray. It had marketing and distribution capabilities in Alberta and British Columbia and started shipping fresh milk from one of its British Columbia plants into Alberta, at about the same volume as Alberta was shipping to British Columbia. The

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### BC milk shipped to Alberta

*Foremost Foods Ltd. closed its Burnaby operations on May 1, 1996. Foremost utilized approximately 4.5 million litres of milk monthly. Plans are in place to have the equivalent volume of milk packaged as Class 1 and transported and marketed in Alberta. How long this arrangement will be necessary is unknown at this time.*

*In the interim, the producers' equalization pool will absorb some of the costs associated with moving the milk in order to protect BC's production. This extraordinary cost will be spread across all milk as it is a benefit to all producers in terms of dealing with excess production as well as maintaining a market for the milk.*

— British Columbia Milk Marketing Board, *Issues Update*, May 1996

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milk from the two eastern areas of British Columbia that went to Alberta had a significant impact on British Columbia producers because in British Columbia, it was for the fluid market. But when transported to Alberta, some was downgraded to industrial milk, depending on its use.

Shipping fresh milk from Alberta to British Columbia, and vice versa, meant some major transportation costs and other headaches. The arrangement did not last long.

A dispute broke out between the British Columbia Milk Marketing Board (BCMMB), a three-member appointed board consisting of an independent chair and two active milk producers, and Agrifoods International, the producer-owned co-operative which handled the transportation and packaging. The dispute was over the costs involved in the operation—including considerable expenses arising out of Agrifood's plant closures. The three BCMMB members resigned as a result of the dispute.

"The closure of the Foremost Plant struck a chord with all of us," says Arne Mykle, a former chairman of the British Columbia Milk Marketing Board. "We had the merging of the co-ops in the early 1990s, and now the inter-provincial barriers that had existed were gone. This certainly brought home the reality of single-plant ownership. So there were a number of factors pushing us toward a Western Milk Pool."

The disappearance of provincial boundaries, which had been only gentlemen's agreements between the provinces, coupled with the processing plant consolidation, meant that a price war was likely to erupt among the provinces—or at least a more competitive pricing environment would emerge. British Columbia was also seeing a lot of cross-border shopping, which was affecting its fluid sales. And what was going to happen on the WTO front wasn't clear at the time.

"This kind of turmoil chased everyone to the table, so we got the P4 deal done quite quickly," observes Jim Wade, General Manager, Dairy Farmers of Manitoba.

"We developed a very simple pool," remembers Ben Cuthbert, Vice-Chairman of the BCMMB. "Alberta insisted on maintaining their pricing formula, which was a huge disadvantage for

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*One of the driving forces for a Western Milk Pool from Alberta's perspective—and that of many producers—was the possibility of moving quota between provinces. We saw the processing sector rationalizing, moving processing, and we thought we could provide the same opportunity to producers. This was a major selling factor for Alberta, and certainly for Jim Heron, Alberta Dairy Board chairman at the time, in his discussion with our agriculture minister.*

*There were few clear positives for Alberta, other than the obvious stability, and the advantage from a political standpoint, of an apparently united dairy industry. The WMP agreement included the statement that we would "work toward a WMP quota exchange." Unfortunately, that never came about. While there was provision for whole farm transfers between provinces, this aspect was rendered inoperable by the suspension of the provision by some provinces.*

*The WMP also pooled without common quota systems. In fact, each of the provinces had quite different means for allocating quota at the provincial level, and still does. The pooling agreement provided for that in the allocation of the revenues by the CDC.*

—Bruce Beattie, 2005, Alberta Milk Director

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*Clearly, practices were changing. After hard negotiation between regions, BC had only recently moved to a single provincial pool. Provincial border barriers in dairy were being dismantled. Product distribution in the West was being rethought. We knew we had to further adapt and, in the new reality, determine the best option for our industry. Join a milk pool of all provinces, or a group viewed more as equals? A lot of soul-searching took place in our producer community, and not without differing opinions. Obviously, communication at regular meetings would play a vital role in this new world. Our sense was that for us a western all-milk pool better fitted the situation.*

—Peter Knight, 2005, former administrator of the  
British Columbia Milk Marketing Board



Leo Bertoia, former Chairman of Dairy Farmers of Saskatchewan and former President of Dairy Farmers of Canada.  
Source: Studio von dulong

us because it didn't include any indexing from our pricing formula. We were fairly cautious about everything. But the reality was, with provincial barriers down, we weren't going to be able to keep the same price we were getting for our milk anyway. I can guarantee you that if the Foremost plant hadn't closed, and those provincial boundaries hadn't come down, things would be different today."

Leo Fuhr, former chairman of the Saskatchewan Milk Control Board, who signed the WMP agreement, said: "There was a lot of squabbling during the WMP negotiations. My guys initially wanted to go for more quota, but I didn't agree. I said we've got to save what we have first. It wasn't easy, I can tell you. It was really stressful. There was a lot of tension between British Columbia and Alberta."

The Western Milk Pool went into effect March 1, 1997.

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*The CDC certainly contributed to the successful development of the Western Milk Pool. It didn't add a lot in terms of negotiations; that wasn't its role. Rather, the CDC provided a lot of data and information that helped the western provinces look at, calculate and analyze various options. It provided an unbiased third-party perspective. We appreciated its expertise and that of its staff.*

—Stan Barber, 2005, former CEO of the Saskatchewan Milk Control Board

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*You have to remember, too, that with all the consolidation in the processing industry, the last thing producers wanted to see was provinces pitted against each other. We had to be very careful we didn't get caught up in that type of game. So if we made a pool, that couldn't be allowed to happen.*

—Leo Bertoia, 2005, former Director of Agrifoods International Cooperative and former Chairman of Dairy Farmers of Saskatchewan

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#### Highlights of the Western Milk Pool (WMP)

- Pooled all revenues from milk sales among producers;
  - Shared all markets;
  - Established a common price for milk components by class (industrial milk only); and
  - Established a dispute settlement procedure.
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#### Manitoba and the pooling agreements

When a Western Milk Pool looked as though it might become a reality, Manitoba understandably joined the negotiating table. But Manitoba producers still weren't ready to give up the hope of having a national all-milk pool. They joined the WMP and were exempt from all P6 commitments (market share, transportation, pricing flexibilities) except revenue sharing. They continued to share revenues with both pools into the next decade. They pooled their revenues first with the WMP and then with the P6 pool. The idea was that Manitoba would become the glue, or the bridge, between the West and the East. "It was quite courageous of them to do that," remarks CDC Chairman John Core. That arrangement would change in the next decade.

#### AMENDING THE CDC ACT

In order for the CDC to administer pooling for the provinces, the *CDC Act* had to be amended. It was a relatively painless process, as amending acts goes, according to CDC legal counsel at the time, Tom Barton. "But the provinces did have some concerns about it," he says. The concerns, not surprisingly, centred on the division of powers. Some provincial governments were worried that the amendments could be interpreted as giving the CDC more powers. "I remember spending a lot of time explaining that these changes were *not* going to affect what happened on the street," Barton adds.

What Bill C-86—"an Act to amend the *CDC Act*"—did, in plain language, was replace the CDC powers to collect levies with powers to establish and operate a market and revenue pooling system. The revised Act also gave the CDC power to recover pool administration costs from the pool, to establish a special bank account to handle producer money going in and out of the pool, and to establish a line of credit to bridge any required financing.

While wending its way through the legislative process, Bill C-86 gave an opportunity to politicians to lob a few partisan shots at supply management. But it passed on third reading, on June 20, 1995,<sup>47</sup> a mere five months after Lyle Vanclief's Task Force on Orderly Marketing recommended amending the Act.

CDC AND CMSMC STAY THE COURSE

Throughout the turmoil of committees, sub-committees, reports and task forces, which were poking and prodding all elements of the national dairy industry and its policies, the CDC held to its course. There were lots of other issues to tackle, beyond international trade battles and pools.

1991 SKIM-OFF AGREEMENT

The original fluid skim-off levy was introduced in 1977 when there was a lot of overproduction of industrial milk and the CDC wanted the fluid milk industry to pay its share of export costs for skim milk powder. It was seen by the provinces as a punitive measure, and fluid producers were not happy, but the levy went through.

Then in 1989, the consumer trend to lower-fat fluid milk products—which meant more butterfat from the fluid milk industry spilling into the industrial milk sector—needed to be addressed, so the way the fluid levy was calculated was changed: it was now based on actual sales of Class 1 milk, rather than on the volume of skim-off each province produced. That move was not welcomed, but it also went through.

But the skim-off continued to increase and it began affecting MSQ. National MSQ was cut by 6 percent in 1990, and a further 4.4 percent in 1991. The province most affected by the cuts was Quebec, which had the largest share of the national MSQ and so absorbed the greatest proportion of each MSQ cut.

Quebec was not happy with the fact that it was losing MSQ,

Unanimous preservation of supply management

Looking beyond the figures and the partisan analysts who will continue to say that it is too little too late, or even that the agreement is too generous, there is no question that the provinces have finally come together and have clearly and unanimously affirmed their commitment to preserving the Canadian Milk Supply Management System.

—Le producteur de lait québécois, November 1991

Provincial Fluid/Industrial Market Shares 1995–96

	Fluid (%)	Industrial (%)
PE	15.91	84.09
NS	63.72	36.28
NB	55.63	44.37
QC	25.84	74.16
ON	45.82	54.18
MB	44.31	55.69
P6	36.48	63.52
SK	47.76	52.24
AB	51.91	48.09
BC	63.34	36.66
WMP	56.10	43.90
P9	40.18	59.82

Source: CDC. Fluid milk numbers are based on milk processed in the province (not consumed).

It was important to set in place the proper legislative authority for the creation of special classes and the mechanisms needed to pool producer returns. Too much work had gone into the process to see it fail because of an inadequate legal framework. After considerable discussion and consultation, we decided that the CDC Act had to be amended. There were some concerns that bringing amending legislation before Parliament could lead to unintended results. But there was all-party support for the initiative in both the House of Commons and the Senate, and Bill C-86 sailed through without a problem.

—Chuck Birchard, 2005, former CDC Policy, Communications and Strategic Planning Director

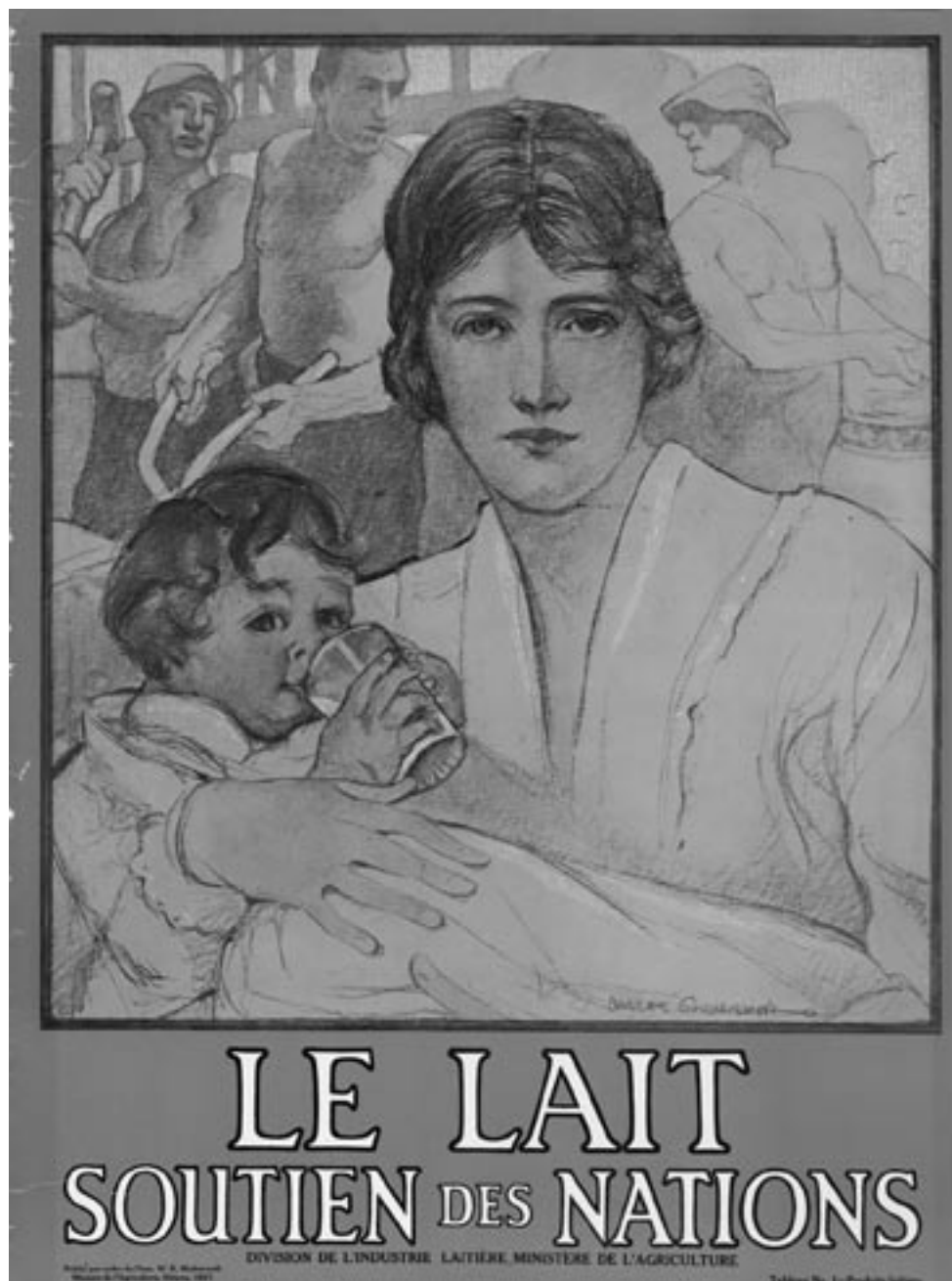
**Definition of skim-off:** The quantity of butterfat recovered when whole raw milk is standardized and processed into various fluid milk products, like homogenized and 2% milk. Some of the recovered butterfat is used in fluid cream products and the rest (net amount recovered) is used to make industrial dairy products. The net amount recovered is what is commonly referred to in the industry as skim-off.



Minister of Agriculture Lyle VanClief (1997–2003). As Parliamentary Secretary of Agriculture, Mr. VanClief led a task force on orderly marketing, which among other things, recommended amending the CDC Act to allow the Commission to administer pooling agreements.  
Source: Agriculture and Agri-Food Canada



Charles Birchard, former CDC Policy, Communications and Strategic Planning Director.  
Source: Canadian Dairy Commission



Poster produced by the Department of Agriculture of Canada in 1927. Source: John Core

*There was only a small levy on fluid milk, but the number of fluid producers was growing, and grew considerably in the late 1980s. There was a huge anti-cholesterol campaign, which also contributed to the skim-off, and Quebec's share of the market was being affected the most. Other provinces had a more equitable split of fluid versus industrial, so they gained and lost. But Quebec was paying for everyone else's, so we decided to push it. It was a rough battle.*

*I remember a meeting in the Lord Elgin Hotel about it, and Claude Rivard, DFC president at the time, actually had tears in his eyes when he told the group that if they didn't accommodate Quebec, it might be the end of the National Plan. What won out in the end was the political forces, really, because it was clear that Quebec would not accept reduction of its production without getting something in return. Meanwhile, we had given on British Columbia's 65:35, and we had given with the 90:10 amendment, so the door had been opened with those concessions. We reminded our friends of that.*

—Michel Beauséjour, 2005, Senior Director,  
Fédération des producteurs de lait du Québec

#### **A basis for allocating costs**

*During the 1991–1992 dairy year, a major achievement by the CMSMC was the development of a basis for allocating the costs of the national industrial milk supply management program across fluid and industrial milk production. The agreement resolved a long-standing issue that excess butterfat from the fluid sector generated considerable cost and lost markets for industrial producers.*

*Effective August 1, 1991, each province became fully responsible for the butterfat skimmed off in its fluid sector. In addition, the agreement compensated provinces that had produced skim-off at a proportionally lower rate than the national average in past years. The compensation took the form of limited protection against future quota reductions as a result of skim-off increases.*

*Finally, the agreement stated that provincial levy responsibility would shift over a three-year period, from being calculated on the province's industrial milk production plus a skim-off charge on fluid production, to being calculated on total provincial milk production. In the 1993–1994 dairy year, each province's entire in-quota levy obligation will therefore be applied over all milk—its fluid milk sales and industrial production under MSQ.*

*This move towards a single levy system is mirrored by the transition in several provinces to a single quota system for fluid and industrial milk.*

—Briefing Note to the Honourable Ralph Goodale,  
Minister of Agriculture and Agri-Food Canada on the CDC,  
National Dairy Policy and Current Industry Issues, Nov. 10, 1993, p. 21



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Quebec, along with Prince Edward Island, was being hurt the most by the encroaching skim-off, because they had the largest shares of industrial MSQ. And don't forget that this all took place before pooling. So when we had to cut MSQ because of the increasing skim-off, Quebec had the most to lose. And you know how feisty Quebec could get. They weren't going to take that lying down. They really drew a line in the sand over that issue, and who could blame them? I remember how acrimonious that debate was.

It was probably one of the most difficult issues that we had to resolve. I distinctly remember being overseas and while travelling I met some dairy people at the airport. The first thing they said was, "we've solved the skim-off." I was so relieved! It was a long time in the making.

—Louis Balcaen, 2005, former CDC Vice-Chairman and Co-Chair of the Consultation Committee on the Future of the Dairy Industry

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**Claude Rivard, former Fédération des producteurs de lait du Québec (FPLQ) Chairman, remembers the difficulties arriving at the 1991 Skim-off Agreement.**

Remember that at the same time we were negotiating the national skim-off agreement, Quebec's industrial and fluid milk producers were at war with each other over skim-off. Industrial producers were getting increasingly frustrated with how slowly things were moving, to the point where they held a protest in front of the FPLQ offices in Longueuil.

The skim-off issue was debated for a while at the CMSMC, but other provinces didn't seem to understand the difficulties Quebec faced. We wanted the other provinces to pay for a greater part of the cost of surplus disposal. Butter was largely made from the skim-off of butterfat. In May 1991, I threatened that Quebec would leave the National Plan if a solution wasn't found and our provincial government supported us.

John Core, chairman of Dairy Farmers of Ontario at the time, really didn't want to see that happen. Along with others, he worked really hard to get an agreement in place. I remember discussing the issues at length with him during a fishing day on the Matapedia River. I had invited the Core family to spend the weekend at my place after a Dairy Farmers of Canada summer meeting, which must have been in Halifax that year. At the start of the day, John couldn't even cast his line. But I'm a good fishing guide and by the end of the day, he was casting a good 50 feet. We lost one salmon each that day. But it wasn't a problem, because for dinner we had trout that the kids had caught in the lake!

John made a special presentation to Quebec at the next CMSMC meeting. He presented the Quebec delegation with a replica of an old poster from the Department of

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**The skim-off issue**

The skim-off issue has been with the industry for a number of years. To a large extent, the maintenance of two separate marketing sectors under different jurisdictions has created a situation where the displacement of industrial milk production by fluid skim-off has become a serious problem. No one denies that fluid skim-off results in a reduction of Canadian requirements for industrial milk and, therefore, Market Sharing Quota. Furthermore, everyone recognizes that the sharing of any reduction in MSQ due to skim-off is not reflective of provincial contributions towards skim-off production. The issue is therefore one of equity.

—DFC Staff Paper, "Working Group Proposal re Skim Off," August 23, 1991, p. 1

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Agriculture dating from 1927. It pictured a young lady holding a baby drinking a glass of milk with the slogan *Le lait, soutien des nations* (Milk: the support of nations). He said he offered it because he wanted to keep Quebec in the National Plan, and with Charlottetown Accord talks under way, he wanted Quebec to stay in Canada. I thanked him and said I hoped his wish would be translated into actions.

John presented a proposal on the skim-off that day, but earlier we had received some statistics showing that the proposal needed adjustments because Quebec was actually making less skim milk powder than originally thought. I felt badly about putting the brakes on the proposal, but it was new information that I had to take into account. Otherwise my producers would not agree to it. So I suggested to Roch Morin, who was CDC chairman at the time, that he lock a bunch of us up at the Lord Elgin Hotel until we got an agreement. I suggested he send us dinner. Well, we also needed a midnight snack because we didn't get out of there until 4:30 a.m.—but we got out with an agreement.

We had one producer and one staff member from the West, one each from the Maritimes, myself and John. We all came up with a proposal that was presented at the CMSMC the next day. Louis Balcaen of Manitoba was also instrumental in getting this agreement. The three of us used to be known as the Three Musketeers!

To a certain extent, the Skim-off Agreement served as an example to our own warring producers. If we could reach a national agreement on skim-off, surely Quebec producers could agree among ourselves on the same issue. And we did.

especially since it was adding considerably less fluid milk skim-off to the problem than, say, Ontario. In 1990, Ontario was responsible for 48.5 percent of the fluid skim-off, and Quebec 19.1 percent. But the 6 percent national MSQ cut that same year was shared proportionally among all provinces.

Quebec started to push for a change, and it was not a pretty fight, according to Michel Beauséjour, Senior Director of the Fédération des producteurs de lait du Québec. “Quebec wanted each province to be responsible for its surplus butterfat from the fluid market.” That was far more equitable, he says, than sharing the effect of the increasing skim-off proportionally among all provinces.

In the end, each province agreed to be fully responsible for whatever butterfat skim-off it produced, starting August 1, 1991. A phase-in of three years to apply the new calculations was also agreed to, as were provisions for provinces that had fluid skim-off below the national average.<sup>48</sup> Known as the 1991 Skim-off Agreement, it was conditional on an audit by the CDC to confirm the numbers in the agreement. The audit later became controversial because it found that some provincial data had to be adjusted to agree with Statistics Canada data—an adjustment that had an impact on MSQ calculations. In the end, the agreement was accepted at the CMSMC September 1991 meeting.

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#### Highlights of the 1991 Skim-off Agreement

- Each province will be fully responsible for the butterfat skim-off that it produces starting August 1, 1991, and will absorb the possible increases in fluid milk skim-off by a reduction in its industrial milk MSQ.
  - A credit that can be applied against future increases in skim-off will be given to provinces whose skim-off increases are lower than the Canadian average.
  - The impact of applying the new calculation of levies to all milk will be spread over a three-year period.
  - The marketing costs of CDC, including the sleeve export cost and the skim-off levy, will be divided among all the milk produced in Canada.
  - Producers will pay a \$0.62 per hectolitre levy to the Dairy Bureau of Canada, based on the quantities of milk equivalent to the skim-off from fluid milk.
  - A sub-committee to harmonize provincial programs and standards will be established.<sup>49</sup>
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#### COST OF PRODUCTION

Shortly after the cost of production formula was announced in 1988, there was grumbling about it. Some producers weren’t happy with the survey of farm costs on which the formula was calculated. In 1991, the Task Force on National Dairy Policy recommended that the Consultative Committee’s mandate be expanded to advise the CDC on pricing and cost of production (COP) issues. More industry input was needed, the government said, and it wanted more transparency in setting prices.

The Consultative Committee went to work. It was not an easy task. There were competing interests around the table. Consumers, processors, further processors, producers and academics were all represented but couldn’t agree on how to best arrive at a fair COP. The COP has always been a touchy issue because it is the most heavily weighted variable used to set the target return for producers. Still, after much arguing, compromising and back and forth—over more than two years—the committee arrived at a compromise in 1994.

The initial motion, “that the Consultative Committee accept the COP as the basis for calculating the cost of producing milk to form part of the next long-term dairy policy,” did not pass on first round.<sup>50</sup>

Both Honey Forbes of the Consumers’ Association of Canada and Sandra Banks of Grocery Products Manufacturers of Canada (now Food and Consumer Products Canada) were concerned that the guidelines didn’t contain anything that would account for the need to decrease or challenge costs. Both made their approval of the guidelines conditional on a benchmarking study of the Canadian dairy industry. That would at least provide a means to measure how the COP performed over the years. Everyone agreed on the benchmarking issue, which had been extensively discussed, but no one was prepared to pay for it. Just coming up with a *methodology* for a study was estimated at \$40,000 to \$60,000. A similar benchmarking study, which the committee considered as an example of what it would like, was estimated to cost as much as \$750,000.

In the end, the Consultative Committee agreed to accept the *National Cost of Production Input to the Pricing of Industrial Milk*,

*Handbook of COP Principles and Practices* and recommended that it be forwarded to the Minister of Agriculture and Agri-Food Canada with the acknowledgment that “These COP guidelines reflect one step in an on-going commitment by the production sector to increasing the productivity and efficiency of milk production.”<sup>51</sup> The amended motion was then recommended to the CDC.

It may not have pleased everyone in the end, but it was an improvement over the previous methods of capturing COP data at the farm level.

Some COP elements would be updated yet again in the 2000s.

*Reviewing the COP formula was a detailed and time-consuming process. We agreed to make the new formula contingent on a benchmarking study taking place, but that never happened.*

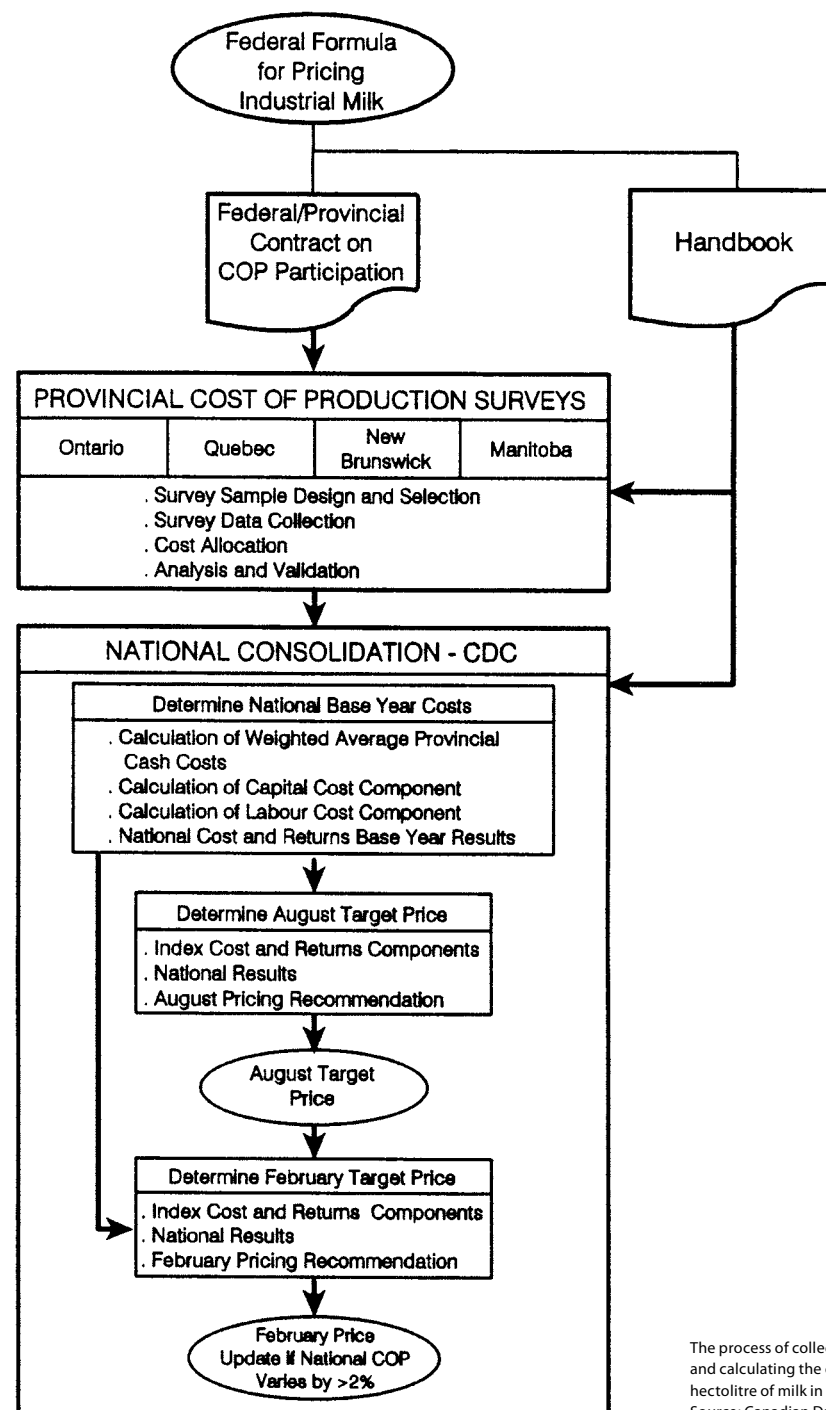
—Honey Forbes, 2004, Consumers Association of Canada, former Consultative Committee member

### Auditing cost of production

*The [Consultative Committee] has continued to consider the cost of production calculations underpinning the target price for industrial milk and the support prices for butter and skim milk powder. In 1990, an independent audit of the cost of production mechanism used in pricing found the need for greater uniformity and compliance with guidelines in the collection of cost data in the provinces. The auditing firm has again been engaged by the Commission, upon the advice of the Consultative Committee, to work with the provinces and other stakeholders in revising and harmonizing the data collection process and in creating a handbook for the field staff who collect the cost of production data.*

—CDC, *Corporate Plan*, 1992–1997, p. 22

## OVERVIEW OF THE PROCESS



The process of collecting the information and calculating the cost of producing a hectolitre of milk in Canada.  
Source: Canadian Dairy Commission

### THE CONSULTATIVE COMMITTEE IN THE 1990s

The Consultative Committee's mandate was broadened in the 1990s to include advising the Commission on pricing and COP calculations, following the directions of the National Task Force



Members of the Consultative Committee 1992–1993. Left to right: Robert Poirier, John Core and Honey Forbes. Source: Benoit Blanchette



Members of the Consultative Committee 1992–1993. Left to right: Claude Rivard, Graham Freeman and Sandra Banks. Source: Benoit Blanchette

on Dairy Policy. But throughout the early part of the decade, it worked on all kinds of issues, including cross-border shopping, the Domestic Dairy Product Innovation Program, the cross-over of butterfat versus solids non-fat, and competitiveness in the dairy industry.

The terms of all members expired in the 1994–95 dairy year<sup>52</sup> and a new committee was never appointed. (See p. 166 for committee members). The CDC then started convening meetings of industry stakeholders, many of whom had been on the last Consultative Committee, for input into the support price decisions.

### THE BALANCE POINT OF BUTTERFAT VERSUS SOLIDS NON-FAT

Much time was spent in the early 1990s studying the reasons for, and consequences of, the declining demand for butterfat and the increasing importance of the solids non-fat (SNF) component of milk.

