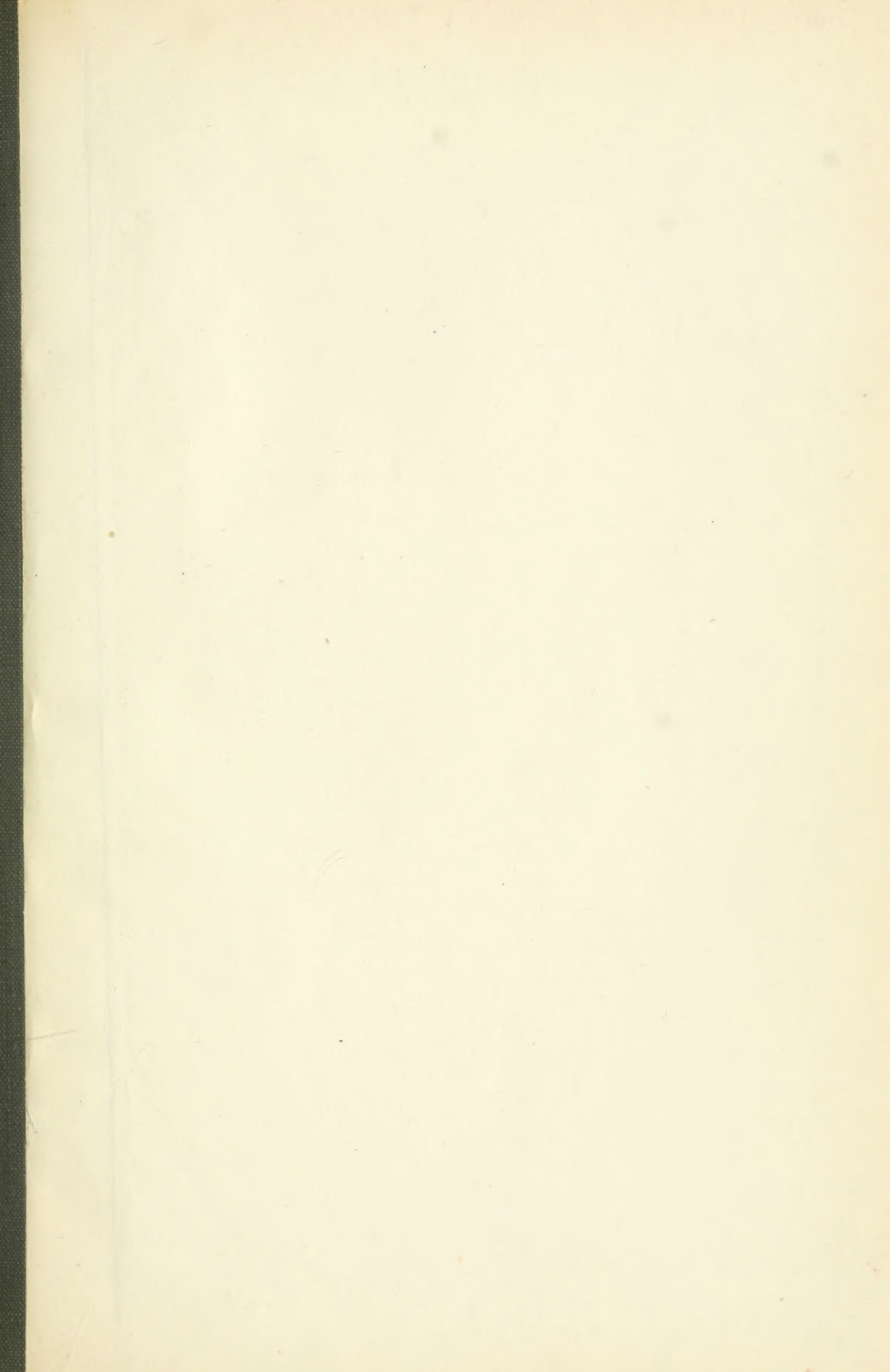
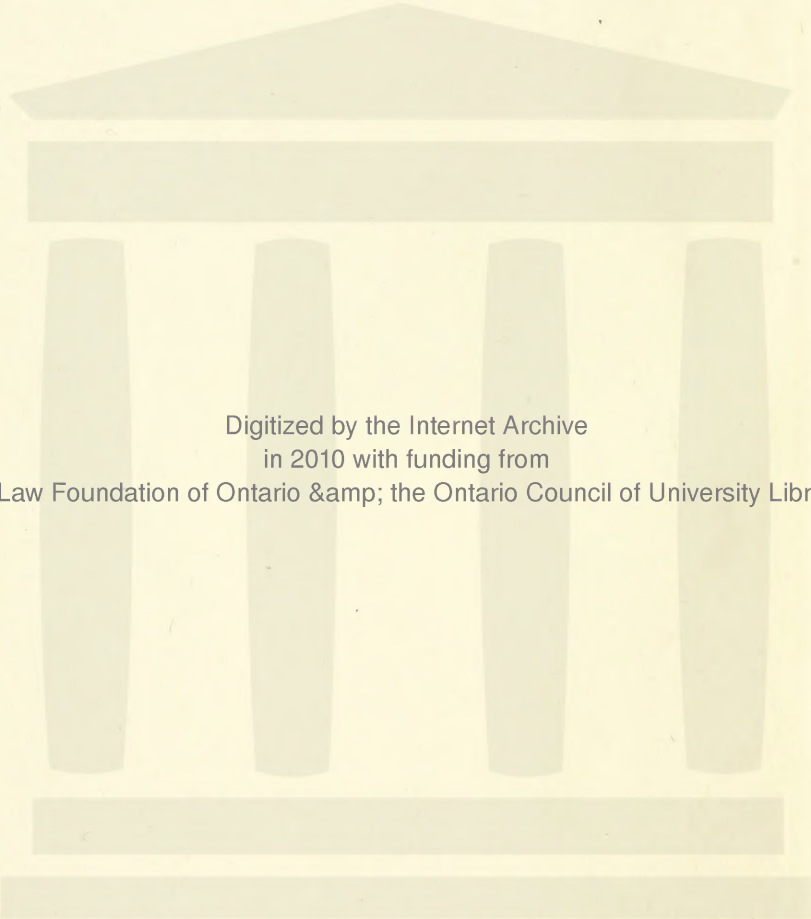


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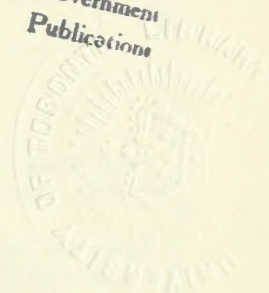
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REPORT

of the

ONTARIO ROYAL COMMISSION ON MILK

1947

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1947

Copy of an Order-in-Council approved by The Honourable the Lieutenant-Governor, dated the 1st day of October, A.D. 1946.

Upon the recommendation of the Honourable the Prime Minister, the Committee of Council advise that pursuant to the provisions of The Public Equiries Act, R.S.O., 1937, Chapter 19, the HONOURABLE DALTON C. WELLS, a Justice of the Supreme Court of Ontario be appointed a Commissioner to enquire into and report upon

(a) the producing, processing, distributing, transporting and marketing of milk including whole milk and such products of milk as are supplied, processed, distributed or sold in any form; the costs, prices, price-spreads, trade practices, methods of financing, management, grading, policies and any other matter relating to any of them but not as to restrict the generality of the foregoing, the effect thereon of any subsidies or taxes paid or imposed.

(b) the scheme contemplated by the provisions of The Milk Control Act, R.S.O., 1937, Chapter 76 as amended, and the administration thereof by the Milk Control Board.

The Committee further advise that the said Commissioner shall have the power of summoning any person, and of requiring him to give evidence on oath, and to produce such documents and things as the Commissioner deems requisite for the full investigation of the matters in which he is appointed to examine.

Certified,

C. W. BULMER,
Clerk, Executive Council.

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Report of the Royal Commission on Milk Province of Ontario

To his Honour the Lieutenant-Governor in Council:

May it please your Honour: By terms of reference approved by your Honour in Council on the 1st of October 1946 I was appointed a Commissioner to inquire into and report upon:

- (a) The producing, processing, distributing, transporting and marketing of milk including whole milk and such products of milk as are supplied, processed, distributed or sold in any form; the costs, prices, price-spreads, trade practices, methods of financing, management, grading, policies and any other matter relating to any of them but not as to restrict the generality of the foregoing, the effect thereon of subsidies or taxes paid or imposed.
- (b) The scheme contemplated by the provisions of The Milk Control Act, R.S.O., 1937, Chapter 76 as amended, and the administration thereof by the Milk Control Board.

By a further Order-in-Council on the 24th of October 1946, I was afforded the services of Mr. Beverley Matthews, C.B.E., K.C., as Counsel, Mr. Donald A. Keith, M.B.E., Barrister-at-Law, as Secretary, Professor William M. Drummond, M.A., as Economic Consultant, and Mr. John S. Entwistle, C.P.A., as Accountant, in conducting the enquiry.

I beg to report the result of the enquiry as follows:

The report is prefaced in Chapter 1 by a summary of the findings, recommendations and suggestions, but only the more important aspects of the matters investigated are touched upon in that summary.

The bases of these findings and a fuller statement of the facts elicited by the enquiry are set out at greater length in the text. In reaching these findings, I have had the most generous assistance and counsel from the gentlemen appointed to assist me. Responsibility for the ultimate findings and conclusions, however, must rest on me.

The sources of information and the procedure followed are indicated in Chapter 2. A list of the witnesses and all public bodies, organizations, associations and individuals making submissions on the enquiry are set out in Appendix 1.

CHAPTER I

Summary of Findings, Recommendations and Suggestions

The production, distribution and consumption of milk are subjects of wide-spread interest in the Province of Ontario. Consumption of fluid milk in this Province has risen from 250,405,000 quarts in 1939 to 467,736,000 quarts in 1946. Nearly 150,000 persons are directly engaged in the production, transportation and distribution of fluid milk, cream, ice-cream, cheese, butter, concentrated milk and other milk products, in the Province of Ontario. The total value of milk production in Ontario for the year 1946 was estimated at \$154,981,000, of which fluid milk sales amounted to approximately \$60,500,000. There are approximately 16,000 producers producing milk for fluid consumption, 76,000 producers producing cream for butter, 23,500 producing milk for cheese, and an additional 14,000 producing milk for the manufacture of concentrated products. It is also estimated that there are approximately 20,000 persons engaged in the processing, transporting and distribution of milk and other dairy products.

As to the importance of milk itself, Dr. F. F. Tisdall, of Toronto, an eminent authority on nutrition, stated before me that from his studies in connection with nutrition, his respect for milk as an article of diet continually increased. In his opinion no other single food contained so many nutrients essential to life.

