

# **Can the Canadian Supply Management System Survive with Some Producers Marketing Milk Only for Export - The Ontario Experience and Perspective.**

Robert E Bishop

Dairy Farmers of Ontario, 6780 Campobello Road, Mississauga ON L5N 2L8  
Email: bbishop@milk.org

## **■ Take Home Messages.**

- ▶ A new system of Contract Export Milk created in 2000 was challenged at the WTO by the U.S. and N.Z. twice and Canada finally lost in late 2002.
- ▶ 30 producers who had sold their quota began to ship raw milk directly to the U.S. in segregated trucks in mid 2002 through a broker- Georgian Bay Milk Company.
- ▶ In December 2002 this group contended that the WTO ruling did not apply to them since they held no quota and their milk was not co-mingled with domestic milk.
- ▶ The Georgian Bay Milk Company (GBMC) demanded that their scheme be accepted as trade compliant by DFO and be forwarded to the Department of Foreign Affairs and International Trade (DFAIT) and when refused they took DFO to the Ontario Agricultural Food & Rural Affairs Appeal Tribunal. The Tribunal agreed with them.
- ▶ DFO appealed to the Agriculture Minister that the Tribunal had overstepped its authority and the decision was reversed. DFO was permitted to proceed with re-regulating all milk under it's authority as all other provinces had.
- ▶ This group of producers, now down to 24, was granted another AFRAAT appeal and a Judicial Review of the Ministers decision. Through the legal stay process they will be able to continue to ship export milk likely through 2004.
- ▶ The Ontario Ministry of Agriculture and Food (OMAF), DFAIT, Agriculture & Agri-Food Canada (AGCAN) should not have pushed the dairy industry in Ontario in 2000 into allowing brokers.

- ▶ OMAF, DFAIT, AGCAN should not have supported the initial concept that non-quota holders, most of whom had sold quota, were exempt from the WTO challenge.
- ▶ DFO has been delegated the authority to control raw milk quality on farms and in transportation. In hind-site DFO staff should have taken strong action when the first shipments by GBMC went to the U.S. in a non-approved transporter and without approved samples being taken, shutting GBMC producers off for illegal milk sales.
- ▶ In hind-site DFO staff and OMAF should not have accommodated any deliveries by GBMC to Ontario processors in late December early January since this temporary favour has been used by GBMC in their requests for stay of current business activity.
- ▶ Ontario/Canada cannot have two export systems or it will be challenged at the WTO.
- ▶ Operationally you cannot have two milk production and distribution systems without creating resentment and conflict that will destroy one or the other system.
- ▶ Accommodating decisions/directions by OMAF, DFAIT, AGCAN, AFRAAT and DFO toward a small group of producers has caused a lengthy legal process, caused trade risk and put the very existence of the supply management system in jeopardy.

## ■ History of Dairy Industry

According to Veronica McCormick, author of the book "A Hundred Years in the Dairy Industry", man first began to domesticate animals between 8000-5000 BC. As well she notes over 50 references to "milk" in the Bible the most memorable perhaps referring to Palestine as "a land flowing with milk and honey". Perhaps this is the most appropriate reference for my talk since Canada and indeed Alberta certainly qualify on both counts.

According to McCormick the first cows to arrive in Canada were landed at Sable Island, off the coast of Nova Scotia by Baron de Lebay in 1508. The first known herd to survive however was believed to have been brought to Canada by Samuel de Champlain around 1608-10. By Confederation the dairy industry had developed to the extent that in 1868, six million pounds of cheese were exported to England. By 1904, 234 million pounds of cheese were exported and that remains the record to this day. Although cheese exports declined somewhat from that point butter exports developed to supplant them. With the First World War, followed by the depression, followed by the Second World War, dairy exports had a somewhat mixed performance - some years up, some years down. However following WW II fundamental changes had taken place-

Canada was displaced as the major exporter of cheese and butter to Great Britain by lower cost suppliers such as Australia and New Zealand, sales of butter were negatively impacted by margarine, there was more demand at home for dairy products, and there was build up of butter stocks keeping prices low. As a result various programs came into effect to attempt to support producer prices which ultimately led to the supply managed dairy industry which we have today. Today's focus is on the domestic market with only 5-6% of Canadian production being exported.