There were a number of reasons for the decreasing use of butterfat. Consumer preference for lower-fat products was one. Consumers were, more than ever, counting their calories and cutting back on full-fat dairy products for fitness and health reasons. Margarine consumption was up while butter continued to decline, dropping almost 29 percent over the decade to less than 3 kg per capita consumption (PCC) from over 4 kg PCC in the 1980s.

Cross-border shopping was also suspected of having a significant effect on Canadian butterfat consumption. Agriculture Canada estimated that British Columbia and New Brunswick consumers bought 7.6 and 4.0 percent of their fluid milk, as well as 4.5 and 0.5 percent of their cheese, respectively, in the United States in 1988.<sup>53</sup>

The CMSMC had to cut MSQ by 6 percent in 1990, 4.4 percent in 1991, and another 4 percent in 1992. In response, the CDC launched several programs to stimulate butterfat consumption, including the Butterfat Utilization Program, which encouraged use of butterfat in sectors like the baking industry.

Meanwhile, other CDC initiatives were also helping. Domestic growth for dairy ingredients was encouraged by the Rebate



Program for Further Processors, which provided funding to further processors facing increased competition from American imports. The Butter Transportation Assistance Program, and the Domestic Dairy Product Innovation Program (DDPIP), served to increase, one way or another, the use of butterfat. (See “Domestic Marketing,” p. 159.)

The efforts paid off. Although much time and many resources were spent studying the increasing likelihood of SNF demand equalling, if not exceeding, that of butterfat, it never happened. On August 1, 1993, there was a 2 percent increase in MSQ, the first increase since 1988. “[This growth] can be attributed to the

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*Consumers continue to move to lower-fat products in a market that has been shrinking overall. While butterfat consumption has been in decline for several years, the consumption of SNF has increased or remained stable. In the 1992–1993 dairy year, the Canadian dairy industry was close to experiencing a ‘crossover,’ where demand for milk would be higher if based on requirements for SNF than if based on butterfat requirements. This did not occur, however.*

*As consumers moved to lower-fat products, an increasing amount of butterfat has been “skimmed off” in the processing of fluid and industrial milk. This butterfat is used to manufacture dairy products—primarily butter, ice cream, and some cheeses—and ultimately displaces raw milk production. Therefore, butter has become increasingly a by-product of the production of other industrial and fluid products. Recent measures to reduce the fat content in raw milk in the face of declining demand for butterfat have been successful.*

—Briefing Note to the Honourable Ralph Goodale,  
Minister of Agriculture and Agri-Food Canada on the CDC,  
National Dairy Policy and Current Industry Issues, Nov. 10, 1993, p. 14

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### Higher butterfat content of milk

*There is another factor affecting the volume of milk delivered by producers—the butterfat content of milk. Fat content in this dairy year is running at 0.2 percent higher than last year. This ever increasing butterfat content (which carries with it higher levels of SNF [solids non-fat]) is a measure of the quality of our herds and our husbandry.*

—Discussion Paper, “The Butterfat Issue: Options for the Future,”  
CMSMC meeting, May 30, 1990

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success of ingredient programs implemented by the CDC, to the stabilization in demand for butter and to a growth in demand for cheese,” the CDC wrote in a November 10, 1993 briefing note to Agriculture Minister Ralph Goodale.<sup>54</sup>

Butterfat demand was on the rise, increasing at a faster rate than the demand for SNF. “It is generally believed that the crossover (the point when the demand for milk would be higher if based on requirements for solids non-fat) will not occur in the foreseeable future,” the CDC’s 1993–1994 Annual Report proudly announced.<sup>55</sup>

The CDC couldn’t take all the credit for staving off the SNF/butterfat crisis. Dairy Farmers of Canada and provincial milk associations invested heavily in major advertising and marketing campaigns. The 1990s also saw the sprouting of thousands of coffee shops across the country—Tim Hortons, Starbucks, Timothy’s, Second Cup, Grabbajabba...the list was long—and all of them helped boost consumer consumption of cream, and for that matter, milk. Meanwhile, the Dairy Bureau of Canada and Dairy Farmers of Ontario executed huge promotional campaigns for cream. (The Dairy Bureau of Canada, the marketing and promotional arm of Dairy Farmers of Canada, was merged back into DFC in 1994.)<sup>56</sup>

### CANADIAN RESTAURANT AND FOODSERVICES ASSOCIATION CHALLENGES THE CDC

In February 1999, the Canadian Restaurant and Foodservices Association (CRFA) applied to the Ingredients Committee and the CDC to get a Special Milk Class Permit for cheese used by restaurants on take-out pizzas. After an extensive review of the application, the Ingredients Committee recommended that CMSMC turn the application down, which it did.

The application was denied on the grounds that, among other things, restaurants were not eligible under the Special Class program’s guidelines; that take-out pizzas were fresh products and fresh products were also not eligible under the program; and, most importantly, that they had failed to prove they had been injured from imports of like products.

The CRFA then asked to make a rebuttal to the decision,

which the CMSMC denied. Unhappy with the outcome, CRFA submitted an Access to Information request, asking for copies of all documents related to their application—and the decision to deny it—that the Ingredients Committee, CMSMC and CDC had used. The CDC provided limited information, wanting to protect the confidentiality of the discussions.

The CRFA then claimed that the CMSMC had acted unfairly in denying its opportunity to respond and asked the Federal Court to review the CMSMC's decision. In early 2001, the Federal Court declined to review the case, noting that “the Court does not have jurisdiction to review a decision of the CMSMC as it is not a federal board, commission, or other tribunal as provided by subsection 2(1) of the *Federal Court Act*.”

Having had its case turned down at the federal level, the CRFA tried another route: the Ontario Divisional Court. On September 25, 2002, the Ontario Divisional Court unanimously dismissed the CRFA's application for judicial review of the CMSMC's decision.

In its decision, the Ontario Divisional Court said that the “CMSMC was exercising a policy or legislative function,” as opposed to an administrative function. Consequently, the CMSMC “did not owe the CRFA a duty of procedural fairness and particularly not beyond allowing it to make its views known to the Committee, including the opportunity to respond to recommendations of the [Ingredients Committee].”

The CRFA did not appeal the Court's decision.

## EVOLUTION OF FEDERAL DAIRY POLICY

The chipping away at the government's financial support for its dairy program, which began in the 1980s, continued into the 1990s with the reduction and eventual loss of the dairy subsidy—also known as the direct support payment.

On August 1, 1993, a 10 percent cut in the subsidy brought it down to \$5.43/ hl from the \$6.03/hl level where it had stayed since April 1975.<sup>57</sup> Then, in the 1995 budget, as part of Program Review I, the government announced that the subsidy would be

reduced by 30 percent over the next two years.<sup>58</sup> Finally, in 1996, as part of Program Review II, the subsidy was to be phased out over five years. The final dairy subsidy payment would be made in March 2002.

The historic Crowsnest Pass freight subsidy and other grain transport subsidies—including the Feed Freight Assistance Program—were also done away with in the 1995 budget. “And if you took on the Crow, you had to take on dairy,” says Richard Tudor Price, Director, Supply Management, Agriculture and Agri-Food Canada. The cuts went surprisingly well, according to Tudor Price:

*There were huge cutbacks in government; public servants were being bought out. I mean, it wasn't like agriculture was being discriminated against. The argument was that the Crowsnest rate and the dairy subsidy were embedded programs, but not essential ones. They didn't serve the purpose that they had been established for. They were long-standing programs with a constituency of support, but with limited effectiveness or outdated objectives. And with its deficit so high, the federal government was willing to take out these programs that everyone had previously thought were sacrosanct.*

Contributing factors supporting the cuts included the government's still ballooning deficit, the global trend to more liberal trade rules, and the emphasis on all industries becoming more self-sufficient and less reliant on permanent government subsidies. It was, however, a domestic decision and not, as is often thought, a direct result of the WTO, according to Tudor Price.

It is important to remember that dairy producer groups, in particular, had always considered the dairy subsidy as a consumer subsidy. As it disappeared, it was recouped from the marketplace by increased butter and skim milk powder support prices. The part of the support price increase resulting from subsidy reductions thus had *no net effect* on producer revenue.

In addition, because dairy products became more expensive, the industry was put at a further competitive disadvantage vis-à-vis non-dairy substitutes.

EVOLUTION OF CDC ROLES

In the 1970s and 1980s, the CDC’s role had been pretty steady. It was responsible for the following activities:

- chairing the CMSMC;
- administering the federal government’s dairy support program, which included direct subsidy payments to dairy farmers and price support for butter and skim milk powder;
- exporting large amounts of skim milk powder, cheese, evaporated milk, whole milk powder and some butter;
- calculating Canadian domestic industrial milk requirements;
- recommending MSQ levels to the CMSMC; and
- managing butter and skim milk powder stocks.

In the 1990s, although its role continued in the same vein, there were a few differences. Its export role, for example, was greatly diminished. It increased its trade-related activities and provided ongoing support for and input into trade challenges that were taking place. It started setting the support prices for skim milk powder and butter independently of the Minister of Agriculture and Agri-Food Canada.

The CDC was also heavily involved in setting up and negotiating the P9, which included the Special Milk Class Permit Program. It facilitated much of the work and discussion surrounding the creation and negotiation of the P6 and the Western Milk Pool. When the pooling agreements were complete, the CDC operated—and still does, to a large extent—as the administrator of the pools.

Commissioners who provided capable expertise throughout the evolution of the CDC during the decade included Alvin Johnstone of Red Deer, Alberta, and Dale A. Tulloch of Ottawa, Ontario, both from the processing sector, and Manitoba producer Louis Balcaen, a past Dairy Farmers of Canada president and former chairman of the Manitoba Milk Producers’ Marketing Board. Guy Jacob, a former deputy minister of the ministère de l’Agriculture, des Pêcheries et de l’Alimentation du Québec, replaced Gilles Prigent as chairman in 1997.

By the end of the 1990s, the CDC’s role had expanded from simply administering the Special Milk Class Permit Program to

Federal Subsidy Rates for Industrial Milk, 1975–2002

Rates shown are for milk containing 3.6 kg of butterfat per hectolitre.

Effective date	Rate (\$/hl)	Comments
April 1975	6.03	Announced in 1975 Long-Term Dairy Policy
August 1993	5.43	Announced in November 1992
August 1995	4.62	Announced in the February 1995 Budget as two 15 percent rate cuts
August 1996	3.80	
February 1998	3.04	
February 1999	2.28	Announced in the March 1996 Federal Budget as a phase-out in five equal annual steps
February 2000	1.52	
February 2001	0.76	
February 2002	0	

The CDC was blessed with some highly competent and patient chairmen who worked successfully through the landmines of the East-West tensions. It’s thanks to them that the industry moved forward.

—Lloyd Johnston, 2005, former Alberta Milk Control Board executive director

If the CDC had an important role in the milk industry it was not because we had a lot of powers, it was because we became good facilitators. I think it’s one of the reasons the system has been around for as long as it has. Producers and processors in different provinces have natural differences. What they needed, and the CDC provided, was a place where they could come to meet, discuss and work out those differences. We tried to find ways to accommodate everybody without imposing solutions. Many matters were of provincial jurisdiction anyway. So we became more of a facilitator than a decision-making body.

—Gilles Prigent, 2005, former CDC chairman



Alvin Johnstone, CDC Commissioner (1993–1997). Source: Wolf Studios



Left to right: Louis Balcaen (Vice-Chairman 1994–2004), Guy Jacob (Chairman 1997–2000) and Dale Tulloch (Commissioner 1997–1999).  
Source: Wolf Studios

### CDC chairmen of the 1990s

*Leading the CDC and chairing the CMSMC were not jobs for the faint-hearted. They required a considerable amount of ambition, steely determination, a thick skin, delicate diplomatic skills, and extreme patience—not characteristics usually found in equal measure in any one individual. The interesting thing about 1990s CDC chairmen is that they were all different. But each in his own way was the right man to do the job that needed to be done at the time.*

*Take Roch Morin (1986–1994), for example. He replaced Gilles Choquette (1976–1986), who had been flamboyant...unconventional...quick to anger and quick to action. Morin was a study in contrast. He was low-key, straightforward, soft-spoken. He was very organized and known for his thorough administration skills. He was just what the CDC needed. He led during the period of the negotiation and implementation of the CUSTA. But his tenure also saw a fractious Commission with two full-time and very strong commissioners, Ken McKinnon and Cliff McIsaac. Morin's solution to that problem was to divide up CDC responsibilities and give each commissioner an equal share. The initial response to the FTA was established under his administrative leadership.*

*After Roch came Gilles Prigent (1994–1997), who saw the pooling agreements through. Gilles was really in his element. He had to do a lot of cajoling, listening and trying to get people to understand what other people were saying. He was diplomatic, reasonable and convincing. As a lawyer, he had a major role in crafting the text of the agreements, but most importantly he understood the art of encouraging a compromise and closing a deal. In this, he had the able support of Louis Balcaen and Alvin Johnstone, both highly respected in their constituencies.*

*When Guy Jacob (1997–2001) succeeded Prigent, he brought a different management style to the CDC. He had strong ideas and he often fenced with dairy producers, raising concerns early in his tenure about rising quota values and future uncertainty due to WTO negotiations. The pools were in place by the time he came in and he saw a need to streamline the CDC's activities and improve the management of its new programs. Many of us had worked so hard throughout pooling discussions, turning the system upside down and developing a whole new way of doing business, but we were often flying by the seat of our pants. Jacob came in and did a lot to better organize the system with the support of Louis Balcaen and Dale Tulloch, both excellent administrators.*

*At each step, CDC chairmen and their commissioners supplied leadership skills that were needed at the time. The Commission was truly blessed with the quality of these men who gave so much of themselves to lead this small but important Crown corporation with deep ties to the well-being of the dairy sector.*

—Chuck Birchard, 2005, former CDC Policy, Communications and Strategic Planning director



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*I think of the CDC as the cement that holds everything together. It's a central agency where the provinces can relate to each other. It's really taken on the role of a facilitator, which is an important one. Because it's a Crown corporation, it's separate from Agriculture Canada and I think that's a good thing.*

—Richard Lamoureux, 2004, Senior Economist,  
Fédération des producteurs de lait du Québec

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### The CDC's role in 1995–96

*The 1995–1996 dairy year in Canada was characterized by extensive negotiations and consensus-building. Continuing to move forward with industry stakeholders and governments as a key facilitator, the CDC maintained its central role in the design and implementation of a new national milk marketing system, as well as helping in the development of a new long-term dairy policy that remains underway.*

—CDC, *Annual Report 1995–1996*, p. 4

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**Robert Hansis, CDC's Director of Audit, remembers increasing his staff from two to nine people to handle new responsibilities brought on first by the Special Milk Class Permit Program, and later by the P6 and Western Milk Pool.**

*Stringent reporting requirements were set up and Special Milk Class participants had to sign a legal agreement providing for, among other things, audit rights for the Commission.*

*The program requirements and related computer systems to administer it were put in place quickly with the start of the program August 1, 1995. It was a fairly complex endeavour, designed to do things like cross-checking further processor purchases with processor sales; reconciling distributor sales against reported customer sales. We also put dairy ingredient recipes for finished products into a database, which allowed us to reconcile ingredient use with purchases and reported inventories.*

*The first year had some vulnerability because system controls were still evolving, as were the timing and accuracy of data entry. Sometimes our audits encountered 'questionable reporting practices.' In one case alone, the Commission recovered \$1.2 million, without incurring any legal fees.*

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actively promoting the use of dairy products to the ingredient market and the further processing sector.<sup>59</sup> It also had a new role, that of butter importer. Under Canada's new WTO trade obligations, Canada had to let in a certain volume of butter and the CDC was designated as the sole importer. In 1998–99, the CDC imported approximately 2,800 tonnes of butter, mainly from New Zealand. The Commission redistributed the butter to the further processing sector.<sup>60</sup>

### AUDITING

The CDC, as a Crown corporation, was always required to perform internal audits to comply with the *Financial Administration Act*. And it had been auditing the Rebate Program for Further Processors (RPFPP) and the Butter Utilization Program (BUP) from the beginning, where further processors received a direct rebate from the CDC based on submitted forms. But the CDC's audit role got much busier and developed a higher profile when the RPFPP and BUP were replaced by the Special Milk Class Permit Program.

Under this program, there was no more rebate from the CDC. Instead, further processors had to negotiate a lower price with a processor. The processor would then receive a lower price on the milk from its provincial board, based on its milk declaration reporting. This meant considerable change and new complexities for provincial milk utilization auditors, as well as substantial audit work—including new audits—by the CDC.

The CMSMC asked the CDC in 1995 to oversee provincial milk plant audit activity, which became even more important with the creation of the P6 and WMP.

It was to everyone's benefit to ensure each province had high auditing standards. As well, this was the first time that money was transferred between provinces, based on pooling of the reported revenues. Multiple Component Pricing on an end-use basis was implemented, along with the Special Class pooling. This meant a complete change-over in billing and accounting practices and procedures—and not all provinces got up to speed on all the changes at the same time.



Roch Morin, Chairman of the CDC  
from 1986 to 1993.  
Source: Andrews-Newton  
Photographers Ltd., Ottawa

The CDC took things in hand and called a national meeting of milk plant auditors from across the country. It was a first. “In a two-day meeting, we managed to develop a national audit manual—written and accepted by nine provinces—that set minimum standards for all milk plant audits across the country,” says Bob Hansis, CDC’s Director of Audit. “It was a major achievement, and it reinforced the new facilitation role that was developing for the CDC.”

### CLOSING THE LOOPHOLE IN FEDERAL JURISDICTION

In the early 1980s, a small group of dissident British Columbia dairy farmers teamed up with a mozzarella cheese processing plant, Bari Cheese, to operate outside the British Columbia milk marketing system. Many of these producers had sold their quotas, and a few ‘new’ producers also started to produce milk without quota. The dissidents’ argument was that milk shipped by them couldn’t be subject to in- or over-quota levies because, technically, their milk was not sold to a plant, but rather made into cheese for them, which they then sold (through the plant as their agent) *outside* of the province. Consequently this was inter-provincial trade of a product (and not milk) and was constitutionally a federal matter.

They argued that the federal legislation that the BCMMB operated under, the *Agricultural Products Marketing Act* (APMA), only provided delegated power over the marketing of ‘milk’ and not over the marketing of processed dairy products like cheese. The BCMMB therefore had no right to regulate them, and that included imposing levies, because the dissidents’ product was outside of BCMMB’s jurisdiction.

Over the years, this non-quota milk production added up to a considerable amount of money.

They apparently had a point because they won a number of court battles, including a major case in the Supreme Court of British Columbia in 1993. In that case, known as the Bari II case, Judge Newbury ruled, in short, that the British Columbia government did not have the appropriate authority to regulate inter-provincial trade in processed dairy products.

Although the federal government had the power under the *Canadian Dairy Commission Act* to regulate the marketing of dairy products in inter-provincial and export trade, it didn’t have proper regulations in place to delegate these powers to provinces, which included the BCMMB. Thus, the dissident activities were legal and the BCMMB could not impose levies or interfere with their operations.

All provinces operated under the same APMA-delegated power. So after Newbury’s ruling, the reality—and some panic—set in. All provinces realized that they were just as vulnerable as the BCMMB, but, because they hadn’t experienced the same MSQ pressures as British Columbia, they had never been challenged to the same extent. The Newbury decision, then, threw the door wide open to other challenges.

Indeed, Judge Newbury’s decision in the Bari II case had far-reaching implications for the national milk marketing system. And everyone knew it. Newbury’s decision essentially said, while the federal government may have *jurisdiction* to regulate dairy products, it didn’t have *regulations* in place to do so. And therefore, the British Columbia dissidents were operating within their rights. Meanwhile, some dissident Alberta producers were trying the same scheme on for size, shipping non-quota milk to a processor and bypassing the levy system. Things started to look shaky.

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*The CMSMC and the CDC didn’t initially want to chip in for court costs, but British Columbia persisted. Some of the provinces pointed out that they, too, had legal battles with their own producers and they didn’t ask anyone to help pay for the cost. But British Columbia said, “yes, but this is a very exceptional case, it has national implications, this is Canada-wide.” I remember the issue coming up in meeting after meeting. If the Bari II case had been upheld, then other provinces could have faced the same challenge. It was finally considered that it involved a larger issue than just British Columbia and the CMSMC agreed to pitch in, which was quite right.*

—Gilles Prigent, 2004, former CDC Chairman

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“[Provinces] could see the system starting to crumble,” says Thomas Barton, CDC’s independent counsel, who was involved in drafting a federal regulation to close the loophole that the British Columbia producers had found and the BC Supreme Court had upheld. “The system was lacking the authority to regulate dairy products, for inter-provincial or export sale, even though that was the intent of the *Agricultural Products Marketing Act* (APMA), enacted in 1949. The decision makers of the time thought that it could all be done through delegation orders to the provinces. But Judge Newbury thought differently, and found a lack of federal presence in this area.”

Powers to regulate the marketing of agricultural products in inter-provincial and export trade also existed in the *CDC Act*, but because the APMA was thought to provide the necessary

authority, no marketing regulations had been made to give the CDC and the provincial boards the necessary authority under that legislation. As soon as the Newbury decision was released (August 11, 1993), it began to look as though there could be challenges to the rights of all provincial boards or agencies to issue quota and collect levies.

CDC, DFC and provincial legal beagles got together quickly over the issue. So quickly, in fact, that less than two months later, a draft of proposed regulations, to be enacted under the *CDC Act*, was ready for review. Eight months later, June 23, 1994, the regulations were enacted. “It was a pretty fast turn-around,” remembers Barton.

It wasn’t long before the British Columbia dissidents took aim at the new regulations and challenged them, yet again, in the

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**Tom Barton worked closely with François Lemieux, DFC’s legal representative (now a federal court judge) to draft the regulations and would send them to all provincial boards and their lawyers for comment.**

*We went through a lot of drafts. All the lawyers would have a chance to comment, then we’d redraft the regulations based on their comments and that went on for, I don’t know, maybe 50 drafts. It was kind of an educational process for everybody. What was happening was that everybody was concerned that the feds were taking over. The regulation provided for the existence of federal quota. “We don’t want federal quota,” the provinces said. “We don’t want the feds telling us what to produce.”*

*And I had to explain that we weren’t changing the system, that we were going to give the powers to the boards to issue federal quota at the same time and in the same manner as they issued provincial quota, and that the overall production numbers would not change as a result. We were simply supplying the lacking authority to regulate, and the provinces could continue to do what they had been doing. Nothing was going to change. And that’s what we did!*

*It was a very technical regulation. We also knew that it would get challenged by some BC and Alberta producers as soon as it hit the street. So that kept everyone on their toes. The BC guys were getting away with a huge amount of production that was escaping levies. It was a very smart legal manoeuvre, whoever set it up. It was well done, but they lost in the end.*

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**Peter Knight, who was a BCMMB administrator throughout much of the legal battling, remembers the toll it took on the BCMMB and its members.**

*It was a tough battle. At the height, there were approximately 30 producers involved. The dissidents had a lot of public support, which made it doubly hard for us to present our case. I mean, here we were, trying to shut them down, saying that they weren’t abiding by regulations. Meanwhile, British Columbia has to import cheese and butter from other provinces, and these guys are making it. Why, the public wanted to know, did we have all this beautiful farmland in the Fraser Valley and we couldn’t meet more of our own cheese and butter needs? That generated some feelings among the public. Also, the press loved to be able to go out to the farm and portray us as the big bad milk board trying to close this poor little farmer down.*

*We were in court constantly for 13 years. It was a tremendous drain on the board and on producers. While preparing and during the major court trials and inevitable appeals, our legal bill could run \$150,000 a month. Over those years, millions were spent on the battles. The Fraser Valley farm area is relatively small and you’d have farmers on one side of the road, playing by the rules, owning quota, paying levies and controlling their production, while across the road, a neighbour (even a family member) would be doing none of that. Some life-long friendships were lost.*

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British Columbia courts. This time, though, the CDC teamed up with BC for the legal fight. In the case, this one known as the Bari III case, the dissidents argued three issues:

1. that the province wasn't constitutionally capable of co-operating with Parliament to regulate industrial milk production and marketing;
2. that there was an invalid sub-delegation of federal powers; and
3. that the current system violated their economic mobility rights to earn a livelihood, which was contrary to the *Canadian Charter of Rights and Freedoms*.

Judge Wong, who heard the case, ruled against them in 1997 on every point. The new regulations did their work and were upheld.

The dissidents took steps to appeal the decision, but later dropped the case. Everyone was tired of fighting. The BCMMB reached an agreement with the remaining dissidents who wanted to stay in the industry to buy quota. They didn't have to pay retroactive levies. And Bari Cheese agreed to buy only regulated milk. The fight was over.

## INTERNATIONAL TRADE

### NEW GATT/WTO RULES

The Uruguay Round of GATT negotiations ended on December 15, 1993. The results were far-reaching.

- Tariff rate quotas (TRQs) replaced import quotas (tariffication).
- TRQs would expand from not less than 3 percent to 5 percent of domestic production.
- Article XI:2(c)(i)—the GATT clause exception that allowed Canada to restrict imports of a farm product if domestic production of the “like product” was also restricted by government action—was void.
- Subsidized products exported were to be reduced by 21 percent in quantity and export subsidies paid to be reduced by 36 percent in value by the end of six years.
- Producer levies paid out to make exports price-competitive were defined as an export subsidy.
- The Rebate Program for Further Processors and Butterfat Utilization Program, which were deemed subsidy programs, had to be phased down or eliminated to meet the export subsidy commitments.
- As of August 1, 1995, Canada could not export dairy products to the United States, one of its main and most lucrative markets, if they were supported by producer levies, or any other form of export subsidy.

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The General Agreement on Tariffs and Trade (GATT) was a provisional international agreement negotiated in 1947, with an initial membership of 23 countries. The agreement set out rules covering international trade in goods including agricultural products. The unofficial, de facto international organization that administered the agreement was based in Geneva and was also known as GATT. The membership had grown to 123 countries by 1994.

In 1995 the organization formally became an international organization that was named the World Trade Organization (WTO). New agreements came into force that incorporated and revised the GATT rules on goods, including an Agreement on Agriculture. The agreements that came into force in 1995—which were technically part of the umbrella World Trade Organization Agreement—expanded the scope of matters covered to include trade in services and intellectual property, as well as making other significant changes.

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After considering its options, the dairy sector agreed to reorganize and execute a Special Class Milk pricing system. Under this system, processors were able to buy milk at competitive prices for specified markets and uses. However, because processors in different provinces didn't use the same percentage of milk in each class, the average price the producers got could vary greatly, depending on which province they lived in. The dairy industry and provinces decided to "pool" revenues in the interest of fairness to producers.

The CDC and the CMSMC were as prepared for the changes as they could be, and the Comprehensive Agreement on Special Class Pooling, informally known as the P9, was implemented by the nine provincial signatories, effective August 1, 1995. (See "Comprehensive Agreement on Special Class Pooling," p. 128).

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### Levies prohibited

*A major element of the WTO Agreement on Agriculture in conjunction with provisions of NAFTA was that, as of August 1, 1995, Canada would be prohibited from exporting dairy products to the United States where the export of the product had been supported by producer levies. Furthermore, Canada's ability to export to other destinations using levies will gradually be reduced in value and volume terms over the period to 2000–2001. Together with other trading nations, Canada agreed to reduce its subsidized exports by 21 percent in this period.*

—CDC, Corporate Plan Summary 1995–1996 to 1999–2000

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**Tariffication:** The process of converting non-tariff trade barriers to tariffs in order to improve the transparency of existing barriers and facilitate their reduction.

**Tariff Rate Quotas (TRQs):** a volume of imports allowed into the country at low or zero tariffs. Imports above the TRQs are subject to a higher tariff to discourage imports. These over-quota tariffs decreased by 15 percent between 1995 and 2000 for dairy products.

**Minimum Access:** The TRQ amounts specified for each product in each country's WTO schedules. (Special provisions for Canada were made for the importing of ice cream and butter.)<sup>61</sup>

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PAGE 34 THURSDAY, FEBRUARY 13, 1993 THE HILL TIMES

## A country with farms is a country with a future

On February 21, 1992, farmers in this country made history. Farmers and their supporters - 40,000 of them - converged on Ottawa to stage the largest rally ever held on Parliament Hill.

We supported Canada's balanced trade position then. And we still support it now.

A clarified and strengthened GATT Article XI is essential for the survival of our farms and Canada's unique system of supply management. Nothing else will do. Nothing.

### Canadian poultry, egg and dairy producers - supporters of Canada's balanced trade position -



## Nos fermes assurent l'avenir du pays

Le 21 février 1992, les agriculteurs canadiens signaient une page d'histoire. Près de 40,000 producteurs agricoles et partisans se donnaient rendez-vous devant le Parlement pour participer à la plus importante manifestation jamais vue sur la Colline.

Nous appuyons alors la position équilibrée du Canada sur les échanges commerciaux. Nous l'appuyons toujours.

La clarification de l'Article XI du GATT est essentielle à la survie de nos fermes familiales et au maintien de notre système unique de gestion des approvisionnements. Aucun compromis n'est possible. Aucun.

### vos producteurs de volailles, d'oeufs et de lait qui appuient la position équilibrée du Canada sur les échanges commerciaux

Ad published in the *Hill Times* on February 13, 1993 by the poultry, egg and dairy producers in support of GATT Article XI.  
Source: Dairy Farmers of Canada

Producers and their placards on Parliament Hill, February, 1992.  
Source: Fédération des producteurs de lait du Québec

Dairy farmers made headlines when 40,000 farmers marched on Parliament Hill in February, 1992 to support Canada's balanced trade position at the GATT.  
Source: Ottawa Citizen



## Thousands march on Ottawa to support balanced trade position

By Patrick Gallagher

(Ottawa) - It was advertised as one of the biggest farm rallies in the country's history and the more than 30,000 farmers who came to Ottawa last week didn't disappoint.

Many braved long bus rides and an overnight snowfall to make it to the front lawn of Parliament Hill to tell the federal government it must do more to protect farm marketing boards for the country's dairy, chicken and egg farmers.

"We're really pumped up and want the government to know farmers are united in their efforts to save Article 11," said Leo Guilbeault, a St. Joachim-area farmer in Essex County.

Guilbeault and more than 200 farmers from Essex-Windsor made the overnight trip to take part in a rally they said was critical for the well-being of agriculture in the country.

At stake is the future of Canada's marketing boards and the border controls which restrict the imports of cheaper products from other countries.

(See RALLY on page 2)



Peter Oosterhoff, former President of Dairy Farmers of Canada.  
Source: KEDL Photographes Professionnels, Quebec

Peter Oosterhoff, President of DFC, was in Geneva. He was staying at the Noga Hilton Hotel in December 1993 during the home stretch of the GATT negotiations, along with various agriculture leaders and government officials. It wasn't unusual to be called to the minister's room, or to one of his aides, for an update on negotiations. But when he got the call on December 13, 1993, along with DFC Executive Director Richard Doyle, he was worried.