In making this enquiry hearings were held throughout the Province so that all factors affecting the problem received proper consideration. Sittings were held at Port Arthur, Fort William, North Bay, Belleville, Ottawa, Hamilton, London, Windsor and Toronto. Forty-two days were consumed in taking evidence, some 67 briefs were submitted and 154 witnesses examined. The evidence extends to some 5,681 pages. Of the witnesses examined, 29 witnesses represented distributors, 70 witnesses represented producers and some 39 witnesses were consumers or represented consumers. The Mayors of the Cities of Toronto and Hamilton gave evidence and the City Solicitors of Ottawa and Windsor appeared on behalf of their respective municipalities. Some six witnesses appeared for those transporting milk and twelve experts were heard on subjects ranging from applicable legislation to problems of nutrition. The only major group who failed to make representations to the Commission or to assist it voluntarily were those manufacturing concentrated milk products. At my instance an examination of their operations was made through accounting studies.

THE MILK CONTROL BOARD

The second matter referred to me, that is the administration and operation of the Milk Control Act through the Milk Control Board, is considered first in this Report. In 1934 the Ontario Milk Control Board, created by the Milk Control Act of 1934, set to work to stabilize prices, both to the producer and to the consumer, at levels which it was considered could be held, and which would prevent the bankruptcy of the farmer. Prior to this the whole price structure of the industry had collapsed, due to the depression, and

the industry, in Ontario as elsewhere, was in a chaotic condition. The Board, wherever possible, achieved these purposes by obtaining agreements between producers and distributors. Existing processing and distributing plants were licensed. It was considered that the number of distributors at that time was excessive, and new candidates for entry into the business were refused permission except where, in the Board's opinion, public necessity clearly required them.

There is no doubt in my mind, and I think it is amply supported by the evidence, that the over-riding factor in setting the policy of the Milk Control Board, from its inception to date, has been the welfare of the dairy industry as a whole, in the belief that thereby, as a sort of necessary corollary, the general public interest was best being served. The Board has functioned along limited lines and, in effect, has attempted to let the industry rationalize itself. No effective pressure was brought to initiate needed economies or more rational methods of distribution until certain improvements were effected under pressure of wartime conditions in 1942. It is an amazing fact, but apparently true, that at no time in exercising its functions has the Milk Control Board had a really adequate knowledge of either producer or distributor costs, nor could it possibly have had such knowledge with the staff available.

I think that the emergency which warranted this policy has long since passed, and that another factor, quite apart from the vague general public interest previously regarded, deserves definite attention,—namely the interest of the actual consumer of milk. Sanitary standards, compulsory pasteurization, standard products and other things, have combined to make a very high quality product available to the consuming public of Ontario daily. I feel that the same attention to securing confidence in the price charged for these products would greatly assist in maintaining and increasing levels of consumption.

The Milk Control Board, by virtue of the terms of the Act, has been called on to perform two conflicting functions, the one administrative and the other judicial, in respect to licensing. In my opinion the judicial function has not been performed judicially but has been governed by the over-all administrative policy of the Board. Administrative objectives seem to have been the governing factor and to have coloured the Board's interpretation of the terms of the Act and its application to individual applicants. A more effective division of these functions would seem desirable.

Price-fixing:

With respect to price-fixing, until such time as an effective producer organized marketing scheme can be developed, the evidence has convinced me that some responsible authority must fix and enforce the price to be paid to the primary producer for milk to be used for the fluid market and for concentration.

Such authority must have an adequate knowledge of costs of production and statistics with respect to general business levels, and price and wage indices. I have come to the conclusion that the Milk Control Board should be in a position intelligently to set such prices by arbitration, or failing this, be able to advise the Government as to a proper price structure. Up to the present time the Milk Control Board, because of its lack of essential statistical data, does not appear to have been in this position.

At the consumer level, I am convinced that distributors must be compelled to compete on price. An over-riding authority should be vested in the Board to fix prices if competition shows undesirable results.

Under the administration of the Board the product has been standardized as to quality, competition as to price has been eliminated, and the only competition left between the various distributors is as to services. In my view this is a most wasteful and expensive form of competition.

Consumer Representation on Milk Control Board:

Labour as a group, and numerous consumer witnesses, represented that each should have representation on the Board, to speak for special interests. There would seem to be no limit to representation of this kind, and in my view, appointment to the Board should be based on ability to perform the work required, not representative interest. It appears that Consumer Representatives appointed specially by municipalities have not been able to get essential information. The Board should amend its administrative practice to conform to the provisions of the Milk Control Act, and invariably provide such information.

PRODUCTION AND THE POSITION OF THE PRODUCER

Many producers, not only for the fluid trade but also for cheese-making, concentrated milk production and for butter-making, appeared before me as witnesses. The high standard of these representative Ontario farmers could not help but be specially noted. Almost without exception, however, producers were concerned with the cost of their product regardless of demand, and with the apparent disparity between farm prices and costs of production. When it is realized that only approximately a quarter of the milk produced in Ontario is utilized for fluid consumption and commands the maximum price, it will be readily understood that the farmer always faces a market in which the purchaser has the advantage. Surplus milk sells at approximately \$1.00 per hundredweight less than milk for fluid consumption. Surplus prices really govern the average net return to the producer. The only ultimate and really satisfactory solution for the producers is the development of a comprehensive marketing scheme and of methods of manufacturing or disposing of surplus milk. Until they can do this they will have to rely on such protection as the Milk Control Board and Provincial Authority can furnish to maintain a stabilized price structure.

Despite the development of the organization of the fluid milk producers in the Ontario Whole Milk Producers' League, that organization is not yet strong enough, in my opinion, to effectively protect the producers' position as against the distributor, particularly under conditions of decreasing demand. I doubt also that the rank and file of its members have as yet recognized the necessity of seeking their own salvation through an effective marketing organization.

The producers established that in no case were they getting their cost of production plus even a reasonable administrative allowance. In view, however, of the decreased consumption since the price increases of October, 1946, it would not seem economically possible for the producers to obtain more for milk sold for fluid consumption than is presently being paid them. Factors affecting the costs of production are discussed in considerable detail in the report. The key, however, to an adequate return to the farmer-producer is not only in his obtaining his costs for fluid milk, but also in a proper disposition of his surplus milk at adequate prices. At the present time it is quite clear, from the evidence, that the producers as a

whole do not know their own costs of production. Various methods for establishing these are discussed in the Report.

While blended prices for all milk are paid in other jurisdictions, with certain appropriate premiums for quality as, for example, in Great Britain and New York State, this solution of the producer's problem of getting a reasonable return for his milk has not yet reached the position in Ontario where it can be deemed to have much practical value. There is no substantial producer opinion to support it.

As standards of farm life and income rise, no doubt, it will be found progressively easier to accomplish improvements in herd management and volume of production. While these, by comparison with other countries, cannot be said to be unsatisfactory, the twin goals will always demand serious attention and effort, by producers and government jointly.

In view of the apparent necessity for governmental protection, a corresponding duty devolves on the producers to pursue the study of ways and means to cut costs of production, in order that the ultimate consumer be not penalized. Many producers already recognize this.

Problems affecting the producer, such as the butter-fat test, the quota system, the necessity of the maintenance of present controls and, in my view, the ultimate necessity of the creation of some effective marketing scheme, are dealt with in detail in the Report.

TRANSPORTATION OF FLUID MILK

The transporters as a class are at the moment the agents of the farmer in most cases, to carry his product to its market. With the farmer as the principal, it has seemed impossible to eliminate waste and duplication of service. There is no doubt that the Transporter under the present system has done the work effectively but, I feel, at a price which is not warranted. In the case of a vital food the consumer cannot be asked to pay to maintain an inefficient system. Unless the Transporters can themselves agree on a method of eliminating waste and duplication, appropriate economic pressures would appear to be in order. If, by fixing the price of fluid milk at the farm rather than the dairy, the Transporter became the employee of the distributor, and the distributor in turn were forced to compete with respect to price, the high cost of duplication of service and waste mileage would quickly become apparent, and I feel would in time be eliminated. The excessive cost of transporting milk would seem to be a factor in the price to the consumer which has received little consideration or attention.

DISTRIBUTION AND THE POSITION OF THE DISTRIBUTOR

In this Province, as a result of high standards of quality and fixed prices to producer and consumer, the Distributor has been forced to compete for volume in the service he provides to his customers. A very representative number of distributors appeared before me during the course of this enquiry and five things stand out in mind, as a result of the whole volume of their evidence, namely—

- (a) The distributor operates on a very narrow margin of profit per unit. Generally speaking, profits lie in volume of distribution and diversification of product. A fractional loss per unit can quickly create a large loss.
- (b) A distributor who maintains the quality of his product, who keeps his business diversified and upholds a high standard of service, will,

if operating efficiently for the volume of his business, show a profit at present prices. Under present conditions such profit will be something less than one cent a quart. It would appear that the profits of the distributors are not unreasonable in amount when considered on a unit basis, but the key to cheaper milk would seem to lie in lowering distribution costs which, at the present time, approximate 25 per cent of the cost of a quart of milk.

- (c) Every distributor is aware that certain changes in methods of distribution would result in some economies; for example, every-other-day deliveries, different types of containers, depot sales and others.
- (d) No distributor is prepared to initiate any radical change in what the consumer has been educated to expect in the way of service, when he is prevented from offsetting any initial dissatisfaction with a change, by offering the consumer the benefit of any saving made by reducing the price. Economical changes made must at present be unanimously adopted by all distributors in any market at the same time. This, obviously, discourages, if not entirely obviates, reduction in distributive costs.
- (e) There is no real difference between the product of one distributor and that of his competitor.

One other primary factor which dominates the whole of the distributive industry in the Province of Ontario is that the Borden Company Limited, Silverwoods Dairy Limited, and Dominion Dairies Limited, handle between them approximately 30 per cent of the dollar value of fluid milk distributed in the Province of Ontario and 40 per cent of all products handled by distributors. A further fifty-five companies handle an additional 18 per cent of total sales and, on examination of the financial records of these companies, it would appear that, if the law permitted, they could afford to enter into competition in respect to prices charged to consumers. The great majority of the remaining distributors, approximately 750 in number, are operating comparatively small businesses, in many cases in small towns and villages throughout the Province. It is doubtful that these distributors can afford any reduction in price at the present time and indeed, if they were compelled to meet a competitive reduction in price, many of them would be forced out of business. However, as will be seen from my report, many of these smaller distributors have a monopoly of the business in the area for which they are licensed, and I am not convinced that permission to compete as to price would result in disaster to any considerable number of existing distributors.

I am satisfied that by and large when milk is sold in the fluid market the producer is paid for it at the fluid rate. The use of surplus milk, however, in the case of those distributors who have equipped themselves to handle it, has been a profitable form of business. This is particularly applicable to those distributors who sell ice-cream and ice-cream mix. Another hidden source of profit to distributors is in connection with the price paid for butter-fat in milk used for the fluid trade. Since December of 1940 any milk purchased for the fluid trade by a distributor which tests over the base 3.4% butter-fat, brings a premium to the producer of 3½ cents for each 1/10 of 1% over such base figure. Similarly, a deduction is made from the standard price of the same amount for each 1/10 of 1% below the base figure. Prior to December, 1940, this butter-fat differential was a variable figure depending upon the wholesale price of creamery butter. At the present time, with creamery butter selling at more than 60 cents per pound to the

consumer, the value of butter-fat would appear to be nearer to 6 cents per 1/10 of 1% butter-fat than to the fixed differential of 3½ cents. Most of the large distributors standardize their milk for sale to the consumer at 3.4% or 3.5% butter-fat and consequently are able to dispose of excess butter-fat at present prices at a substantial profit.