## ■ Exports through Levies

Prior to the Uruguay Round, which was implemented in 1994, over-quota levies were charged to dairy producers on milk beyond domestic requirements and these levies were used to fund exports by lowering/subsidizing the price to be competitive into the export market. After the Uruguay Round over –quota levies were no longer permitted as a way to subsidize exports.

## ■ Exports through Class Pricing

At that point the industry decided to create separate price classes for exports, class 5 d for planned/traditional exports such as cheese to the U.K. and class 5e for unplanned exports into the world market. The industry believed that since all producers shared in these classes and received a return with these classes averaged in, that this system was similar to systems used in many businesses where the result of one market is averaged with others to obtain a final average return.

This price class system was challenged by the US and NZ in 1998 as a form of government subsidy and the World Trade Organization (WTO) Panel ruled in their favour. After appeal the Appellate Body (AB) ruled in October 1999 that a “benefit” was conferred (i.e. a lower price to processor), that such benefit was “contingent” on export, and that a body (marketing board) acting as “government” was involved in determining volume and price. Canada agreed to comply with the ruling and stay within the subsidized exports limits previously set out. An implementation timetable was agreed to with any new system to be in place by August 2000 with regulatory changes in place by December 31, 2000.

## ■ Contract Export Milk

From January 2000 onward to mid year consultations took place between the Department of Foreign Affairs and International Trade (DFAIT), Agriculture and

Agri-Food Canada(AGCAN) and the various provincial governments, producer and processor organizations.

In Ontario between January and June 2000 consultations took place with DFAIT, AGCAN, the Ontario Ministry of Agriculture and Food (OMAF), the Ontario Dairy Council (ODC) and Dairy Farmers of Ontario (DFO). As well several independent “export” groups came forward with their particular plans on how exports should be handled in the future.

In July 2000 the ODC acting on behalf of processors in the province and DFO acting on behalf of producers in the province appointed Deloitte & Touche (D&T) to be an independent “third party administrator” (3PA) of an electronic bulletin board system or Export Contract Exchange (ECE) for Contract Export Milk (CEM) between producers and processors. A unique aspect of this ECE was that it would also allow contracts between “brokers” and producers. This aspect was designed to accommodate several of the “export” groups which had been lobbying all levels of government not to be denied involvement/access to a new approach on exports of milk .As a result several firms such as Milk Trade, Internat Dairy Services, Canada Milk and Pur Nutra had contracts between their firms and producers registered and confirmed through the ECE in the first few months of operation.

In August of 2000 DFO changed its regulations to eliminate responsibility for CEM and the first deliveries commenced. In the first year of operation in Ontario the ECE contracted about 110 million litres of CEM and in the second year about 150 million litres. On average the price paid to dairy producers was about 30 cents a litre but this varied over the period from lows of 15 cents to highs of 42 cents.

## ■ CEM Challenge

In February of 2001, six months after the CEM system went into place across Canada, the U.S. and N.Z. challenged Canada’s compliance, claiming we were once again exporting subsidized exports beyond the agreed WTO limits. All parties made detailed submissions in May 2001, the hearing took place in June and a negative ruling for Canada was made in July. This ruling was appealed in September, the hearing was in October and the AB ruling came forward in December 2001. The AB ruled that there was a benefit (lower price) conferred, that the benefit was contingent on export but they ruled that US/NZ had not proved that this benefit was “financed by government action”. Since this ruling was inconclusive, i.e. Canada was not proved guilty but was not declared innocent, the US/NZ were allowed to commence a new challenge in early 2002. This challenge followed much the same timetable as the previous one with submissions in the spring, hearing in the summer, a similar negative ruling against Canada, (since it was the same panel members if available) an appeal

in the fall and an AB ruling in December 2002. This time the AB ruling was conclusive, Canada lost on all counts. Put in laymen's terms – there are payments (lower price than domestic market), those payments are contingent (only available) on export and those payments are financed by government action since a government supported scheme of supply management allows Canadian producers to achieve higher prices in the domestic market which therefore subsidizes the lower prices for export.

Although Canada disagreed with the ruling we had exhausted the process and we agreed to comply with the ruling and to bring our exports of dairy products within the subsidized limits agreed to.

The US and NZ had previously agreed with Canada to suspend their right to retaliation while the panels/appeals had been ongoing. Their claims were for damages of \$35 million each but these had not been substantiated nor challenged by Canada at this point. The US and NZ could have acted on their retaliation right once the ruling from the AB came down on December 18, 2002. However they agreed to suspend that right and allow a transition plan to be worked out to all parties' satisfaction. If that could not be accomplished then they could act on their right to retaliate which would likely be in the form of duties /trade restrictions on other Canadian products imported into their countries perhaps autos, steel, beef – likely the most trade sensitive.