*It was coming down to the wire by then. We had already lost any support we might have had from the European Community. And then we lost Japanese and Korean support. One after another, the countries that had supported Canada's position began to drop out, cutting their own deals. The fear was mounting that Canada would give in. So when we got called, we went, I think it was, to Lyle Vanclief's room. And you know how good Goodale is. He's very calm and low-key. So he told us. Canada had lost its bid to keep Article XI and had agreed to tariffication. He assured us that Canada would do everything to help protect the supply-managed commodities that would be affected by that decision, providing the tools we'd need to adjust and ensure a soft landing.*

*Controlling myself and in very measured words, I immediately told him that Canadian dairy farmers would not take any responsibility for giving up on Article XI and that we would hold the government responsible for any fallout or damage to the industry. We were definitely not happy, but we weren't really surprised in the end. It was a sad day for the dairy industry. We had fought so hard, for so long.*

*Later we were invited by the Canadian Ambassador to GATT, Gerry Shannon, to a 'celebration' of the conclusion of the Round. But I declined. I simply wasn't in the mood. It's not that I was frustrated with the Minister or the negotiators or the technical people. They all worked hard and did the best they could. I was frustrated by the fact that, for Canada, simply 'doing your best' was not good enough when dealing with the United States or the European Community. Don't get me wrong. I'm not anti-American. But we simply didn't have the clout to bully the nonsense that the US and EC do.*



Farmers from several commodities, including dairy, marched on Parliament Hill, February 22, 1992, in support of a strong balanced trade position in world trade talks.  
Source: Archives/La Terre de chez nous



## NAFTA CHALLENGE

The dairy industry had been preparing for changes to GATT/WTO for many years, despite the hope that the status quo would remain. But it didn't take long for more trouble to appear. The ink on the WTO agreement had barely dried before the United States launched a formal challenge in 1995 under NAFTA against Canada's tariffication of certain American dairy, poultry and egg product imports. The United States claimed that the TRQs and the over-quota tariffs that Canada applied in place of import quotas contravened NAFTA's Article 302. Under Article 302, member countries were prohibited from establishing new tariffs.<sup>62</sup>

It was a vital fight, striking at one of the pillars of supply management: the right to control imports from NAFTA partners. The CDC worked closely on the issue with officials from Agriculture and Agri-Food Canada, the Department of Foreign Affairs and International Trade, and producer organizations.

Canada won the dispute, successfully arguing that the tariffs were consistent with its NAFTA obligations.

## UNITED STATES AND NEW ZEALAND LAUNCH WTO CHALLENGE

Having failed under NAFTA, the United States then went after Canada's dairy industry under the WTO, starting in 1997, charging that its export practices—Special Milk Classes 5(d) and 5(e)—were tantamount to subsidization. New Zealand joined the export fight in 1998. (The United States also challenged Canada on its TRQs on fluid milk, but Canada made a small wording change to its TRQ regulations and was able to continue with them without any problem.)

In March 1999, the WTO Dispute Settlement Panel ruled that Special Milk Classes 5(d)—planned exports and other exports—and 5(e)—unplanned exports—were in fact subsidized. Although Canada argued that the costs of selling milk through 5(d) and (e) were not borne by the *government* but rather by *milk producers*, the Panel disagreed. It ruled that the provincial boards' involvement in the pooling arrangement—and the fact that their

action was based on legislation—constituted governmental action equivalent to a subsidy. The Optional Export Program also had to go.

Canada appealed the ruling the same year but lost, leaving the CDC to make major changes to its export programs in the next decade.

## OPTIONAL EXPORT PROGRAM AND EXPORTS

The Optional Export Program (OEP) was part of the 1995 P9 pooling agreement, although it was not a special milk class designation or part of the pool. It was designed to encourage innovation in developing new and additional export markets, but it never worked out quite as planned.

Under the OEP, provinces could be allocated a maximum of 5 percent of their total quota on top of their regular allocation. Producers who decided to participate were allowed to contribute up to 10 percent of their individual annual in-quota production.<sup>63</sup> Each provincial board had to set up and negotiate its own price and terms with a processor or exporter who wanted to export. In order to make sure everything was working as it was supposed to, though, the CDC was asked to approve contracts and monitor the system. Once an exporter had a contract in place, the CDC would reconcile the milk sold for export, with the *products* exported, to make sure the amounts matched up.

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*Here we were still struggling to build, never mind manage and maintain, our Special Milk Class Permit Program and reporting practices, with mountains of data that we had to make sense of, harmonize and reconcile. And then, on top of it all, we had these trade challenges that meant we had to do even more data crunching! We had to supply the Department of Foreign Affairs and International Trade with a phenomenal amount of information and statistics. These trade challenges were like going to court. You don't know what the other side is going to come at you with, so you have to be prepared for all eventualities, even if they don't occur. We had to provide a complete dossier on what milk, from where, was going into what classes for what exports. Meanwhile, we were still getting the system ramped up! It was a major learning process.*

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—Nelson Coyle, 2005, CDC Chief of Policy and Strategic Planning

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Meanwhile, the CDC itself was still involved in exporting—mostly on a government-to-government basis—some skim milk powder, along with a bit of whole milk powder, butter and evaporated milk, to countries such as Algeria, Libya and Egypt. But this did not sit well with some exporters, who felt it was unfair for them to have to compete with the CDC.

So in May 1997, the CDC, DFC, NDC and Agriculture and Agri-Food Canada joined forces and organized a national export marketing workshop to map out a collective strategy. Over 125 dairy industry representatives were invited to attend. As a result, in 1998 the CDC stepped out of exporting everything but skim milk powder to Cuba and Mexico, although it was still technically involved in the OEP by virtue of its reconciliation role.

Even though OEP was a provincial program (though with some CDC intervention), and Special Milk Classes 5(d) and 5(e) were priced at the provincial level and then pooled nationally, the WTO and its Appellate Body ruled in 1999 that provincial boards were, in effect, government agencies. Special Milk Classes 5(d) and 5(e) were subsidized programs, as was the OEP, and all had to go—unless they fell within the Canadian dairy export value and quantity limits.

By the time of the ruling, Guy Jacob was Chairman of the CDC. He wasn't surprised by the decision. "I had already been travelling across the country, accompanied by others, to talk to the provinces about what kind of export program the CDC could put in place if we lost the panel. But a lot of provinces didn't even want to consider such a possibility because they thought we would win. What was the point of looking for an alternative, they said, if there wasn't going to be any need for one?"

Jacob had already made waves with Canadian dairy farmers when he told a Dairy Farmers of Canada annual policy conference

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Pooling Special Classes served two purposes. It eliminated the need for the CDC to collect levies—so milk wasn't subsidized and therefore shouldn't be subject to WTO export limits, Canada argued—and reduced farm gate price differences between provinces, which kept the supply management system stable.

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on January 21, 1998, that he did not think supply management was here for the long haul:

*Unfortunately, I am still under the impression that dairy farmers remain convinced—or act as if they were convinced—that supply management as we know it today will be with us forever. Whether we like it or not, that is not the reality. At some point in time—10, 15 or 20 years, no one can tell for sure—the dairy industry, producers and processors alike, will have to operate on a competitive basis, at least in the North America market context, and, if we do not fully prepare ourselves for that day, the consequences could be quite dramatic.*

It was not a popular point of view to espouse. Jacob remembers a resulting newspaper article that suggested federal bureaucrats were publicly saying what the Agriculture Minister wouldn't. "When Canada let go of Article XI and replaced it with tariffs, it was always with the understanding that tariffs would gradually go down. It was just a matter of negotiation. Canada was given a transition period with high tariffs for dairy product imports to adjust to the international market, but for what length of time? No one knew then and no one knows today," Jacob says.

By the end of the decade, and as a result of the 1999 WTO panel ruling, CDC's role as exporter was limited to dealing with the structural surplus of skim milk powder. Exports of whole milk powder dropped to 400,000 kg,<sup>64</sup> down from 11.3 million kg 10 years earlier.<sup>65</sup> Evaporated milk exports had dropped to 3.5 million kg in 1998–99, from a high of 125 million kg at the beginning of the 1980s.<sup>66</sup>

The CDC would issue Class 5 permits to Canadian exporters, as well as certificates for Canada's exports of cheddar cheese to the European Union, which were limited to 4,000 tonnes.

The CDC would help monitor a new Commercial Export Milk (CEM) program in 2000, which allowed producers to sell any quantity of CEM to Canadian processors on their own terms, and with no government intervention. No quota or permits were required. But that program, too, would not make the grade. (See Chapter 5, p. 195.)



Guy Jacob was Chairman of the Canadian Dairy Commission (1997–2000). Among other initiatives, Mr. Jacob led consultations with industry leaders on creating the Optional Export Program. Source: Wolf Studios



Dairy producers march in Vancouver in January 1998 to protest imports of butteroil/sugar blends. Source: Dairy Farmers of Canada

### Tribunal conclusions

*The Tribunal has come to the conclusion that the options available for addressing any problems raised by this issue are not without cost to the dairy farmers and/or the Government of Canada. The dilemma is that there are economic consequences for the dairy farmers from imports of butteroil blends, and yet the international rules limit the types of action now available. It is equally true that these same rules provide the dairy farmers with the benefits of increased certainty and protection.*

*Within the rules-based system, moreover, there are avenues available to the dairy farmers to seek relief from the effects of imports of butteroil blends. As well, the dairy farmers manage the supply of domestic dairy products and have the ability to moderate the effects of these imports on their industry.*

—Canadian International Trade Tribunal, *An Inquiry into the Importation of Dairy Product Blends Outside the Coverage of Canada's Tariff-Rate Quotas*, Final Report, June 1998, p. 7

### CITT AND BUTTEROIL/SUGAR BLENDS 1997–98

In 1997, a Canadian International Trade Tribunal (CITT) was convened to look at imports of dairy product blends, particularly butteroil/sugar blends, which were coming into the country tariff-free.

The Tribunal was asked to carry out the following tasks:

- examine the domestic market for imports of dairy product blends, their impact on the Canadian dairy industry, and their potential impact if they continued to increase;
- review the legal, technical, regulatory and commercial considerations relevant to these imports; and
- identify options to address any problems raised by these import blends in the context of Canada's domestic and international rights and obligations.<sup>67</sup>

Although ice cream manufacturers had been importing dairy blend products since the early 1980s and butteroil/sugar blends since the late 1980s, butteroil blend imports increased rapidly from 1994 to 1996 and then doubled in 1997 to 6.3 million kg, representing about 12 percent of total butterfat used in ice cream and the replaceable butterfat in processed cheese.<sup>68</sup> According to dairy farmers, these imported blends were replacing raw milk, fresh cream or any type of butterfat used to make dairy products like ice cream. Dairy Farmers of Canada wanted butteroil/sugar blends or similar blends to be classified under a tariff line that would be subject to a TRQ instead of the one it was currently under, which had minimum tariffs.

The CITT's final report outlined a number of options, including that dairy farmers could appeal the tariff classification of butteroil blends, which DFC did and lost in 1999. Butteroil blends made up of less than 50 percent butteroil and more than 50 percent sugar or glucose were correctly classified and could stay where they were, the appeal tribunal ruled.<sup>69</sup>

The CDC was not involved in the CITT inquiry or appeal, but had to follow the issue because the outcome would affect the dairy industry's supply and demand equation. The butteroil/sugar blend issue would come up again in the 2000s, along with new product import issues related to dairy protein.

## DOMESTIC MARKETING

Although much industry and CDC effort focused on getting pooling in place, and handling the trade challenges throughout the decade, the Commission still managed several successful domestic marketing programs.

The Domestic Dairy Product Innovation Program, which started in 1989 for a five-year period, was reviewed and renewed in 1995 for another five years to the end of the decade. The program provided up to 1 percent of milk above MSQ for introducing innovative products to the domestic market. The Animal Feed Assistance Program—which allowed animal feed manufacturers to buy surplus skim milk solids for their products at a discount—continued throughout the decade. The program was an effective outlet for older stocks of skim milk powder that would be hard to sell on the export market.

The Commission also ran a Butter Transportation Assistance program, which was designed to help move butter from an area where there was a surplus to areas where there was a deficit. It ended in 1996. Butter production and marketing patterns had changed so much over the years, there simply wasn't a need for it any more.<sup>70</sup>

## INGREDIENTS COMMITTEE

The Action Committee on Ingredients—which was set up in 1992 to address competitive pressures on the market for dairy ingredients—deserves credit for its hard work throughout the decade on various domestic marketing programs. First it handled the Commission's Rebate Program for Further Processors and the Butter Utilization Program. Then, when the CDC's marketing activities were brought together under the Special Milk Class Permit Program on August 1, 1995, the Action Committee on Ingredients faced new challenges.

The Ingredients Committee, as it was known, was made up of industry stakeholders who, not surprisingly, didn't always agree on things. "I remember all kinds of fights and arguments about pricing and formulas and audits and paperwork..." says Nelson

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*I knew we had to be more market-responsive, not only because of changing trade rules, but because of changing technology as well. New technology was allowing food manufacturers to use other proteins besides milk. Then with trade barriers falling, they could import them as dairy substitutes even cheaper. Some modified dairy ingredients didn't even have a tariff because they hadn't existed when tariffs were agreed to.*

*I remember when we brought in Paul Hetherington of the Baking Association of Canada. He told us that there had been this huge food manufacturing trade show going in Vancouver with over 1,000 booths, and dairy wasn't even there!*

*It was a struggle to get producers on board the ingredients bandwagon. We had to change our thinking. Producers had to accept the fact that we needed to work harder to keep our markets. The attitude had been "we have the milk here, it's a great product and this is the price." So we worked hard at making them see the importance of the ingredients market.*

*It was a challenge to get some of the processors on side to service those markets. But if there was an opportunity to increase market, they wanted it. So the work of the Ingredients Committee was really baby steps in many cases, but we definitely succeeded.*

—Louis Balcaen, 2005, former CDC Vice-Chairman  
and Ingredients Committee chairman

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*I think one of the toughest challenges was trying to take a very regulated industry and make it into something more market-responsive. We spent an extensive time looking at a pricing formula for the Special Milk Class Permit Program that would give us North American pricing. I remember spending a lot of late nights with Sandra Banks and others, trying to figure this out. The complexity of the dairy industry is beyond quantum physics. We were just banging our heads against the wall because it was so foreign to us, but we had to understand it and meet the criteria and put forward something that was not only credible but actionable.*

—Paul Hetherington, 2005, CDC Ingredients Committee member,  
and President and CEO, Baking Association of Canada

Coyle, CDC's Chief of Policy and Strategic Planning, who served as secretary to the Ingredients Committee during the decade.

*The list was long. Plus you had dynamic members on board like Sandra Banks of the Grocery Products Manufacturers of Canada (now Food and Consumer Products of Canada), Paul Hetherington of the Baking Association of Canada, and Rick Phillips of Dairy Farmers of Canada. Still, the committee pulled everything together and designed the whole operational framework of the Special Milk Class Permit Program.*

Louis Balcaen was one of the keenest supporters of the Ingredients Committee. Balcaen was CDC Vice-Chairman from 1993 to 2004 (Acting Chairman during 2001–2002) and a long-time leader of Manitoba's dairy producers. The committee itself arose out of DFC's 1992 Consultation Committee on the Future of the Dairy Industry report, which Balcaen had headed. Balcaen chaired the Ingredients Committee for most of his tenure.

Thanks to CDC domestic programs, the Canadian further processing sector came to use significantly more dairy ingredients in bakery, fresh pastry, frozen and confectionery products.<sup>71</sup>

## CHANGES ON THE FARM, ON THE PLATE, AT THE PLANT

### ON THE FARM

Technological improvements on the farm continued throughout the 1990s. Average milk production per cow per year climbed steadily to 9,152 kg in 2000 from 7,412 kg in 1990—a 23 percent increase.<sup>72</sup> The number of dairy farms decreased—21,561 in 1999, down from 32,678 in 1991—while the average herd size of milking cows increased to 53.7 in 1999 from 40.2 in 1991.<sup>73</sup>

By the 1990s, Canada had earned an international reputation for its excellence in genetics, supplying more than 20 percent of dairy genetic products to the world in the form of cattle, embryos and semen.<sup>74</sup>

Feeding programs, genetics and general dairy herd health continued to improve, helped along by the advent of improved computerization and the World Wide Web.

On August 1, 1995, the Ontario Milk Marketing Board merged with the Ontario Cream Producers' Marketing Board to form Dairy Farmers of Ontario.<sup>75</sup>

### ON THE PLATE

The trend to low-fat, reduced-fat and fat-free alternatives that started in the 1970s continued into the 1990s. Per capita consumption (PCC) of butter dropped by over a kilogram from the 1980s to the 1990s—to 2.88 kg from 4.02 kg, a 28 percent decrease.<sup>76</sup> By comparison, it was 8.64 kg in the 1950s; over those 40 years consumption decreased by 67 percent—a monumental drop!

Consumers continued to consume less 3.25% ('whole') milk and more of the skimmed products. In 1990, the first year that PCC statistics are available for 1% milk, Canadians were drinking 5.85 litres. By 2000, that figure had jumped to 17.20 litres.<sup>77</sup>

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### Difficult times for farmers

*The 1990s were a decade of difficult times for Canadian agriculture. Prairie farmers lost their annual grain transportation subsidies, farms struggled under heavy debt loads, and many Canadian farmers suffered during periods of low commodity prices in foreign markets. Moreover, to keep pace with the growth in mechanized farming, farmers had to divert more of their money into operating expenses such as purchases of machinery and fertilizers. As a result, the average farmer's take-home pay, as a portion of total farm cash income, dwindled from 26% in 1971 to 8% in 2002.<sup>78</sup>*

—Statistics Canada, Canada E-Book,  
"The Farming, The Economy, Farming in Canada", 2005

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*The last dairy year was a good year as far as demand for dairy products was concerned. For the second year in a row, demand for industrial milk products is increasing. While there are signs that the growth in demand is weakening, the market is still showing a small increase from month to month.*

—CDC, Annual Report 1998–1999, p. 3

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But while the market for traditional dairy products like butter, cheddar cheese and milk declined, other segments of the market for dairy ingredients grew. Specialty cheese continued its upward trend from the 1980s through the 1990s—in 1990, PCC stood at 5.64 kg. By 2000, it reached an all-time high of 7.16 kg, a 27 percent increase in just 10 years. Yogurt followed the same upward trend, increasing to a PCC high of 4.59 kg in 2000 from 3.09 kg in 1990.<sup>79</sup>

An anomaly in the trend to lower fat products was an increase in cream consumption. PCC of 18% cream, for example, jumped to over 1.5 litres in 2000, up from just under 0.5 litres in 1990. Consumption of 35% cream also increased, but not by as much. Why this exception? There are several theories, including a large promotional push from Ontario for cream in general and the country-wide burgeoning of coffee shops, which started to run through cream supplies at a great rate. As well, some consumers were tired of depriving themselves of tasty high-fat dairy products, and were turning to high-quality comfort foods, like ice cream which contains real cream.

#### AT THE PLANT

Mergers and acquisitions were the norm in the 1990s. A sub-head in the Ontario Dairy Council 1999 yearly publication put it this way: “Mergers and acquisitions in Canada’s cut-throat dairy processing industry aren’t exactly a new concept, but the size and scope are. Where do we go from here?”<sup>80</sup> But it was not only on the processing front that pressures were mounting. The retail sector was getting into the fray and causing a domino effect. In the 1990s, for example, Loblaws bought out Quebec-based Provigo, and Nova Scotia-based Sobey’s bought the Oshawa Group, tripling its size. Meanwhile, a shift at the retail level in British Columbia—when Westfair Foods closed its Foremost dairy plant—shortened the road to getting the Western Milk Pooling Agreement signed.

Further consolidation of plants and stores resulted in increasing concentration of buying power. In 1989, there were 372 plants across the country processing fluid and industrial milk.<sup>81</sup> By 1998, that number had shrunk to 261.<sup>82</sup> Despite that seemingly



Consumer purchasing low fat milk at the dairy case.  
Source: Agriculture and Agri-Food Canada

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#### Dairy statistics

*As the number of Canadian dairy plants declined, so did total employment in dairy processing. Between 1981 and 1991, annual employment in Canada’s dairy processing industry was fairly stable, averaging about 25,700 people. Since 1991, the number employed has steadily fallen to 21,700 in 1995. There was a 4.7 percent drop in total employment between 1991 and 1992, and another 11.8 percent drop from 1992 to 1995.*

*Regionally, in 1995, 42 percent of all industrial dairy plants were located in Ontario, 30 percent in Quebec and nine percent in Alberta. British Columbia had less than three percent of the industrial milk plants, but 16 percent of the fluid milk plants. With reference to fluid milk plants, Ontario had 33 percent, Quebec 21 percent and Alberta about six percent.*

—Alberta Agriculture, Food and Rural Development, 1996, “An Analysis of the Competitiveness of Alberta’s Dairy Industry,” pp. 13–14

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#### Dairy processors

*Dairy processors are not a homogeneous single-interest group. They are fierce competitors in the market place and will often want to support opposing policy options. On the other hand, their commitment to their industry and their product is every bit as strong as any dairy farmer’s.*<sup>83</sup>

—Kempton Matte, 1996, “Discussion, A Canadian Processor’s Perspective”

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small number, the dairy processing industry generated almost \$10 billion worth of shipments by the end of the decade, accounting for 15 percent of all processing sales in the food and beverage industry.<sup>84</sup>

The processing industry faced numerous challenges over the decade, adjusting its products to meet changing consumer demands.

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### Technological improvements

*Improvements in filtration technology are enhancing the ability to extract specific ingredients and to develop niche market products. These same technologies are also changing the transportation economics for products by allowing the extraction of water, for example, which reduces the volume and the weight of the product and allows for transportation over greater distances. Such technological breakthroughs will provide a basis for another round of plant consolidation and relocation consistent with these changed transportation economies.<sup>85</sup>*

—Agriculture and Agri-Food Canada, 1996, “The Canadian Dairy Sector: Structure, Performance and Policies”

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Left and below: A continuous ultra-filtration system separates milk proteins and sugars.  
Source: Canadian Dairy Commission



## TROUBLE ON THE HOME FRONT

### THE P6 DISPUTE SETTLEMENT PROCEDURE

Under the Dispute Settlement Procedure in the P6 agreement, signatories (governments or producer organizations) were to try to resolve disputes among themselves. If they couldn't, they could ask for a Dispute Settlement Panel to decide on the matter. This happened twice in the 1990s.

The first Dispute Settlement Panel was convened in 1997 over the issue of whether Dairy Farmers of Ontario (DFO) had followed the appropriate methodology to calculate the common target price for Class 4(a) milk to submit to the All Milk Pool. The Ontario Dairy Council (a processor organization) thought not, arguing that the existing methodology provided a cost advantage to fluid plants at the expense of butter/powder operations, and brought its case, through the Ontario Farm Products Marketing Commission, to the dispute panel. It was a complex technical issue. The paperwork for the panel alone is stored in a 8-centimeter-thick binder at the Commission's office.

The panel's decision, handed down on October 15, 1997, was that DFO did *not* follow the right methodology. The Ontario provincial board was asked to adjust its Class 4(a) target price, as well as its Class 1(a) price, to maintain revenue neutrality to the pool. With these changes, the Ontario methodology was made more consistent with the processes that were used in other provinces.<sup>86</sup>

Less than a year later, in May 1998, another panel was convened. This time, it was over the issue of end-use billing. Should billing be according to *end use at the plant*? This would mean that farmers would be paid according to how the milk components were used in products made at the plant. Or should billing be according to *end use of the product*? This would mean that the plant receiving the raw milk would pay for milk components according to the class of the finished products that reached the market. The specific milk components in dispute were in concentrated/evaporated milk used to make ice cream.

Under the National Milk Classification System that the P6 had adopted, each province had to use the same billing method in order to provide manufacturers with raw materials at similar costs.



Processing ice cream.  
Source: Canadian Dairy Commission

Dairy Farmers of Ontario, however, had been using a billing method that allowed Ontario ice cream makers to get concentrated/evaporated milk at Class 4(a) pricing, instead of Class 2, which would have been more expensive. This meant Ontario ice cream makers were making their products more cheaply than the other provinces—Quebec, for example. Dairy Farmers of Ontario was neutral on the issue, because, it said, “end-use plant has been the accepted basis for billing within the Ontario industry since classified pricing for industrial milk was negotiated with processors and introduced in 1972.”<sup>87</sup> So the fight was really the Ontario Dairy Council's.

The issue had been discussed previously at different levels, but with no resolution. Ontario processors were in favour of ‘end use at the plant’ for concentrated/evaporated milk. Otherwise, the

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#### Ontario Milk Classes

- |            |  |
|------------|--|
| Class 1(a) | fluid milk products (i.e., homogenized milk, skimmed milk, partially skimmed milk) |
| Class 2    | ice cream, yogurt, milkshakes  |
| Class 4(a) | butter and powders <sup>88</sup>   |
-

Ontario Dairy Council argued, Ontario would have to change its milk supply policy.

Despite that argument, the panel ruled that milk components should be priced to processors based on the end-use product made from those components, and Ontario made the necessary adjustment to its billing practices.<sup>89</sup>

## HEADING INTO THE 2000s

The resilience of the Canadian dairy industry is truly remarkable. Rebuilding the Canadian dairy supply management system—essentially from scratch after new WTO rules—seemed to some people to take forever. In reality, it was completed in a very short time frame, considering the magnitude of the undertakings. The system that the pioneers of the dairy industry had taken almost two decades to build was rebuilt and implemented in fewer than five years. That's using the 1991 tabling of the Task Force on National Dairy Policy report as a starting point and the signing of the P9 agreement as an end point.

The World Wide Web brought much change to the industry, as it did to the world in the 1990s. E-mail, new computer programs, and new communication channels all served to improve the efficiency and reach of businesses and their operations, including the processing, further processing and dairy farming industries.

Dairy farming, processing and further processing evolved significantly through the decade, adapting to changing technology, consumer tastes, international trade rules and domestic policies.

The Commission spent the decade deftly manoeuvring its way through many major trade agreements and challenges, and facilitating the work of three complex pooling agreements. It also helped the industry adjust to the phase-out of the direct subsidies. Commissioners Alvin Johnstone and Dale Tulloch, both from the processing industry, and Manitoba producer Louis Balcaen contributed to the evolution of the CDC, as did the decade's three chairmen: Roch Morin, Gilles Prigent and Guy Jacob.

Just before slipping into the 2000s, the CMSMC appointed a CMSMC Special Committee. The West, never happy that the National Milk Marketing Plan was based on historical market shares, wanted future quota adjustments to be based 100 percent on population changes. The formula in use at the time was the 90:10 rule (i.e., 90 percent on existing shares and 10 percent on population). The four western provinces had 30 percent of Canada's population but only 17.2 percent of total MSQ.<sup>90</sup>

The committee was directed to examine other issues as well:

- surplus removal
- East-West price differences
- harmonization of the milk classification system
- amending the formula for MSQ allocation
- adjustments to allow the western provinces additional production quota
- milk supply for the innovation program
- the 65:35 mechanism that applied to BC<sup>91</sup>

It would report back in 2000.

The change that came fast and furious to the dairy industry in the 1990s would abate somewhat in the first half of the 2000s. The CDC's facilitation role would continue and be solidified with the Western Milk Pool request for the Commission to chair its supervisory body. The idea of national all-milk pooling would be revived. And John Core, former president of Dairy Farmers of Canada and someone who had had a huge hand in ushering in the P6 agreement, would take the helm as CDC Chairman—the first chairman from Ontario in almost 25 years and only the second in its history.





Milk truck in Ontario. Source: Dairy Farmers of Ontario

**APPENDIX 4-1 COMMISSIONERS,  
MINISTERS, PRIME MINISTERS**

<b>Commissioners</b>		
Roch Morin	Chairman	1986–1994
Kenneth McKinnon	Vice-Chairman	1986–1991
Dr. Clifford McIsaac	Commissioner	1980–1991
Frank Claydon	Interim Commissioner	1991–1993
Louis Balcaen	Vice-Chairman (served as Acting Chair during 2001–2002 dairy year)	1994–2004
Alvin Johnstone	Commissioner	1993–1997
Gilles Prigent	Chairman	1994–1997
Guy Jacob	Chairman	1997–2001
Dale A. Tulloch	Commissioner	1997–1999
<b>Ministers of Agriculture</b>		
Don Mazankowski	Conservative, Vegreville, AB	1988–1991
Bill McKnight	Conservative, Kindersley- Lloydminster, SK	1991–1993
Charlie Mayer	Conservative, Portage- Marguette/Lisgar- Marguette, MB	1993–1993
Ralph Goodale	Liberal, Assiniboia, Regina-Wascana, SK	1993–1997
Lyle Vanclief	Liberal, Prince Edward- Hastings, ON	1997–2003
<b>Prime Ministers</b>		
Brian Mulroney	Conservative	1984–1993
Kim Campbell	Conservative	1993–1993
Jean Chrétien	Liberal	1993–2003

**CONSULTATIVE COMMITTEE MEMBERS AS OF JULY 1990**

Neil Gray, former general manager of Dairyland Foods, Vancouver, BC, Chairman  
 Vicki Billingsley, consultant, retailer and consumer advocate from the Northwest Territories  
 John Core, Chairman of the Ontario Milk Marketing Board  
 Graham Freeman, Chairman and Chief Executive Officer of Ault Foods Limited  
 Doug Lunau, President of Intersave, a subsidiary of Loblaw Companies Ltd.  
 Eugène J. Vallée, a grocery retailer from Montreal, QC  
 Dr. Gary Grant, Professor of Economics and Business Management at the Nova Scotia Agricultural College  
 Claude Ménard, Director General of Agropur  
 Claude Rivard, President of the Fédération des producteurs de lait du Québec<sup>92</sup>

**CONSULTATIVE COMMITTEE MEMBERS AS OF JULY 31, 1994**

Neil Gray, former general manager of Dairyland Foods, Vancouver, BC, Chairman  
 Sandra Banks, Senior Vice-President of Government Affairs for Grocery Products Manufacturers of Canada  
 Vicki Billingsley, consultant, retailer and consumer advocate from the Northwest Territories  
 John Core, Chairman of the Ontario Milk Marketing Board  
 Honey Forbes, a lawyer, nurse and consumer advocate  
 Graham Freeman, Chairman and Chief Executive Officer of Ault Foods Limited  
 Dr. Gary Grant, a Professor of Economics and Business Management at the Nova Scotia Agricultural College  
 Robert Poirier, Director-General of the Industrial Milk Division of Agropur  
 Claude Rivard, President of the Fédération des producteurs de lait du Québec<sup>93</sup>

## APPENDIX 4-2 ADDITIONAL COMMITTEE MEMBERS

### NATIONAL TASK FORCE ON DAIRY POLICY (1989)<sup>94</sup>

#### *Canadian Dairy Commission*

- Kenneth McKinnon, Chairman (Vice-Chairman, CDC)
- Dr. Cliff McIsaac (Commissioner, CDC)

#### *Government*

- Howard Wilson (Director General, Trade Policy Bureau, Economic and Trade Policy Branch, External Affairs Canada)
- Barbara Blais (Chief, Agriculture Policy Economic Development Division, Department of Finance)
- Frank Claydon (Assistant Deputy Minister, Policy Branch, Agriculture Canada)

#### *Producers*

- Louis Balcaen (President, DFC; Chairman, Manitoba Milk Producers' Marketing Board)
- Claude Rivard (Vice-President, DFC ; President, Fédération des producteurs de lait du Québec)
- John Core (Executive Committee member, DFC; Chairman, Ontario Milk Marketing Board)

#### *Processors*

- Denis Cassista (Director General, Natrel Inc.)
- George Smith (President, Dairy Division, Beatrice Foods)
- Kempton Matte (President and CEO, National Dairy Council)

#### *Consumers*

- Dr. Michele Veeman (Consumers' Association of Canada, University of Alberta, Department of Rural Economy)

### CONSULTATION COMMITTEE ON THE FUTURE OF THE DAIRY INDUSTRY (JULY 1992)<sup>95</sup>

- Louis Balcaen, President, Dairy Farmers of Canada
- Richard Doyle, Executive Director, Dairy Farmers of Canada
- Kempton Matte, President and CEO, National Dairy Council of Canada
- Roch Morin, Chairman, Canadian Dairy Commission
- William Sherwood, Chairman, Dairy Bureau of Canada

### ACTION COMMITTEE ON MILK ALLOCATION (1992)<sup>96</sup>

- Louis Balcaen
- Charles C. Birchard (Secretary)
- David Coe
- Richard Doyle
- Richard Innes
- Jacques Laforge
- James MacConnell
- Kempton Matte
- Roch Morin
- Pierre Nadeau
- Peter Oosterhoff (replacing John Core)
- Robert Poirier
- Claude Rivard

### ACTION COMMITTEE ON INGREDIENTS (1992)<sup>97</sup>

- Dr. Réjean Bouchard (Agriculture Canada)
- René Bouthillier (Dairy Bureau of Canada)
- John Core (Ontario Milk Marketing Board)
- Pierre Nadeau (National Dairy Council)
- Rick Phillips (Dairy Farmers of Canada)
- Robert Poirier (Agropur)

Many others also attended the meetings.