I fail to see any justification for this fixed differential.

Mr. Entwistle's study would appear to indicate that prior to the recent price increases the average spread between the producer price and the price charged consumers was 5.31 cents. In his opinion this spread was increased by the price increase of October 1, 1946, to approximately 5.68 cents per quart. Methods of decreasing cost and narrowing the spread are discussed at some length in the Report. Under the system of fixed prices to consumers, under which the industry has operated since 1935, there is little incentive to explore these various methods, although this would seem to be the only field in which any improvement can be achieved. Reference is made in the Report to the financial position of the distributors generally, which is also examined in detail by Mr. Entwistle in his report. The general situation would appear to be a very healthy one for the industry, and the increasing volume of sales during the war years has largely offset increased cost of distribution resulting from higher wages and other increased costs. No attempt is made in this summary to express the details of the present financial situation in the industry, as it is discussed at length in the Report.

In conclusion it may be stated that it was not established by the enquiry that milk distribution in Ontario is in any way a monopoly, although the general dependence on large volume constitutes an inherent tendency leading in that direction. The grave defect from the consumer's viewpoint would appear to be the lack of any effective competition, and the remedy for this would appear to be the removal of a fixed consumer price. Consumer subsidies such as obtained during the war years are not, in my opinion, a desirable or effective solution of obtaining lower priced milk under peacetime conditions. The efficacy of public ownership of methods of distribution would appear to depend entirely on their efficiency and diversification of their operation, and in no way offers an immediate prospect of lower price to the consumer. If any public assistance is to be rendered it should, in my view, be limited to the supplying of cheaper milk for school children.

EXAMINATION OF THE FLUID MILK PRICE INCREASE OCTOBER 1st, 1946

Mr. Entwistle, the Accountant attached to the Commission, made a study of the price increase at the end of September, 1946. His examination would indicate that if the price increase had been limited to two cents instead of three cents the industry as a whole would have shown a loss of \$1,806,000 for one year's operation. If the price increase had been 2½ cents instead of the three cents which was obtained, a small profit to the industry on an over-all basis of \$344,000 would result. This illustrates in a quite startling way the very narrow spread on which the industry operates. Nevertheless in his opinion at least 12 per cent of the distributors, who are responsible for the distribution of nearly 50 per cent of fluid milk, could have afforded to limit their price increase to 2½ cents per quart instead of three cents. The result is that where there is no competition as to price, this uniform increase in price to the consumer gives to these large distributors profits out of all proportion to those obtained by the smaller operators.

CHEESE PRODUCTION

Some 25,000 producers in the Province of Ontario regularly supply milk to cheese factories. The milk going for this purpose in 1945 represented 21.2 per cent of the whole production of milk in this Province. Milk is processed at some 575 factories, by far the larger majority of which are owned on a co-operative basis by the producers supplying milk to them. There are a few large factories owned by Swifts, Kraft, and some other companies, that manufacture cheese, but they are not large enough in volume to affect the general situation. In the result, the price realized by the producer for milk used for the manufacture of Cheddar cheese represents the value of the finished product less the costs of processing, and since the finished product must compete on a world market, in view of the very large volume available for export, it has been found in practice difficult to secure a price which the producers feel represents a fair rate having regard to the cost of producing the milk. The producers themselves, through the medium of a marketing scheme set up under the Farm Products Marketing Act, have succeeded in securing the best possible price under existing conditions. However, there has been very little actual control by the cheese producers of methods of marketing overseas, although the price thus obtained is the governing factor in the return to the cheese milk producers. It must be remembered that the war and post-war period has been abnormal in view of the over-riding necessity of supplying food to Great Britain and the consequent absence of a free market. However, there is no doubt that the cheese producers are strongly organized and able to afford themselves a considerable measure of protection.

It will be abundantly clear, however, from the detail given in this Report, that the Ontario cheese producer does suffer from his apparent unwillingness to amalgamate cheese factories with a view to securing a large volume of production with a minimum capital investment and overhead charges. This has been drawn forcibly to the attention of the cheese producers and every step should be taken that is possible to ensure that the number of cheese factories be reduced and the production per factory substantially increased.

Ontario Cheddar cheese holds a very high reputation in the world market and the Ontario producer should not permit the return for his labours to be frittered away in inefficient and wasteful methods of processing.

CREAM PRODUCERS

There are upwards of 76,000 producers in the Province of Ontario who supply cream for the manufacture of butter. There are two significant facts which have again been brought out by this investigation, namely, that cream production is by and large the by-product of other types of farming, and secondly, that the average production per creamery in the Province of Ontario is far below that of other provinces, such as Saskatchewan, Manitoba and Alberta, and a mere fraction of the average production in New Zealand. The producers have not taken advantage of government assistance offered to amalgamate creameries with a view of reducing capital and overhead, and, like the cheese producers have, for the sake of convenience, been permitting a substantial part of the return from their labour to be lost through duplication and inefficient methods of processing.

Another very important point which has been established by the evidence is the excessive waste and duplication in the transportation of cream from

farm to creamery. This must be corrected if the producer is to receive the maximum possible return for his product.

PRODUCTION OF MILK FOR CONCENTRATION AND THE POSITION OF THE MANUFACTURERS

Upwards of 14,000 producers supply milk to factories for the making of condensed and evaporated milk and milk products. The price paid for milk used for this purpose has been subject to some measure of control and price-fixing by the Milk Control Board, but since the end-product is to a large degree exported, and since the Milk Control Board has not been in possession of sufficient information either to know the costs of production of the farmer or the result of the distributor's operations, the price-fixing undertaken has, in my view, lacked a proper basis to justify it. An examination of the financial returns of companies engaged in the concentration of milk has been handicapped by the fact that some of the larger concerns are subsidiaries of British and American companies and full information has not been available in this Province. Such investigation as has been possible, however, leads one to the belief that a very high rate of return has been earned by these companies, some of which could very well have been paid to the producers. The real remedy lies in the hands of the producers themselves, with the use of existing facilities for government financial assistance, namely to follow the example of the Montreal producers and the producers for the twin cities of Minneapolis and St. Paul and many others, and to establish their own factories for the concentration and condensing of milk. In this way the producer can be assured of receiving the maximum return for his raw product.

A very significant fact, however, was disclosed as a result of the Accountant's investigation, namely, that in the case of concentrated milk products the main source of profit lies in the export trade. Profits from domestic sales appear to be small. This may have been due to wartime price control. One major concentrator which has plants in Ontario and Quebec, seems to find it convenient to use its Quebec production for the export trade and its Ontario production for domestic trade. This is a factor which may adversely affect the producer of milk for this purpose in any one province. With the experience after the first World War as a guide, it should also be remembered that the large profits in export trade cannot be counted on indefinitely.

CONSUMPTION AND THE POSITION OF THE CONSUMERS

A considerable number of interested witnesses appeared as consumers, and while in the very nature of things they could not be expected to have a detailed knowledge of the dairy industry, at the same time it was obvious that a substantial body of opinion favoured the introduction of reforms tending to ensure that the consumer was not left at the mercy of the producer and distributor. Substantially the consumer's case was pressed on a basis of need irrespective of price or cost. Many consumer witnesses were in favour of the payment of subsidies, preferably by the Provincial Government, in order to keep the consumer price down to a very low level. Those making such recommendations, however, did so without an adequate appreciation of the cost of such subsidies if any appreciable reduction was to be made. Other recommendations, that municipalities be permitted to engage in the processing and distribution of milk, that co-operatives be permitted to pay

consumer dividends, and that consumers of large quantities of milk be given the benefit of something approaching wholesale discounts, appeared to me to be better supported. On the whole, the consumer position can be summarized as requiring a recognition that milk is an essential part of daily diet and that no group, whether producers or distributors, should be permitted to secure an unreasonable profit in the supplying of such a vital food. If consumers can be convinced that such is not happening, much of the controversy as to price may disappear.

The foregoing is intended to be a very brief epitome of the more important matters disclosed by this investigation. The various points mentioned and many others are dealt with in detail and at length under the appropriate chapter headings of this Report, and supported, where necessary, by the Appendices. No doubt all who have an interest in this subject will make full reference to the text of the Report and the Appendices.

The general conclusions and recommendations as expressed in the Report are reproduced in this summary in their entirety, as it appears to me desirable that those using the summary should have these in full.

GENERAL CONCLUSIONS AND RECOMMENDATIONS

The Milk Control Act was originally passed to relieve a state of crisis which existed in the production and distribution of fluid milk in the Province in the year 1934. Methods propounded to meet this crisis have grown into a species of control maintained long after the emergency has ceased to exist.

If it were possible to disregard this development, an arrangement where the producers of milk in this Province were organized in a marketing authority with power to direct the disposition and use of milk for whatever purpose seemed appropriate, would seem the best solution of their difficulties. As I have suggested, this might well be modelled on the present British scheme, which is in essence an organization of the producers themselves. But as I have previously indicated, the producers as a class, apart from some such comprehensive organization, are not able to protect themselves in bargaining with the distributors. If they were, I would be inclined to the opinion that the full play of competitive forces would reasonably protect the consumer in respect of distribution and would in the long run produce a much more economic and better organized system in the industry as a whole. Practically speaking, however, the producer organizations are not strong enough at the moment to fend for themselves alone. No over-all marketing organization of producers exists in the Province of Ontario. I must deal with the various factors as they exist at the present time. It would, therefore, seem essential at the present to maintain the existing controls.

The effect of the operation of the Milk Control Act since 1934 has been to remove most of those competitive pressures which ordinarily operate in respect of private business. In doing this, it has not substituted that full measure of public control which would seem to be the necessary alternative. In the result, therefore, particularly under inflationary or semi-inflationary conditions, the consumer has suffered. Instead of having the benefits of the operation of one principle or the other in the industry, the general public, in my view, have had some of the worst results of both. At the present time fluid milk as produced and sold in Ontario is, for practical purposes, a standard article sold at a fixed price. The only

real measure of competition left among the distributors has been that competition in services, which is probably the most wasteful and extravagant form of competition that exists. What should be done at the moment would seem to me to be the taking of necessary measures to reintroduce some real and effective competition in the distributing end of the industry; and, for the protection of the producers, to continue the existence of the Milk Control Board. Its powers, however, should be clarified and enlarged. Under the present circumstances it is not sufficient to allow the industry to regulate itself at its own free will. There is an obligation on the Board to bring pressure to reduce waste and duplication, and to see that the interests of the three groups which are vitally concerned in the industry, namely, the producers, the distributors and the consuming public, are each reasonably protected and considered in a more definite and effective way than in the past twelve years.

