

production. Saskatchewan, Manitoba, and, perhaps, New Brunswick could experience reduced milk production -- in some cases, significant reductions -- and, in the course of rationalization of production to more efficient operations, a number of producers and processors likely would leave the milk industry. However, there is also much less evidence of turnover, entry, and exit within the dairy industry. Using the same census data as reported earlier, dairy-farm entry and exit is just less than one-half that reported for poultry.¹⁶ In addition, and consistent with less farm adjustment taking place, dairy-cost surveys for years to 1981 continue to show a great deal of diversity in cost structure across individual farms. This evidence suggests that differences might exist between the marginal costs of quota-purchasing farms and those of the more inefficient, smaller, older farms that have not bought quotas. In other words, there could be relatively fewer farmers who are competitive with border prices and relatively more farmers who would have difficulty being competitive, compared with those in the poultry industry.

These adjustments might be larger in the fluid milk sector and in those provinces that depend more heavily on fluid milk markets, simply because the price fall would be greatest here. As in the poultry industry, financing problems could affect those farmers who have recently purchased quotas, particularly fluid milk quotas. But, as noted earlier, these problems will be moderated by the widespread anticipation of this risk in milk quota markets, and arguments for compensation for these particular producers are correspondingly reduced with an appropriate adjustment period for implementation.

Not all of the effects of an FTA are at the farm level. On the processed-product side, an open border could enhance local and specialized product flows in both directions, and trade in milk products generally could be expected to shift in either direction over time with changes in various