**FEDERAL-PROVINCIAL TASK FORCE ON ORDERLY MARKETING  
(DECEMBER 16, 1994)<sup>98</sup>**

- Lyle Vanclief (Task Force Chairman, Parliamentary Secretary to the Minister of Agriculture and Agri-Food Canada)
- Richard Huggard (Deputy Minister of Nova Scotia Department of Agriculture and Marketing)
- Louis Balcaen (dairy producer)
- Herman Driediger (poultry producer)
- Mario Dumais (General Secretary, Coopérative fédérée de Québec)
- Lem Janes (President, Janes Family Foods)

**CMSMC NEGOTIATING SUB-COMMITTEE (OCTOBER 1994)<sup>99</sup>**

	Spokespersons	Observers		Spokespersons	Observers
<b>Alberta</b>	James P. Heron John Killoran	Bruce Beattie Lloyd Johnston	<b>Quebec</b>	Claude Rivard Jean-Yves Lavoie	Michel Beauséjour Claude Lambert Robert Poirier
<b>British Columbia</b>	Arne Mykle Johanna Mellor	Wayne Wikkerink Stan VanKulen Jim Waardenburg	<b>Saskatchewan</b>	Stan Barber Leo Fuhr	Elvin Haupstein Bob Ford
<b>Manitoba</b>	Neil Van Ryssel André Bazin	Kenneth P. Leppky Craig Finnie Brent Achtemichuk	<b>Agriculture and Agri-Food Canada</b>	Louis Tousignant / Richard Tudor Price	
<b>New Brunswick</b>	Jacques Laforge Ray Miller	Everett Taylor Derek Roberts Steve Michaud	<b>Consumers' Association of Canada</b>	Honey Forbes	
<b>Newfoundland</b>	Martin P. Howlett Brian Duffett	Martin Hammond Phil McCarthy	<b>Dairy Farmers of Canada</b>	Peter Oosterhoff / Jean Grégoire	
<b>Nova Scotia</b>	Barron S. Blois Gabriel Comeau	Ann Landers Ernest Fage		Richard Doyle / Rick Phillips	
<b>Ontario</b>	John Core David Alles	Phil Cairns Tom Kane	<b>National Dairy Council</b>	Kempton L. Matte Pierre Nadeau	
<b>Prince Edward Island</b>	Blois Dingwell Murray Myles	James Bradley Wayne Cousins Charles E. Cook			



**DAIRY INDUSTRY STRATEGIC PLANNING COMMITTEE  
(DISPC) (FEBRUARY 1994)<sup>100</sup>**

- Louis Balcaen
- David Coe
- John Core
- Richard Doyle
- Elvin Haupstein
- Richard Innes
- Jacques Laforge
- James MacConnell
- Kempton Matte
- Robert Poirier
- Claude Rivard

*From the CDC*

- Roch Morin (Chair)
- Charles C. Birchard
- Josée Boisvert (Secretary)
- Gillian Brouse
- Jocelyn Comtois
- Nelson Coyle

*Observers*

- Phil Cairns
- Guylaine Gosselin
- Pierre Nadeau
- Rick Phillips



Dairy farms in Quebec.  
Source: Fédération des producteurs de lait du Québec

## Endnotes

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33. DISPC, *Presentation to CMSMC*, Oct. 4, 1994, p. 17.
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35. Ibid., p. 20.
36. Ibid.
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CDC Commissioners from left to right: Michel Pagé, Chairman, Louis Balcaen, Vice-Chairman and Carl Harrison, Commissioner. Source: Photo Features



*Successful farming is the basis of successful dairying. To be successful, farming must be profitable. Dairy farming has been and will be profitable in Canada because it is a manufacturing business, because it is less subject to adverse conditions of season and weather, and because it changes waste or by-products into valuable ones.<sup>1</sup>*

HENRY H. DEAN, CANADIAN DAIRYING, 1903

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# THE 2000s: LOSS OF THE WTO APPEAL PROCESS AND NEW MARKETING CHALLENGES

### *Introduction*

The beginning of the 2000s was bittersweet. In 2001–2002, the industry experienced market growth for the fifth year in a row, and the trend continued to 2004. The three milk pools—the Comprehensive Agreement on Special Class Pooling (P9), the All Milk Pooling Agreement (P6) and the Western Milk Pool (WMP)—were in operation. Several kinks had been worked out over the years, although work remained to be done. And Newfoundland and Labrador was ready to join the National Milk Marketing Plan on August 1, 2001, finally making the supply management system a national one from coast to coast.

But Canada also started the decade reeling from the 1999 World Trade Organization (WTO) decision that Special Milk Classes 5(d) and 5(e) were subsidized, as had been charged by the United States and New Zealand. A flurry of activities to conform to the decision—and contest and appeal further attacks—

consumed much of the Commission’s energy during the first three years of the 2000s. The Canadian Dairy Commission (CDC) spent considerable resources on this issue, as did Agriculture and Agri-Food Canada, the Department of Foreign Affairs and International Trade (DFAIT)<sup>2</sup> and various producer and processor organizations. The final 2002 WTO decision had a major impact on dairy policy.

Guy Jacob would hand over the chairmanship of the CDC in 2001 to Michel Pagé, a Quebec lawyer and former provincial minister of Agriculture, Fisheries and Food, who would stay little more than a year. Pagé would promise that 50 percent of all dairy producers would recover their cost of production by February 1, 2006.

Louis Balcaen, who joined the Commission in 1994 as Vice-Chairman, would become Acting Chairman until the arrival of



Holstein cow of the decade:  
Braedale Gypsy Grand  
Bred by Braedale Holsteins,  
Cumberland, Ontario, Gypsy Grand  
has transmitted outstanding components  
and good udders through her sons and  
grandsons. Many of the top proven  
bulls today trace back to this  
relatively young cow.  
Source: Canadian Livestock Photography

John Core. Core's appointment as CDC Chairman was a tribute to his statesmanship. A former Dairy Farmers of Ontario chairman, he holds the distinction of being the first CDC chairman from outside Quebec in almost 30 years. Along with Ellard Powers (1973–1976) of Beachburg, Ontario, Core is one of the only two appointed CDC chairmen to have been dairy producers.

Core would arrive in October 2002, just in time to help take the heat for setting support prices for skim milk powder and butter lower than dairy farmers wanted. That December 13 decision—along with an increase in dairy product imports that farmers claimed were eroding the domestic market—resulted in a producer protest organized by the Dairy Farmers of Canada at the Central Experimental Farm and other government buildings. Although Core was Chairman by then, many producers directed their anger at Balcaen, the Interim Chairman for the previous months, perceiving him as the one really responsible for that pricing decision.

Balcaen, a Manitoba dairy producer, was known for his business acumen and visionary thinking. He would finish his third term as Vice-Chairman in this decade. Carl Harrison, a processor from Ontario and former chairman of the National

Dairy Council of Canada (NDC)—now replaced by the Dairy Processors Association of Canada—would join the CDC in the 2000s, as would Jean Grégoire, a dairy farmer from Quebec who replaced Balcaen in 2004.

The CDC started in the 1960s as a leader, developer and manager of a national industrial milk system. It continued that role into the 1970s and 1980s, along with provincial milk marketing boards and provincial government representatives whose leaders made up the Canadian Milk Supply Management Committee (CMSMC). The CMSMC was the federal-provincial decision-making body created first by the Interim Comprehensive Milk Marketing Plan and kept later by the 1983 National Milk Marketing Plan. With the advent of the National Plan, the CDC's facilitation role started to emerge. In the 1990s, with the new international trading rules and the new pooling systems, CDC facilitation increased and federal government involvement in the dairy industry waned.

In the 2000s—at the request of the pools' supervisory bodies (which were created by the pooling agreements)—the CDC continued to facilitate and administer aspects of the pooling arrangements, including organizing meetings and visioning sessions, calculating the blend price, auditing further processors, tracking production statistics, and issuing Special Milk Class Permits. It was also heavily involved in adjusting milk allocation policies, harmonizing classification, and promoting the use of milk ingredients in the domestic market.

In 2005, the CDC continued to provide technical support to the Department of Foreign Affairs and International Trade and to Agriculture and Agri-Food Canada relating to Canada's international trading obligations and the import and export of dairy products. But the Commission's export role was limited to removing the skim milk powder structural surplus and issuing export permits under Special Milk Class 5(d) to private exporters. As well, the Commission issued certificates to Canadian exporters giving them access to the aged cheddar cheese market in the European Union. These rights were negotiated in 1980.<sup>3</sup>

The dairy industry has been called complex, highly technical and very political. It's been said that its finely woven tapestry has unravelled and worn thin at times, requiring intricate patchwork

and ongoing maintenance—all of which is true. But it is also true that the CDC has expended enormous talent, energy and resources to help care for that tapestry. And, according to former CDC chairman Gilles Prigent, “it’s worked quite well for producers and the industry as a whole.”

## THE CDC IN THE 2000s

### SETTING SUPPORT PRICES FOR BUTTER AND SKIM MILK POWDER

Support prices are the prices at which the CDC buys and sells butter and skim milk powder within the framework of the domestic seasonality programs. It carries out a pricing review and announces support prices in December, which become effective February 1 of the following year. The CDC has the power to do this more frequently but has not done so for almost a decade. Setting these prices is one of the CDC’s central decision-making tasks. Provincial milk marketing boards use the support prices as a reference to set the price that processors will pay producers for their milk components used in different classes.

The CDC was given the responsibility of announcing support prices back in the 1990s, at the request of then Agriculture Minister Don Mazankowski. The 1991 National Task Force on Dairy Policy recommended the CDC continue that role, with input from the Consultative Committee, an industry stakeholder group created under the *CDC Act* that included retailers, consumers, producers, processors and further processors.

The Committee’s membership expired in 1994–95, which coincided with federal budget cutbacks. No members were reappointed and so the CDC convened its own group of industry stakeholders to consult on pricing, first in a joint meeting and then on a bilateral basis. It continues that practice to the present. Organizations formally consulted include Dairy Farmers of Canada, the Dairy Processors Association of Canada, the Consumers’ Association of Canada, the Canadian Council of Grocery Distributors, the Food and Consumer Products of Canada, and the Canadian Restaurant and Foodservices Association.



To arrive at a pricing decision, CDC commissioners consider yearly cost of production (COP) survey results (compiled in collaboration with provincial producer boards), arguments by stakeholders, economic indicators like the Consumer Price Index and the Personal Disposable Income, along with their own judgment, experience and knowledge of the industry.

Current CDC offices at the Central  
Experimental Farm  
Source: Canadian Dairy Commission

### DAIRY FARMERS PROTEST TARIFF RULES AND SUPPORT PRICES

Canadian dairy farmers are not known for being shy in defending their industry. They held two protests over CDC pricing issues during the 2000s.

Just after Michel Pagé was appointed CDC Chairman in the spring of 2001, a group of producers let him know that they were expecting a significant increase in support prices in December. They didn’t get it. And they weren’t happy with what they did get: a price increase of \$1.01/hl. There was an additional \$0.85/hl to compensate for the last instalment of the federal subsidy rollback.

In January 2002, though, Pagé made a bold promise, that 50 percent of all dairy farmers could at least recover their production costs. Pagé made the commitment during the question period after his speech at Dairy Farmers of Canada's annual policy conference. The CDC later confirmed that it would honour Pagé's promise and that, to accomplish this, it would gradually adjust the price of milk between then and February 1, 2006.<sup>4</sup> Pagé left the Commission a few months later and Louis Balcaen took over as Acting Chairman.

Meanwhile, concern that the Commission's December 2002 announcement might be lower than what dairy farmers wanted prompted some farmers to start lobbying early for an increase.

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**CDC Vice-Chairman from 1994 to 2004, Louis Balcaen remembers meeting a group of farmers in the CDC boardroom in November 2002.**

*A very vocal group of producers wanted a \$10 per hectolitre increase, and in my heart I knew that did not make any sense. I guess they felt that because I was a producer, I was their lobbyist. However, I was there on behalf of the overall industry and was thinking of medium and long-term effects of trade agreements, the ingredients market and so on. We had to look at where the industry was going to be in the years ahead. In my opinion it was important to have a lean and efficient producer sector. Competition was taking care of the other sectors.*

*I always preferred to meet producers in their regions, because in my experience, when given time to explain all the considerations that were part of our decision, they were more understanding. Certainly some would vent their frustrations at those meetings but invariably as many would meet me after the meeting, thank me for coming and say they understood and agreed with our decision.*

*In 2002 I offered to meet a particular group of angry Quebec producers in their region. I knew it would be a very heated meeting but that was part of my responsibility. Instead, they chose to come to the CDC office with placards and insults. It got very personal and it wasn't very pleasant.*

*When dealing with an organized demonstration, it is impossible to have a calm dialogue. The easiest thing for me would have been to tell them—to pretend—that I fully agreed with their request and would lobby on their behalf, but that would not have been honest on my part. I wasn't very good at playing politics. One of their leaders told me several weeks later, "Your problem, Louis, is that you are too honest." But I slept well at night because I always felt I was acting in the best interest of the dairy industry, including milk producers.*

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In November 2002, about 100 farmers, mostly from the Saguenay Lac-Saint-Jean region and a few from the Laurentians, landed at the CDC headquarters with a heifer in tow. Although John Core had been appointed Chairman in October, this protest was very much directed against Balcaen. Balcaen met with about 35 farmers in the Commission's boardroom. A crowd of others stamped and shouted in the front of the CDC office and in hallways, waving placards. CDC employees were alarmed.

On December 13, 2002, the Commission made its pricing announcement. Dairy Farmers of Canada was looking for a minimum of \$3 per hectolitre increase—some groups were suggesting as high as \$10. But CDC announced a \$2.36 per hectolitre increase. Farmers were not pleased.

A few days later, on December 18, 2002, over 3,500 dairy farmers, mostly from Quebec and eastern Ontario—with some support from the Maritimes and western Canada—descended on Ottawa to let the government know just how unhappy they were. "Chanting 'Use milk, use cream or you'll make consumers scream,' and 'Fair price would be nice,' a small convoy of protesters made its way through downtown streets before meeting up with others for a noon-hour rally at the Central Experimental Farm," read an *Ottawa Citizen* story.

This time, though, their message was two-fold. First, they felt that the Canadian government was not doing enough, or moving fast enough, to deal with an increase in imports of dairy ingredients like butteroil/sugar blends that were circumventing the tariff rate quota (TRQ) system and displacing domestic products. Second, they felt that the price increase announced on December 13 was insufficient. Meanwhile, other groups, like further processors, restaurant owners and consumer groups, wanted no change, or in some cases even a rollback.

The butteroil/sugar blend issue had been brewing for years. In order to be classified as a dairy product, an imported product had to be at least 50 percent dairy. Some processors were importing products like butteroil/sugar blends, used mostly in ice cream, with 49 percent dairy. These blends were allowed into the country as a non-dairy item with low tariffs, even though they were close to a dairy product in composition—and they were displacing Canadian products.





About 3,500 dairy farmers rallied once again on the Central Experimental Farm and stopped at the doors of Sir John Carling building on December 18, 2002. Their message: dairy imports are too high, support prices are too low. Source: Fédération des producteurs de lait du Québec

A year later, on December 15, 2003, Dairy Farmers of Canada lambasted the CDC for a price increase of \$2.20 per hectolitre. While noting that the CDC had taken an “additional step” closer to fulfilling the promise made by CDC Chairman Michel Pagé in January 2002 that 50 percent of dairy producers could recover their COP by 2006, it didn’t address the BSE (bovine spongiform encephalopathy) crisis that “struck a serious blow to producers’ bottom lines.”<sup>5</sup> At DFC’s request, support prices were reviewed again in July 2004, with industry consultations—to analyze the effect of BSE on dairy farm incomes. No increase was granted but the CDC made a commitment to a “significant price increase in December.”

To prepare for a decision they thought they would be unhappy with, a contingent of Quebec farmers got together in Quebec

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*It was an impressive protest, complete with chants and burning placards. They even burned a fake customs booth, though the organizers had wanted to use it again! In the end, some producers did not want to leave until they met with some government representatives. So Pierre Doyle, Assistant Director, Dairy, Agriculture and Agri-Food Canada, and I went to meet them under police escort. The protesters gave us empty boxes, a symbol of the federal government’s empty promises. Remember, this was just before Christmas.*

*Protesters were polite individually. But as a crowd, they were loud, clearly angry and very frustrated. It was an intimidating experience.*

—Chantal Paul, 2005, CDC Chief of Communications

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Tractors carrying messages for the “convoy for fair milk” in Quebec city, December 2004. Source: Fédération des producteurs de lait du Québec

### Dairy Farmers taken by surprise

*As the date for the pricing announcement gets closer (December 15), the convoy of tractors driving towards Ottawa to meet the decision-makers of the Canadian Dairy Commission (CDC) took Highway 139 towards Granby yesterday morning. But they got a cold shower at the end of the day: the CDC made its announcement earlier than expected and increased the price by 5 cents [per litre] instead of the 7 cents the producers were hoping for.*

*“They knew something was up and that their 5 cents wouldn’t be popular,” says Réjean Lavallée, president of the dairy farmers union of the St. Hyacinthe area.*

—*La Voix de l’Est*, December 11, 2004, p. 6

### Producers disappointed by CDC pricing announcement

*“In November, DFC indicated to the CDC that an increase of at least three cents per litre was required by dairy producers this year in order to cover increased costs and to move towards covering the costs of 50 percent of producers,” explained Mr. Leo Bertoia, president of Dairy Farmers of Canada. The CDC, which establishes support prices for butter and powder, failed to recognize the extent of increased costs faced by producers. . . .*

*In addition to higher production costs, producers have seen an erosion of their income because of uncontrolled imports of blends designed to circumvent Canada’s WTO access commitments. Today’s announcement has done nothing to reduce producer scepticism about government’s ability to stop the erosion of supply management’s pillars.*

—Dairy Farmers of Canada, press release, December 13, 2002



City, started up their tractors, and began a “convoy for fair milk” trek to Ottawa. They’d made it as far as Granby, Quebec, before the CDC made its pricing announcement on December 10, 2004—about five days earlier than expected.

The CDC pricing announcement included an add-on of \$1.66 per hectolitre to offset some of the BSE impact on farms, with the provision that it would be re-evaluated at the next pricing review in December 2005. The total increase for producers was \$5 per hectolitre. This time there was no angry DFC press release. But there was one from the Canadian Restaurant and Foodservices Association, which had been lobbying against the rising cost of dairy products for years. The day before the announcement, CRFA had delivered dozens of pizza boxes to the CDC, containing 3,600 protest cards on the issue. “In the last 10 years, Canadian dairy prices rose by 38 percent, while the cost of milk production fell by 5 percent, according to CDC figures,” a December 2004 CRFA press release decried. Still, for all the fuss and furore before the announcement, things were quiet afterwards.

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#### **Restaurant industry delivers pizza-box protest over rising dairy prices**

*Restaurateurs who are tired of being milked by rising dairy prices are making a special delivery this morning to decision-makers in Ottawa—dozens of pizza boxes packed with 3,600 protest cards.*

*The Canadian Restaurant and Foodservices Association (CRFA) is delivering the pizza boxes to the Canadian Dairy Commission (CDC), along with a demand to freeze dairy prices, which are among the highest in the world according to international studies. The same protest cards have been sent directly to the Minister of Agriculture and Agri-food.*

—Canadian Restaurant and Foodservices Association,  
press release, December 9, 2004

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Boxes from the Canadian Restaurant and Foodservices Association's pricing protest.  
Source: Canadian Dairy Commission





Bob Hansis, Director of Audit at the Canadian Dairy Commission.  
Source: Wolf Studios

### **COST OF PRODUCTION UPDATED**

The cost of production (COP) has always been complicated and somewhat contentious. That is not a surprise. The COP is the major indicator used by the CDC to set the support prices for skim milk powder and butter. Costs can vary significantly from farm to farm.

By the 2000s, the COP was calculated on data collected from a random sample of farms across the country. The COP was based on guidelines developed with the industry in the mid-1990s. Farms that produced less than 60 percent of their province's average milk production were excluded from the survey sample, as were data from producers in the 30 percent of the sample with the highest production costs. At the time, this process further enhanced the ability to define an efficient producer.

In January 2002, the CDC made a commitment to adjust support prices to ensure that 50 percent of *all* dairy producers could recover their production costs. To carry out that commitment, the CDC made farms that had previously been excluded part of the sample. With all farms represented, the CDC then calculated the middle or median producer's production cost. That COP became the target price, which would fulfill the promise that 50 percent of dairy farmers could recover their COP by 2006.

The CDC made other adjustments to the COP calculations in the 2000s, including indexing costs for feed, fuel and fertilizers to the end of the third quarter of the most recent year instead of the first, and increasing the number of management hours from 10 percent to 15 percent of total hours, as provided for in the COP guidelines. Today's average dairy farm is larger, far more high-tech, and more complex to run than even a decade ago—with robotic milkers, new genetics and scientific feeding—so it made sense to increase the number of hours required to manage farming operations.

By 2005, the CDC was on target to fulfill its pricing commitment. "In fact, the December 2004 pricing announcement of \$5/hl—effective February 2005—allowed the CDC to virtually close the gap between the cost of production and actual revenues," says Gilles Froment, CDC Senior Director of Policy and Corporate Affairs. "This was an unprecedented increase of almost 8 percent.

And it clearly indicated to the industry that the CDC was serious about fulfilling its 2002 commitment."

The \$5 per hectolitre increase was expected to help cover loss of producer income due to BSE and compensate for the money producers were losing because of the growing structural surplus.

### **AUDITING**

The CDC's new auditing role which developed in the 1990s continued to gain importance in the 2000s. The Special Milk Class Permit Program grew considerably, as did the number of permit holders. This created a need for additional audits. In 2004–2005, there were over 900 further processor permit holders buying the equivalent of 5.6 million hectolitres of milk; in comparison, 773 purchasing just over 3.7 million hectolitres in 2001–2002.<sup>6</sup>

The number of CDC audits increased to 40–45 annually during the 2000s, double what they had been in the latter half of the 1990s.

In the 2000s, the CDC developed a more formal risk assessment process to decide which companies to audit and when. Considering that the majority of companies were small users of the Special Milk Class Permit Program (almost half received less than \$20,000 in equivalent annual benefits through lower prices from the program), it was important for the CDC to plan its auditing so that it didn't spend all its time on the smaller users. Recoveries from audits of further processors in the 2000s averaged half a million dollars yearly.

In April 2004, the CDC entered into a formal agreement with the Department of Foreign Affairs and International Trade (DFAIT) to audit companies that participated in DFAIT's Import for Re-Export Program (IREP) and were also Special Class Permit holders. (IREP is a program that lets Canadian processors import dairy products tariff-free as long as they use them exclusively to make products for export. It grew substantially in the early 2000s.) The agreement extended to raw milk imports by processors because the CDC had expertise in that area. A joint audit with Revenue Canada (DFAIT's designated auditor) of one such company revealed a fraud that led to the recovery of \$1.2 million by CDC for dairy farmers. "The CDC and DFAIT also



started co-ordinating the auditing of export activities more effectively,” says CDC Audit Director Bob Hansis.

The CDC also audited the Commercial Export Milk (CEM) program that ran briefly between 2000 and 2003. The program allowed individual producers to sell any quantity of milk to Canadian processors on their own terms, with no government intervention, as long as the resulting dairy products were exported. No quota or permits were required. CDC’s *only* involvement in the program was to audit. One processor participant ran a CEM program covering six plants in three provinces, which was a major logistical and technical nightmare! The CDC carried out this audit and developed a template for provincial plant auditors to use during their CEM audits. The CDC facilitated the exchange of data between provinces but delegated its federal authority to provincial inspectors (auditors) to do the export audit work for efficiency’s sake (provincial auditors were already in the plants) and to make sure that CEM milk was not being diverted into the domestic market.

### **CDC role in provincial milk plant auditing**

At the beginning of the decade, Newfoundland and Labrador proposed to join the National Milk Marketing Plan and negotiations got under way. Meanwhile, Newfoundland’s industrial dairy production was an unknown and so it was necessary to audit it before the province joined. It was a bit precarious because it really wasn’t clear whether the processors and the provincial government really were in favour of entering the National Plan, and the need for CDC to get access to plant data was controversial. Also complicating the issue was the fact that the rest of the industry was invoicing on Multiple Component Pricing (MCP) but Newfoundland and Labrador processors paid for milk on a volume (hectolitre) basis.

Still, after some negotiating and cajoling, the CDC got the information it needed and helped prepare the province to join the national system. Newfoundland and Labrador then retained the CDC as plant auditors when it officially became a member of the National Plan and the P9 agreement in August 2001.

## **THE CMSMC IN THE 2000s**

### **CMSMC SPECIAL COMMITTEE**

By the end of the 1990s, with pooling in place and one WTO panel decision down, the CDC and the industry turned their attention back to the workings of the National Milk Marketing Plan (signed in 1983) and the pooling agreements. The West, particularly British Columbia, was still not happy with its share of the MSQ pie and wanted to change the way quota adjustments were made. There were several long-standing issues that needed review, and a few new ones.

In July 1999, the CMSMC created a CMSMC Special Committee to resolve the following six issues, “in their entirety,” as a package deal. The Committee’s final report was accepted by the CMSMC in July 2000.

1. surplus removal
2. East-West price differences
3. milk classification and billing systems
4. additional quota for the Domestic Dairy Product Innovation Program (DDPIP)
5. amending the formula for future MSQ adjustments
6. signing a new P9 agreement

Jacques Laforge, now President of DFC and a CMSMC Special Committee member, remembers:

*As we changed our system over the years there was a whole new way of calculating things. We had the 1991 Skim-off Agreement, where MSQ allocation was adjusted yearly to account for incremental skim-off. Then we moved from levies to pooling. And then we started to look at all the new calculations and how they had panned out. And guess what? Everything wasn’t black and white. Remember, we weren’t nine provinces any more, we were two pools, so the game changed completely.*

Committee members were John Jansen of British Columbia, Jim Heron of Alberta, Tom Kane of Ontario, Jean Grégoire of Quebec, Jacques Laforge of the Maritimes, and CDC Chairman



Jacques Laforge is the former Chairman of Dairy Farmers of New Brunswick and President of Dairy Farmers of Canada. Source: Dairy Farmers of Canada



Paneer, an East Indian cheese, is one of the DDPIP's success stories. Source: Canadian Dairy Commission

Guy Jacob.<sup>7</sup> Gilles Froment, current CDC Senior Director of Policy and Corporate Affairs, was named CMSMC Special Committee Secretary.

If the issues couldn't be resolved by July 31, 2000, particularly the need to amend the formula for future MSQ adjustments and growth in Special Milk Classes, British Columbia announced, it would withdraw from the P9 agreement.<sup>8</sup>

The Committee got down to work. And quickly. "There were a lot of historical inequities in the system that had to be worked out," says John Jansen, who was chairman of the British Columbia Milk Marketing Board at the time. "And we had talked about them before, and talked and talked. But we had to bring it

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#### 17:22 Inequity

Amending the formula for future MSQ growth was complicated by a number of factors. Foremost among them was the 17:22 inequity. The WMP—particularly Alberta and British Columbia—were not happy with the way revenues from the Special Milk Classes were shared.

In short, under the original P9 agreement, the share of the pooled revenues that a province would get was calculated as a percentage of 'total production,' i.e., fluid and industrial milk. (This goes back to the skim-off levy issues of 1977, 1989 and 1991, when the industry agreed to share the costs of running the dairy system on an all-milk basis, given that skim-off from fluid milk spilled into the industrial stream, affecting MSQ.)

For the WMP, it meant receiving 22 percent of the pooled revenues. If you took fluid milk out of the equation, the WMP only received 17 percent of the pooled revenues. So, the West argued, it was forced to take a larger share of the lower revenues.

Who should solve the issue—the Secretariat? A technical committee? The Special Committee?—was debated. Eventually it was agreed that the Special Committee couldn't arrive at any consensus on its six issues until the CMSMC addressed the 17:22 inequity. The Alberta Dairy Control Board—headed by Jim Heron at the time—through the Western Milk Pool, asked that the CMSMC deal with the 17:22 issue, which it did. In January 2000 the CMSMC agreed that all revenues and costs associated with Special Milk Classes would be shared on the basis of industrial milk only, and the WMP would therefore get 17 percent of the pooled revenues.<sup>9</sup> As a result, the new P9 agreement limited a province's responsibility for special classes to its own share of the MSQ.