While the earlier period of the Milk Board's operations may be thought of as an emergency period during which the central objective was to bring order out of chaos, the time has now arrived when the general objectives of the Board should be greatly enlarged. The basic reason for its continued existence must be its success in obtaining increased efficiency in milk production and marketing.

In respect of the Milk Control Board, therefore, certain specific recommendations are made herewith; others will appear as incidental to recommendations made under other heads.

Before making these recommendations, however, there is one other matter that should be mentioned: Sections 4 and 13 of the Milk Control Act give the Board various powers. Some doubt has been raised by the law officers of the Crown as to the power of the Board to fix prices under these sections. A perusal of the sections undoubtedly affords a reasonable basis for the doubts expressed. Without expressing an opinion on the Board's powers under the present statute, it should be pointed out that it casts a great and, in some measure, unfair responsibility on government to ask it to fix prices in a private industry, in the general administration of which it has in effect no decisive voice. The only justification for such exercise of authority would appear to be some infringement of the public interest. Insofar as price fixing is concerned, in the first instance the basic responsibility for the determination of prices would seem to rest on the industry itself. If, however, it is impossible for the parts of the industry to agree, then in dealing with a vital food such as fluid milk it may be desirable that an administrative authority such as the Milk Control Board should have the right to arbitrate between the various interests, and to determine an arbitrated price between the component sections. Similarly, if a price arrived at by the industry is against the public interest, paying attention to the interests of the producers, distributors and consumers alike, there may be responsibility on government to intervene in respect of the interest adversely affected. It is desirable also that the administrative body dealing with the problem should be able to advise the final authority on a sure basis of knowledge and accurate information. To date there has been no consistent effort to study the costs and profits of either the producers or the distributors. For example, at the time of this Investigation such a fundamental fact as the ratio of wholesale to retail sales in the distribution of fluid milk was not available in the records of the Milk Control Board or the statistics branch of the Department of Agriculture. A sample study had to be made on behalf of the Commission.

I therefore recommend, *as to price fixing*:

- (a) That the Milk Control Board commence and continue the collection and study of representative cost data in respect to producers. Detailed suggestions as to how this might be done are contained in Appendix 28.
- (b) That it should also undertake a continuous collection and study of the cost and profit position of the distributors. It may be that the powers of the Board under section 15 as at present constituted are sufficient for this purpose, but if not they should be reconsidered and clarified.
- (c) That such additions to the staff of the Milk Control Board as are necessary to carry out (a) and (b) be considered.
- (d) That sections 4 and 13 of the Milk Control Act be revised to clearly give the Board authority to arbitrate a price for fluid milk as between producers and distributors, and in cases of necessity as between distributors and consumers.
- (e) Further, that the power of the Board be made clear to enable it to ultimately determine a price for fluid milk either to the producers or to the consumers if the prices obtaining are against the public interest, as determined by the rights and interests of the producers, the distributors and the consumers, with the result that in practice—
 - (i) The price of fluid milk at the consumer level be not agreed to or fixed in ordinary circumstances. The power should be a corrective one only, and
 - (ii) That prices paid by distributors to producers be fixed or agreed upon as heretofore and that such prices be ordinarily fixed on the basis of delivery at the farm unless other methods are successful in eliminating duplication and excessive cost in transportation from farm to dairy.

As to Co-operatives—

- (f) That section 11 of the Milk Control Act preventing rebates by distributors to customers, and which in effect prevents the effective operation of consumer co-operatives, be repealed.

Licensing—

- (g) (i) That the administrative and judicial functions of the Board as to licensing be separated by setting up an Advisory Board somewhat similar to the Insurance Advisory Board in order that the judicial functions of the Milk Control Board be exercised as provided by the statute free from administrative bias.
- (ii) That the conditions entitling applicants to licenses be more explicitly set forth in the Milk Control Act.

Composition of the Board—

- (h) At the moment the Board is set up on a representational basis. Without unduly criticizing the unselfish service that has already been given to it by those appointed under this system, I am unable to see much solid advantage in it. I would recommend that in future when appointments to the Board are being considered regard should be had to the capacity and fitness of the person concerned rather than to the interest he or she represents.

Consumer Representation on Milk Control Board—

- (i) In respect of consumer representation on the Milk Control Board, as I have said, I do not think that representation of special interests adds greatly to the strength of such a body. The present provisions in the Milk Control Act for consumer representation in special markets, should be continued, but the administrative practices in respect of them should be changed and the intent of the Act followed more closely. I would recommend that where a consumer representative is accredited to the Board and enters on his duties, he should be required to take an oath of secrecy and that all the information available to the Board be completely disclosed to the consumer representative in respect of the matter under consideration.

Recommendations with Respect to Producers

In respect to the producers, my view is that the ultimate solution of their difficulties will be found in the setting up of a marketing organization for all producers. This may not be immediately practicable and, if not, I would suggest:

- (a) That a start be made in organizing the fluid milk producers, and that the further study and consideration of the entire project be initiated and pursued with as little delay as possible by the existing joint committee representing the four sections of milk producers. In respect of the form of such an organization, attention is again specifically directed to the British scheme, which would seem to provide most of the necessary principles upon which to build such an organization.
- (b) That the existing producer organizations, particularly the Ontario Whole Milk Producers' League, be encouraged themselves to take steps to process and dispose of fluid milk not required for the fluid market. In view of Mr. Entwistle's study of production prices paid producers and distributor spreads, a substantial increase in the price paid to producers for secondary milk would appear to be justified at the present time without alteration of consumer prices for the resulting products and such increase might be found to be as much as 10% more than present prices.
- (c) That the regulations of the Milk Control Board assure that producer association employees be permitted to check the accuracy of testing in distributor and processing plants to remove present suspicion and dissatisfaction regarding the accuracy of these tests.
- (d) That the practice of paying price premiums or discounts in accordance with variations in butter-fat content of the milk be reviewed to the end that the amounts paid correspond with current prices for butter-fat. These particular payments should be subjected to review and, when necessary, revision at monthly intervals.
- (e) That in view of the existing conditions of supply and demand no further increases in fluid milk prices be granted at the present time. This recommendation is made in view of the demand situation, and despite the fact that in the view of the Commission existing prices do not cover the cost of production plus a reasonable profit or even a proper administration allowance.
- (f) That the present efforts through the Department of Agriculture be intensified to assist producers in applying the knowledge gained by research and study to the further improvement of volume and

quality of production and to the further reduction of producers' costs.

Special Recommendations in Respect to Transportation

It is obvious from a perusal of the discussion of Transportation in this Report that I regard the present system as uneconomic and wasteful. Ideally, I think it would be desirable to fix the price of milk at the farm and allow normal competitive pressures on the distributors to lead them to rationalize their methods and costs of collection. This may not be immediately practicable, but, if it were possible, I would recommend:

- (a) That where the price of milk to producers is fixed, it be fixed on the basis of delivery at the farm.
- (b) In default of this I would recommend that the Milk Control Board be given the power to fix rates for transporting milk and to designate and license all truckers of milk.
- (c) That the licensing of such truckers under the Commercial Vehicle Act be discontinued.
- (d) That the practice of conducting hearings before the Municipal Board be discontinued, and that the whole power be vested in the Milk Control Board.
- (e) The regulations under the Milk Control Act, and the Milk Control Act itself, should also be clarified to give the Board authority to designate routes for such truckers.

The foregoing observations in respect to the transportation of fluid milk apply with equal force to the transportation of milk and cream to condensaries and creameries.

- (f) That the regulations be changed and the Commercial Vehicle Act be amended to permit farmers to haul milk co-operatively through co-operative associations for themselves and their neighbours, and that such permission be granted without regard to other existing facilities.

Special Recommendations in Respect to Distribution

In the hope that experiments in further economies, such as quantity discount sales, depot sales, every-other-day delivery, five and six-day delivery, zoning and similar practices will be actively investigated and tried, it is recommended:

- (a) That the retail consumer price should be made open and competitive without fixation by agreement or Milk Control Board order.
- (b) That the special distributor economies brought into effect in 1941 and 1942 under wartime conditions be retained by the distributors.
- (c) That all distributors be required to maintain a complete and standardized set of business and financial records.
- (d) That returns sufficient to enable the Milk Control Board to determine their costs and profit margins be required of all distributors, to be filed not less than three months after the end of their fiscal year, these records to include details of capitalization, depreciation and financial policies generally.

Recommendations in Respect to Consumers

It must be apparent from a perusal of Chapter 7 that, looking at the over-all picture in Ontario, no recommendations as to price reductions from those presently obtaining can be made when the interests of all the distributors are considered. Mr. Entwistle's report shows that about 12

per cent in number of the distributors, who apparently distribute more than 50 per cent of the fluid milk in the Province, could sell milk at cheaper prices. I suggest that cheaper prices might be brought about by providing for a free competitive price at the consumer level. If it is done by other means it may well be that the larger number of the distributors, something in excess of 750 in all, will not be able to withstand the financial pressure of prices lower than those presently in effect. So far as volume distribution is concerned, it would appear that such a price reduction would adversely effect those who distribute less than half of the volume of fluid milk sold. It would unquestionably affect many of the distributors in smaller markets.

It is a question whether it is best in the public interest to maintain the existing large number of small distributors in certain cases at the cost of milk consumers; or whether through arbitrarily narrowing the distributor's spread it is better to accelerate the slow process of amalgamation that has been going on among the distributors since the passing of the Milk Control Act in 1934. Arbitrary narrowing of the distributor's spread at the present time would undoubtedly accelerate the process of amalgamation and consolidation, and the distribution end of the industry would end in the hands of a few large distributors. As they are presently situated, the smaller distributors, except in rare instances, could not withstand the financial pressure resulting from such a policy. Insofar as many of them are concerned, the result might be financial embarrassment, forcing them to amalgamate with their competitors to obtain larger volume, or they might be forced to sell out to the existing large volume distributors. Which state of affairs is the most desirable is a question of public policy, on which it would not be proper for me to comment. In my view, however, the abolishing of the practice of fixing prices for fluid milk to the consumers and the restoration of competition as to price among the distributors, is well worth trying before other measures are considered.

Nevertheless, despite the apparent costs of production and distribution at the present time, in view of the fact that cheap milk generally means large volume of consumption, it might well pay both the producers and the distributors of fluid milk arbitrarily to cut their prices all along the line to something approaching the level obtaining before the price increases of October 1, 1946, or in any event by a substantial amount. The problem of the producers' surplus, which seriously affects the average price received by the producer, might no longer be so pressing. The experience of the distributors over the war years under conditions of rapidly expanding volume and low consumer prices might justify them in again trying the experiment.

It is recommended that the necessary amendments be made to the Municipal Act and the Milk Control Act to permit the setting up and operation of municipally owned distributor plants with power to deal in all dairy products and that in so doing such distributor operations be made liable to Municipal and Provincial taxes in like manner as other distributors.