DFO held consultations with the Ontario industry in January but given the direction that the agreement between Canada, US and NZ was taking, DFO decided that it must re-regulate all milk under domestic regulations as it had been before the exception was made for contract export milk. Now that there could be no CEM there could be no exception for milk sold to anyone other than DFO.

A transition plan was worked out between the three countries in January and February which allowed specified volumes of CEM, which were contracted prior to December 2002 to be delivered to processors from January-April 30 2003 with the products made from that milk to be exported by the end of July 2003. On May 9, 2003 an agreement between Canada, U.S. and N.Z. was signed bringing to an end this trade challenge without retaliation.

After five years and three trade challenges to our export milk practices including twice around the panel/appeal merry go round on CEM, the producer side of the industry was resigned to the fact that we would have to stay within our subsidized export limits and to concentrate on market growth in classes 1-5 c. Although processors did not like the loss of low price milk for export they accepted that Canada had to comply with the ruling.

## ■ Special Export Groups in Ontario

As if all of this was not enough to deal within Ontario we had and still have the parallel process of dealing with the "export" groups that I referred to earlier. First I will tell you whom I will not be dealing with further in this paper:

Milk Trade dropped out of CEM over objections about the fees of the 3PA. Milk Trade never supported the concept of an independent 3PA. They saw themselves in that role. The principal of Milk Trade was involved in putting forth new export schemes for Ontario consideration in early 2003 however.

Pur Nutra was set up by a group of producers to export Omega 3 enriched milk products but ran into financial difficulties and had to withdraw from the industry.

Canada Milk offered contracts to producers through the transition period. They were involved in putting forth new export schemes for Ontario consideration and they did attempt to tie themselves to an Ontario Appeal which would have given them a stay to continue their existing contracts but they were not granted standing and therefore are not actively involved in milk export activity at this time.

The principal in Internat Dairy Services passed away in late fall 2002 and one of the sons was attempting to sell the business or form a new business, International Dairy Direct, with a partner. The contracts for Internat ended in December and the new business did not have any contracts in place. Despite many appeals to the Ontario Agricultural Appeal Tribunal, International Dairy Direct has not legally held any contracts nor legally exported any milk or milk products. The principal in this firm has been involved in putting forth new schemes for export to anyone who will listen.

## ■ Quota System and Export Only Producers

Now to the main topic of my talk - can a domestic market system, managed through the issuance of producer quotas, operate with some non-quota holding producers marketing milk only for export?

Ontario's position is no from a trade/regulatory perspective and no from an operational perspective. I will review our experience with a group of non-quota holding producers who marketed their milk through a broker company known as the Georgian Bay Milk Company (GBMC) which has caused us to arrive at this position.

## ■ **GBMC History**

GBMC first came to the attention of the industry when they made direct raw milk shipments to the U.S. in June of 2002. GBMC had been formed to buy and sell milk and three of the four shareholders were milk producers who currently held no quota. They had 30 non-quota holding producers who were currently shipping CEM through other contracts but who were willing to ship through GBMC. The majority of these producers had previously held quota and sold it. The business plan of GBMC was to contract the milk from these 30 non-quota holding producers, pick it up and transport it in a segregated/separate transport system and to export this raw milk directly to the United States and to sell it directly to a US based firm/customer. It was their belief that in this way they could escape the trade challenge that had been on going in 2001 and 2002. Since governments at the Federal and Provincial level had always been in favour of making the CEM more inclusive (e.g. allowing brokers in Ontario) which they believed made it more defensible, they encouraged GBMC to proceed but through the 3PA since this was the means of contracting in Ontario. They were also encouraged to continue to be inspected by DFO who held the designated authority for raw milk quality in Ontario and to use DFO approved transporters since the bulk milk tank graders were licensed through DFO as part of the raw milk quality program. GBMC reluctantly agreed to these conditions since they still proclaimed that co-operation with the current CEM system jeopardized their position that they were un-subsidized. DFO and OMAF explained to GBMC that what they were doing was illegal unless they came into line with the guidelines as laid out. The DFO as a service provider reluctantly agreed to these conditions since it meant separate /segregated transport routes which might reduce the cost effectiveness of current co-mingled transport.