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to a head. And the only way to do that was to give official notification that we were prepared to pull out unless these issues were dealt with on an expedited basis.”

The CMSMC accepted the Special Committee’s final report at the July 19–20, 2000 meeting, but not without concerns and resistance from some quarters. One of the more controversial issues was the Committee’s proposal to reverse the current 90:10 rule for allocating MSQ adjustments. (Under the 90:10 rule, MSQ adjustments were allocated to provinces 90 percent based on existing shares and 10 percent in proportion to provincial populations.) John Core, then Dairy Farmers of Ontario Chairman, worried that the impact of a 10:90 ratio would be too extreme because it didn’t place enough emphasis on historical shares.

It could well mean, he told the CMSMC, that quota shares, which would be gained based on population, could be lost to the pool because of the fixed rules of market sharing.<sup>10</sup> Barron Blois of Nova Scotia wanted to know how the Committee came up with the figure of 250,000 kg of additional MSQ for British Columbia (in exchange for dropping the 65:35 clause). Was it, he asked, coming from an increase in total MSQ or a decrease in other provinces’ MSQ? The answer: from other provinces within existing MSQ. Jean Grégoire of Quebec said that the amount was seen as being a “reasonable compromise.”

In the end, CDC and CMSMC Chairman Guy Jacob also pointed out that the issues had to be resolved as a package and there would be give and take by individual provinces. And that’s what happened. John Core proposed that the agreement include a 10-year ‘peace clause,’ during which the issues couldn’t be reopened. But a six-year one was adopted instead.<sup>11</sup>

While the Special Committee resolved the six issues as follows, it was not necessarily the end of them.

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*One of the best programs we have created, I believe, is the Domestic Dairy Product Innovation Program (DDPIP). Over the years we have had dozens of entrepreneurs come forward with their ideas, their money and their dreams of developing new dairy products.<sup>12</sup>*

—Louis Balcaen, *Impressions of the Canadian Dairy Industry*, 2003

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1. **Surplus removal:** All milk components above 101 percent of provincial or regional MSQ after the sharing of markets had to be removed from the domestic market using Class 4(m) or Class 5(d).
2. **East-West price differences:** CMSMC was to have an independent study done to find out why the processors in the P6 paid more for all industrial milk classes than WMP processors.
3. **Milk classification and billing systems:** These were to be simplified and standardized. The Secretariat was asked to develop a common classification system across Canada (including end use) with the goal of reducing the number of milk classes.
4. **Additional quota for the Domestic Dairy Product Innovation Program:** The DDPIP started in 1989 to give the National Milk Marketing Plan some flexibility as well as to encourage the development of new dairy products that



Gilles Froment, Senior Director of Policy and Corporate Affairs at the CDC.  
Source: Wolf Studios

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*When we first looked at amending the formula for MSQ adjustments, I remember running several scenarios of historical shares percentage versus population growth percentage.*

*I used a 50:50 scenario and discovered that it would take up to several hundred years for the Western Milk Pool’s MSQ to catch up with its population! With 10:90, I calculated that we could reach their goal over decades, assuming of course, there was sustained market growth.*

*There was a lot of work and negotiating going on behind the scenes in the Special Committee time. I remember facilitating a dinner meeting in Hull between British Columbia and Quebec where some major issues got sorted out.*

*We finally reached an agreement one night in Halifax. It was after DFC’s July 2000 annual meeting banquet when we all returned to our hotel. It was late, after 10:30 p.m., and CDC Chairman Guy Jacob had gone out to smoke a cigarette. When he returned a few minutes later, John Jansen of British Columbia and Jean Grégoire of Quebec were shaking hands. They had struck a deal.*

*Resolving these issues as a package deal with a peace clause was an important achievement for the dairy industry.*

—Gilles Froment, 2005, CDC Senior Director of Policy and Corporate Affairs and Secretary of the CMSMC Special Committee

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would help expand the domestic market. It allowed processors access to up to 1 percent of total MSQ for these purposes. Initially, any milk that was used in the program and increased national requirements was put back in the national pot when the DDPIP contract expired, so any growth was shared among all provinces—whether they had participated in the program or not. Starting on May 1, 2000, though, any volume of milk used by virtue of a DDPIP contract was added to the province's MSQ when the contract expired. The DDPIP Selection Committee and eligibility criteria were also changed.<sup>13</sup>

5. **Amending the formula for future MSQ adjustments:** The 90:10 allocation clause was reversed; British Columbia's 65:35 clause was discontinued (see Chapter 3, p. 83). Special Milk Classes revenues were redistributed on the basis of MSQ shares rather than all milk shares.
  - The June 1, 2000 national MSQ was set as a base (trigger point) of 163 million kilograms of butterfat.
  - For any quota changes *above* the base, the 90:10 allocation was reversed to 10 percent increase based on historical shares and 90 percent increase based on provincial population proportions (10:90), for all provinces. MSQ changes *below* the base used the 90:10 ratio in all provinces.
  - For the first three years (August 1, 2000, to July 31, 2003) British Columbia reserved the right to base their MSQ on whatever was higher, the 65:35 clause or the 10:90 rule.
  - As well, British Columbia received a one-time additional MSQ allocation of 250,000 kg of butterfat.
6. **Signing a new P9 agreement:** Members of the CMSMC Special Committee agreed that when accepting the five points, all provinces would sign an amended P9 agreement. (After the 1999 WTO panel ruling, the Comprehensive Agreement on Special Class Pooling, (P9), had to be amended to eliminate references to Special Milk Class 5(e) and the Optional Export Program.)

## THE SURPLUS REMOVAL PROGRAM AND MILK MANAGEMENT COMMITTEE

Removing the surpluses from the domestic dairy industry is one of the underpinnings of the Canadian supply management system because it's essential to balance domestic supply with demand in order for milk producers to maintain a stable income.

With the 1996 P9 agreement, the industry had considerable flexibility in exporting dairy products, through either Special Milk Class 5(e), surplus removal, or the Optional Export Program (OEP), a provincial program that the CDC audited.

Because of the 1999 WTO panel ruling, though (see "WTO Dispute Panel Decision 1999," p. 195), Canada had to eliminate the OEP and Special Milk Class 5(e) and limit the quantity of all dairy product exports to its WTO committed levels. This had little impact on skim milk powder exports, but a large impact on the cheese and "other dairy products" category, according to Laval Létourneau, CDC Chief of Commercial Operations.

Canada then developed a Commercial Export Milk program outside the supply management system—or so it thought—so that the surplus milk previously exported through the OEP or Special Milk Class 5(e) could go through this program. CEM was developed by individual provinces with trade officials, outside CDC and provincial board operations.

In January 2000, the CMSMC also established a new class of milk, 4(m), to deal with the surpluses, mostly skim milk powder. The 4(m) milk class was for "components for marginal markets as established from time to time by the CMSMC."<sup>14</sup> It was mainly designed for animal feed.

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### Development of a class for marginal milk: 4(m)

*A class for marginal domestic markets (e.g. animal feed and other similar markets) should be added to the domestic milk classification system. Such a class will be used for unused sleeve production, structural surplus (national responsibilities) and over-quota production (provincial/pool responsibility) and be accessible through permits.<sup>15</sup>*

—"Principles of a System Management," CMSMC decisions, adopted Jan. 6–7, 2000

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Then in July 2000, the CMSMC created the Milk Management Committee (MMC) to direct the CDC in operating the Surplus Removal Program (SRP).<sup>16</sup> “The impact of the decision of the Appellate Body of the WTO will, among other things, create an environment less conducive to overproduction in Canada,” read the guidelines for the MCC and SRP.<sup>17</sup>

The MMC was made up of 10 official voting members: three producers and three processors appointed by the P6 Supervisory Body, along with two producers and two processors appointed by the WMP. The CDC chaired the committee but did not have any vote or veto over decisions. A DFC and an NDC representative were each given observer status.<sup>18</sup>

As per the CMSMC Special Committee recommendation, all milk components above 101 percent of provincial or regional MSQ (after sharing of markets) were removed from the domestic market using Class 4(m) or Class 5(d).

Everything seemed to be running fairly smoothly until the CEM program was successfully challenged by the United States and New Zealand (see “WTO Dispute Panel Decision 2002,” p. 196). This decision stipulated that not only did all exports have to be within a WTO *quantity* limit commitment, but they also had to be within a certain limit in terms of the *dollar subsidy value*. Moreover, CDC’s role as exporter was limited to dealing with the surplus of skim milk powder and to issuing Class 5(d) permits to Canadian exporters.

The days of freely exporting surplus dairy products, structural or otherwise, were over. Not only did the WTO decision impede the CDC’s ability to get rid of the structural surplus, it deterred entrepreneurial export activities. The only way the industry could manage the export restrictions was to operate an even tighter system, but by what means? Implementing higher over-quota penalties? Cutting quota and importing in times of shortage? Reducing the sleeve? None of these was an attractive option.

Dealing with surpluses in a context of limited export options created a bit of a dilemma: how to reconcile national and provincial responsibilities for surpluses. There were opposing views. One camp reasoned that a national quota system meant national responsibility for surpluses. But the other suggested that provincial



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### Surplus dairy products

There are three kinds of surpluses in the dairy industry:

1. Structural surplus (within-quota), which is only solids non fat (SNF)
2. Over-production (over-quota) surplus, which entails SNF and butterfat
3. Excess quota in the system, which is usually quickly adjusted for and is eventually consumed within Canada once quota cuts are implemented—this also entails SNF and butterfat

Structural surpluses occur because milk production quotas are measured in kilograms of butterfat and consumer demand (in the 2000s) is higher for butterfat than for the non-fat portion of milk. Thus, when producing sufficient milk to meet the consumer demand for butterfat, manufacturers are always left with some non-fat components, commonly referred to as SNF—solids non-fat. The SNF is primarily processed into skim milk powder. A structural surplus of butterfat cannot occur because butterfat production is controlled by adjustments to MSQ.

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The CDC contracts warehouses throughout Canada like this dry facility in Montreal to store products like skim milk powder. There were 150,000 25-kg bags stored in this facility at the time of the photo in 2004. The CDC uses a total of 70 buildings in Canada for dry and cold storage of skim milk powder and butter.  
Source: Canadian Dairy Commission



Gaëtan Paquette, Senior Director of Finance and Operations at the CDC.  
Source: Wolf Studios

production should equal market share and that the surplus disposal through export be the responsibility of the province. Otherwise, it would infringe on other provinces' access to more lucrative export markets.<sup>19</sup>

The CMSMC resolved the dilemma by a gradual tightening of the system and setting stricter over-quota policies, says Gilles Froment, CDC Senior Director of Policy and Corporate Affairs. Initially, producers would be paid the world price for any over-quota production (up to 101 percent of allowed MSQ). Eventually, it got to a point where producers didn't get anything for their over-quota milk.

Consumer demand is one variable affecting the structural surplus today, but not the only one. Increased imports of dairy ingredients (mostly protein) by Canadian processors and further processors is another, and a third is reduced fat levels in raw milk—created by changes in genetics and feeding practices. Less skim-off and new technologies that increase cheese yields and make better use of by-products also contribute.<sup>20</sup>

All these factors contributed to a structural surplus growth from a low of 12,000 tonnes in the mid-1990s to over 67,000 tonnes 10 years later—the equivalent of about 16 percent of MSQ on an SNF basis. To avoid producing that surplus, the CMSMC would have had to cut MSQ by 35 million kilograms of butterfat and import butter to replace that lost production!<sup>21</sup>

When production exceeds quota, there is no market for the surplus butterfat and SNF. The fat may be exported as butter and the SNF must be disposed of in the same markets as the

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*It was difficult for us to continue to export in the world market with such tight constraints, especially because the Commission had been so used to exporting relatively large amounts of surplus milk products, for so many years. But there were pros and cons to this new export environment. A good thing, from a logistical point of view, was that we could pick the more lucrative export markets, which meant maximizing producer returns. On the other hand, though, having so little to export made it hard to maintain certain markets and still be considered a reliable supplier.*

—Gaëtan Paquette, 2005, CDC Senior Director, Finance and Operations

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structural surplus, both of which must be within Canada's WTO commitment levels. Milk production, generally, had to be managed more tightly than ever.

By 2005, several steps had been taken to curtail the structural surplus, at both the provincial and national levels. This surplus reached the equivalent of 55,400 tonnes of skim milk powder in 2004–2005,<sup>22</sup> down 12,000 tonnes from the previous year. In 2003–2004, the national SNF/BF ratio in raw milk was 2.34. The CMSMC decided to bring it down to 2.30 by the end of the 2005–2006 dairy year. To encourage provinces to reduce SNF production, the CMSMC negotiated SNF/BF ratio targets with each province. Provinces wouldn't get paid for SNF produced above their target ratios. In response, each province implemented measures to reach their targets, with variable success rates. For example, Quebec, Ontario and Alberta moved \$3/kg from the price paid for protein to the price paid for butterfat to encourage a shift in breeding and feeding practices to raise the butterfat content of milk and reduce the SNF production proportion.<sup>23</sup>

#### EAST-WEST PRICE COMMITTEE

As part of the Special Committee Report of July 2000, the CMSMC commissioned an independent study to find out why the processors in the East paid more for all classes of industrial milk than their western counterparts. As far as the East's processors were concerned, the western processing industry had an unfair competitive advantage.

"The purpose of the study was to obtain the true landed cost for industrial milk in each of the provinces so we could compare prices on the same basis," explains Gilles Froment, CDC Senior Director of Policy and Corporate Affairs.

The study, carried out by KPMG, Vancouver, looked at East-West cost differences like density conversion, plant metering, and administrative costs and found that a lot of the discrepancies were historical and resulted from the provincial conversion techniques used to convert to Multiple Component Pricing.<sup>24</sup> Different measurements of components contained in the milk varied from province to province, for example, and so caused

a slight gap in component costs between the two pools.<sup>25</sup> Also, price “flexibilities” in the East helped reduce Classes 2 and 3 gaps between the East and the West. Quebec had the most expensive milk in Classes 2 and 3, because it exercised the least price flexibility. In the end, the main differences in landed costs to processors were in Classes 2 and 3(a).

After the study, in 2002, the CMSMC established the East-West Price Committee to look at ways to reduce the gap in industrial milk prices between eastern and western processors. The committee agreed on a number of principles, which it recommended to the CMSMC, including that:

- the gap by class not increase in the future;
- it might need to be different depending on milk classes;
- a price gap might remain in effect, recognizing that it has been based on competitiveness and economies of scale; and
- the committee look at ways to reduce the gap.<sup>26</sup>

Processor costs were higher in the West because it had smaller and fewer plants, so the milk prices had to be lower for products to be competitive. The East understood and agreed—up to a point. If the West started processing a lot of over-quota milk, however, then it could turn into an unfair advantage.

“The Commission now takes the results of the original study, updates them each year and presents them to the East-West Price Committee for reference,” says Froment. He continues:

*The East-West Price Committee has met a few times each year and through a series of tough negotiations it recommended a number of reductions in the price differences. Effective February 1, 2003, the CMSMC decided that western provinces would reduce the gap by increasing the price for Class 2 by \$0.33/hl and the price for Class 3(a) by \$0.31/hl above the results of the CDC December 13, 2002 pricing decision. A further reduction was agreed to for February 1, 2005. The weighted average landed cost difference between the East and West pools would be reduced by \$0.53 and \$0.52/hl for Classes 2 and 3(a), respectively. And that’s where we stand now.*

## NEWFOUNDLAND AND LABRADOR JOINS THE NATIONAL MILK MARKETING PLAN

Newfoundland made noises about joining the industrial milk system as early as 1988. According to the September 1988 CMSMC minutes, under the heading “Newfoundland’s request to join the CMSMC,” the CDC got a letter from the Newfoundland Milk Marketing Board asking for an allocation of 10 million litres of MSQ. “Mr. Birchard pointed out to the Committee that the letter contained no specific request to formally join the National Plan. There was no further discussion on this matter,” the minutes read.<sup>27</sup>

In the early 1990s, there was renewed interest in Newfoundland’s entry because of emerging trade talks and special class pooling negotiations. “There was the feeling, as special classes came to be put into place, that unless we had a true national plan from coast to coast, supply management could come under attack,” remembers Chuck Birchard, former CDC Policy, Communications and Strategic Planning director. “But then GATT Article XI went by the board and that rationale was gone.”

Still, it seems, bringing Newfoundland into the fold was always at the back of people’s minds, especially Nova Scotia producers’. “We were on the front lines of receiving milk that

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*The CDC spent a lot of time and resources to help Newfoundland and Labrador understand the intricacies of MSQ allocation. We ran several scenarios on pooling. Securing their fluid market was paramount to them. And we told them their total market share could only be secured by joining the P6, and before they could do that, they would have to join the National Milk Marketing Plan and the Special Class Pooling Agreement (P9).*

*I personally wasn’t particularly optimistic at the beginning of the negotiations, given that previous attempts to join the system hadn’t been successful. But we made several trips to St. John’s between December 2000 and May 2001 and concluded the agreement in Montreal. It was then presented and accepted by the CMSMC in July 2001. The last Canadian province was finally part of the Canadian supply management system!*

—Gilles Froment, 2005, CDC Senior Director of Policy and Corporate Affairs and Chair of the Newfoundland and Labrador Negotiating Committee

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Gerard Cormier is the Vice-Chairman of Dairy Farmers of Newfoundland and Labrador.  
Source: G. Cormier

wasn't under federal legislation," says Barron Blois, Vice-Chair and National Director of Dairy Farmers of Nova Scotia. "We had also watched our British Columbia colleagues go through the Bari I, II and III cases (see Chapter 4, p. 150) with dissident producers. We figured it was only a matter of time before someone from the mainland would challenge us and say, 'Why is it okay for Newfoundland to produce milk outside the system?'"

At the October 2000 CMSMC meeting, Newfoundland and Labrador dairy industry representatives proposed joining the National Milk Marketing Plan and the Comprehensive Agreement on Pooling of Milk Revenues (P9). A Newfoundland and Labrador and CMSMC Negotiating Committee met for the first time on December 6, 2000. An agreement was quickly reached, and the province entered the plan on August 1, 2001.

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*Our main negotiating point was that the dairy industry's supply management program would finally be from coast to coast, and include all the provinces of Canada. Any time Dairy Farmers of Canada was involved in trade negotiations, someone would always point out that Canada had a province outside the system.*

*Newfoundland and Labrador was also always a bit of an irritant because we had part of the industrial market, but no quota. And there was always the danger that we could be a port of export, or entry for that matter. So it was useful, from a national perspective, to have us all in the National Plan. There may have been some people who thought we shouldn't be getting special treatment, but generally we felt that all provinces wanted us in and recognized our special needs. You know, it costs us more to transport our forage into the province than it does to buy it! Our COP is considerably higher than the average.*

*Even though ours is a small market, especially compared to the other provinces, it means a lot to us. Entering the National Plan allowed us to double our industry. No other province in Canada was in a position like this. We just opened a yogurt plant in November 2004 with 30 employees and we're hoping to expand into spreads and specialty cheese. We wouldn't have started this without entry into the National Plan.*

*Now we're negotiating our way into P5, but there's a lot more to that than there was to joining the National Plan.*

—Gerard Cormier, 2005, Vice-Chairman,  
Dairy Farmers of Newfoundland and Labrador

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#### **Highlights of the Agreement for the Entry of the Province of Newfoundland and Labrador into the National Milk Marketing Plan and the Comprehensive Agreement on Pooling of Milk Revenues<sup>28</sup>**

Newfoundland and Labrador Market Sharing Quota (MSQ) allocation shall come from the other nine provinces in proportion to their allotted MSQ.

Upon signing this Agreement, Newfoundland and Labrador shall be allocated MSQ of up to 252,000 kg of butterfat, or 7 million litres of milk at 3.6 kg/hl (the MSQ Base Level). The MSQ Base Level constitutes a minimum protected MSQ allocation for Newfoundland and Labrador.

The targeted maximum MSQ level is set at 1.116 million kg of butterfat, or 31 million litres of milk at 3.6 kg/hl, including the MSQ base, in the dairy year 2015–2016. The increase in MSQ above the MSQ Base Level shall be allocated in increments of 8.33 percent per year cumulative for a maximum period of 12 additional years with two years' grace to reach the MSQ Target Level.

Recognizing the high transportation costs of moving milk outside of Newfoundland and Labrador and the limited plant excess capacity in the Maritime provinces, this Agreement is made recognizing that Newfoundland and Labrador has the intention of developing additional industrial milk processing capabilities.

... Recognizing that Newfoundland and Labrador will be sharing in any future national industrial market growth, this Agreement is made recognizing that Newfoundland and Labrador has the intention of sharing in promotion costs of growing the Canadian market for industrial milk products.

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Jersey cows.  
Source: Alberta Milk

## FEDERAL DAIRY POLICY IN THE 2000s

Canadian dairy farmers received the last of the federal government's subsidy payments—also known as the direct support payments—in February 2002. The cuts were driven by the fiscal problems of the federal government rather than international trade obligations. The government subsidy had always been considered a consumer subsidy. When it was being phased out, the CDC pricing announcement would contain two components, the regular one and one to cover the lost subsidy, which was recouped from the marketplace by increased skim milk powder support prices.

Agriculture and Agri-Food Canada (AAFC) and the Department of Foreign Affairs and International Trade (DFAIT) expended tremendous resources and efforts to try to win the two WTO dairy dispute panels—from 1998, when they started, through to December 20, 2002, when they finally ended. Canada lost its right to export milk products at world prices other than what was allowed under its WTO subsidized export commitments. (See “International Trade,” p. 195.)

Agriculture and Agri-Food Canada Minister Andy Mitchell was adamant on his government's support for supply management during the Doha Round of WTO negotiations, which

called for substantial improvements in market access. “We have defended supply management through a number of international negotiations,” he told the House of Commons in a special debate on June 7, 2005. “As recently as last July, when we were in Geneva and negotiated a framework agreement with our other WTO partners, we worked to achieve all of Canada's trade objectives, but at the same time we made sure we had a framework agreement that would allow Canadian producers to do what Canadian producers should have the right to do, and that is to choose the domestic marketing system they want.”<sup>29</sup>

AAFC also supported the dairy industry in several ways throughout the BSE crisis of May 2003, when the United States, our primary trading partner, closed its borders to our live cattle after a BSE-positive cow was detected in an Alberta beef herd. AAFC gave financial help to owners of dairy breeding animals under the Cull Animal Program, for example. Money from the Transitional Industry Support Program helped dairy farmers who had animals under two years old and were affected by the border closing. Financial assistance was also given to the dairy genetics sector.

## MANAGING THE POOLS

### COMPREHENSIVE AGREEMENT ON POOLING OF MILK REVENUES (P9), 2001–2003

The Comprehensive Agreement on Pooling of Milk Revenues (P9) underwent a number of changes in the 2000s. First it had to be rewritten to reflect the 1999 WTO panel ruling to remove the OEP and Class 5(e) and adjust the SRP and to distance the CDC from the CEM program. (See “WTO Dispute Panel Decision 1999,” p. 195.) Because the agreement was opened, it made sense to address a few other issues at the same time.

Of particular importance, especially to Alberta and the West, was addressing the 17:22 inequity issue. (See page 182.) When the 1996 P9 was signed, the sharing of market returns from the special classes was based on a percentage of all milk production, including fluid milk.<sup>30</sup> The result was that the West ended up absorbing 22 percent of the costs associated with the P9—based on their share of all milk production—but they had only 17 percent of the industrial market share. To get away from this inequity, the formula to calculate pooling revenues was changed and limited to industrial milk only (Classes 2 to 4(d) and Special Milk Classes). The result was that the West started being responsible for 17 percent of the Special Milk Classes.

On January 31, 2001, a new agreement with a new name—Comprehensive Agreement on Pooling of Milk Revenues—which reflected all the changes, went to the provinces for signing.

Meanwhile, New Zealand and the United States decided to go after Canada again, because, they said, Canada still wasn’t complying with its WTO commitments. Even though the CEM program was outside government intervention, along with Special Milk Classes—which gave a break in price and was viewed as a subsidy—cross-subsidization was taking place, they argued. The signing of the 2001 P9 agreement was put on hold, pending resolution of the issue. The final WTO decision, handed down on December 22, 2002, meant a third agreement had to be developed, circulated and signed by all provincial producer boards and governments. The Comprehensive Agreement on Pooling of Milk Revenues (August 2003) was developed and sent to



Monitoring the milk tank. Source: Alberta Milk

provinces for signature. But getting 10 provincial boards and 10 provincial ministers to sign off on a document, not surprisingly, can be a long process. Quebec alone required four signatures!

By March 5, 2005, the CDC had all the required provincial signatures and the agreement was ready for Cabinet to approve its signature by the CDC. Once completed, Cabinet would be asked to approve the signing of the Agreement by the CDC for the “Entry of the Province of Newfoundland and Labrador into the National Milk Marketing Plan and the Comprehensive Agreement on Pooling of Milk Revenues.” Once that was signed, the Agreement, informally known as the P9, would informally become the P10.

## Comparison of the Three P9 Agreements

### 1996 agreement Comprehensive Agreement on Special Class Pooling

Developed to comply with GATT Uruguay Round Agreement on Agriculture, which said producer levies constituted export subsidies, so were subject to progressive reductions. Also, it was expected that producer levies would be defined as prohibited export subsidies under NAFTA.  
Pooling of revenues calculated on sales of industrial milk as a percentage of all milk, *including fluid*.  
Introduced Optional Export Program (Annex C of the Agreement).

### Definitions of Special Classes

- 5(a) Cheese ingredients for further processing for the domestic and export markets
- 5(b) All other dairy products for further processing for the domestic and export markets
- 5(c) Domestic and export activities of the confectionery sector
- 5(d) Specific negotiated exports including cheese under quota destined for the US and UK markets, evaporated milk, whole milk powder and niche markets
- 5(e) Surplus removal

### 2001 agreement Comprehensive Agreement on Pooling of Milk Revenues

Developed to comply with WTO 1999 Dispute Settlement Panel ruling that Class 5(d) and Class 5(e) were deemed subsidized in contravention of WTO agreement and that Canada had provided export subsidies in excess of WTO commitment levels.  
Eliminated Special Milk Class 5(e), the Optional Export Program, and changed the Surplus Removal Program.  
Explicitly distanced the federal and provincial governments from the Commercial Export Milk program.  
Pooling of revenues calculated on sales of *industrial milk only* —Classes 2 to 4(d) with Special Classes 4(m) and 5(a) to 5(d).  
Included provisions to address several CMSMC Special Committee issues.

### Definitions of Special Classes

- 5(a) Same
- 5(b) Same
- 5(c) Dairy products for the confectionery sector destined for domestic and export markets
- 5(d) Planned exports and other exports approved by the CMSMC, the total of which shall not exceed Canada's WTO commitments.
- 5(e) Eliminated
- 4(m) **New:** Special Milk Class components for marginal markets as established from time to time by the CMSMC. (New surplus removal added to the milk classification.)
- New:** Seasonal and short-term supply and demand imbalances to be managed by the Milk Management Committee operating under CMSMC guidance.

### 2003 agreement Comprehensive Agreement on Pooling of Milk Revenues

Developed to comply with WTO 2002 Dispute Settlement Panel ruling that, through the combination of CEM and Special Milk Class 5(d), Canada had provided export subsidies in excess of its WTO commitment levels.  
Eliminated all mention of CEM.

### Definitions of Special Classes

- 5(a) Same
- 5(b) Same
- 5(c) Same
- 5(d) Same
- Not applicable
- 4(m) Same
- Same

## ALL MILK POOLING AGREEMENT (P6 TO P5)

Under the Agreement on All Milk Pooling (informally referred to as P6), the agreement was to be reviewed every four years.<sup>31</sup> How was it working? Did anything need to be changed? What needed to be done? When it was time for the first review, it was clear that the pool members were still playing catch-up from the phenomenal amount of work that had been accomplished in those first four years. Everyone had worked so hard for so long on harmonizing everything—from milk quality to allocation—they were tired. It was time to slow down. “Everyone was really saturated with having done so much,” recalls Nelson Coyle, CDC Chief of Policy and Strategic Planning. “There was a bit of a push back, and an understandable one.” So the P6 Supervisory Body’s first review in September 2000 was mainly a stock-taking exercise, where members reiterated their commitment to the agreement and made note of a few outstanding issues for future reference.

On February 1, 2003, Manitoba amicably divorced itself from the P6. Manitoba had only been involved in the revenue-sharing aspect of the P6 pool. Other provinces pooled markets, transportation and promotion costs. Manitoba had shared revenues with the Western Milk Pool and the P6 since the beginning of the WMP in March 1997. “But we couldn’t sustain participation in both pools. It was costing Manitoba dairy farmers too much,” says James Wade, General Manager of Dairy Farmers of Manitoba. “There was no need for Manitoba’s dairy farmers to continue trying to be the glue that held a possible national pool together. National pool discussions were going nowhere at the time.” Manitoba had always had the idea that they could be the bridge between the East and the West to create a national milk pool.

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### An all-milk pool is not imminent

*Concerning the establishment of a national all milk pool, it must be noted that the industry is currently dealing with other priorities. Although the formation of this pool is still on the horizon, it is not imminent.*

—CDC, *Annual Report 2001–2002*, p. 27

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The informal name of P6 then became the P5, the five remaining provinces being Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island.

When it came time to do a second review of the Agreement on All Milk Pooling in 2004, there was clearly work to do. “The Pool has changed significantly since it was created,” the P5 Review Committee Update noted.<sup>32</sup>

There was a long list of outstanding items to be addressed, including milk allocation to plants, harmonization of quota policies, clarifying roles and responsibilities of the Supervisory Body, and clarifying the Dispute Settlement Procedures.<sup>33</sup> The best thing to do, it was decided, was to update the Agreement. Former CDC chairman Gilles Prigent, a lawyer, was hired to consider what form a redrafted agreement could take. A draft was circulated to all provinces in the fall of 2005.

As of 2005, Newfoundland and Labrador was negotiating to enter the P5 agreement. The Negotiating Committee presented its recommendation to the P5 Supervisory Body in July 2005.

