

— DISCUSSION —
**ANALYSING THE POTENTIAL FOR INCREASED TRADE:
MODELLER'S PERSPECTIVE**

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The potential for increased trade between Canada and the United States in dairy products is a very tricky and evasive concept for modellers. The current state of the art does not keep track of, or account for quantity movements on a reportable basis and as a result movements that are simulated are induced from apparent shifts in marginal cost curves. The issue is whether the overall cost and demand structures are stable under trade or whether they actually shift. If they remain stable then the current round of modelling effort has a lot to recommend itself. If there are shifts, then we need to reassess the structure and focus of our modelling to determine if the results are meaningful within an industrial context before they can be used to address larger scale national issues.

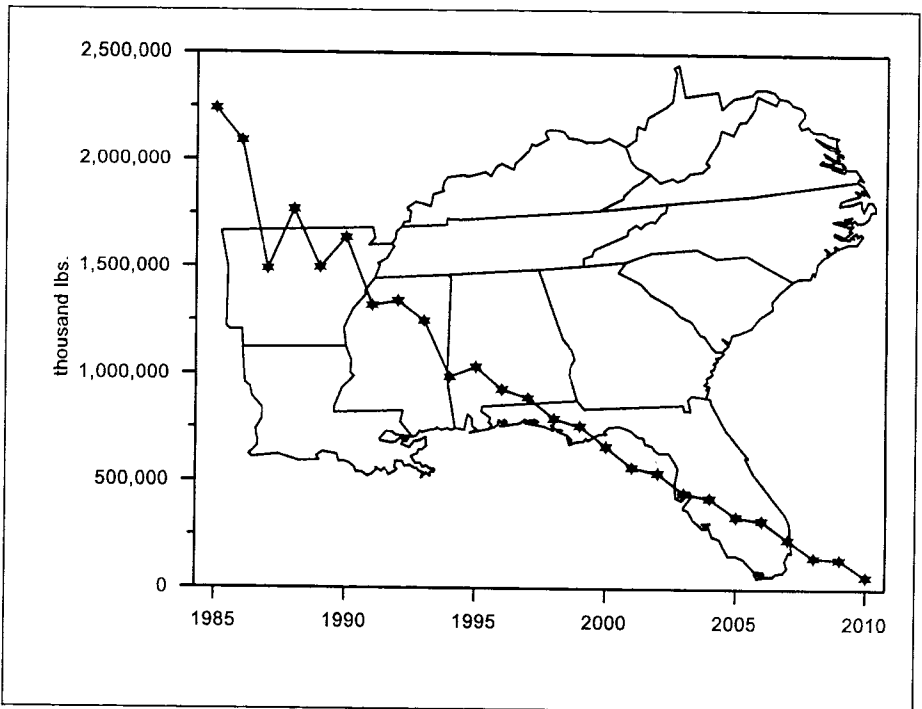
A case in point is the Southeastern area milk surplus. The attached diagram shows the level of the surplus as we projected it for these states until the year 2010, overlaid across a map of the region. The downward pattern is unmistakable and profound. One might easily conclude that there is a "crisis" in this most significant of all dairy products. Yet our assumptions in this model do not address shifts in consumer preferences or the adjustments in trade that may come about. It may be conceivable that with changes in dairy policy and changes in technology that this locally prevalent "deficit" would vanish completely. On the other hand it may be that it would expand and generate considerable anguish both within the region and beyond its borders. We simply do not have confidence in the overall results, given these potential adjustments, in order to generate long term policy recommendations.

We need to establish better data sets that will allow us to make strides in our modelling efforts. At present we generally accept that quotas inhibit structural change and that the release of quotas would cause pent up pressures to drastically rearrange and industry. The converse is that price restrictions can be adjusted with less structural trauma. Yet we do not collect data that would allow us to analyse these effects and separate their implications. Our analysis often concentrates on solutions that seem to "pop" right out of our models. When we suggest that quotas be eliminated we often run directly to assessing

¹ This is an edited version of the comments made at the conference.

spend more money on compensation or adjust quotas. In effect we run the risk of "jumping over" the problem and missing other alternatives such as integration of facilities, product specialization at the processor level, and technological transfer and adjustment amongst others.

Figure 1.1 Southeastern Area Fluid Milk Production Surplus



Some of our models also lead us to spurious conclusions whereby our models predict movements between points that are related in terms of the "economic space" that we have designed into our models but which are not linked directly through "geographic space" or "infrastructural space". In other words we may be able to move products theoretically but not practically.

We must reconfigure much of our analysis to account for these changes and we must do so because we have spent the time to develop new sources of data. We can model quantity movements but these mean very little unless we can actually count the movements that are taking place. This shift may also mean that we move our focus of analysis along the distribution channel with more emphasis on the price transmission mechanisms that are involved or likely to be. The consumer may well be a more productive and worthwhile focal point than the farm in terms of these efforts after we have collected the data.