Finally, it is recommended that consideration be given to supplying milk to school children in primary and secondary schools through public assistance at cost, or in cases of necessity free of charge; and that in considering the same, attention be paid to the provisions of the National Milk Scheme in Great Britain.

Recommendations in Respect to the Cheese Producers

In respect to the cheese producers, discussion of their problems in the Chapter relating to them does not give rise to any special recommendations, but it would seem essential:

- (a) That they take steps which should be implemented in any way possible by the Department of Agriculture to improve the quality of their product and to extend a further and more effective control over its final marketing.
- (b) That steps should be taken to familiarize the industry with the provisions of the legislation, both provincial and dominion, providing for financial assistance with respect to the erection of amalgamated factories.
- (c) That the cheese milk producers give most serious consideration to the formation of an over-all marketing scheme.

Recommendations in Respect to the Cream Producers and Creameries

The general recommendations made in respect of Transportation would apply with equal force to the transportation of fluid cream used for butter-making. The recommendations already made in respect of an over-all marketing scheme apply with particular force to this large group of producers.

No doubt any experience gained in the marketing of cream under the Farm Products Marketing Act should be most valuable and should be studied carefully.

Specifically the only additional recommendation I wish to make is that every effort be made by producers, creameries, and through governmental assistance, to greatly increase the volume of production per plant.

Recommendations in Respect to the Condensaries

Many of the observations made in respect to the distributors of fluid milk apply to the manufacturers of milk. It is recommended:

- (a) That the Manufacturing Milk Board be given clear authority under the Milk Control Act to require standard methods of accounting, and full and regular information from the manufacturers in connection with their operating costs and profits.
- (b) That where such operations in the province represent branch operations of larger concerns with headquarters outside this jurisdiction, a division be made between the business done within and without the province; and to effect this, regulations be made standardizing the accounting methods of these firms.
- (c) That along with the study of producer costs in other branches of the dairy industry there be included a study by the Milk Control Board of the costs of producers who produce milk for concentration.
- (d) That the producers of milk for concentrated purposes be encouraged to undertake the formation of co-operative processing plants as a means of ensuring that these producers receive the full competitive price for their milk and that consideration be given to providing public assistance for such projects.
- (e) That the Milk Control Board investigate the present prices paid concentrated producers for their milk, and in view of the financial situation of the manufacturers, consider whether price increases to producers beyond those already granted should not now be enforced.

CHAPTER II

Introduction and Procedure

At the outset it was impossible not to be impressed by not only the importance of the product under investigation but also the substantial nature of the industry concerned. It is interesting to note that in 1946, the most recent year for which Dominion Bureau of Statistics figures are available, the dollar value of milk production from Ontario farms was set out at \$154,981,000. It is estimated that upward of 16,000 producers regularly produce milk for fluid consumption in cities, towns and villages of the Province; that 76,000 producers produce cream for butter; that 23,500 produce milk for cheese and there is an additional 14,000 producing milk for manufacture of concentrated products.

In addition to those engaged in primary production there are approximately 20,000 persons engaged in the processing, transporting and distributing of milk and milk products, including butter, cheese, condensed and evaporated milk and other dairy products.

THE PRODUCT ITSELF

Evidence adduced before the public hearings of the Commission made it apparent that milk is a vital food to the public. In this connection I had the evidence of two eminent authorities, that is Dr. L. B. Pett, of Ottawa, and Dr. F. F. Tisdall, of Toronto. In the course of his evidence, which is set out in Appendix 2, along with that of Dr. Pett, Dr. Tisdall stated:

“Milk contains approximately 3½ per cent fat, approximately 4 per cent carbo-hydrates or milk sugar, and about 3½ per cent protein. In addition, it contains a large number of vitamins and practically all the minerals essential for life with the possible exception of iron and perhaps iodine, depending on the pasture. It is the most perfect single food we have today, there is no other single food that contains as many nutrients essential to life as does milk. Now we want to know if all these nutrients can be replaced by other food sources, because if they can be replaced, and replaced economically, then milk is not on any pinnacle, because we could simply take perhaps three or four other foods and replace it, but I would say from our studies, in every single study we have done concerned with nutrition, our respect for milk goes up.”

It is also amply apparent from the evidence before the enquiry that to a large extent at least the ideas of the nutritional authorities have taken hold of the public and they are beginning to appreciate the importance and necessity of milk as an essential article of food.

PROCEDURE ADOPTED IN RESPECT TO THE ENQUIRY

Having regard to the importance of the subject matter of this enquiry, the widespread public interest, and the fact that an opportunity was being afforded to review for the first time the functioning and administration of the Milk Control Act in the Province of Ontario, I considered it essential to give every citizen who wished to do so, an opportunity to express his or her views on these matters, and also to ensure that geographically and

economically speaking, the local problems of all sections of the Province from the viewpoint of producers and distributors be fully examined.

For these reasons the terms of reference were widely advertised throughout the Province, together with a proposed itinerary of times and places of hearings, and all interested persons were invited to notify me of their desire to give evidence and to submit in advance a brief of the evidence they proposed to give.

In selecting the places for holding public sittings, consideration was given to the density of markets, and any special climatic features that might effect costs and conditions of production and distribution. In the result, it was determined to sit at Port Arthur, Fort William, North Bay, Belleville, Ottawa, Hamilton, London, Windsor, and Toronto. No criticism of the places selected was offered to me, although I specifically invited objections and alternative suggestions.

Forty-two days were required to take all the evidence, and during the course of the sittings, sixty-seven briefs were submitted and one hundred and fifty-four witnesses heard. The names of the persons and organizations submitting briefs and the names of the witnesses heard are attached as Appendix 1.

The evidence extends to 5,681 pages.

29 Witnesses appeared as Distributors.

70 Witnesses appeared as Producers.

39 Witnesses were consumers or represented consumers, for example, the Mayors of the Cities of Toronto and Hamilton, and the City Solicitors of Ottawa and Windsor.

6 Witnesses appeared as milk haulers, and 12 expert witnesses were heard on subjects ranging from the applicable legislation to nutrition.

CHAPTER III

Milk Control Board

The second item referred to me, namely the scheme contemplated by the provisions of the Milk Control Act, R.S.O. 1937, Chapter 76, as amended, and the administration thereof by the Milk Control Board precedes chronologically any examination of the milk and dairy industry as it exists today, and affords a background of some value in reaching conclusions regarding the circumstances in which the industry exists at present. The second item of reference is therefore dealt with first.

Origin of Legislation

Milk control legislation was a product of the serious business depression of the 1930's. As Dr. Roland W. Bartlett of the University of Illinois has pointed out in his valuable study of the milk industry in the United States, such legislation was primarily a result of the economic depression between 1933 and 1940. In the United States, during that time, some 26 states and the federal government enacted legislation to fix prices which consumers should pay for milk. In Canada, in the 1930's, most of the provinces enacted similar legislation to the Milk Control Act.

In Ontario the industry had by 1933 become completely disorganized. At that time, apart from considerations of continuing supply and maintenance of quality standards, the consuming public did not need protection or consideration by the industry, but the industry, including both producers and distributors, very badly needed protection from the consuming public which was consuming milk at retail prices substantially below any estimated cost of production at the farm itself.

The London, Ontario, market at that time illustrates this situation. The price structure which existed there for a number of years prior to 1932 had by 1933 almost entirely disappeared. Prior to 1932, there had been a recognized price structure ending with a consumer price of 11 cents per quart. The producer was being paid \$2.12 per hundred weight of milk. Early in 1932 the price had decreased with great rapidity and by April of that year the farmer was getting \$1.30 per hundred weight of milk and the consumer was paying 9 cents per quart.

Competition at the distributing end of the industry was extremely keen and practices such as the giving away of premiums with milk and the giving of a period of free milk to new customers were common.

While from an entirely short range view these practices may have been very satisfactory to the consumer, over any long range view they were ruinous not only to the dairies but to the farmers who produced the milk.

The situation became so serious that the then Minister of Agriculture, the Honourable Thomas L. Kennedy, appointed a departmental commission of inquiry which was asked to conduct an investigation for the following purposes:

- (1) To determine the causes of the extremely low price of market milk in the city of London.
- (2) To determine if this low price has resulted in any deterioration of the quality of milk sold in the city of London.
- (3) To make recommendations regarding improvements in the situation.

Those making the enquiry consisted of a number of gentlemen representing various divisions of the industry. The city council of the city of London was also represented.

By the time the committee had gotten under way the situation had deteriorated still further and a brief excerpt from the majority report to the Minister succinctly sets out the situation:

"In 1932 the mutually agreed price between producer and distributor was set at \$1.30 per hundred pounds to the producer and a retail price of 9 cents per quart and 5 cents per pint. This price prevailed from August 26, 1932, to December 1st, 1932. During the last half of 1932 various abuses crept into the trade, such as: First—the giving away of free milk for a time as an inducement to new customers; and Second—the giving of premiums. This gradually precipitated a price war which became so disturbing to the general trade that a number of the distributors were forced to reduce the price to the consumer, thus forcing down the price to the producer. The price to the producer at that time was forced down by abnormal competition to \$1.00 per hundred pounds and most of the pasteurizing distributors,—estimated at two-thirds of the trade and volume,—sold at 7 cents per quart and 4 cents per pint, with the balance of the trade selling at from 5 to 6 cents per quart at the present time.

"It is reported that some distributors have paid for part of their milk on a surplus price basis, some of which was said to have been bottled and sold as liquid milk instead of being manufactured into by-products. This surplus price is variously estimated at from 85 cents per hundred pounds to as low as 50 cents per hundred pounds."

It is interesting to note that the majority of the committee suggested a fixed price as a result of their enquiry, to the producers, and also a fixed price to the consumer. This was objected to by the member of the committee representing the city council of the city of London, chiefly, I think, on the ground that he wanted as cheap milk as possible for the consuming public, regardless of the cost of producing and distributing it.

It was stated by witnesses during the present enquiry that in 1932 and 1933 other markets throughout the province were experiencing similarly depressed and demoralized conditions, and finally in the year 1933 the Milk Producers' Association approached the provincial government and asked for an act to regulate the fluid milk business, and to bring order out of the chaotic conditions prevailing.

The situation was not peculiar to Ontario, as apparently at the same time a similar situation obtained in Manitoba, Alberta and Quebec, where similar statutes were shortly afterwards enacted.

It is only necessary to read the report on the Reorganization Commission for Milk under the chairmanship of Sir Edward Grigg to realize that very similar conditions also obtained in Britain. These conditions were, of course, the result of a world-wide period of economic depression and distress. The whole price structure of the industry was in a state of complete confusion and in the result the first Milk Control Act introduced at the 1934 session of the legislature of the province of Ontario passed, I am advised, by the unanimous vote of the house.

I have emphasized the conditions which give rise to the first Milk Control Act, because in my view they have influenced the administration of the system ever since. One has only to read the provisions of the first Act, which was substantially amended in the years immediately following, to realize that what was desired was machinery which would permit the industry

to organize itself on some rational basis including a rational price structure, bearing a reasonable relation to costs of production and distribution.