### P5 Panel Dispute on Inter-provincial Quota Exchange: Round 1

At the end of the 1990s, trouble started over the inter-provincial quota exchange (see Chapter 4, “Inter-provincial quota exchange,” p. 135). Under Article 13 of the Agreement on All Milk Pooling, provinces were to implement a pool-wide quota exchange, which Quebec, Nova Scotia and Ontario had done. Ontario had pulled out because it had lost too much quota and refused to rejoin at the end of 1999. It asked for a study on how different provincial quota policies could affect quota exchanges.<sup>34</sup> The study, as far as some provinces were concerned, was inconclusive. “It didn’t reveal any major issues, but did identify a number of minor issues, that together might have explained a few things,” remembers Brian Cameron, General Manager of Dairy Farmers of Nova Scotia. “But it was difficult to interpret the findings.” Still, Nova Scotia was tired of waiting for a solution. It asked for a dispute panel to force the other provinces to participate in a quota exchange as per Article 13 of the Agreement. There was supposed to be an exchange, they argued, and there wasn’t one. Therefore, the panel needed to order one.

Nova Scotia put off the panel, pending ongoing discussions



with Ontario. But in June 2004, with no resolution in sight, they asked for the panel to go ahead. Former CDC chairman Gilles Prigent chaired the three-member panel. The two other members were John Akerman from Nova Scotia and Jim Rickard from Ontario.

And then, a jurisdictional matter overtook the quota exchange issue. According to Article 13, Nova Scotia maintained, Prince Edward Island and New Brunswick *had* to participate in the exchange and dispute. Prince Edward Island and New Brunswick begged to differ. Article 15 of the All Milk Pooling Agreement said that they “will consider” participating in the quota exchange “at a later date.” No mention of “having to.” And the Supervisory Board—during a review of the Agreement in 2001—had added an addendum that said, “Notwithstanding Articles 13, 14 and 15 of the agreement, members agreed that an inter-provincial quota exchange may be re-introduced subject to an agreement between willing provinces,”<sup>35</sup> which, according to New Brunswick and Prince Edward Island, replaced Articles 13 to 15. The panel’s jurisdiction, they said, was only to deal with the interpretation or implementation of the Agreement: the panel couldn’t impose any changes to it.<sup>36</sup>

Who was right? The dispute panel decided it had to rule on those issues before tackling the main issue of whether there had to be a quota exchange under the All Milk Pooling Agreement. On August 18, 2004, the panel ruled that Prince Edward Island and New Brunswick did *not* have to participate in a pool-wide quota exchange, but strongly encouraged the two provinces to participate in all future processes, including panel hearings. “As to our jurisdiction, we are of the view that we are staying within the limits of the disposition of the Agreement and its Annex,” the panel said.<sup>37</sup>

#### **P5 Panel Dispute on Inter-provincial Quota Exchange: Round 2**

Now it was clear that the dispute involved only Ontario, Quebec and Nova Scotia. The panel then had to decide if the wording of the original agreement had been “amended” by the Supervisory Body in 2001 during the review process. Ontario was arguing that the agreement had been amended with the “Notwithstanding Articles 13, 14 and 15...” addendum. And Ontario had complied

with this clause. “Ontario has seriously looked at all proposals presented and has entered into extensive discussion with our producers at two spring regional meeting sessions as well as discussions and comments at fall policy conferences and annual meetings in an attempt to be a ‘willing Province’ as outlined in Section J,” Ontario said in its submission to the dispute panel.<sup>38</sup>

Once again, the matter at hand involved more than one issue, but the September 27, 2004 panel decision was brief and concise:

- The Supervisory Body cannot amend the Agreement on All Milk Pooling, “by Addendum, minutes, or otherwise.”
- The original Article 13 applies to the dispute.
- The Supervisory Body should “implement and establish rules for a pool-wide quota exchange,” which, as noted earlier, “would only apply to Ontario, Nova Scotia and Quebec.”
- The Supervisory Body, as per Article 13, should establish rules and procedures for the exchange and it would evaluate longer-term expansion of quantity of quota available to the exchange.<sup>39</sup>

In 2005, Nova Scotia and Ontario continued to discuss options to implement the decision and the Supervisory Body looked for a practical way to amend the Agreement in a way that could satisfy all parties.

Quebec monitored both issues from the sidelines, saying it was willing to participate in the exchange as soon as another player showed up on the field.

#### **WESTERN MILK POOL**

The Western Milk Pool (WMP) had a number of issues to contend with in the 2000s. One of the biggest jolts to the system was Montreal-based food company Saputo buying Dairyworld Foods for a reported \$407 million effective January 2001. Dairyworld, owned by Agrifoods International, was Canada’s second largest dairy co-operative.

The repercussions of that sale were felt across all four provinces. As a co-operative, Agrifoods had provided considerable services, including transportation and milk testing, for example. But a large, expansive, publicly traded company like Saputo had a different take on running a business. Indeed, provincial boards



Len Crozier, Vice-Chairman of Alberta Milk and his family on the farm.  
Source: Alberta Milk

had to take over some services, like directing milk, that the co-op had previously handled. British Columbia, Alberta and Saskatchewan boards also got together and negotiated a Plant of Last Resort (PLR) agreement with Saputo—a major accomplishment. The purpose for a PLR agreement was for the processor to assure the provincial boards that it would have the plant capacity to process any milk surplus to regular processing needs, especially during holidays and high seasonal production periods.

For a fee, Saputo guaranteed that it would buy all milk produced at the farm gate in those provinces. A second PLR agreement was later made between Parmalat and the four provinces to provide that same assurance for Manitoba. “It was really more an insurance policy,” says Gerry Gartner, Chief Executive Officer of the Saskatchewan Milk Control Board.

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*Alberta’s dairy marketing system underwent some major changes as well. Alberta Milk Producers was the organization responsible for promotion, nutritional information and policy development. The Alberta Dairy Control Board, operating under Alberta legislation, was responsible for regulatory authority such as milk allocation, membership in CMSMC and membership in the Western Milk Pool. In 2002, the Alberta government repealed the Alberta Dairy Control Board legislation and helped the industry develop Alberta Milk under the Marketing of Agricultural Products Act.*

*The timing of this governance change was ironic because within weeks of the announcement, Dairyworld was purchased by Saputo. Early 2003 was extremely busy with the change in governance and this historic change in processing in western Canada.*

—Lenard Crozier, 2005, Vice-Chairman, Alberta Milk

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Other WMP highlights of the 2000s were as follows:

- For the sake of equity and accuracy, the WMP agreed to share all revenues on the basis of Multiple Component Pricing instead of total solids effective August 1, 2000.<sup>40</sup> This decision had little impact on the amount of money that was exchanged through the pool.
- The whole farm transfer program worked for a while at the end of the 1990s except that Manitoba would not be part of it. The inter-provincial quota exchange, however, even though provided for in the WMP Agreement, never got off the ground.
- After BC initiated a milk security policy, other provinces were encouraged to do so during one of the pool's visioning sessions. A milk tank sealing program was therefore to be put in place as of October 1, 2005.
- Carl Harrison, Vice-Chairman of the CDC, started chairing the WMP Co-ordinating Committee in the 2000s. Before that, chairmanship rotated among chairmen of the provincial milk boards.
- The Fluid Milk Price Action Committee worked on harmonizing the price of fluid milk among the western provinces, but also with provinces of the P5.

## INTERNATIONAL TRADE

### WTO DISPUTE PANEL DECISION 1999

The Canadian dairy industry was dealt a major blow when the WTO dispute settlement and appellate panels ruled against the industry's export practices first in 1999, and then against the measures Canada took to comply with the 1999 ruling. In 1999, Special Milk Classes 5(d)—planned exports—and 5(e)—unplanned exports—were found to be subsidized. That is, these Special Milk Classes were judged to be “financed by virtue of governmental action,” within the meaning of Article 9:1(c) of the Agreement on Agriculture, and therefore contravened the WTO Agreement.<sup>41</sup>

The CDC thought it had complied with the Agreement by replacing its previous levy-financed export programs with the Special Milk Classes 5(d) and 5(e), which had been established under the P9 agreement 1995. But the United States and New Zealand didn't see it that way. The WTO dispute panel agreed with them. A time frame to implement the necessary changes was agreed to and the CMSMC and provincial milk marketing boards eliminated Class 5(e).

Some repercussions of the 1999 WTO decisions in the 2000s were as follows:

- 5(d) exports were subject to WTO limits on subsidized exports. Class 5(d) included specific negotiated exports such as evaporated milk, whole milk powder, niche markets and cheese under quota destined for the United States and the United Kingdom markets.
- The 5(e) surplus removal milk class was eliminated.
- The Optional Export Program (OEP) was eliminated August 1, 2000.<sup>42</sup> The OEP was designed for exporters and processors, and producers who wanted to supply them, to take advantage of new export market opportunities, but was deemed to have government involvement because the CDC still had to sign contracts.
- Canada introduced a new Commercial Export Milk and Cream (CEM) program, which allowed producers to sell up to 10 percent of their production to Canadian processors on their own terms, and with no government intervention. Provincial boards were allowed to sell up to 5 percent of their production as CEM. No quota or permits were required and the CDC had no direct involvement with the program. CEM was a completely separate program from the Special Classes. In many cases buyers and sellers conducted business through an Internet-based bulletin board.
- The P9 Agreement was amended and renamed the Comprehensive Agreement on Pooling of Milk Revenues, January 31, 2001.
- The new P9 Agreement included a new Special Milk Class: 4(m), a class for marginal domestic markets like animal feed.

## WTO DISPUTE PANEL DECISION 2002

As we have seen, the CDC changed its export programs to bring them into compliance with the 1999 ruling and eliminated the Optional Export Program and Class 5(e). Instead of the Optional Export Program, individual provinces, with advice from the Department of Foreign Affairs and International Trade (DFAIT) and Agriculture and Agri-Food Canada officials, developed the new Commercial Export Milk and Cream program in 2000.

Meanwhile, though, New Zealand and the United States decided that these changes made to the CDC's export programs weren't good enough. They charged that Canada was still not complying with its export obligations because of the CEM program. They asked for, and got, a WTO Compliance Panel to review Canada's implementation of the 1999 WTO dispute panel decision.

In July 2001, the Compliance Panel ruled that Canada's CEM program was subsidized and had to go. Through the combination of CEM milk and Special Milk Class 5(d), Canada was providing export subsidies over and above the WTO allowable level and therefore still not conforming to its WTO obligations, the panel said.

Canada appealed the decision. In December 2001, the WTO Appellate Body released an unusual ruling, according to Michael Bowser, the DFAIT official who was the primary lead within that department during the entire dispute. The Appellate Body actually overturned the compliance panel ruling, *but*, it said, it couldn't "complete the analysis of the claims made by New Zealand and the United States."<sup>43</sup>

"This had never happened before," Bowser says. "Basically it left the door open for future challenges. And please don't forget that throughout all of this, we had the possibility of New Zealand and the United States retaliating against us. If you lose a case at the WTO, and the countries making the challenge can prove they've been hurt by the practices they were contesting, they can seek WTO authority to take retaliatory action, such as raising tariffs."

What to do? Because the WTO Appellate Body said it couldn't

complete its analysis, New Zealand and the United States asked for, and got, yet a second Compliance Panel. So all three countries went back at it, re-litigating all the facts.

On December 23, 2002, Bowser got a call at 3:30 a.m. from the Canadian mission in Geneva. He had been expecting it. The WTO had ruled that Canada's CEM program, together with Canada's regulation of price and supply of domestic milk, was government action that created a cross-subsidization of export sales. Therefore, Canada had provided export subsidies in excess of its commitment levels and had to rein in its exports to comply with committed levels. "We wish to emphasize that we do not suggest that Canada's domestic supply management system is inconsistent with Canada's obligations under the covered agreements and specifically, the Agreement on Agriculture," the panel ruled. "The consistency of Canada's domestic milk supply system is *not* at issue in these proceedings."<sup>44</sup>

Despite the strong united support and Herculean efforts from all Canadian fronts, Canada had lost.

"We thought the CEM set-up was in accordance with WTO agreements," Bowser says. "We knew we had a challenge with cross-subsidization, but we certainly didn't think that the cross-walk between the domestic and export markets was covered by the Agreement on Agriculture. It was the tentacles all the way through the system that did us in, in the end."

Current CDC chairman John Core, then chairman of Dairy Farmers of Ontario, was not impressed with the ruling. "I think everyone knew what they signed in 1995. But WTO panels started to make policy rather than interpreting the rules," he says. "Panels have been very aggressive in going beyond what was signed in 1995. I think it's because there's a general thrust towards eliminating trade barriers."

Richard Doyle, Dairy Farmers of Canada Executive Director, was heavily involved in international trade issues and attended the panels. "We shouldn't have lost. We had a good case. What we had done was based on something that our negotiators had developed back in 1995. So what happened, really, is that they did not sign what they thought they had negotiated."

In May 2003, Canada, the United States and New Zealand



reached an agreement on how to implement the decision. This time, though, Canada had to limit its dairy product exports not only to a certain *quantity* (exported kilograms), but also to a certain *dollar value* of the export subsidy. Canada had already limited its quantity of exports, but not the value of the subsidy, because the benchmark hadn't been established. With the 2002 ruling, it was confirmed that 5(d) exports were subsidized and value figures had to be calculated.

Canada dismantled its CEM program and fully complied with all decisions in the final ruling. The long, bitter battle was over.

The major impact on Canada, and the CDC, was for skim milk powder (SMP). In the 1990s, the CDC had exported an average of 30 million kilograms per year—considerably more than the equivalent (about 12 million kg) of the current export limit of \$31.1 million.<sup>45</sup>

Export Limits

There are two limits to exports:

- 1. expressed in quantity of products exported (kg)
- 2. expressed as the dollar value of the export subsidy

In 2005, Canada's WTO commitments stood at:

Product	\$ Commitment Levels <sup>46</sup>	kg Commitment Levels
Butter	11.0 million	3.5 million
Cheese	16.2 million	9.1 million
SMP	31.1 million	44.9 million
Other dairy products	22.5 million	30.3 million

The first limit that Canada reaches for a specific category is the limit that applies for that particular dairy year. The value of the subsidy is calculated as the difference between CDC support prices and Special Milk Class 5(d) prices (which are close to world prices). This means that the quantity Canada can export will decrease as support prices go up, and as world prices go down. Exchange rates will also have an effect because world prices are expressed in US dollars.

IMPORTS

Imports became a greater concern for the dairy industry in the 2000s, and in turn for the CDC. When the Uruguay Round of GATT negotiations concluded in 1993, historical import quotas were converted to Tariff Rate Quotas (TRQs), effective in 1995. TRQs imply two-stage tariffs:

- 1. No tariffs, or low tariffs, are applied to imports that come into Canada up to a certain quantity. This is called the "within access commitment" tariff.
- 2. A higher tariff is applied to imports that are above the TRQ. This is called the "over-quota commitment" tariff.<sup>47</sup>

In the 1990s, with the trend to lower-fat products, processors and food manufacturers decreased their requirements for butterfat but kept up the use of solids non-fat (SNF) in products like cheeses and yogurt. This helped the industry balance domestic supply with demand for milk and SNF, and reduced the skim milk powder structural surplus that the CDC had to buy.

In the 2000s imports of milk protein products, like caseins and whey protein concentrates (WPC), increased significantly because of improved technology—technology that refined the manufacturing process for these components and made them more functional and adaptable for a wider variety of end uses. Imports of whey products jumped 20 percent between 2002 and 2004, for example, from 53.5 million kg to 64.3 million kg.<sup>48</sup> At the same time, butteroil/sugar blend imports continued to rise—and the domestic market began to feel the pinch. Butteroil/sugar blend imports doubled in the first few years of the 2000s, and hovered around 16 million kg in 2004.<sup>49</sup> To put that quantity in perspective, 16 million kg of imported blends replaces about 2.2 million hl of milk, or 4.5 percent of total MSQ.

High-protein imports were on the rise for a number of reasons. Imports of alternative milk protein products were not restricted by TRQs because they weren't being imported in significant quantities in 1993 and so weren't identified under the Import Control List. In the 2000s, they were entering the country at world prices. They offered a cheaper, more attractive alternative to the domestic milk protein that dairy and food



Producers delivered bags of skim milk powder to key Members of Parliament to pressure the government to act on imports in May 2005.  
Source: Canadian Dairy Commission

processors used in products like processed cheese and yogurt. New products, such as milk protein isolates, were also sailing into the country tariff-free because these products didn't even exist when TRQs were created.

As for the butteroil/sugar blends, they were included in a tariff line for which tariffs on imports were either low or non-existent. Because they were below 50 percent dairy content, these blends circumvented classification and import restrictions, much to the chagrin of dairy farmers. Butteroil/sugar blends are particularly well suited to use in ice cream because of their proportions of butterfat and sugar.

As the high-protein imports went up, the use of domestic skim milk powder and milk proteins went down. This meant more skim milk powder surplus for the CDC to buy. To make matters worse, the 2002 WTO dairy panel decision limited the amount of skim milk powder that Canada could export. So the industry's hands were tied. Dairy product manufacturers could import lower-priced alternative milk protein ingredients, and then sell the displaced skim milk powder to the CDC—contributing to a growing skim milk powder surplus. DFC exerted

considerable pressure on the government to put restrictions on selected dairy imports and to close certain loopholes in the TRQ system.

There were other challenges. In 2004 the Canada Border Services Agency (CBSA, formerly the Canadian Customs and Revenue Agency)<sup>50</sup> prevented an importer from bringing in a type of milk protein concentrate (MPC) under a tariff line that provided tariff-free access. Generally, 1 kilogram of high-protein MPC can displace as much as, or more than, 2 kilograms of domestic skim milk powder. CBSA seized the product at the border and the importer then appealed to the Canadian International Trade Tribunal (CITT). Much to the dairy industry's surprise, the CITT ruled that the product could be brought in under a tariff-free line. The decision was appealed by CBSA, with the support of DFC.

The CDC was not directly involved in these rulings, appeals and decisions, but they could have a significant impact on the industry's supply management system, and the need for the CDC to deal with the surpluses.

### Supplementary cheese imports

An interesting and unusual turn of events for the CDC in late 2002 was the need to import supplementary cheese to make up a shortfall in domestic supply. Canadian processors made a case to the Department of Foreign Affairs and International Trade—the department responsible for issuing the import permits—that they did not have enough milk to make sufficient cheese to service the 2002 Holiday market. The CDC, which is consulted in these issues, agreed. Over strong protests from Canadian dairy farmers, DFAIT issued supplementary cheese import permits to the CDC for 750 tonnes of medium cheddar cheese. The CDC quickly bought cheese from nearby American suppliers and re-sold it to Canadian processors in need.

The shortfall resulted from a number of unrelated events. Quebec had imposed strict production rules in the spring of 2002 in anticipation of a WTO dairy panel ruling. The ruling would limit the amount of surplus dairy products Canada could export. Better to avoid surpluses that might have to be disposed of in less lucrative markets. But then a summer heat wave blew

into Quebec and Ontario, Canada's two major milk-producing provinces. Dairy cows don't do well in the heat, so production plummeted to a level far lower than originally anticipated and led to a shortage of milk for cheese production.

In the end, the CDC managed to limit the imports to 479 tonnes.

## DOMESTIC MARKETING

### CDC LAUNCHES THE DAIRY INGREDIENT MARKETING PROGRAM

The call for increased attention to the ingredients market was not new. Back in 1984, an International Dairy Federation Canada seminar on Canadian dairy ingredients made several recommendations for growing the market. The CDC formed an Ingredients Committee in 1992 to address competitive pressures on the market for dairy ingredients—which went on to do much work in designing the Special Milk Class Permit Program in the second half of the 1990s. In 1992, the CDC also initiated the Rebate Program for Further Processors, which provided funding to further processors facing increased competition from American imports, and the Butter Utilization Program, which encouraged use of butterfat in sectors like the baking industry. But Dairy Farmers of Canada's Consultation Committee on the Future of the Dairy Industry still took up the torch, reporting in 1994 that not enough progress had been made to promote awareness and use of Canadian dairy ingredients.

By the 2000s, it was clear that more work was needed. There was no national effort to promote the use of Canadian milk ingredients in the domestic market. The 1999 WTO ruling had limited the quantity of milk products that Canada could export, thus limiting the amount of structural surplus that the CDC could get rid of. The industry faced increased competition from substitute dairy ingredients, such as soybean products and vegetable oils.

A logical next step was to promote the use of Canadian dairy ingredients more aggressively at home. So in October 2000 the CDC launched its Dairy Ingredient Marketing Program, which



Cheddar cheese. Source: Canadian Dairy Commission



Splash page of the MILKingredients.ca website. A large component of the program relies on the world wide web for the delivery of services to targeted clients. Source: Canadian Dairy Commission

included setting up a comprehensive Web-based dairy ingredient information centre (MILKingredients.ca), organizing several yearly milk ingredients seminars and raising the profile of Canadian dairy ingredients by participating in several national trade shows. The driving slogan for the program: Information, Interaction, Innovation!

The push to promote awareness and increased use of dairy ingredients on a national scale was on, and CDC was at the helm. The Dairy Ingredient Marketing Program was operated separately from the Ingredients Committee, but the committee, along with its industry partners, contributed to its development.

In October 2004, the Dairy Ingredient Marketing Program—directed specifically at the further processing industry—was renamed the Dairy Marketing Program. Its mandate was extended to milk processors and other manufacturers of dairy products and components. The Commission created two new industry support funds directed primarily at small and medium-sized companies that wanted to use dairy ingredients in a new way, or in new products, but needed outside technical support and

expertise to do so. The CDC also created two new positions called ‘Innovation Champions’ to help promote its new marketing initiatives. The goal was to encourage innovation and increase the use of Canadian manufactured milk products and components.

“The Innovation Champions have a diverse mandate,” says Mark Lalonde, Chief of CDC Marketing Programs. “They’re there to ‘beat the bushes,’ if you will, to help companies with technology and knowledge transfer issues, access our industry support programs and those of other government agencies.”

### SPECIAL MILK CLASS PERMIT PROGRAM

The Special Milk Class Permit Program (SMCPP) was implemented on August 1, 1995, to comply with the new Agreement on Agriculture that was reached during the Uruguay Round of GATT. Under that agreement, producer levies were defined as export subsidies and so were subject to progressive reductions in both value and volume. The CDC’s Butterfat Utilization Program and the Rebate Program for Further Processors were both funded through producer levies and had to go.

The SMCPP was designed to give further processors, distributors and animal feed manufacturers access to dairy ingredients at prices that would allow them to remain competitive in the marketplace. The program allows for milk processors to purchase their raw milk components at competitive prices. The dairy ingredients made from these components were then made available to eligible further processors, also at competitive prices.

The CDC, which operates the program on behalf of the CMSMC, issues five types of permits:

- under Class 5(a) for cheese used in further processing;
- under Class 5(b) for all other dairy products (except cheese) used in further processing;
- under Class 5(c) for dairy products (except cheese) used in confectionery products;
- under Class 5(d) for dairy products/blends exported within Canada’s WTO export commitments; and
- under Class 4(m) for surplus milk in the form of skim milk powder used in the animal feed sector.



In 2004–2005, milk components under Special Milk Class Permits represented the equivalent of 11 percent of total MSQ. “That’s a significant volume of milk,” says Mark Lalonde, CDC Chief of Marketing Programs, “and it’s an important result for dairy industry stakeholders.”

***Use of Milk under Special Milk Class Permits***  
(Classes 5(a), 5(b), 5(c), 5(d) and 4(m))

Year	Milk used under special classes (million hl)	MSQ (million hl)	% of MSQ in special classes
2001–02	3.7	45.6	8
2002–03	4.3	48.7	9
2003–04	5.4	49.2	11
2004–05	5.6	49.9	11

\* Volumes are calculated on a standard basis of 3.6 kg of butterfat per hl.  
Sources: CDC, Annual Reports 2001–2002 to 2004–2005.

The SMCPP Classes 5(a), (b) and (c) generated \$143 million in income for producers in 2004–2005. The component pricing established under this program is not contingent on exports and it allows food product manufacturers to compete on a level playing field with imported goods.

“I think that the SMCPP, along with other CDC marketing programs and services, has provided many companies with the opportunity to bring innovative dairy and finished food products to market for the benefit of the industry as a whole,” Lalonde says. “It also provides producers with a legitimate outlet for non-fat milk solids such as skim milk powder.”

## STRATEGIC PLANNING

In the first few years of the 2000s, new and important dairy industry trends started emerging. More dairy products were being imported for re-export. The food and processing industries were bumping up their use of dairy product substitutes. The new limits on subsidized exports under the WTO were taking a toll. The skim milk powder structural surplus was growing. The supply management system had evolved and moved away from a supply-driven one to a market-driven one. The concepts of globalization and free trade, which were entrenched in CUSTA, NAFTA and WTO, were putting even more pressure on the dairy industry to keep heading in that direction.<sup>51</sup> It was time, the CDC commissioners decided, to call the troops together.

So the CDC consulted some 15 groups representing the production, processing, further processing, restaurant and consumer sectors across Canada. Their issues were identified and the sectors were brought together by the CDC for the first Strategic Planning session in March 2003, with a follow-up session in October of the same year. The message from the first session was clear. The time was ripe to bring a larger group of stakeholders together to do three things:

1. confirm the issues and explore the perspectives
2. decide on a shared agenda for collaborative work
3. decide on a process for early action<sup>52</sup>

During the sessions, the group took a long list of issues and narrowed them down to a few priorities, with ‘growth’ being far and away the first from several perspectives. The priorities were the following:

- how to grow the market using the Special Milk Classes;
- how to grow the market through innovation, new products and increasing per capita consumption; and
- how to balance supply and demand.<sup>53</sup>

One result from the sessions was that CDC hired two ‘Innovation Champions’ to help promote its new marketing initiatives.



Mark Lalonde, Chief of CDC Marketing Programs and one of the Dairy Ingredients Marketing Program’s designers.  
Source: Wolf Studios



Jersey cow. Source: Alberta Milk

Sales of organic dairy products have risen significantly in the 2000s. Source: Canadian Dairy Commission



## CHANGES ON THE FARM, ON THE PLATE, AT THE PLANT

### ON THE FARM

Technological improvements in herd management, genetics, farm machinery and milking systems continued into the 2000s' first years. For example, Canada was the first to develop and introduce a new method for simultaneously evaluating the production traits (milk, fat, protein and somatic cell count) in a cow. The 'test day' model replaced the lactation model and is now used in other countries around the world. It's a genetic model that more closely defines the true biology of a dairy cow. It uses data—as they are collected in the field—more efficiently. It also means that the industry can more precisely estimate the breeding value of bulls.

In 2004, there were about 1.06 million dairy cows in Canada, producing an average of 9,458 kg of milk per cow,<sup>54</sup> as compared to 2.67 million dairy cows producing an average of 3,093 kg in 1966.<sup>55</sup> That's a 60 percent decrease in the number of cows and a 206 percent increase in average milk production per cow.

The number of Canadian dairy farms continues to decrease. In 2004–2005, Canada had 16,224 dairy farms, down from 20,576 in 1999–2000—a 21 percent drop.<sup>56</sup> It's a far cry from the 174,000 dairy farms that dotted the countryside in 1966.<sup>57</sup>

### Impact of BSE

The BSE (bovine spongiform encephalopathy) crisis, primarily affecting the beef cattle industry, had a significant impact on the dairy industry as well. Our primary trading partner, the United States, was among the countries that closed their borders to our live cattle and other ruminant animals in May 2003. The US border was also closed to any Canadian ruminant meat, and to products with processed animal protein.<sup>58</sup> BSE is a progressive, fatal disease affecting the nervous system of cattle. Scientific evidence suggests a probable link with a new variant of Creutzfeldt-Jakob disease in humans. The United States subsequently reopened its border to boxed, boneless beef from cattle under 30 months of age, but has kept it closed to live animal imports, at least up to the time this book went to press.

The Canadian Livestock Genetics Association estimates that since the border was closed, the Canadian dairy industry has been losing an average of \$200 million annually in export sales of breeding animals alone. Canada had been exporting an estimated 100,000 dairy heifers each year for breeding and milk production.

Not only is this income lost but, because there are no live exports, dairy farmers have to keep both their breeding stock and cull cows on the farm. Canada doesn't have the kill capacity for a lot of the cull cows that used to go to the United States, and there's little incentive to market them here in Canada with prices so low. All dairy operations are affected. The CDC recognized the impact of BSE on dairy farmers' incomes when it announced an add-on of \$1.66 per hectolitre in its December 2004 support prices, to partially offset that impact. At the December 2005 pricing review, no BSE add-on was added to the new support prices.

#### ON THE PLATE

Consumer consumption trends for dairy products took some interesting turns during the first half of the 2000s' first decade. Per capita consumption (PCC) of butter hit 3.44 kg in 2004, the highest since 1989, when it sat at 3.47 kg.<sup>59</sup> Consumer fear about the negative health effects associated with trans fats—specifically those found in hydrogenated vegetable oils—was one explanation. But so, too, was the general consumer trend to more wholesome, healthy products.

Also in the 2000s, new research revealed that dairy products had previously unknown health benefits, says Helen Bishop MacDonald, former director of nutrition at Dairy Farmers of Canada. "We now know that milk contains lactoferrin, a component thought to be anti-carcinogenic. There's research that shows dairy products can help reduce obesity, not add to it, although no one advocates eating a pound of butter a day, of course. And don't forget that fatty acids in milk actually raise good cholesterol," she adds.

Yogurt consumption also continued on its upward trend, increasing every year since at least 1980. In 2005, yogurt PCC stood at 7.33 litres, up from 4.59 litres in 2000, a 58 percent increase.<sup>60</sup>

Consumers continue to like specialty cheese. It hit an all-time high of 7.35 kg PCC in 2004.<sup>61</sup> Ice cream, however, decreased to 8.63 litres PCC in 2000, the lowest since 1980. It has fluctuated during the 2000s but stood at 9.66 litres in 2005.<sup>62</sup>

Still, there is a strong anti-dairy product consumption movement. "But when you look at the research, the vast majority of it supports a role for milk products in the diet," says Isabelle Neiderer, Assistant Director of nutrition at Dairy Farmers of Canada. "Research shows that dairy products are associated with disease prevention. For instance, they help control PMS; they've been shown to help prevent colon cancer. And there's recent research that suggests dairy products could help prevent the onset of the metabolic syndrome, a condition that often leads to Type 2 diabetes."

#### AT THE PLANT

In August 2001, the plug was pulled on the long-standing National Dairy Council (NDC). It was unusual for a major trade association like the Council to fold, but not surprising given the major consolidation that had been washing through the processing industry for three decades. "The Council's membership suddenly went down to representing under 50 percent of the total milk production and members didn't want their lobby group to be that weak," explains Kempton Matte, former NDC president and CEO.