The GBMC did not like the fees for the 3PA/ECE and after a few months withdrew their contracts for 1-2 months until the industry could convince them that the only legal contracts were through the ECE process in Ontario. In hindsight strong action should have been taken against them for shipping illegally rather than bringing them back into the fold. They were back on the ECE with long-term contracts in December 2002 when the ruling came down. As a result they were allowed to continue to ship against those contracts in whatever transition period Canada could negotiate.

Due to the ruling and the Christmas period GBMC wanted to ship some milk to four Ontario processors which they had contracts with but had not shipped to. The industry allowed them to do this during late December and early January but then requested that if they were going to continue to ship to Ontario processors and not to the U.S. they would have to ship within the co-mingled transportation and allocation system operating within Ontario. GBMC did not agree to this condition and resumed shipping all milk to the U.S.

## ■ GBMC Position

During January 2003 GBMC made their position known that they did not believe that the WTO ruling applied to them because they were non-quota holders. They wanted the Ontario industry to support their plan for milk produced from non-quota holding farms, transported separate from the domestic supply and sold for export or export products only. They wanted this plan submitted to DFAIT as a defensible export plan and one which would allow them to continue and expand the business they had developed. They used as one of their main arguments that DFAIT had argued that non-quota holders should not be implicated by any ruling and referred to the now famous clause of the AB Ruling:

“152. Before concluding, we wish to comment on Canada’s arguments concerning the approximately 100 producers out of the 8,000 who sell CEM, and out of the total of 19,000 producers, who do not participate in the domestic market at all and sell solely CEM. Canada argues that the panel erred in finding that, for these producers, sales of CEM involves payments “financed by government action”. We do not believe that it is necessary for us to make any findings regarding these 100 producers. The complaint made by New Zealand and the United States is that Canada has acted inconsistently with its export subsidy commitments under the *Agreement on Agriculture*. Canada may act inconsistently with these commitments, as we have found, even if some producers never make payments financed by virtue of government action”.

It was GBMC contention that since the clause stated “We do not believe that it is necessary for us to make any findings regarding these 100 producers” that the ruling did not catch them. DFAIT also confirmed their belief that the ruling did not apply to non-quota holders.

## ■ DFO Position

It was the position of producers and their legal advisors that the more important part of the clause was that Canada has acted inconsistently with its export subsidy commitments, in other words Canada was guilty. “Canada may act inconsistently with those commitments even if some producers never make payments financed by virtue of government action” (i.e. even if some producers don’t hold domestic quota.) Put another way you are guilty of subsidizing exports, Canada, even if some producers, the 100 non-quota holders (and maybe even the 11,000 who never shipped CEM) were not direct contributors to that guilt. If you are a milk producer in Canada you are implicated by this decision.



The ambiguity of this clause, much as in the previous AB ruling that you are not proven guilty but you are not declared innocent, has set DFO on another trade merry go round. We have come to know that trade negotiators enjoy this type of ambiguity because it allows more flexibility in interpretations and more creativity in solutions. This may be true and beneficial when you are negotiating a new agreement or trying to launch a new scheme but not, in our opinion, when you are attempting to comply with a ruling.

At the end of February 2003 DFO passed a motion canceling the previous exemption for export milk. This meant that following the transition period, which had now been negotiated as January - April for CEM shipments, all milk produced on farms in Ontario would have to be marketed through DFO as the sole buyer of milk in the province. This also meant that DFO's policies regarding the holding of the minimum of 5 kgs of daily quota would come into effect. DFO advised all non-quota producers of the change and gave them a four month transition period to July in order purchase quota.

## ■ **GBMC Appeal**

GBMC appealed this decision to re-regulate to DFO and when DFO did not reverse its decision an appeal was launched with the Agricultural Food & Rural Affairs Appeal Tribunal (AFRAAT). In a preliminary hearing GBMC was granted a stay to continue to ship raw milk to the U.S. and four Ontario processors while the appeal was heard and a decision rendered.

