

Non-quota Production and Marketing in Short Supply Chains: Status and Issues

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1/ Purpose of report

In Canada, the poultry (chickens and turkeys), egg (table and hatching), and dairy sectors are under supply management. The system helps control production volumes, ensuring that supply responds to domestic demand, fixes prices so that producers can cover their costs, limits the importation of these items, and reduces price volatility.

Therefore, producers in Canada who wish to raise poultry or produce eggs or milk must have a quota if their production exceeds a certain threshold. Quotas were initially given to farmers based on their historic production levels, but today they are traded in different ways on markets. New quotas are issued depending on the growth of demand in Canada. However, these are usually distributed to producers who already have a quota. Therefore, new entrants wishing to begin production or young farmers taking over the family farm and who want to increase output require considerable capital (to purchase a quota) and must wait for new quotas to become available.

Supply management has been effective since its creation in stabilizing production volumes and improving farmer revenues. However, the system is criticized for being unable to offer differentiated products to consumers. With the growth of local

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agriculture and direct marketing, various stakeholders are asking that the rules be relaxed to encourage the development of small-scale production and short food supply chains.

It is often challenging for farmers who want to produce small quantities of items under supply management, since quotas are expensive and sometimes unavailable. Small producers often claim that the limited quantities that can be produced without needing a quota do not provide enough incentives for them to diversify their activities or for new farms to be established.

As a result, many of these farmers, both in Quebec and in the rest of Canada, want the production ceiling for those who do not have quotas to be raised, so that demand in certain markets can be met. Moreover, a 2008 report published by the *Commission sur l'avenir de l'agriculture et de l'agroalimentaire québécois* suggested, as one of its recommendations, that the rules around quotas be relaxed.

Given the context, our report (titled *Non-quota Production and Marketing in Short Supply Chains: Status and Issues*) explores the following items to help stakeholders analyze and understand the issues:

- a primer on supply management and collective marketing in Canada
- an analysis of the issues around non-quota production sold in short supply chains
- the situation and evolution of production in other provinces and an in-depth comparison among Alberta, British Columbia, Ontario, and Quebec
- the current state of non-quota production in Quebec and the concerns of various stakeholders
- the profitability of small-scale agriculture
- the consequences for sectors under supply management of a possible increase in the amount of poultry, eggs and milk that farmers can produce without a quota
- the potential sanitary and biosecurity risks



2/ Research highlights

- We note important differences among the provinces in terms of how they manage non-quota production. Each province imposes different exemption limits and the terms and conditions for obtaining quotas also differ.
- In all provinces, there is a growing demand in short food supply chains for differentiated products. The provinces have reacted in different ways to this new interest on the part of consumers.
- The demand that rules around quotas be relaxed has disrupted the mechanisms of supply management. These mechanisms were introduced at a time when market imbalances were a serious risk, and the policy goal was to support farmer incomes by matching supply with domestic demand. However, in the past several years, the context has changed, and the consumption of products under supply management has increased significantly. This growth has primarily benefited producers who already held quotas, since newly issued ones are for the most part allocated to them pro rata based on their quota share. At the same time, new programs have been implemented in almost all production sectors to support the next generation of farmers.
- The marketing boards believe that supply management helps protect the health of animals and the reputation of food items. They also guard against the inherent sanitary and biosecurity risks of allowing new farmers to sell products outside of standard marketing channels.
- Provinces that have approved increases in non-quota production have done so by relaxing the rules in a controlled fashion. In addition, authorized producers are subject to registration and control measures. This allows the provinces to obtain better information about farmers who do not own quotas and their production activities.
- In provinces where the rules have been relaxed, the amount produced outside the quota system is modest, even marginal, compared to total provincial production (between 0.08% and 0.6%). When we projected what could happen in Quebec, we obtained similar results.
- The debate over whether to relax quota exemptions does not centre primarily around the issue of market stability. Rather, it highlights a deeper conflict of legitimacy among stakeholders who have different views about the performance and organization of sectors under supply management. It also points to disagreements about the way agriculture should be practised and the challenges of accommodating new entrants from different social and professional backgrounds.

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- Most of the farmers who use short supply chains to sell their products and who responded to our survey had started their own business. Their farms were also smaller than the average for Quebec. Most believed that increasing the amount that could be produced without a quota would significantly benefit small-scale agriculture and the next generation of farmers.
- The profitability of small-scale production depends on the farm infrastructure already in place and the types of agricultural activities a producer chooses to pursue.
- Raising the ceiling on the amount that farmers can produce without needing a quota does not in itself pose a sanitary risk for consumers. The risk of contamination will increase compared to standard production when regulations regarding the production, storing, and sale of products are not followed. However, in our study, we compared risk profiles and showed that various measures can help mitigate this potential problem.
- From a biosecurity perspective, the scientific literature has identified backyard flocks as potential “reservoirs” for pathogens. Nevertheless, these studies do not distinguish between backyard flocks reared for domestic purposes and small commercial farms. Moreover, most of the farmers who responded to our questionnaire had implemented basic protection measures.
- While cases of cross-contamination between backyard and commercial flocks have been documented, they are rare and should be analyzed taking into account the social, economic, and cultural characteristics of a given environment. On this issue as well, certain measures to mitigate risk could be implemented that integrate small commercial farms into monitoring networks.

3/ References

Mundler P., Gouin D.-M., Dominguez S., Godefroy S., Laughrea S. & Ubertino S. (2017) Productions sans quota et commercialisation en circuits courts. Statut et enjeux. Final research report submitted to CIRANO: Laval University. 173 pages + annexes.

<https://www.cirano.qc.ca/files/publications/2017RP-05.pdf>