Still, just over two years later, in December 2003, a new organization—the Dairy Processors Association of Canada (DPAC)—arrived to replace it. "I think many processors realized within a short time that they really needed a national voice and that

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*I can remember Kempton Matte of the National Dairy Council coming to DFC and telling us, in the mid-1980s, that at the end of the century we would have fewer dairy processors than there were provinces and that producer numbers would fall below 50,000. We didn't believe him. We were almost ugly with him. We just looked at ourselves and started to argue with him. We thought he was as crazy as a bag of hammers. And the amazing thing is that we've seen an even greater decline than he predicted.*

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—Bill Sherwood, 2004, former chairman of the New Brunswick Milk Marketing Board

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Butter prints. Source: Canadian Dairy Commission





Fluid milk production line  
at Nielsen's Dairy.  
Source: Canadian Dairy Commission

maybe the NDC shouldn't have collapsed," says DPAC President and CEO Don Jarvis. Indeed, a dairy processing technical committee had continued to operate after the NDC was shut down. It concentrated on technical and regulatory issues in the industry, working closely with government departments like the Canadian Food Inspection Agency and Health Canada. It was self-financed and met four times a year with the help of Agriculture and Agri-Food Canada and the CDC.

DPAC started with six members and by 2005 has more than doubled its membership. "Our members process over 90 percent of the milk produced in Canada," says Jarvis. In 2005, over 75 percent of the milk produced in Canada is processed by three companies: Agropur Cooperative, owned by Quebec dairy farmers; Parmalat, a business operating in several countries; and Saputo, a Canadian company headquartered in Montreal.

"The food industry has changed dramatically over the decades, not just because of the variety of products out there, but because of where consumers eat and how they buy their groceries," says Jarvis. Issues like changing consumer demands and new nutritional labelling requirements put a strain on all parts of the industry, including dairy processors. "Canadians are looking for new and innovative products that provide a wide variety of

choice. Our industry is trying to respond despite confusing and often inconsistent regulatory requirements and impediments at both federal and provincial government levels," he points out.

Still, according to AC Nielsen, a market research group, the prognosis is very good for dairy products. It recently reported that five of the twenty largest categories, with milk leading the list, are found in the dairy case, and their consumption is growing. While total grocery sales grew 3 percent in 2004, dairy case sales rose 5 percent over the previous year.<sup>63</sup> "The dairy case is alive with opportunity," AC Nielsen's Rick Winslow told the Ontario Dairy Council.

Meanwhile, in 2003–2004, Canada had 291 federally inspected dairy processing plants, according to the Canadian Food Inspection Agency's annual report.<sup>64</sup> That's an increase of 21 plants (from 270) in 1998 and a bit of an anomaly given the trend towards plant consolidation. But there is a reasonable explanation: innovation. Small yogurt and cheese processing plants have sprung up across the country over the last few years, mostly in Quebec and Ontario.

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#### Canadian dairy processors establish new national trade association

OTTAWA, December 10, 2003 /CNW/—At a time when there is increased optimism for inter-provincial co-operation and a renewed commitment to eliminating domestic trade barriers in food products, Canadian dairy processors have joined forces to establish a new national trade association, the Dairy Processors Association of Canada (DPAC).

*The Association has a mandate to advance and protect the interests of its members and promote the growth of the Canadian dairy processing industry. With almost 26,000 people employed at the primary processing level, the sector processes table milk, fresh cream, butter, cheese, yogurt and ice cream products valued at \$9.9 billion annually.*

—Canadian News Wire media release

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John Core, Chairman of the Canadian Dairy Commission, 2002–present.  
Source: Canadian Dairy Commission

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#### **CDC Chairman John Core, 2002–**

**John Core, a former dairy farmer from southwestern Ontario, had been out of the industry for a year and a half when Agriculture Minister Lyle Vanclief called in 2002 to see if he'd be interested in the chairman's job. Core said yes, but that they would have to talk.**

*"I wanted to make sure there was firm government support for supply management. After meeting with him, I knew he was personally committed to finding a way for supply management to continue," Core says. "Also, I didn't want to be a full-time chairman. I didn't think it was necessary. I believed that a CDC chairman should deal with the important issues and leave the day-to-day things with the staff, where they belong."*

*Core was no stranger to the dairy industry, having served as a board member of the Dairy Farmers of Ontario from 1981 to 2001 and as chairman from 1990 to 2001. He was also a board member of the Dairy Farmers of Canada from 1986 to 2001 and its president from 1999 to 2001.*

*Vanclief agreed to the part-time status and Core came on board. So far, he has no regrets. "I've been pleased with the way everyone—the industry and government—co-operates. I know that sounds like a motherhood statement, but the fact is, it's true. There are always some blips with issues; that's normal. But fundamentally, we have a good working team."*

*He occasionally gets frustrated because, he says, some people outside the industry don't understand that most decisions are made at the CMSMC, and not by the CDC. "Most of the programs the CDC has or operates are a result of CMSMC or pool decisions."*

*Core is as self-effacing as he is respected. If it weren't for Core, there wouldn't be any P5, say many industry members. He was Chairman of Dairy Farmers of Ontario during the formation of the P5. "I think I may have been pushing for it more than others, but you don't need to say that," Core says. "I had a gut feeling that we really had to change the industry. I became personally convinced and I had the support of my board behind me. Our goal was to do anything we could to make the system work."*

*Michel Beauséjour, a long-time employee of the Fédération des producteurs de lait du Québec, and now Senior Director, still remembers when John Core presented the federation and its chairman, Claude Rivard, with a framed poster—printed by the Department of Agriculture in 1927—of a mother holding a child drinking a glass of milk. Le lait: soutien des nations (Milk: the support of nations), read the caption. Core had found the poster while cleaning out an aunt's attic in the 1990s. It was the perfect gift to Quebec. "He asked Quebec to stay in Canada," Beauséjour says. "To speak clearly, John Core is a great Canadian."*

*"I view John Core as a person who looks for solutions and then pushes issues forward until they're resolved, says Alberta Milk Chairman Bill Feenstra. "That was John Core when he was at Dairy Farmers of Ontario and that's John now."*

*DPAC President and CEO Don Jarvis echoes the sentiments. "John is a very good chairman, and that's an honest opinion," he says. "He's a very bright guy and he has a tremendous patience, which you see at the CMSMC all the time. He also has the ability to deliver some strong messages, when necessary, to let the industry know that the time to make a decision is now."*

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#### **The CDC's role today**

*I am presenting these remarks on the issues facing the Canadian dairy industry in 2003 with the hope that it will encourage discussion to take place in the coming months. It is not the role of the CDC to resolve all these issues; rather our role is to facilitate industry discussion that will lead to a resolution of such issues. Facilitation, in my view, does not force me to be silent on these issues. Rather it requires that at the end of the day, I ensure that the final solutions have the support of all participants.*

—John Core, CDC Chairman, presentation to the Dairy Farmers of Ontario, January 2003 annual meeting

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CDC Commissioners from left to right:  
Jean Grégoire (Commissioner),  
John Core (Chairman) and  
Carl Harrison (Vice-Chairman).  
Source: Wolf Studios

### SUPPLY MANAGEMENT

*Of all the institutions that farmers have tried using to solve the perennial problem of market power—collective bargaining, co-operatives, ‘new age co-ops,’ single desk selling, and supply management—none of the others have come anywhere near the effectiveness of supply management in improving farm incomes. This is the key lesson our history teaches us.*

ELLARD POWERS, CDC’S SECOND CHAIRMAN (1973–1976),  
TO THE NFU’S ANNUAL CONVENTION, REGINA, SASKATCHEWAN, NOV. 26, 2001

## APPENDIX 5-1 COMMISSIONERS, MINISTERS AND PRIME MINISTERS

### Commissioners

Guy Jacob	Chairman	1997–2001
Louis Balcaen	Vice-Chairman (served as Acting Chair during the 2001–2002 dairy year)	1994–2004
Michel Pagé	Chairman	2001–2002
Carl Harrison	Commissioner	2000–2004
	Vice-Chairman (replacing Louis Balcaen)	2004–present
John Core	Chairman	2002–present
Jean Grégoire	Commissioner (replacing Carl Harrison)	2004–present

### Ministers of Agriculture

Lyle Vanclief	Liberal, Prince Edward- Hastings, ON	1997–2003
Bob Speller	Liberal, Haldimand- Norfolk- Brant, ON	2003–2004
Andy Mitchell	Liberal, Parry Sound- Muskoka, ON	2004– 2006
Chuck Strahl	Conservative, Chilliwack- Fraser Canyon, BC	2006–present

### Prime Ministers

Jean Chrétien	Liberal	1993–2003
Paul Martin	Liberal	2003–2006
Stephen Harper	Conservative	2006–present

## APPENDIX 5-2 CHRONOLOGY: CANADA-UNITED STATES-NEW ZEALAND WTO DISPUTE

**March 25, 1998** A WTO dispute settlement panel is established following two separate GATT Article XXII consultations:

1. November 19, 1997: *Fluid Milk TRQ* challenge between Canada and the United States, with the U.S. arguing that Canada's implementation of its tariff-rate quota on fluid milk is inconsistent with its WTO obligations.
2. January 28, 1998: *Export subsidies in excess of Canada's commitments* challenge between Canada, and New Zealand and the U.S., with the latter countries arguing that Canada operates, through the CDC, a two-priced system that provides export subsidies in excess of Canada's commitments under the WTO Agreement on Agriculture.

**March 17, 1999** The Final Report of the WTO Panel is released.

1. On the first issue, the WTO finds that the restrictions Canada has put on fluid milk imports under the TRQ (cross-border shopping limit of \$20) were not supported by the language in Canada's tariff schedule (although it does not challenge Canada's right to limit fluid milk imports through a TRQ).
2. On the second issue, the Panel finds Canada's exports of dairy products under Special Milk Classes 5(d) and 5(e) to be subsidized.

WTO panel recommends to the Dispute Settlement Body that Canada be requested to bring its practices into conformity with its obligations.

**July 15, 1999** Canada files its notice of appeal.



<b>Oct. 13, 1999</b>	<p>The WTO Appellate Body Report is released.</p> <ol style="list-style-type: none"> <li>1. Canada wins the appeal on its administration of Canada's TRQs for fluid milk.</li> <li>2. Canada loses its appeal on the exports of dairy products under Special Milk Classes 5(d) and 5(e). According to the WTO Appellate Body, the Panel had ruled correctly when it concluded that Canada's exports were subsidized.</li> </ol>	<b>Feb. 16, 2001</b>	Both New Zealand and the United States submit requests to the WTO Dispute Settlement Body for a Compliance Panel and for suspension of the application of tariff concessions provided to Canada (covering trade in the amount of US\$35 million, total US\$70 million).
<b>Dec. 1999</b>	Implementation consultations conclude with an agreement outlining a timetable and implementation steps that Canada will follow to bring its dairy export practices into conformity with the WTO Appellate Body and Panel decisions.	<b>Feb. 28, 2001</b>	Canada opposes the suspension of tariff concessions and requests that the matter be referred to an Arbitration Panel. The arbitration process is suspended pending the outcome of the Compliance Panel/Appeal process.
<b>During 2000</b>	<p>Canada provides regular Implementation reports to the WTO Dispute Settlement Body on June 8, July 13, September 14, October 12, November 6 and November 30.</p> <p>Consultations are held with New Zealand and the United States on February 23, May 18, June 22–23, October 2 and December 7–8. During these consultations, Canada updates New Zealand and the United States on the implementation of the WTO Appellate Body and Panel decisions. Statistical reports are provided on Special Classes 5(d) and 5(e) permits and exports for butter, cheese, skim milk powder and other milk products. Both the United States and New Zealand indicate that there are irreconcilable differences regarding what is necessary for Canada to bring itself into compliance with its WTO obligations.</p>	<b>March 1, 2001</b>	The WTO Dispute Settlement Body establishes a Compliance Panel to review Canada's implementation of the WTO 'Dairy' decisions.
		<b>May 29–30, 2001</b>	A WTO Compliance Panel hearing is held in Geneva.
		<b>July 11, 2001</b>	The public report of the WTO Compliance Panel is released. The Compliance Panel finds Canada's commercial export milk to be subsidized. The Panel recommends to the Dispute Settlement Body that Canada be requested to bring its practices into conformity with its obligations.
		<b>Sept. 4, 2001</b>	Canada files its notice of appeal.
		<b>Oct. 26, 2001</b>	A WTO Appellate Body hearing is held in Geneva.
<b>Jan. 31, 2001</b>	The implementation period for Canada to comply with the WTO Panel and Appellate Body decisions ends.	<b>Dec. 3, 2001</b>	The Appellate Body of the WTO submits its report, in which it finds that the United States and New Zealand failed to prove that Canada's approach to commercial export milk is WTO-inconsistent. The report is then presented to the Dispute Settlement Body for adoption.
<b>Feb. 9, 2001</b>	Consultations held with United States and New Zealand in Geneva do not resolve the dispute.	<b>Dec. 18, 2001</b>	Although the Appellate Body report was adopted by the WTO, the U.S. and New Zealand continue to maintain that Canada is in breach of its WTO commitments and requested another compliance panel.

<b>Feb. 18, 2002</b>	The WTO Dispute Settlement Body establishes a second Compliance Panel to review Canada's implementation of the WTO 'Dairy' decisions.
<b>April 22-23, 2002</b>	A WTO Compliance Panel hearing is held in Geneva.
<b>July 26, 2002</b>	The public report of the WTO Compliance Panel is released. The Compliance Panel finds Canada's commercial export milk to be subsidized. The Panel recommends to the Dispute Settlement Body that Canada be requested to bring its practices into conformity with its obligations.
<b>Sept. 23, 2002</b>	Canada files its notice of appeal.
<b>Oct. 31, 2002</b>	A WTO Appellate Body hearing is held in Geneva.
<b>Dec. 20, 2002</b>	The Appellate Body upholds the Compliance Panel findings, indicating that Canada's commercial export milk practices constitute export subsidies. Specifically, they find that producers sell commercial export milk at prices below their cost of production (i.e., 'payments' are being provided) and that governmental actions regulating the domestic market have the effect of financing these payments.

Source: Agriculture and Agri-Food Canada

### **APPENDIX 5-3 ADDITIONAL COMMITTEE MEMBERS**

#### **CONVERGENCE WORKING GROUP (2005)**

Blaine Gorrell, British Columbia Milk Marketing Board  
 Bill Feenstra, Alberta Milk  
 Bruce Saunders, Dairy Farmers of Ontario  
 Marcel Groleau, Fédération des producteurs de lait du Québec  
 Ryan Dykstra, Dairy Farmers of New Brunswick  
 Working Group Chairman: John Core, CDC Chairman  
 Working Group Secretary: Gilles Froment, CDC Senior Director of Policy and Corporate Affairs

#### **NEWFOUNDLAND AND LABRADOR AND CMSMC NEGOTIATING COMMITTEE (2000)**

##### *Newfoundland and Labrador*

Gerard Cormier, Dairy Farmers of Newfoundland and Labrador  
 Martin Hammond, Dairy Farmers of Newfoundland and Labrador  
 Robert Walsh, Dairy Farmers of Newfoundland and Labrador  
 Ed O'Reilly, Department of Forest Resources and Agrifoods

##### *Canadian Milk Supply Management Committee*

Barron Blois, Dairy Farmers of Nova Scotia  
 Gordon Coukell, Dairy Farmers of Ontario  
 Bill Feenstra, Alberta Milk Producers  
 Marcel Groleau, Fédération des producteurs de lait du Québec  
 Gilles Froment, Canadian Dairy Commission

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## FROM THEN TO NOW: THE CDC TODAY

The CDC started in 1966 as a leader, developer and manager—a trailblazer, in fact, for Canadian industrial milk. It paid out direct subsidies to producers. It set the support prices—with Cabinet approval—for skim milk powder and butter, bought these products from processors, stored them and exported the surplus. It implemented Subsidy Eligibility Quotas (phased out in favour of MSQ in the 1970s). It handled exports of butter and skim milk powder and small amounts of condensed, evaporated milk and casein. In short, it consolidated the federal government's dairy support programs, exported surplus product, and helped create a framework for a new system of orderly marketing for the industrial milk sector.

In the 1970s, the Interim Comprehensive Milk Marketing Plan—which all provinces except Newfoundland signed on to by 1974—created the CMSMC. With it came an additional role for the CDC: chairing, and acting as a secretariat, to the CMSMC. It was a supporting role, but a collaborative and facilitative one. The CMSMC took on the task of setting national MSQ and distributing it among the provinces based on historical shares outlined in the Interim Plan, which brought quotas in line with demand and basically started supply management. But the CDC made the calculations and forecasts of Canadian requirements and provided considerable technical support to the CMSMC on MSQ, COP and many other issues.

The 1970s also saw the introduction of the first long-term dairy policy, which the CDC had a large role in developing—led by Agri-

culture Minister Eugene Whelan in conjunction with Agriculture Canada—and then administering it. So the CDC's role in developing and implementing policy was in full swing, along with its export role, which the CDC's third chairman, Gilles Choquette, had expanded. Whelan led the establishment of supply management for the poultry industry (turkey, chicken, eggs and broiler hatching eggs) and would become known as one of the staunchest supporters of farmers to hold the Agriculture portfolio.

In the 1980s, the National Milk Marketing Plan replaced the Interim Comprehensive Milk Marketing Plan and became the official federal-provincial agreement. The CDC's dual role was solidified. On one hand, it still managed the major elements of the federal government's dairy support programs, distributing the subsidy payments and setting the support prices. It bought and sold skim milk powder and butter, administering the federal government's offer-to-purchase program (Plans A and B), which was a component of setting support prices. Not only did the CDC export surplus products, it developed new international markets for whole milk products like evaporated milk and instant whole milk powder. In its other role, as chair of the CMSMC, the CDC oversaw, developed and carried out various programs and activities on behalf of, and at the direction of, CMSMC. By the end of the 1980s, though, the CDC role as a trailblazer for the industry was in sharp decline.

In the 1990s, the three pooling agreements, new WTO and NAFTA rules, and a move to less government intervention in

Canada's agriculture sector (including the dairy industry) meant another shift in the role of the CDC. The CDC had always supported the underpinnings of the supply management system. Many had considered the CDC a 'mover and shaker' in the dairy industry. But when the dairy supply management system had to reinvent itself because of the WTO, it wasn't the CDC's job to lead the charge. It was the industry's. To that end, the CDC helped co-ordinate and facilitate the many options and the hard work that lay ahead. A co-ordinator sees that work gets done in a harmonious way; a facilitator makes progress easier—neither is an easy task.

Today, the CDC sets support prices for butter and skim milk powder which it buys from or sells to processors under the Seasonality Programs (Plan A and Plan B) and the Surplus Removal Program. The CDC still estimates, and recommends to the CMSMC, the amount of milk needed to supply the Canadian industrial market. The CDC continues to chair the CMSMC, providing it with technical and policy advice it as requested.

Its export role is limited to exporting small amounts of skim milk powder to Cuba and issuing export permits on behalf of, and at the request of, the export and processing industry. The CDC manages butter imports, which are allowed into the country under the WTO.

The CDC handles the structural surplus of skim milk powder. It still has the authority it was given in 1966, to buy, store, process or sell dairy products. Today, the CDC ensures that Canada lives within its WTO export commitments. That requires careful monitoring of export volumes and of the value of the accompanying subsidy.

With the advent of the three pooling agreements—the Comprehensive Agreement on Pooling of Milk Revenues (P9), the Western Milk Pooling Agreement (WMP), and the All Milk Pooling Agreement (P5)—the CDC took on several new roles at the request of the pool supervisory bodies. The CDC *administers* the three pooling agreements. It chairs all the meetings and facil-

itates discussions about harmonizing provincial policies. In that role, the CDC does not have any decision-making powers. It has additional responsibilities:

- calculating the blend price of the pools;
- managing the pool revenues;
- providing technical support; and
- issuing permits and auditing processing plants for P9 under the Special Milk Class Permit Program.

In 2005, amidst pressure from ongoing WTO negotiations and in light of the price gap narrowing between the Western Milk Pool and the East's P5, a Convergence Working Group was established to look at the possibility of forming one, national, all-milk pool.

The CDC moved to a permanent home in Building 55, NCC Driveway, on the Central Experimental Farm in 2002, thanks to former CDC chairman Guy Jacob, who wanted the CDC to have a home that would be easier for farmers, or anyone else, to visit. It's now staffed by about 65 dedicated employees, including policy analysts, auditors, agricultural economists, financial, and marketing and communications specialists.

The future of the Canadian dairy supply management system, as is the way with futures, remains unknown. What is known is that the CDC has played a laudable role in the evolution of the Canadian dairy supply management system. The Commission has had, and still has, many exemplary chairmen, commissioners and staff. It has gone above and beyond the call of duty on many occasions—not necessarily with everyone's approval or appreciation, but always in the name of providing "efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality," as outlined in the Act that created the CDC in 1966.

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## BILL C-205

An Act to provide for the establishment of a Dairy Commission for Canada.

As passed by the House of Commons, 23rd June, 1966.

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

### SHORT TITLE.

Short title. 1. This Act may be cited as the *Canadian Dairy Commission Act*. 1966–67, c.34, s.1.

### INTERPRETATION.

Definitions.	2. In this Act,
“Commission”	“Commission” means the Canadian Dairy Commission established by this Act;
“dairy product”	“dairy product” means milk, cream, butter, cheese, condensed milk, evaporated milk, milk powder, dry milk, ice-cream, malted milk, sherbet, or any other product manufactured wholly or mainly from milk;
“market”	“market” means to market in interprovincial or export trade;
“milk”, “cream”	“milk” means milk from cows and “cream” means cream derived from such milk;
“Minister”	“Minister” means the Minister of Agriculture;
“place”	“place” includes any vehicle, vessel, railway car or aircraft; and
“regulated product”	“regulated product” means a dairy product the marketing of which is regulated or prohibited by regulations made under this Act.

### CANADIAN DAIRY COMMISSION.

Commission established.	3. (1) There shall be a corporation to be known as the Canadian Dairy Commission consisting of three members appointed by the Governor in Council to hold office during pleasure.
Chairman and Vice-Chairman.	(2) The Governor in Council shall designate one of the members to be Chairman of the Commission and one of the members to be Vice-Chairman of the Commission.
Chief executive officer.	(3) The Chairman is the chief executive officer of the Commission.
Remuneration and expenses of Commission members.	(4) Each member of the Commission may be paid such salary or other remuneration as is fixed by the Governor in Council, and may be paid such travelling and living expenses incurred by him in connection with the performance of his duties as are fixed by the Governor in Council.
Retirement age.	(5) A member ceases to hold office upon reaching the age of seventy years.
Temporary substitute member.	(6) If any member of the Commission is absent or unable to act, the Governor in Council may appoint a temporary substitute member for such term and upon such conditions as the Governor in Council prescribes.

Head office.	(7) The head office of the Commission shall be in the city of Ottawa, but meetings of the Commission may be held at such other places as the Commission may decide.
Agent of Her Majesty.	4. (1) The Commission is for all purposes of this Act an agent of Her Majesty, and its powers under this Act may be exercised by it only as such agent.
Contracts.	(2) The Commission may, on behalf of Her Majesty, enter into contracts in the name of Her Majesty or in the name of the Commission.
Property.	(3) Property acquired by the Commission is the property of Her Majesty and title thereto may be vested in the name of Her Majesty or in the name of the Commission.
Actions.	(4) Actions, suits or other legal proceedings in respect of any right or obligation acquired or incurred by the Commission on behalf of Her Majesty, whether in its name or in the name of Her Majesty, may be brought or taken by or against the Commission in the name of the Commission in any court that would have jurisdiction if the Commission were not an agent of Her Majesty.

#### **CONSULTATIVE COMMITTEE.**

Consultative Committee.	5. (1) The Minister shall appoint a Consultative Committee consisting of a chairman and eight other members.
Tenure of members.	(2) Each of the members of the Consultative Committee shall be appointed for a term not exceeding three years, except that of those members first appointed three shall be appointed for a term of two years, three shall be appointed for a term of three years and three shall be appointed for a term of four years.
Functions of Consultative Committee.	6. (1) The Consultative Committee shall meet at such times as are fixed by the Commission and shall advise the Commission on such matters relating to the production and marketing of dairy products as are referred to it by the Commission.
Remuneration and expenses.	(2) The members of the Consultative Committee may be paid for their services such remuneration and expenses as are fixed by the Governor in Council.

#### **STAFF.**

Officers and employees.	7. (1) The Commission may (a) appoint such officers and employees as are necessary for the proper conduct of the work of the Commission; and (b) prescribe the duties of such officers and employees and, subject to the approval of the Treasury Board, prescribe the conditions of their employment.
Salaries and expenses of staff.	(2) The officers and employees of the Commission appointed as provided in subsection (1) shall be paid such salaries and expenses as are fixed by the Commission with the approval of the Treasury Board.



### OBJECTS OF THE COMMISSION.

- Objects of Commission. 8. The objects of the Commission are to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

### POWERS OF THE COMMISSION.

- Powers. 9. (1) Subject to and in accordance with any regulations made under this Act, the Commission may
- (a) purchase any dairy product and package, process, store, ship, insure, import, export, or sell or otherwise dispose of any dairy product purchased by it;
  - (b) make payments for the benefit of producers of milk and cream for the purpose of stabilizing the price of those products, which payments may be made on the basis of volume, quality or on any other basis that the Commission deems appropriate;
  - (c) make investigations into any matter relating to the production, processing or marketing of any dairy product, including the cost of producing, processing or marketing that product;
  - (d) undertake and assist in the promotion of the use of dairy products, the improvement of the quality and variety thereof and the publication of information in relation thereto; and
  - (e) do all such acts and things as are necessary or incidental to the exercise of any of its powers or the carrying out of any of its functions under this Act.
- Inquiries. (2) For the purpose of carrying out any investigation under paragraph (c) of subsection (1), the Commission has all the powers of a commissioner appointed under Part I of the *Inquiries Act*.
- Rules of procedure. (3) The Commission may make such rules as it deems necessary for the regulation of its proceedings, for the fixing of a quorum for any of its meetings and generally for the conduct of its activities under this Act.

### DUTIES OF THE COMMISSION.

- Commission to submit program to Minister. 10. (1) Each year, following determination by the Governor in Council pursuant to the *Agricultural Stabilization Act* of the total amount to be paid by the Agricultural Stabilization Board to the Commission for the purpose of stabilizing the price of milk and cream, the Commission shall submit to the Minister an outline of the program by which it proposes to carry out its functions under this Act for the following fiscal year.
- Manner of carrying out functions. (2) The Commission shall carry out its functions under this Act in a manner that will achieve its objects and meet its obligations from the moneys available to it under this Act.
- Compliance by Commission with certain directions from Governor in Council or Minister. 11. In exercising its powers under this Act or the regulations in relation to the importation or exportation of any dairy product, the Commission shall comply with any directions from time to time given to it by the Governor in Council or the Minister.

## REGULATIONS.

- Regulations. 12. (1) The Governor in Council may make regulations regulating the marketing of any dairy product, including regulations
- (a) providing for the marketing of any dairy product on a quota basis;
  - (b) designating the agencies through which any regulated product shall be marketed;
  - (c) providing for the issue of licences to persons engaged in the production or processing of a regulated product for market, prescribing the fees therefor and providing for cancellation or suspension of licences;
  - (d) prohibiting persons from engaging in the marketing of any dairy product, or any class, variety or grade thereof, in whole or in part, except under the authority of a licence;
  - (e) prescribing the books and records to be kept by persons engaged in the production or processing of a regulated product for market and the information to be furnished by such persons;
  - (f) authorizing the Commission to fix, impose and collect levies or charges from persons engaged in the marketing of any dairy product or the production or processing of a regulated product for market and for such purposes to classify such persons into groups, fix the levies or charges payable by the members of the different groups and to use such levies or charges for the purpose of carrying out its functions under this Act;
  - (g) providing for the seizure and disposal of any regulated product marketed in contravention of any regulation made under this section; and
  - (h) generally, for carrying out the purposes and provisions of this Act.
- Regulation may be general or specific. (2) A regulation made under subsection (1) may be general or restricted to a specific dairy product, area, or group or class of persons.
- Idem. 13. The Governor in Council may make regulations requiring the registration of producers of milk and cream as a condition of the making of any payment under paragraph 9(1)(b) for the benefit of such producers and prescribing the books and records to be kept and the information to be furnished to the Commission by or on behalf of those producers.

## EXPENDITURE.

- Administration expenses to be paid out of appropriations. 14. All expenditures for salaries, traveling expenses and expenses of administration, excluding those that in the opinion of the Minister are directly attributable to action taken by the Commission to stabilize the price of any dairy product, shall be paid out of moneys appropriated by Parliament for the purpose.
- Canadian Dairy Commission Account. 15. (1) There shall be established in the Consolidated Revenue Fund a special account to be known as the Canadian Dairy Commission Account, in this section called the "Account".
- Credits to Account. (2) There shall be credited to the Account
- (a) all moneys received by the Commission from its operations;
  - (b) all licence fees, levies and charges paid to the Commission;
  - (c) all loans made to the Commission by the Minister of Finance pursuant to section 16; and
  - (d) all amounts paid to the Commission by the Agricultural Stabilization Board under the *Agricultural Stabilization Act* for the purpose of stabilizing the price of any dairy product.

Charges to Account.	(3) There shall be paid out of the Consolidated Revenue Fund and charged to the Account (a) all expenditures under this Act, except those to be paid pursuant to section 14; and (b) all amounts paid to the Minister of Finance in repayment of loans made to the Commission pursuant to section 16 or as interest on any such loans.
Limitation.	(4) No payment shall be made out of the Consolidated Revenue Fund under this section in excess of the amount of the balance to the credit of the Account.
Loans to Commission.	16. (1) At the request of the Commission, the Minister of Finance may, out of the Consolidated Revenue Fund, make loans to the Commission on such terms and conditions as are approved by the Governor in Council for the purpose of exercising any of the powers of the Commission described in paragraphs 9(1)(a).
Limitation.	(2) The total amount outstanding at any time of loans made under subsection (1) shall not exceed one hundred million dollars.

#### GENERAL.

Inclusion of dairy product on Import Control List.	17. The Governor in Council may include on the Import Control List established under the <i>Export and Import Permits Act</i> any dairy product the import of which he deems it necessary to control for the purpose of implementing any action taken under this Act to support the price of that dairy product or that has the effect of supporting the price of that dairy product.
Inspectors.	18. The Commission may appoint or designate any person as an inspector for the purposes of this Act.
Powers of inspector.	19. (1) An inspector may at any reasonable time enter any place in which he reasonably believes there is any regulated product and may require any person to produce for inspection or for the purpose of obtaining copies thereof or extracts therefrom, any books, records or documents relating to that product.  (2) An inspector shall be furnished by the Commission with a certificate of appointment or designation and on entering any place under subsection (1) shall, if so required, produce the certificate to the person in charge thereof.
Certificate of designation.	
Assistance to inspector.	(3) The owner or persons in charge of any place referred to in subsection (1) and every person found in that place shall give the inspector all reasonable assistance in his power to enable the inspector to carry out his duties and functions under this Act and shall furnish him with such information with respect to any regulated product found therein as he may reasonably require.
Obstruction of inspector.	20. (1) No person shall obstruct or hinder an inspector engaged in the carrying out his duties or functions under this Act or any regulation made thereunder.
False statement.	(2) No person shall make a false or misleading statement either verbally or in writing to an inspector engaged in carrying out his duties or functions under this Act or any regulation made thereunder.