The appeal to the AFRAAT was of DFO's decision to re-regulate made on February 25 and denial of appeal by GBMC of that ruling on March 28, 2003. Also of DFO's decision that any milk transported to processors in Ontario had to be through the fungible (co-mingled) supply and of the OFPMC's decision of February 25, 2003 when it chose to hear only DFO's position (on re-regulation of export)

GBMC's basic position was:

- ▶ that the 30 members shipping to them do not currently hold any domestic quota,
- ▶ That producers without domestic quota cannot be cross-subsidized as quota holding producers are,
- ▶ that the WTO ruling did not apply to non-quota holding producers,
- ▶ that by segregating transportation their milk is physically separate from the domestic supply and therefore more trade compliant,

- ▶ that DFO and the OFPMC should have consulted more broadly and should not have re-regulated exports back to falling under the control of DFO,
- ▶ that they should be allowed to continue to sell milk, now in two ways, direct to the U.S. and to Ontario processors for products only to be exported,
- ▶ that their current business plan should be forwarded to DFAIT with the endorsement of the Ontario dairy industry,
- ▶ and that their current business plan should be accepted by DFAIT as defensible and therefore be continued and expanded.

Through the testimony of their main witness and two processors they attempted to prove their point by:

- ▶ quoting paragraph 152 of the AB ruling interpreting that non-quota holders were not implicated by the ruling,
- ▶ quoting letters and testimony (to the Standing Agriculture Committee) by DFAIT confirming their opinion that non-quota holders were not implicated,
- ▶ quoting positions by the ODC that severe impact would take place in Ontario dairy processing due to the reduction in exports and therefore supporting some continued export plan by non-quota holders if that was possible,
- ▶ quoting testimony of two processors who stated that they wanted to continue to export with Ontario milk not milk brought in from the U.S. then re-exported,
- ▶ quoting the Milk Act , the purpose of which in part is “to stimulate, increase and improve the producing of milk in Ontario” and implying that re-regulation would not accomplish this purpose,
- ▶ and by quoting statistics on the modest growth of the domestic market.

#### ■ **DFO`s position was:**

- ▶ that it did consult with the industry in three separate meetings,
- ▶ that it did act within its powers to re-regulate all mil,
- ▶ that the DFAIT & AGCAN direction following the December 20 2002 ruling was clear- no new export contracts, re-regulate all milk in all provinces and federally so that subsidized exports can be measured and maintained within agreed limits, all of which was to resolve the issue and avoid trade retaliation from the U.S. and N.Z.,
- ▶ that a suitable transition period of four months was provided for non-quota holding producers to make the transition under re-regulation,

- ▶ that the AB ruling implicated Canada and all of its milk producers without distinction as to quota or non-quota holders,
- ▶ that the AB ruling also established a price threshold for subsidized exports from Canada of \$61./hl which would catch the GBMC shipments as a “benefit” conferred,
- ▶ that there was risk of a shortened transition period at the time of making its decision and of trade retaliation by the U.S. and N.Z. as previously suspended,
- ▶ and that the domestic market was growing and in fact had grown more rapidly since the CEM programs had been shut down.

## ■ **Tribunal Decision**

The AFRAAT found:

- ▶ that the DFO decision would force all non-quota holding producers into the domestic market thus eliminating the potential of a WTO compliant scheme should Canada and the provinces develop one,
- ▶ that the DFO and OFPMC should be required to forward a plan to allow for ,unsubsidized milk exports be submitted to DFAIT.
- ▶ that the Canadian dairy industry is a mature market that will not likely grow more than 2-3% per year,
- ▶ that the industry as a whole would be better served by policies which allow stakeholders to pursue a growth-oriented market that encompasses both export and domestic sales,
- ▶ that there are benefits to the processing sector from having a stable source of unsubsidized Ontario milk due to the drawbacks of the IREP,
- ▶ that at the time of DFO making its decision there was a risk of trade retaliation from the U.S. and N.Z. However when the matter was before the Tribunal it was clear that there was no longer a risk of retaliation.
- ▶ that the DFO raised the concern that any new export scheme that Canada pursues would be challenged. The Tribunal acknowledges this risk but finds that it does not warrant DFO’s position that no further unsubsidized exports should be considered,
- ▶ that regulatory changes that allow for the production of milk only for export would meet the objectives in the Milk Act to “stimulate, increase and improve” milk production in the province,
- ▶ that GBMC can continue to operate while DFAIT and the province consider their plan or until November 30, 2003 whichever comes first,

- and that the GBMC milk can continue to be segregated in transportation.