The matter was primarily looked at from the viewpoint of the industry itself which was asked through the agency of the Milk Control Board to establish itself on a proper basis. In view of the conditions which prevailed at that time, little thought seems to have been given to the position of the consumer, who quite naturally was taking advantage of the situation to obtain milk as cheaply as possible, and who was, in fact, obtaining it at prices at which it could not possibly be produced and distributed if costs were to be met.

As the present Chairman of the Milk Control Board said to me in his brief:

"It can be fairly stated that the main object of the first and succeeding Boards has been to bring about the orderly marketing of milk, that is, to apply the Act in such a way as to provide conditions under which the various milk markets of the province will function effectively, economically, and in the general interests of society. To attain this main objective, the various Boards, each in their turn, have striven to improve the economic position of the producers consistent with a fair price to the consumer."

In one sense I think it can be said that the various Chairmen of the Milk Control Board have represented the public interest in carrying out their duties, and there is no evidence before me which would suggest that they have attempted to do anything else. Nevertheless, I think it can be fairly said that both from their composition and by their actions the various Milk Control Boards since 1934 have primarily devoted their attention to setting up and maintaining a stabilized and rationalized industry, and that the special interests of the consumer have not been given the weight later experience might have suggested was desirable.

Insofar as the efforts of the Board in respect to the industry are concerned I think it can be said quite fairly that the objectives with which this plan of regulation commenced have been realized. It was quite apparent on the hearings before me that the Producer and Distributor associations had reached an accord and had closed their ranks in the face of a critical public who wanted milk at prices they deemed unfair and insufficient.

In Appendix 4 and 5 there is set out the original Milk Control Act with amendments and changes down to the present time.

COMPOSITION OF BOARD AND GENERAL POLICY

While nothing was said in the original Act as to the composition of the Board in respect of the fluid milk market, the Board has been composed of a representative of the producers, a representative of the distributors, with a Chairman appointed by the government of the day, who has generally been a permanent civil servant.

In administering the Act the various Boards have consistently taken the stand that the producers and distributors should endeavour to arrive at prices and trade practices on a voluntary basis. To bring this about the Board has encouraged and recognized local and provincial industrial associations and the Chairman of the Board was able to tell me that this policy has resulted in practically all the cities and towns in the province having local producer and distributor organizations affiliated with central organizations representing their interests.

The organization representing the producers is the Ontario Whole Milk Producers' League, while the distributors are represented by the Ontario Milk Distributors' Association.

During the eleven or twelve years in which the Act has been in operation the industry has for the most part functioned in accordance with this policy of self-regulation.

Up to a short time before this investigation commenced, the Board proceeded on the assumption that it had power to fix prices under section 4 of the present Act, and as a result of this belief, up to the fall of 1946, there were a number of price orders by the Board, the majority of which were the result of producer and distributor agreements. A record of the orders issued by the Board is set out in Appendix 6.

In instances where voluntary agreements were impossible the Board arbitrated the dispute and issued arbitrary orders on producer and consumer prices.

As the years have gone on there has been apparently less tendency to agreement between the producers and the distributors, and as Appendix 6 shows, the number of orders imposed by the Board on producers and distributors has increased. This was particularly true after the outbreak of the recent war and reached its height in 1941. It was apparently adjusted by the year 1942, when the industry had settled down to the conditions under which it had to operate, and by which time the producers and distributors had each realized the position of the other in respect of costs.

According to the evidence of the present Chairman of the Board, in addition to the Board members the staff consists of a general secretary, an office staff of three, and two groups of field men aggregating ten in all.

The work of the first of these groups consisting of eight men consists of check testing to see that the regulations under the Act are observed with respect to weighing, sampling, butter-fat testing and the correctness of payment for milk supplied by producers.

The second group makes specialized investigation into irregularities of a major nature reported by the field men in group one or arising from complaints by either producers or distributors.

Against this should be put the fact that there were licenses issued in the year 1946 to 635 regular distributors, to 346 producer-distributors and to 83 milk peddlers. The possibility of doing even an adequate spot checking with a staff of this size in a field so large seems to be asking more than can be reasonably expected.

I think, therefore, it can be fairly said that at no time has the Board had sufficient staff to enable it to adequately investigate either the cost of producing fluid milk on the farm or the cost of distributing the same by the various dairies, and apart from some spot checking of financial statements of distributors for the Board by auditors it was not until the year 1946 that a serious attempt was made by the Board to arrive at any conclusions in this respect. The previous negotiations and agreements as to price, which the Board confirmed, and the orders which the Board made as to prices, were based on representations to them by the producers, who, in my opinion, at no time have had any adequate knowledge of their costs, and by the distributors in the markets concerned, who probably had a very good idea of their costs. The situation as to knowledge of costs will be dealt with in greater detail later in this report.

In saying this, I do not intend to criticize the administration of the Board

which I think has done the best it could with the facilities afforded it, but it is amazing that the system has functioned as well as it has.

As I think will be demonstrated later in this report, it is quite obvious that farmers as a group, or as individuals, do not know their costs of production, and there is the widest variation in costs as between individual producers.

As appears by the first report of the Milk Control Board for the year 1934, after the setting up of the Board, producers and distributors in the various markets of the province began to take advantage of the powers given to the Board and price agreements in many cases were arrived at. Even in the early stages of the Board's work, wherever possible the Board simply approved agreements between producers and distributors and by 1946 as appeared from the evidence submitted before me, it could be fairly said that most of the principal markets of the province were covered by agreements in which prices paid to producers and prices paid by consumers are fixed either by agreements approved by the Board or by Board orders.

While in 1946 some question as to the Board's authority to fix prices under section 4 of the Act was raised by the law officers of the Crown, prior to that time, during the twelve years of the Board's existence a fairly substantial and widespread price network had been built up under its authority over the entire province.

As the Chairman said in his brief to this Commission:

"It can be seen that the Board's policy on prices has been in the main to have the industry on a self-regulatory basis but when an impasse has occurred the Board has used its powers to regulate prices."

ADMINISTRATION OF THE MILK CONTROL ACT BY THE BOARD

It is not practicable to deal with the year by year administration of the Board except the work done during that time, which illustrates certain general tendencies which have developed in the Board's work.

The principal tasks of the Board have been two-fold: Firstly, the exercise of judicial functions, that is, the dealing with the granting and revoking of licenses and the policies connected therewith; and, secondly, the general administrative functions of the Board.

It is proposed to consider these two aspects of the administration of the Act separately.

Despite this separation it is only fair to comment that the administrative policy adopted toward the industry and in respect of it has very frequently coloured the judicial aspect of the Board's work. An example of this is found in the fact that in the opinion of the Board there were too many persons in the distributive side of the industry and in consequence of this it has been the policy of successive boards to refuse new licenses for entry into the business except in cases of most obvious necessity.

In the report to the Minister by the Board for the year 1939 covering work done in 1938 under the heading of "Consumer Services Rendered to the Industry" it was said that the Board had done much to carry out the purpose for which it was constituted, that is, to do—what the industry itself could not do—to bring about a rationalized fluid milk distribution in the Province of Ontario.

One of the results listed under this heading was as follows:

"The consistent use of the Board's authority to refuse to issue new distributor licenses, or to extend the territory covered by existing licenses unless in the Board's opinion such issuance would be in the public interest has done more to rationalize the industry than any other action."

This statement reiterates what is set forth as a definite Board policy in the report to the Minister for the year 1937, where it is stated:

"The general attitude of the Board towards licenses is that there are already too many licenses in effect in most markets of the province and that the issuance of more licenses will react ultimately to the disadvantage of both the producer and the consumer as a result of increased overlapping and duplication of services."

THE JUDICIAL FUNCTIONS OF THE BOARD

As presently constituted the Milk Control Board is an administrative body exercising judicial functions. It must license all persons who directly or indirectly engage in or carry on the business of distributing, transporting, processing or selling milk. To refuse or cancel such a license is to refuse or prohibit the carrying on of business in the industry. The provisions upon which licenses are granted are set out in section 5 of the Act, as follows:

"No license shall be granted to a milk distributor unless the Board is satisfied that the applicant is qualified by experience, financial responsibility, and equipment, to properly conduct the proposed business, and that the issuance of a license is in the public interest."

Section 6 is also of interest, and provides that subject to the provisions of section 5 the Board may refuse to grant or renew licenses or may suspend or revoke licenses already granted after due notice and the opportunity of hearing applications, when the Board is satisfied of three conditions; viz.: the failure to carry out and perform the provisions of certain public statutes relating to milk for human consumption, failure to provide for and continue the proof of financial responsibility, and failure to observe and carry out regulatory orders of the Board made under the Act.

It is provided by section 9 of the Act that an appeal shall lie by way of originating notice from any order or decision of the Board made under section 5 or section 6, to a judge of the Supreme Court, and it is provided that he may receive evidence and give directions for the conduct of the proceedings and may make such order as he deems just. There is no further right of appeal.

The files relating to application to the Board for licenses were made available to me and an examination of them covering years 1934 to 1946, inclusive, reveals the manner in which this function has actually been exercised. Generally speaking it can be said that for the first five years the Milk Control Board was thoroughly engaged in stabilizing the industry and becoming acquainted with the type of problem to be faced with respect to licensing. When the Milk Control Act first came into force in 1934 licenses were issued to all existing distributors and producer-distributors with the exception perhaps of a few very small operators who may not have come to the attention of the Board at once.

In the first few years the Board leaned very heavily on local producers and distributor associations in the matter of licensing existing operators or in dealing with new applications. Certainly, in the first two years the

Board was extremely reluctant to take advantage of the punitive sections of the Milk Control Act when infringements of the Act were clearly taking place. Very considerable effort was devoted to securing compliance with the letter and spirit of the legislation by discussion and correspondence even when it was clear that milk was being distributed without licenses and in open defiance of the Act.

By 1939, however, the Board appears to have felt that it was in a position to consider the industry stabilized and to deal with new applications in what appears to have been a very rigid manner. In fairness to the Board it should be said that the prime consideration in dealing with new applications for licenses seems to have been the adequacy of existing facilities as furnished by persons already licensed. If, in the Board's opinion, the market was already adequately served, licenses were refused as a matter of course. Similarly, if there was any evidence that the applicant was not financially responsible, or proposed to make raw milk available to an area in which compulsory pasteurization was enforced, applications were refused on these grounds.

No criticism is offered of the grounds on which the Board purported to base its decision, but the method of arriving at these decisions cannot in any sense of the word be said to have been judicious and in some instances methods were employed to arrive at a decision which can only be considered as improper.

From the records made available to me, it would appear that no guide was furnished to the applicant as to the type of evidence which he should submit to show public necessity or convenience for the granting of a license to him, with the result that when such evidence was not produced, the Board without hesitation held that in the absence of such evidence applications must be refused.

