The most difficult problem that an open border would create concerns possible production surpluses. The only solution that appears readily workable is for U.S. and Canadian industrial milk prices to fall until there is no North American surplus production. This could well require a fall of as much as 20 percent in Canada's industrial milk prices and obviously it would make quotas unnecessary. To judge from quota values in Ontario, Quebec, and British Columbia, farmers who purchase quota would still be competitive at such a reduced price. Not only could they be expected to provide for the increased Canadian consumption that would result from lower prices but it is possible that at current exchange rates, there could be regional or local exports to the U.S. market. The open border would equalize dairy product (e.g. butter and skim milk powder) prices as well as raw milk prices, and harmonization likely would require elimination of the federal direct subsidy on industrial milk.

If each country were to continue to follow its current surplus policies — quotas in Canada, government purchases in the United States, and prices above equilibrium levels in both countries — at the same time that the border was opened up, some arbitrary decisions on market sharing between the two countries would be needed. For example, Canada could hold quotas at a level equivalent to total domestic consumption. However, not only would this prevent the lower-cost country from achieving any net market penetration in the other, it would also make it difficult to prevent Canadians from shipping milk produced in excess of their quotas into the United States. Thus, it would appear that the combination of current policies with a truly open border is not workable, even with equal farm gate prices. In addition, this scenario would depend on the U.S. government's willingness to continue purchasing surplus U.S. production, and Washington necessarily would end up determining the degree to which milk prices exceeded an equilibrium level. In other