## ■ **Minister of Agriculture Appeal**

It was the DFO position that the AFRAAT decision went well beyond their jurisdiction of deciding whether we had the regulatory authority to take the decisions we did and whether we acted responsibly in carrying out that authority. The Tribunal went beyond to decide that the AB ruling did not apply to non-quota holders, that non-quota holders milk was not subsidized, and that Ontario would be better off with a system which incorporates a second system of management for export milk etc. They also took the easy way out which was to have a plan passed on to DFAIT rather than decide themselves that Ontario/DFO had the power to accept or reject and did just that.

DFO appealed the decision to the Minister of Agriculture for Ontario and the decision was overturned.

## ■ **Judicial Appeal and a second AFRAAT Appeal**

However the issue did not end there. The GBMC launched a judicial review of the Ministers decision through the Court system with a hearing set for November 26 2003. At the same time GBMC launched another AFRAAT appeal stating on the basis that DFO made a new decision which was to implement the Ministers directive. In a pre-hearing conference the AFRAAT agreed to hear the new appeal thus granting GBMC a further stay to continue shipping while the tribunal process and decision is underway. During the November 26 court hearing all parties agreed to delay the start of this process until a resolve of the AFRAAT process.

The GBMC new appeal is based on DFO taking a decision to carry out the Ministers decision, which was for the GBMC members to make their business arrangements, by November 30, 2003. Their appeal suggests that DFO could have altered the time period particularly based on the BSE crisis impact on cattle markets and now demands that they continue with their current business until the BSE situation is resolved or there is a new export system put into place.

At time of writing four days of testimony have taken place in early December and the final summation could not be scheduled until early February based principally on the schedule of GBMC's lawyer. Obviously if they are successful in this appeal they will continue to ship for considerable time. If they are unsuccessful then the court process will commence and they will receive a stay and continue to ship for considerable time while this process unfolds.

## ■ Trade & Regulatory Perspective

It is DFO's position that you cannot operate in the current trade and regulatory environment having non-quota holders shipping milk only for export. DFO is the sole buyer and seller of milk in Ontario according to the Milk Act and supporting regulations. An exception was made for CEM for contracts placed through the ECE. When the AB ruling came down in December of 2002 CEM was shut down in Ontario and across Canada and all provinces including Ontario re-regulated in order to bring all milk back under provincial Marketing Board control. This re-regulation was necessary in order to comply with the agreement reached with the U.S. and N.Z. and in order to contain subsidized exports within limits in future. It is DFO's position that there cannot be two milk production, milk transportation and milk export systems within Ontario without risking another trade challenge on export practices just as we have gone through for the past five years. It is quite obvious that the U.S. and N.Z. will not tolerate Canada having a dual system- one where you have quotas, higher domestic price and a limit on your exports at lower price and a second system where you have no quotas, no domestic market and no limits on the price and volume of exports. This is merely avoidance of trade rules and the WTO would put a stop to it as they have all previous schemes which have attempted to get around Canada's obligations.

## ■ Operational Perspective

It is the DFO's position that you cannot have two milk production, transportation, allocation policies and programs operational in the province. The DFO has since its inception bought all milk in the province, transported all such milk, allocated all such milk to processors in the province in order to meet market needs, funded the export/ removal of any milk surplus to domestic needs, acted as the voice for all producers in the province to the government – processors- consumers, billed and collected for all milk in the province and paid all producers in the province.

Operationally by having some non-quota holding producers operating independently from DFO you would have separate billing and payment for inspection services, lab fees, penalties etc rather than deductions from a DFO cheque. You would have export transporters crossing into domestic transporter's areas. You would have Ontario plants that receive milk from two separate delivery systems competing for unloading time. You would have Ontario plants receiving these dual deliveries but with no regulation about segregating those two supplies for storage, processing or inventory. You would have Ontario plants which could substitute export milk supply for domestic and vice-versa when it was convenient in order to meet customer need then balance out supplies prior to audit. You would have producers speaking with

two voices to government, media, the consuming public and you would have two groups of producers pitted against each other in the dairy farming communities which is not healthy for the future of any industry. Operationally you cannot continue effectively and efficiently with two classes of producers producing a similar product, selling to similar customers but operating under a different set of rules. Producers who supported the domestic market system through the retention and purchase of quota would not tolerate a growing number of producers selling their quota, thereby reaping benefit from the quota system, then producing without quota for a lower price thereby bringing the higher priced milk from the quota system into question by government-processor- consuming public. The system, which has served the producers-government-processors and consuming public, would be destroyed from within.