In some cases notices of the refusal of licenses were given to the applicant without any opportunity being afforded to him to attend and state his case, although such action is contrary to section 6 of the Milk Control Act.

In other cases, applicants for producer-distributor licenses, who would operate in a very small way, have been invited to attend a hearing in Toronto when such was obviously impossible financially for the applicant. This applies particularly to persons applying from the extreme north-western section and other distant parts of the province, for whom a trip to Toronto would involve travelling upwards of 3,000 miles. The failure of the applicant to appear on a hearing after being notified to attend was invariably used as a reason for finally refusing his application.

There is strong evidence in the files to substantiate the impression that where any applicant for a new license was opposed by an existing licensee, especially if such licensee was an operator in a substantial way, that the new applicant was certain of refusal.

In one case an application was made by a person who had been in the distributing business, for a license to commence operations in a substantial community in Northern Ontario. At the time of the application there was only one licensee, a subsidiary of a very large company. The original application was supported by the local authority and the applicant was advised of the approval of his request. Subsequently and within a very short time, affidavits were filed in the office of the Board by an officer of the existing licensed company accusing the applicant of improper practices in his previous business. As far as the files show, no effort whatever was made to examine witnesses making these depositions before the Board, and

the applicant was notified to suspend operations. An employee of the Board was then despatched to the community, and his report shows that, while the witnesses were prepared to state their evidence to this employee of the Board, they did not want to become further mixed up in the matter. His report, however, says that the applicant was highly spoken of, and from all appearances was a reputable person. This employee of the Board then makes the astounding recommendation that the applicant be required to furnish financial responsibility bond in an amount known to be in excess of his capability and far in excess of the normal requirement in order to avoid any suggestion that the Board was acceding to the representations of the existing licensee. This novel suggestion was not adopted by the Board but the application for the license was forthwith refused and the existing licensee remains the sole distributor in the community.

The entire procedure with respect to dealing with applications for licenses should be reviewed and a system instituted which will result in the Board having all the facts before it and in the applicant knowing at the time of his application precisely what he must prove in order to receive consideration for the granting of a license.

In very few cases was any investigation of the local conditions carried out and refusal of licenses seemed to have been almost a matter of course. If the applicant were required to fill out an exhaustive questionnaire with respect to the size of the market, the present facilities and his own financial responsibility and experience in the industry, with his attention specifically directed to the question as to whether or not the market was large enough to support an additional licensee, much of the present unfair method of dealing with this matter would be eliminated. In addition, when the Board was of the opinion that in the absence of further evidence it must refuse the application, then some real opportunity should be provided for the applicant to state his case orally, and not merely to appear to be given such opportunity as seems to have been the situation for the last nine years. In respect to the Board's power to cancel licenses and its power to deal with infractions of the Milk Control Act regulations and Board orders, an examination of the files of the Board indicates that throughout the Board has endeavoured to secure by every possible means short of exercising its full power compliance and co-operation of licensees with the regulations. In those cases in which more drastic action has been taken it can be said that such action was abundantly necessary and appeared to be the only method of enforcing the orders and regulations.

It should be observed that one of the factors that influenced the Board in approaching the problem in this way was that a licensee invariably had a substantial part of his capital and livelihood involved in the business and every effort was made to protect him from the consequences of his failure to observe the regulations.

It is, of course, a matter of great difficulty to disassociate policies of bureaucratic administration from the exercise of judicial functions when they are vested in the same persons. It is nevertheless very desirable that there should be a distinct cleavage between the two. It is perhaps asking too much that the Milk Control Board, in its judicial functions, should be able to look with complete detachment on its administrative policies and practices when it is called upon to deal with the granting or cancelling of licenses or other disciplinary matters within the industry which it is required to regulate. Such a confusion of administrative policy with judicial function is a natural consequence of the practices which have prevailed, but it seems

to me to be in the public interest that in future there should be a division of such functions. One possible solution is to adopt the practice taken under the Insurance Act which provides for the setting up of what is called an advisory board. This provides that the Superintendent of Insurance, when so requested in writing by an applicant or licensee, may nominate an advisory board which in that case consists of a representative of the Superintendent, who is Chairman, and a representative of the other interested parties, mainly the insurers and the agents. If some such similar device could be used by the Milk Control Board with appropriate changes to suit the conditions of the dairy industry, I am satisfied that there would be a much more judicial determination of the problems with which the Board has to deal in this respect, and the whole problem of disciplining and licensing would be dealt with in a more impartial and objective manner.

In my view, it is quite impossible to fairly combine powers of bureaucratic administration with those of a judicial nature in the same person with any hope of dealing impartially with the subject's rights.

THE ADMINISTRATIVE FUNCTIONS OF THE BOARD

Apart from the oral evidence of the Chairman and other witnesses who had been members of the Board, much assistance in valuing the accomplishments of the Milk Control Board is obtained by a perusal of the annual reports of the Board to the Minister of Agriculture. These reports cover the period from the time of the establishment of the Board down to the present time and have substantially corroborated the impression I gained from the other evidence as to the scope and general nature of the Board's activities.

It must be remembered that the Board was constituted, as I already indicated, in a period of stringency, when the position of the producers for the fluid milk market was nearly desperate and the industry in general was completely disorganized. It must also be realized that in all, insofar as personnel is concerned, there have been nine different boards, and that while there is a fairly continuous thread of policy through the entire period of operation, the policies and aims of the Board have undoubtedly been influenced from time to time, as one would expect, by general government policy. It should also be noted that, apart from the Chairman, who theoretically is independent, the Board is composed of individuals actively engaged in either the production, distribution or processing of milk.

The view taken by the Board in its second full report, which was made in the year 1936 and covered the year from March 1935 to the succeeding March, indicates, I think, the basic policy pursued by the Board since that time and is worth setting out. At that time it was said:

"In all its work the Board has kept in mind the primary purpose of the legislation creating it, and has worked steadily for improvement of the position of the milk producers so long as such improvement could be obtained without undue hardships being placed upon the other two interested parties, the milk consumers and the milk distributors."

That this was recognized is evidenced by a further quotation in the annual report of the Chairman of the Ontario Whole Milk Producers' League, given at the Annual Convention of the members of the League:

"The work of the Milk Control Board of Ontario, with the added strength given it by the amending of the Act, has tended to stabilize the

market and has eliminated many of the evil practices which, without it, would have broken not only the local market but the whole provincial structure."

The Board was able to report that as a Board of referee or arbitration it had avoided difficulties in several markets, and from the state of chaos existing in the industry in 1933 there had been a change to a state where reasonable order and prices had been established in many markets on a fairly satisfactory level.

This was accomplished by the Board pursuing its work along four definite lines:

- (1) The licensing of milk distributors.
- (2) The bonding of milk distributors, who purchased their supplies of milk from milk producers.
- (3) The approval of agreements arrived at between producers and distributors.
- (4) The handling of certain miscellaneous problems which arose from the operation of the other three policies.

It was quite obvious that what was being done was to force the industry to set its own house in order, and even though it was also obvious to the early Boards that certain economies in the operation of the industry might improve the situation, even at that time no great pressure was exercised on the industry to bring this about. As was pointed out in the first report, one of the most important expenses in milk distribution is the cost resulting from the loss of bottles, and it was suggested that if bottles were charged for, much of these bottle losses would disappear. No definite action was taken, however, to bring this about.

It also appeared at that time that the Act needed certain amendments to give the Board somewhat larger powers and substantial amendments were passed at the 1935 session of the legislature. The original Milk Control Act and the various amendments that have been made are set out in Appendices 4 and 5.

LICENSING FROM THE ADMINISTRATIVE SIDE

Initially it was the view of the Board that there were too many milk distributors in the business, and in consequence of this belief new licenses were issued very reluctantly. In the year from March 1935 to March 1936 some 1,624 licenses had been issued to milk distributors.

The view was taken that public interest coincided with the interests of the industry as a whole, and that if there were too many engaged in the industry it was considered part of the Board's function to remedy this situation.

It had been provided by an amendment to the Act in 1934 that new licenses should be granted to milk distributors only if the Board was satisfied that the applicant was qualified by experience, financial responsibility and equipment, to properly conduct the proposed business and that the issuing of a license was in the public interest. It is, I think, arguable, whether an overcrowded industry insofar as distributive outlets are concerned is in the public interest or not, but for better or for worse, the Board apparently took the view that it was not and has clung to that point of view ever since without attempting to force a reduction in the number of distributors. This is emphasized time and again in the reports of the various Boards and as the section of this report dealing with the exercise of this function, which is a judicial one, indicates it has been carried on in a manner which precluded any real consideration of the merits of individual applications. The

result has, I think, been actually to improve conditions in the industry. It has, of course, also substantially reduced the number of competitors within the industry itself. There are approximately 170 communities with a single distributor licensed. For the most part these are very small, but 29 communities have populations between 1,000 and 2,000, six have populations from 2,000 to 3,000, and Copper Cliff with a population of 3,732, and Sturgeon Falls with a population of 4,576, complete the list of larger communities where a complete monopoly exists.

In 1936 the licensing of milk distributors was done on a basis of a division into three classes which are known as regular distributors, producer-distributors and milk peddlers. The terms are reasonably self-explanatory; the regular distributors being those persons, partnerships and corporations, selling milk commercially; producer-distributors being those who not only produce the milk but later on distribute it; the milk peddlers being the small class of persons who have grown up mostly during the depression years and who purchased milk as a rule from other processors and distributed it personally along limited routes.

By March, 1936, the Board was able to say that the licensing of milk distributors in the province selling more than 20 quarts a day was practically complete, and that 99½ per cent of the distributors had complied with the bonding requirements under the Act.

Exceptions to this policy were those distributors whose payment to producers are on a weekly basis or who, at no time, owed producers more than \$100.

The list of licenses issued appears in detail as Appendix 3.

While the Board initially took the position that, under the Act, it had no authority to actually set milk prices except when called upon to arbitrate a price dispute, it nevertheless had authority to approve all agreements between producers and distributors, and by 1936 some seventy markets in the provinces had agreements which were so approved. This included most of the larger markets in the province and many of the smaller ones.

Also by 1936 the provisions of the Act relating to consumer representatives from municipalities concerned in any particular market had come into being, and the Board seemed to feel that each agreement was considered in the light of fairness to all persons concerned, including consumers as well as distributors.

CONSUMER REPRESENTATION

From the evidence before me I would be somewhat dubious as to whether consumer representations were as effective as these reports would indicate. Every consumer representative that I heard, including the Mayors of Toronto and Hamilton, gave me the general impression that as a rule the Board did not disclose to them sufficient facts to enable them to come to any intelligent conclusion on the problem with which they were asked to deal. Confidential information in the possession of the Board as to the position of both producers and distributors was apparently not disclosed to them, and in my view the intention of the Act in giving consumer representation has been largely defeated by the administrative policies adopted, and has in fact been an empty procedure.

