be easy to calculate the cost of feeding the cattle, the cost of labour, of fertilizers or fuel, but the value of the land, pastures and buildings, is much more difficult to assess. In short, we tried to find a formula that would be effective and fair to everyone and would enable us to develop an advanced dairy policy.

All the details of that formula were announced in the past few months. I would simply like today to go over the main lines and clarify certain details. According to the legislation setting up the Canadian Dairy Commission the objects of the long term dairy policy of the government are:

1, to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment;

2, to provide consumers of diary products with a continuous and adequate supply of dairy products of high quality.

Pursuant to those objectives the government raised, effective April 1, the level of support prices by $11.02 per hundredweight. That amount represents the basic price implemented under the new policy. I must remind you that this price included all adjustments made in recent years by the government to offset increases in production costs and bring producer revenues back to suitable levels. The basic price will be adjusted on the basis of changes in production costs under a formula that came into effect last April 18.

In that price adjustment formula 45 per cent was allocated to the current expense index for adjusting production costs. The different components of that 45 per cent are defined as follows: concentrates and fodder, 13.4 per cent; insemination, 0.6 per cent; herd health related expenses, other transportation expenses and miscellaneous cattle expenses, 7.8 per cent; repairs to machinery and automobile expenses, 3.1 per cent; gasoline and oil, 2 per cent; rental of machinery or contract work, 0.4 per cent; lime and fertilizers, 3.1 per cent; seeds and other crop related expenses, 1.9 per cent; maintenance, land and buildings, 1.4 per cent; property taxes and insurance, 2.8 per cent; electricity and telephone, 1.9 per cent, and lastly, monthly paid farm workers, excluding the salary of the family, 6.6 per cent. It makes a total of 45 per cent.

The second index considered in the formula is the consumer price index as it modifies producer and family revenues. It represents 35 per cent of the formula. If we add those who indices we obtain 80 per cent.

● (1630)

By indexing only 80 per cent, the government keeps a margin of 20 per cent which leaves room to adjust prices according to future needs. This is an advantage that allows us to consider a number of factors, for instance significant changes in domestic and international stocks, changes in the revenue of dairy producers in other countries or major changes in competitive costs inherent in processing.

The percentages of 80 per cent and 20 per cent were defined from an analysis made by government experts and based on farm accounting statements for 1972-73. The next programs of the Canadian Dairy Commission will adjust the support level from this formula. We know that the indices must vary by minus or plus 4 per cent to warrant a readjustment of milk prices. Provisory adjustments will be made only if needed and when a period of at least three months has elapsed since the last adjustment. This percentage of 4 per cent seemed to us the best way to avoid too many changes in a same year and excessive price increases for the consumer.

As I said earlier, changes can only be made at three month intervals. We should therefore have been able to adjust the prices on July the 1st. There has been no change because the calculation of indexes has shown a margin of less than 4 per cent. As regard the duration of the policy, the government, yielding to the producers' representations, has decided that the new policy would be set up for a five year period. This lapse of time is about what is needed to help the producers plan in advance their investments. After the first two years, the government may see fit to review the formula itself in order to ascertain the validity of the ponderation factors.

There is still a major point to clarify: exports. In order to do that, I have to set forth the trade situation. On the world level, stocks of powdered skim milk are increasing and prices are sagging. At the beginning of 1975, the price for skim milk was 45 cents a pound. In April, when the European Economic Community increased its export subsidies, the price went down to 36 cents a pound, and it has kept going down ever since. It is now 26 cents a pound. It is therefore important to realize the whole extent of this problem. Faced with such a decrease, Canada has two alternatives: either accept competition and sell at the international price, or accumulate stocks. Obviously the second solution must be eliminated, because it would be too expensive. If we sell at the international price, we must support the ensuing losses.

Thus, for every pound of powdered skim milk, whose price was fixed at 64 cents, we must figure a loss of 37 cents. If we calculate total exports set at 200 million pounds, we obtain an exorbitant price—$74 million. The government is therefore forced to intervene and raise the deduction on exportation of industrial milk. Since July 1 this deduction is 90 cents a hundredweight. Although it is strongly criticized, this increase is necessary to maintain sales of powdered skim milk at the current levels of international prices. I explain. We were fully justified to announce an objective price when the international price was normal. In April, that price still allowed competition, with the deductions we had at that time. Unfortunately, the situation changed completely, and the Canadian government is not responsible for it. You know our department is much interested in exportation. We always tried to find new markets for Canadian products. The present situation leaves us with very few alternatives.

We have already considered the impact of government financing, but it would create many more problems than it would solve. Producers have already committed themselves to Canada to pay export costs according to a supply management program under GATT. Any government interference might have adverse effects and would merely be prejudicial to producers.

That is why we must levy the required amount at the production level. Be assured that we will try to devise the