Offences and penalties	21. (1) Every person who, or whose employee or agent, contravenes or fails to comply with any provision of this Act or any regulation made thereunder is guilty of an offence and liable (a) on summary conviction to a fine not exceeding five hundred dollars or to imprisonment for a term not exceeding six months or to both such fine and imprisonment; or (b) on conviction upon indictment to a fine not exceeding two thousand dollars or to imprisonment for a term not exceeding one year or to both such fine and imprisonment.
Offence by employee or agent.	(2) In a prosecution for an offence under this section it is sufficient proof of the offence to establish that it was committed by an employee or agent of the accused whether or not the employee or agent is identified.
Defence.	(3) Where it is established in any prosecution for an offence under this section that the offence was committed by an employee or agent of the accused, it is a defence to the accused that he exercised all due diligence to prevent the commission of the offence.

#### **REPORT TO PARLIAMENT.**

Report to Parliament.	22. The Commission shall, within three months after the termination of each fiscal year, submit to the Minister in such form as he may prescribe, an annual report of the financial transactions and other actions taken under this Act, and the Minister shall lay the report before Parliament within fifteen days after the receipt thereof or, if Parliament is not sitting, on any of the first fifteen days next thereafter that Parliament is sitting.
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#### **COMING INTO FORCE.**

Coming into force.	23. This Act shall come into force on a day to be fixed by proclamation of the Governor in Council.
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## EVOLUTION OF MARKET SHARING QUOTA

	Million kg butterfat	Million hl
1970	192.3	53.42
1974	210.0	58.32
1975	197.4	54.83
1976	155.1	43.08
1978	163.0	45.28
1979	169.3	47.04
1980	175.2	48.67
1981	175.3	48.69
1982	171.0	47.50
1983	171.4	47.60
1984	172.3	47.85
1985	167.8	46.62
1986	167.9	46.64
1987	170.3	47.31
1988	170.7	47.43
1989	170.8	47.44
1990	161.0	44.72
1991	153.9	42.76
1992	148.1	41.14
1993	150.7	41.86
1994	157.4	43.72
1995	157.9	43.87
1996	158.0	43.87
1997	154.4	42.90
1998	161.0	44.73
1999	161.0	44.73
2000	165.7	46.03
2001	166.2	46.18
2002	164.2	45.62
2003	177.0	49.18
2004	177.2	49.22
2005	179.64	49.90
2006	171.72	47.70

Note:  
Hectolitres are calculated at 3.6 kg of butterfat per hectolitre.  
MSQ as of end of dairy year.  
Source: Canadian Dairy Commission

## EVOLUTION OF SUPPORT PRICES

Effective date	Butter \$/kg	Skim Milk Powder \$/kg	Effective date	Butter \$/kg	Skim Milk Powder \$/kg
April 1, 1970	1.43	0.44	April 1, 1983	4.42	2.65
April 1, 1971	1.43	0.53	August 1, 1983	4.55	2.72
August 16, 1971	1.50	0.57	January 1, 1984	4.60	2.74
April 1, 1972	1.50	0.64	April 1, 1984	4.71	2.79
April 1, 1973	1.56	0.77	August 1, 1984	4.784	2.85
August 1, 1973	1.56	0.84	August 16, 1985	4.929	2.922
April 1, 1974	1.70	1.10	August 1, 1986	5.035	2.978
August 1, 1974	1.87	1.19	February 1, 1988	5.102	3.013
January 24, 1975	1.98	1.30	August 1, 1988	5.102	3.013
April 1, 1975	2.27	1.41	August 1, 1989	5.167	3.046
April 1, 1976	2.38	1.50	August 1, 1990	5.331	3.130
April 1, 1977	2.60	1.54	August 1, 1991	5.331	3.304
January 1, 1978	2.69	1.59	August 1, 1992	5.317	3.304
April 1, 1978	2.80	1.63	February 1, 1993	5.363	3.339
January 2, 1979	2.91	1.72	August 1, 1993	5.324	3.498
April 1, 1979	3.02	1.79	August 1, 1994	5.324	3.708
August 1, 1979	3.13	1.84	August 1, 1995	5.324	3.931
January 1, 1980	3.26	1.97	August 1, 1996	5.324	4.203
April 1, 1980	3.34	2.01	February 1, 1998	5.393	4.431
August 1, 1980	3.51	2.13	February 1, 1999	5.467	4.525
January 1, 1981	3.63	2.20	February 1, 2000	5.541	4.684
April 1, 1981	3.78	2.28	February 1, 2001	5.726	4.839
August 1, 1981	3.95	2.37	February 1, 2002	5.901	4.986
January 1, 1982	4.13	2.46	February 1, 2003	6.106	5.197
April 1, 1982	4.17	2.50	February 1, 2004	6.297	5.393
August 1, 1982	4.33	2.59	February 1, 2005	6.870	5.728
January 1, 1983	4.38	2.61	February 1, 2006	6.870	5.834

Source: Canadian Dairy Commission

## PER CAPITA CONSUMPTION OF DAIRY PRODUCTS IN CANADA 1960–2005

Year	Cheddar Cheese	Specialty Cheese	Total Cheese	Butter	Ice cream	Yogurt	Milk 3.25%	Milk 2%, 1%, Skimmed	Total Milk
	kg/year	kg/year	kg/year	kg/year	L/year	L/year	L/year	L/year	L/year
1960	2.25	1.40	5.62		10.50				
1961	2.28	1.43	5.74		10.77				
1962	2.51	1.49	6.12		10.80				
1963	2.59	1.55	6.35	8.42	11.25	0.08	68.59	14.28	82.86
1964	2.67	1.62	6.61	8.41	11.67	0.08	66.85	16.80	83.65
1965	2.76	1.74	6.94	8.23	11.95	0.09	72.56	19.06	91.62
1966	2.66	1.92	7.22	7.89	12.18	0.10	69.72	21.64	91.36
1967	2.84	1.89	7.35	7.51	12.51	0.14	66.46	24.12	90.58
1968	2.82	1.98	7.52	7.30	12.27	0.22	64.07	26.81	90.88
1969	3.07	2.09	8.08	6.97	12.61	0.28	60.90	29.90	90.81
<b>Average 60's</b>	<b>2.64</b>	<b>1.71</b>	<b>6.75</b>	<b>7.82</b>	<b>11.65</b>	<b>0.14</b>	<b>67.02</b>	<b>21.80</b>	<b>88.82</b>
1970	3.32	2.04	8.32	6.99	12.81	0.38	59.15	33.19	92.34
1971	3.28	2.11	8.48	6.79	12.41	0.47	55.56	35.69	91.26
1972	3.37	2.32	9.03	6.47	12.46	0.55	53.86	39.01	92.86
1973	3.77	2.46	9.76	5.91	12.23	0.61	52.18	42.50	94.68
1974	3.76	2.55	9.87	5.78	12.18	0.64	49.97	45.14	95.11
1975	3.50	2.51	9.52	5.18	12.41	0.70	46.01	46.34	92.35
1976	3.48	2.64	9.81	4.99	11.92	0.88	44.56	49.46	94.02
1977	3.23	2.70	9.71	4.52	12.27	1.16	43.09	51.68	94.77
1978	3.41	2.92	10.35	4.48	12.00	1.65	41.93	54.06	95.99
1979	3.85	2.75	10.46	4.37	12.71	1.61	41.47	56.86	98.33
<b>Average 70's</b>	<b>3.50</b>	<b>2.50</b>	<b>9.53</b>	<b>5.55</b>	<b>12.34</b>	<b>0.87</b>	<b>48.78</b>	<b>45.39</b>	<b>94.17</b>
1980	3.89	3.61	8.72	4.44	12.72	1.61	40.56	57.75	98.31
1981	3.94	3.79	8.98	4.34	12.57	1.64	39.06	58.55	97.61
1982	3.59	4.00	8.78	4.20	12.08	1.70	37.15	60.47	97.62
1983	3.62	4.02	8.83	4.28	12.28	1.86	34.95	61.76	96.71
1984	3.79	4.30	9.29	4.17	11.76	2.08	33.13	62.97	96.10

Year	Cheddar Cheese	Specialty Cheese	Total Cheese	Butter	Ice cream	Yogurt	Milk 3.25%	Milk 2%, 1%, Skimmed	Total Milk
	kg/year	kg/year	kg/year	kg/year	L/year	L/year	L/year	L/year	L/year
1985	3.99	4.64	9.94	3.99	12.00	2.37	31.11	63.9	95.01
1986	4.11	5.18	10.54	3.81	12.19	2.69	29.66	66.22	95.88
1987	4.16	5.44	10.78	3.80	11.76	3.04	28.58	67.79	96.37
1988	4.05	5.59	10.8	3.70	11.97	3.21	26.84	68.1	94.94
1989	4.15	5.73	10.98	3.47	11.44	3.26	24.22	67.73	91.95
<b>Average 80's</b>	<b>3.93</b>	<b>4.63</b>	<b>9.76</b>	<b>4.02</b>	<b>12.08</b>	<b>2.35</b>	<b>32.53</b>	<b>63.52</b>	<b>96.05</b>
1990	3.81	5.64	10.57	3.28	11.47	3.09	21.93	69.13	91.06
1991	3.80	5.69	10.52	2.99	10.92	2.99	19.94	70.7	90.64
1992	3.66	5.87	10.45	2.80	10.37	2.91	18.41	70.43	88.84
1993	3.77	6.02	10.67	2.88	10.94	3.04	17.15	68.89	86.04
1994	3.87	6.11	10.84	2.88	11.79	3.09	16.79	69.69	86.48
1995	3.89	6.12	10.85	2.76	11.46	3.04	15.91	69.8	85.71
1996	3.75	6.17	10.68	2.87	10.97	3.16	15.37	70.16	85.53
1997	3.96	7.11	11.78	2.62	10.33	3.18	14.98	69.53	84.51
1998	3.84	6.87	11.42	2.88	10.15	3.45	14.74	69.31	84.05
1999	3.99	6.80	11.5	2.84	9.98	4.04	14.08	68.50	82.58
<b>Average 90's</b>	<b>3.83</b>	<b>6.24</b>	<b>10.93</b>	<b>2.88</b>	<b>10.84</b>	<b>3.20</b>	<b>16.93</b>	<b>69.61</b>	<b>86.54</b>
2000	3.91	7.16	11.86	3.10	8.63	4.59	14.22	69.17	83.39
2001	3.85	6.87	11.49	3.37	9.23	5.22	14.05	67.84	81.89
2002	3.78	6.99	11.55	3.20	9.49	5.76	13.56	66.74	80.30
2003	3.89	7	11.67	3.28	9.26	6.26	13.46	66.38	79.84
2004	3.78	7.35	11.95	3.44	9.28	6.74	13.09	66.67	79.76
2005	3.96	7.22	12.03	3.13	9.66	7.23	12.62	65.48	78.1

Notes:

Total cheese includes cheddar cheese, cottage cheese and specialty cheese.

Cheddar includes cheese used in making processed cheese from 1980 to 2005.

Sources: 1960–1979: Statistics Canada and AAFC

1980–2005: Statistics Canada, calculations made by the Dairy Section, AAFC

## MILK PRODUCTION AND UTILIZATION (MILLION HL) (1)

### CANADA

	Milk pro- duction, total (2)	Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (3)		Milk pro- duction, total (2)	Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (3)
<b>1959</b>	76.889		22.067			<b>1983</b>	72.338	25.962	44.321		2.055
<b>1960</b>	77.470		21.923			<b>1984</b>	74.670	25.982	46.743		1.944
<b>1961</b>	80.030		21.635			<b>1985</b>	72.635	26.122	44.612		1.902
<b>1962</b>	80.205		21.727			<b>1986</b>	73.052	26.803	44.406		1.843
<b>1963</b>	80.415		21.936			<b>1987</b>	73.779	27.261	44.745		1.772
<b>1964</b>	80.729		22.347			<b>1988</b>	76.078	27.454	46.894		1.731
<b>1965</b>	80.065		22.732			<b>1989</b>	73.669	27.254	44.891		1.525
<b>1966</b>	80.139		22.928			<b>1990</b>	73.455	27.395	44.710		1.350
<b>1967</b>	79.497		22.732			<b>1991</b>	72.687	27.446	43.953		1.288
<b>1968</b>	80.069		22.413			<b>1992</b>	69.034	27.583	40.252		1.200
<b>1969</b>	81.590		22.229			<b>1993</b>	67.890	27.102	40.008		0.780
<b>1970</b>	79.829		22.718			<b>1994</b>	70.363	27.516	42.559		0.288
<b>1971</b>	77.457		23.050			<b>1995</b>	71.971	27.138	44.636		0.197
<b>1972</b>	77.015		23.566			<b>1996</b>	71.722	27.401	44.176		0.145
<b>1973</b>	73.542		24.077			<b>1997</b>	74.214	27.353	46.746		0.115
<b>1974</b>	73.236		24.147			<b>1998</b>	75.210	27.579	47.542		0.090
<b>1975</b>	76.177		22.574			<b>1999</b>	75.895	27.981	47.840		0.074
<b>1976</b>	74.712	68.355	23.382	41.510	3.463	<b>2000</b>	74.986	28.292	46.629		0.065
<b>1977</b>	75.273	69.848	23.895	42.733	3.220	<b>2001</b>	75.564	28.228	47.283		0.053
<b>1978</b>	73.995	68.680	24.692	41.012	2.976	<b>2002</b>	73.758	27.996	45.716		0.045
<b>1979</b>		68.994	25.431	40.932	2.631	<b>2003</b>	75.227	28.083	47.103		0.041
<b>1980</b>		71.874	25.914	43.554	2.407	<b>2004</b>	76.747	28.322	48.417		0.008
<b>1981</b>		73.282	26.184	44.864	2.233	<b>2005</b>	75.788	28.867	46.915		0.006
<b>1982</b>		75.804	26.085	47.512	2.207						

Source: Statistics Canada

Footnotes:

1. For explanation of changes in methodology contact Dairy/Food Unit, Agriculture Division, Statistics Canada.

2. Data for total milk production, farm home consumed and fed to livestock not available after 1978.

3. 'Delivered as cream' is farm separated cream expressed in terms of milk equivalent (3.6 kilograms per hectolitre of butterfat).



## MILK PRODUCTION AND UTILIZATION (MILLION HL) (1)

### NEWFOUNDLAND AND LABRADOR

	Milk sold off farms, total	Fluid pur- poses	Industrial purposes	Delivered as cream (2)
1976	0.073	0.073	n/a	0.000
1977	0.075	0.075	n/a	0.000
1978	0.080	0.080	n/a	0.000
1979	0.082	0.082	n/a	0.000
1980	0.087	0.087	n/a	0.000
1981	0.097	0.097	n/a	0.000
1982	0.105	0.105	n/a	0.000
1983	0.120	0.120	n/a	0.000
1984	0.132	0.132	n/a	0.000
1985	0.152	0.152	n/a	0.000
1986	0.170	0.170	n/a	0.000
1987	0.187	0.187	n/a	0.000
1988	0.244	0.244	n/a	0.000
1989	0.256	0.256	n/a	0.000
1990	0.275	0.275	n/a	0.000
1991	0.284	0.284	n/a	0.000
1992	0.296	0.296	n/a	0.000
1993	0.295	0.295	n/a	0.000
1994	0.289	0.289	n/a	0.000
1995	0.293	0.293	n/a	0.000
1996	0.291	0.291	n/a	0.000
1997	0.300	0.300	n/a	0.000
1998	0.310	0.310	n/a	0.000
1999	0.334	0.334	n/a	0.000
2000	0.336	0.336	n/a	0.000
2001	0.343	n/a	n/a	0.000
2002	0.353	n/a	n/a	0.000
2003	0.349	n/a	n/a	0.000
2004	0.390	n/a	n/a	0.000
2005	0.440	n/a	n/a	0.000

### PRINCE EDWARD ISLAND

	Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (2)
1976	0.806	0.136	0.534	0.137
1977	0.812	0.150	0.539	0.123
1978	0.845	0.155	0.578	0.113
1979	0.902	0.168	0.618	0.115
1980	0.935	0.166	0.673	0.096
1981	1.003	0.142	0.784	0.077
1982	1.092	0.132	0.882	0.078
1983	0.972	0.132	0.768	0.072
1984	0.982	0.132	0.781	0.069
1985	0.946	0.137	0.743	0.066
1986	1.001	0.139	0.790	0.072
1987	0.948	0.140	0.740	0.068
1988	1.006	0.143	0.796	0.067
1989	0.990	0.142	0.792	0.055
1990	0.974	0.145	0.779	0.050
1991	0.961	0.151	0.766	0.045
1992	0.942	0.149	0.752	0.041
1993	0.961	0.148	0.780	0.034
1994	0.940	0.149	0.767	0.023
1995	0.954	0.149	0.789	0.016
1996	0.946	0.150	0.784	0.012
1997	0.932	0.148	0.774	0.011
1998	0.966	0.149	0.808	0.009
1999	0.941	0.154	0.778	0.008
2000	0.945	0.158	0.778	0.008
2001	0.941	0.155	0.779	0.007
2002	0.947	0.146	0.796	0.006
2003	0.950	0.141	0.805	0.004
2004	0.998	0.146	0.847	0.004
2005	0.965	0.142	0.819	0.004

Source: Statistics Canada  
Footnotes:  
1. For explanation of changes in methodology contact Dairy/Food Unit, Agriculture Division, Statistics Canada.  
2. 'Delivered as cream' is farm separated cream expressed in terms of milk equivalent (3.6 kilograms per hectolitre of butterfat).  
n/a: not available.

## MILK PRODUCTION AND UTILIZATION (MILLION HL) (1)

### NOVA SCOTIA

	Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (2)
1976	1.475	0.968	0.450	0.057
1977	1.505	0.977	0.473	0.054
1978	1.595	1.020	0.519	0.056
1979	1.679	1.062	0.560	0.056
1980	1.732	1.082	0.593	0.056
1981	1.759	1.081	0.622	0.056
1982	1.772	1.108	0.603	0.061
1983	1.705	1.141	0.506	0.058
1984	1.779	1.143	0.579	0.057
1985	1.740	1.158	0.525	0.057
1986	1.816	1.160	0.595	0.061
1987	1.780	1.147	0.599	0.034
1988	1.802	1.157	0.616	0.029
1989	1.753	1.126	0.604	0.023
1990	1.776	1.103	0.654	0.019
1991	1.703	1.083	0.606	0.014
1992	1.663	1.095	0.560	0.008
1993	1.640	1.062	0.577	0.002
1994	1.641	1.083	0.557	0.000
1995	1.704	1.092	0.612	0.000
1996	1.690	1.050	0.640	0.000
1997	1.717	1.066	0.651	0.000
1998	1.741	1.066	0.675	0.000
1999	1.734	1.047	0.687	0.000
2000	1.740	1.054	0.686	0.000
2001	1.761	1.048	0.712	0.000
2002	1.730	1.003	0.727	0.000
2003	1.674	1.025	0.649	0.000
2004	1.733	1.030	0.703	0.000
2005	1.667	1.014	0.653	0.000

### NEW BRUNSWICK

	Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (2)
1976	1.004	0.635	0.234	0.136
1977	0.991	0.647	0.227	0.116
1978	1.039	0.674	0.258	0.107
1979	1.097	0.690	0.307	0.100
1980	1.175	0.705	0.376	0.094
1981	1.229	0.697	0.451	0.081
1982	1.325	0.691	0.554	0.079
1983	1.282	0.701	0.508	0.074
1984	1.346	0.703	0.577	0.066
1985	1.325	0.695	0.571	0.059
1986	1.333	0.703	0.576	0.055
1987	1.305	0.711	0.548	0.047
1988	1.380	0.695	0.639	0.046
1989	1.341	0.681	0.625	0.035
1990	1.316	0.675	0.614	0.027
1991	1.266	0.653	0.596	0.017
1992	1.198	0.645	0.539	0.013
1993	1.177	0.651	0.517	0.009
1994	1.151	0.662	0.481	0.009
1995	1.223	0.655	0.561	0.007
1996	1.242	0.671	0.567	0.005
1997	1.304	0.659	0.642	0.003
1998	1.304	0.651	0.653	0.000
1999	1.366	0.695	0.671	0.000
2000	1.344	0.692	0.652	0.000
2001	1.376	0.692	0.683	0.000
2002	1.384	0.729	0.656	0.000
2003	1.306	0.699	0.607	0.000
2004	1.354	0.654	0.699	0.000
2005	1.299	0.678	0.621	0.000

Source: Statistics Canada

Footnotes:

1. For explanation of changes in methodology contact Dairy/Food Unit, Agriculture Division, Statistics Canada.
2. 'Delivered as cream' is farm separated cream expressed in terms of milk equivalent (3.6 kilograms per hectolitre of butterfat).

## MILK PRODUCTION AND UTILIZATION (MILLION HL) (1)

QUEBEC					ONTARIO				
	Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (2)		Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (2)
1976	27.307	5.406	21.809	0.093	1976	24.086	9.683	13.448	0.955
1977	28.077	5.525	22.478	0.074	1977	24.434	9.736	13.774	0.923
1978	27.471	5.744	21.672	0.054	1978	23.665	9.889	12.823	0.953
1979	27.187	5.905	21.250	0.032	1979	23.866	9.994	12.967	0.905
1980	28.516	6.191	22.314	0.012	1980	24.672	10.006	13.781	0.885
1981	28.957	6.295	22.655	0.007	1981	24.891	10.003	13.985	0.903
1982	30.129	6.331	23.791	0.007	1982	25.487	9.847	14.680	0.960
1983	28.094	6.265	21.824	0.005	1983	24.639	9.868	13.842	0.929
1984	29.699	6.364	23.331	0.004	1984	24.753	9.805	14.032	0.916
1985	28.329	6.508	21.819	0.003	1985	24.606	9.784	13.858	0.964
1986	28.402	6.860	21.540	0.002	1986	24.387	9.960	13.465	0.962
1987	28.568	7.023	21.545	0.000	1987	24.838	10.190	13.709	0.940
1988	29.840	7.039	22.801	0.000	1988	25.413	10.245	14.205	0.963
1989	28.726	6.973	21.753	0.000	1989	24.538	10.178	13.499	0.861
1990	28.287	7.047	21.240	0.000	1990	24.714	10.175	13.765	0.773
1991	27.929	7.103	20.826	0.000	1991	24.628	10.192	13.660	0.775
1992	25.930	7.288	18.641	0.000	1992	23.286	10.035	12.481	0.770
1993	25.984	7.150	18.834	0.000	1993	22.494	9.787	12.176	0.531
1994	26.729	7.158	19.571	0.000	1994	23.520	9.946	13.415	0.159
1995	27.636	6.823	20.813	0.000	1995	23.827	9.857	13.854	0.116
1996	27.298	6.785	20.512	0.000	1996	23.917	10.003	13.822	0.092
1997	28.167	6.623	21.544	0.000	1997	25.022	10.110	14.835	0.076
1998	28.703	6.713	21.990	0.000	1998	25.372	10.138	15.168	0.066
1999	28.811	6.728	22.083	0.000	1999	25.468	10.192	15.218	0.058
2000	28.711	6.648	22.063	0.000	2000	24.982	10.217	14.713	0.052
2001	28.294	6.603	21.692	0.000	2001	25.546	10.120	15.384	0.041
2002	26.683	6.517	20.166	0.000	2002	25.533	10.146	15.351	0.035
2003	28.354	6.592	21.762	0.000	2003	25.241	10.195	15.015	0.032
2004	28.905	6.691	22.214	0.000	2004	25.249	10.229	15.020	0.000
2005	28.610	6.672	21.938	0.000	2005	24.825	10.565	14.260	0.000

Source: Statistics Canada  
Footnotes:  
1. For explanation of changes in methodology contact Dairy/Food Unit, Agriculture Division, Statistics Canada.  
2. 'Delivered as cream' is farm separated cream expressed in terms of milk equivalent (3.6 kilograms per hectolitre of butterfat).

## MILK PRODUCTION AND UTILIZATION (MILLION HL) (1)

### MANITOBA

### SASKATCHEWAN

	Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (2)		Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (2)
1976	2.807	1.078	1.230	0.500	1976	1.858	0.884	0.461	0.513
1977	2.837	1.111	1.244	0.482	1977	1.946	0.970	0.502	0.473
1978	2.830	1.102	1.282	0.447	1978	2.004	1.015	0.542	0.447
1979	2.799	1.105	1.321	0.373	1979	1.925	1.086	0.464	0.374
1980	2.881	1.102	1.439	0.340	1980	2.007	0.985	0.668	0.354
1981	2.886	1.084	1.490	0.312	1981	2.137	0.998	0.816	0.322
1982	2.935	1.084	1.537	0.314	1982	2.197	1.019	0.912	0.266
1983	2.922	1.082	1.507	0.333	1983	2.249	1.028	0.983	0.238
1984	2.973	1.092	1.568	0.313	1984	2.330	1.042	1.079	0.210
1985	2.898	1.108	1.475	0.315	1985	2.133	0.981	0.971	0.182
1986	2.913	1.140	1.478	0.294	1986	2.244	0.975	1.105	0.164
1987	3.066	1.165	1.573	0.328	1987	2.278	0.988	1.129	0.161
1988	3.111	1.173	1.619	0.319	1988	2.343	0.983	1.221	0.139
1989	3.017	1.158	1.557	0.302	1989	2.251	0.957	1.180	0.114
1990	2.926	1.142	1.499	0.285	1990	2.212	0.945	1.175	0.092
1991	2.865	1.132	1.458	0.275	1991	2.133	0.939	1.117	0.078
1992	2.773	1.140	1.390	0.244	1992	2.113	0.927	1.123	0.064
1993	2.669	1.135	1.395	0.139	1993	1.990	0.918	1.035	0.036
1994	2.812	1.130	1.631	0.052	1994	2.017	0.902	1.090	0.025
1995	2.808	1.095	1.688	0.025	1995	2.068	0.884	1.164	0.020
1996	2.744	1.156	1.574	0.014	1996	1.983	0.886	1.085	0.012
1997	2.810	1.104	1.695	0.011	1997	2.107	0.814	1.288	0.005
1998	2.858	1.059	1.792	0.007	1998	2.024	0.792	1.231	0.000
1999	2.885	1.099	1.781	0.004	1999	2.043	0.858	1.185	0.000
2000	2.947	1.124	1.818	0.005	2000	2.082	1.054	1.028	0.000
2001	2.895	1.121	1.770	0.005	2001	2.086	1.055	1.031	0.000
2002	2.863	1.108	1.752	0.003	2002	2.101	1.052	1.050	0.000
2003	2.898	1.118	1.776	0.004	2003	2.086	1.032	1.054	0.000
2004	3.009	1.146	1.858	0.004	2004	2.191	1.042	1.149	0.000
2005	3.026	1.151	1.873	0.002	2005	2.173	1.075	1.098	0.000

Source: Statistics Canada

Footnotes:

1. For explanation of changes in methodology contact Dairy/Food Unit, Agriculture Division, Statistics Canada.

2. 'Delivered as cream' is farm separated cream expressed in terms of milk equivalent (3.6 kilograms per hectolitre of butterfat).

## MILK PRODUCTION AND UTILIZATION (MILLION HL) (1)

### ALBERTA

	Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (2)
1976	4.935	1.902	1.975	1.057
1977	5.063	2.014	2.089	0.961
1978	5.016	2.200	2.030	0.785
1979	5.083	2.389	2.032	0.662
1980	5.270	2.535	2.177	0.557
1981	5.576	2.645	2.466	0.466
1982	5.898	2.663	2.803	0.432
1983	5.672	2.586	2.747	0.339
1984	5.876	2.541	3.033	0.303
1985	5.674	2.557	2.865	0.252
1986	5.897	2.580	3.095	0.222
1987	5.893	2.587	3.115	0.192
1988	5.934	2.602	3.166	0.166
1989	5.853	2.653	3.065	0.135
1990	5.984	2.679	3.201	0.104
1991	5.813	2.702	3.027	0.084
1992	5.722	2.733	2.929	0.060
1993	5.430	2.603	2.797	0.030
1994	5.712	2.668	3.024	0.020
1995	5.729	2.770	2.947	0.012
1996	5.946	2.897	3.039	0.010
1997	6.067	3.245	2.813	0.009
1998	6.006	3.259	2.739	0.008
1999	6.353	3.287	3.062	0.004
2000	6.049	3.398	2.650	0.001
2001	6.157	3.478	2.678	0.001
2002	6.159	3.385	2.774	0.001
2003	6.186	3.371	2.814	0.001
2004	6.440	3.409	3.031	0.000
2005	6.348	3.541	2.807	0.000

### BRITISH COLUMBIA

	Milk sold off farms, total	Fluid purposes	Industrial purposes	Delivered as cream (2)
1976	4.003	2.617	1.370	0.016
1977	4.108	2.688	1.406	0.014
1978	4.135	2.813	1.308	0.014
1979	4.373	2.948	1.412	0.013
1980	4.599	3.054	1.534	0.012
1981	4.747	3.141	1.595	0.011
1982	4.863	3.104	1.748	0.011
1983	4.683	3.039	1.636	0.008
1984	4.799	3.029	1.764	0.006
1985	4.833	3.043	1.786	0.004
1986	4.888	3.117	1.762	0.010
1987	4.915	3.124	1.788	0.003
1988	5.005	3.172	1.831	0.002
1989	4.946	3.129	1.816	0.001
1990	4.992	3.209	1.783	0.000
1991	5.105	3.208	1.896	0.000
1992	5.112	3.274	1.837	0.000
1993	5.250	3.354	1.896	0.000
1994	5.553	3.530	2.024	0.000
1995	5.727	3.520	2.207	0.000
1996	5.666	3.512	2.154	0.000
1997	5.789	3.285	2.505	0.000
1998	5.927	3.441	2.486	0.000
1999	5.960	3.586	2.375	0.000
2000	5.851	3.611	2.240	0.000
2001	6.165	3.613	2.552	0.000
2002	6.004	3.559	2.444	0.000
2003	6.182	3.561	2.621	0.000
2004	6.478	3.584	2.894	0.000
2005	6.434	3.588	2.846	0.000

Source: Statistics Canada  
Footnotes:  
1. For explanation of changes in methodology contact Dairy/Food Unit, Agriculture Division, Statistics Canada.  
2. 'Delivered as cream' is farm separated cream expressed in terms of milk equivalent (3.6 kilograms per hectolitre of butterfat).





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