GENERAL PROBLEMS OF ADMINISTRATION

Quite early in its administration, and definitely by 1936, the Board had established a system of special audits of distributors' books where there

was some suggestion of error or under-payment to producers, and in that year, in collaboration with the Ontario Department of Health, a scheme was devised to create better sanitary conditions in the plants of milk distributors.

Up to this point the achievements of the Board had been concerned chiefly with the bonding provisions of the regulations under the Act and the auditing in cases where it seemed indicated, with the result that producer losses from unpaid accounts were reduced to a minimum, and owing to rationalization of the principal markets price improvements gained were maintained for the benefit of producers.

As early as 1936 it was realized apparently that some effort should be made to find out accurate costs of producing and distributing milk and to provide for more complete and uniform records in the dairy plants. I will allude to this later on but I am simply pointing out here that the necessity of this was realized as early as 1936.

It was also recognized that some steps should be taken to stop uneconomic practices such as special deliveries, small wagon loads, overlapping of distributor service and bottle wastage. However, none of these uneconomic practices were dealt with until the year 1942 under the stress of war conditions, and some of them have not yet been dealt with.

As will appear from the various reports of the Milk Control Board, while the need for these things was recognized periodically, the industry was apparently expected to bring them about itself and it failed to do so. No sufficient pressure was exerted by the Board to establish and maintain accurate information as to costs or any uniformity of accounting practice among distributors, and indeed such records are not yet available. In the same way no special pressure was exerted by the Board to deal with such matters as overlapping of distributor service, which matter remains to be dealt with.

I mention these things merely to emphasize the point that the Board functioned along limited lines and that what it attempted to do was to let the industry rationalize itself. It did not attempt to step in and force improvements before the industry was ready to accept them.

It can be argued that this is a sound policy, and with the experience of the last twelve years before me I am somewhat hesitant to condemn it entirely. However, in the future if cheaper milk is to be sold in Ontario, greater pressure along these lines will have to be exercised by the Board or whatever governmental agency is regulating the milk industry as a whole.

By 1937 a complete system of licensing and bonding of distributors was established and there were price agreements in effect in all the larger markets in the province. The position of the producer, which was the initial concern of the Board, was now on a much sounder and more substantial foundation than it had been before the Board commenced its work. It was said that farmers' losses from unpaid milk accounts had been practically eliminated, that producers were no longer compelled to purchase stock in a dairy, and practices which produced disorder in the distributing end of the business, such as the giving of premiums, had been ended; that increased overlapping of milk trucking routes had been halted, and when cost increases arising from changes in the feed situation made the position of certain producers untenable, the relief was affected through the mediating agency of the Board, without a large increase to the consumer.

About 1937 more attention was paid to the situation in respect to the trucking of milk from the farms to the distributing centres, which is a very serious item in connection with producer costs, and in the Toronto market

a Milk Transport Committee was set up with the idea of preventing duplication of service and overlapping.

Apparently in that year some sort of attempt was undertaken to make a study of the profit and loss statements of a selected list of distributors to reach conclusions as to costs of operation, but no very significant conclusions were reached. Bottle losses were considered and it was suggested that legislation preventing the use of one dairy's bottle by another might be enacted. The economy of a standard bottle had not yet been a matter of consideration.

The following quotation from the 1937 report may indicate something of the thinking of the Board in regard to the industry at that time. It was stated: "that the control of the milk business should not be carried to the stage where business initiative is prevented, and the question of consumer prices was considered. It was concluded, however, that the present system of control had eliminated many of the abuses in the industry and that there were still many uneconomic practices which could only be corrected by a fairly rigid control."

In May, 1938, the present Chairman of the Milk Control Board was appointed and his first report as Chairman of the Board presents one of the most complete and effective accounts of the Board's work and policy available. At that time the Board had been in operation for some five years and its lines of policy were fairly well defined.

There is nothing in the evidence before me, and I heard not only the present Chairman but others who have been members of the Board from time to time, to suggest that there has been any great change in policy in the lines defined at that time and discussed in the report of the Boards for the years 1937 and 1938. The basic control exercised by the Board was that of licensing. In respect of this it was observed, and I do not think the view is any different today, that:

"The ridiculous extension and consequent overlapping of distributive services which was so evident prior to 1934 had been halted and some improvement secured."

It was stated that the Board had refused to issue any new licenses, or to extend the territory covered by existing licenses unless it could be proved that the service the applicant intended to give was needed in the public interest, and in 1938 the number of licenses issued as a result of this policy was some 223 less than those in effect in the previous year. It was stated that few licenses had actually been cancelled, but that licenses surrendered through amalgamation or failure had not been replaced.

It has also been considered that the bonding of milk distributors is one of the major responsibilities of the Board, and while such a system is not a complete guarantee to producers against loss under all circumstances, it has unquestionably helped them. I am advised that since the Milk Control Board came into being, that as a result of the bonding provisions, producers have been saved directly a total of \$55,000.00. The chief value of bonding is said to be that it not only prevents irresponsible operators from commencing operations as milk distributors, but that in effect the bond makes the producer a preferred creditor and often a personal creditor of the dairy operator, and that in practice it has been found that the dairy operators make every effort to meet their obligations to their producers rather than to permit the bond to be called upon. In this respect see Appendix 7.

It is a tribute to the arrangement that while the coverage by the bond is limited and covers only one payment period plus an extra period of approximately two weeks, the general result has been so satisfactory.

PRICE FIXING

From 1936 to the latter part of the year 1946 the Board considered that it had the power to fix prices pursuant to section 4 of the Act. As previously suggested, serious doubts have been thrown upon this power, but if the milk industry is to be controlled in any measure it would seem essential to me that the Board should have such power, although there may be many times when it should not be exercised. In any event, since the question had not been raised up to that time, the Board proceeded on the assumption that it had such power and in consequence milk marketing agreements were approved in most of the fluid milk markets in the province, and also in most cases between producers and processors in the concentrated milk field.

At the end of 1937 it was said that the milk produced on about ten thousand Ontario farms was sold to consumers at regulated prices in all the important urban centres throughout the province.

At the end of 1938 there were some 60 approved agreements in force and there were 31 unofficial agreements in force which actually resulted from the authority which the Board wielded.

The Board also carried on a system of check-testing, the Department of Agriculture staff of milk check-testers being under the supervision of the Board. This was combined with a system of spot auditing with respect to payments to producers and apparently some attention was being given by the Board to the rationalization of milk transport.

The Board's general policy towards the industry, upon which I have commented before, has been, I think, frankly to bring about a rationalized distribution of fluid milk in the province of Ontario, and wherever possible this has been left to the industry itself to work out. In doing so the Board has not brought pressure on the industry to effect improvements which might drastically improve the efficiency of the industry, but has merely urged these improvements and changes on the industry with the hope that those engaged in it would themselves adopt them. The Board's administration may be fairly summed up by saying that it has been primarily concerned with creating a stabilized milk price structure in the major milk consuming centres of the province, to which end the economic position of the producers has been a prime consideration. Unquestionably some attention has been paid to the consumer position in the matter, although it appears to me that consumer representation has not been a very effective factor in the Board's deliberations.

By a system of check-testing of milk and auditing, payments to producers have been kept at a reasonably accurate level; by the bonding of milk distributors, producers have been given a further protection. In its attitude to new entrants to the business the Board has done much to cut down what appeared to be the overcrowded position among distributors and it apparently has taken a consistent position that it is not in the public interest to allow fresh entries into the business. The way this policy has operated is commented upon in a previous section of this report dealing with the judicial functions of the Board.

This stabilization of the industry has also been effected not only by fixing the price paid to the producer but by fixing the retail price at which the distributor can sell to the public. By these means the distributors have known precisely what their margin was and they have been relieved of the cost of competing with price-cutting competitors. In respect to the position of the producers, the fixed price has given them a more stable position as they now know that the distributor cannot purchase milk more cheaply from some other producer. Many other features which might

ordinarily be evidence of competition between distributors, such as the giving of premiums, cutting of prices and so on, have, as a result of these policies, been made illegal.

Trade associations have been encouraged and the Board has leaned heavily upon them, and while it is admitted that neither the producers nor distributors associations are entirely representative, the Board has apparently been satisfied to lean on them in the rationalization of the industry as if they were in that position. The matter is fairly summed up in the 1938 report in the following words:

“In other words, it is the Board’s opinion that the principle of the trade doing everything for itself that it could do is the correct one; and that the Board’s place should, increasingly, be to carry on only those activities that the trade finds itself impossible.”

In later years, and with the coming of the war, conditions changed somewhat in that there was greater pressure on both producer and distributor because of the fact that their costs began to rise. By the end of 1941 price control came into operation on a dominion-wide basis, and it is stated that the milk industry was then in a position where production costs, plant costs, and distribution costs had materially increased without comparable increases in the price of the product sold.

ECONOMIES IN TRADE PRACTICES

Under the pressure of this situation and initially at the instance of the Wartime Prices and Trade Board, certain economies which had been discussed by the Board since its inception, but which had never been acted upon by the industry, were adopted, apparently with general consent.

The changes were worked out by consultation with the distributing end of the industry, and the following table sets out exactly what was done:

“July 1, 1941:

Special deliveries eliminated.

February 1, 1942:

- (a) Cream sales limited to two grades.
- (b) Cream containers limited to two sizes.
- (c) Store returns eliminated.
- (d) Delivery service limited to one per day and to regular wholesale accounts.
- (e) Special bottle caps eliminated.

July 3, 1942:

- (a) Charge milk bottle made universal.
- (b) Retail sales established on a cash basis.
- (c) Wholesale credit sales reduced.”

The Board also found itself in the position, where, as it expressed it in one report, it had a new field of service, namely, the interpretation to the Wartime Prices and Trade Board of the opinions and needs of the producers and distributors, and in turn the interpretation to the industry of the rulings and opinions of the Wartime Prices and Trade Board.

In 1942 subsidies were paid by the Dominion Government, and this added greatly to the work of the Board’s field staff. This additional work was done without additional staff.

Possibly one of the best ways of setting out the sort of work the Board did is to take what they themselves set out in their report for the years 1944 and 1945. These reports show the extensive work of inspection and payment checking carried on, and are as follows:

	1944	1945
Milk samples tested	29,156	25,397
Errors corrected	408	358
Value of errors corrected		\$1,922.49
Periodic milk receiving reports: (showing methods used for weighing, sampling, testing, etc.)	375	388
Periodic milk payment reports: (showing date and accuracy of payment, statements used, etc.)	876	860
Periodic reports on producer-distributor operations	353	
Miscellaneous visits at farms		175
at plants		919
others		201
Special complaints investigated		202
Mileage travelled	100,532	144,828
In addition to the routine inspection work shown above, a great deal of detailed auditing of producer payments was completed:		
	1944	1945
Payment checks made	772	722
Errors corrected, Number	45	39
Value	\$4,893.25	\$11,208.79
Producer subsidy claims checked	905	698
Errors corrected, Number	56	13
Value	\$428.72	\$527.54
Consumer subsidy claims checked	982	569
Errors corrected, Number	72	24
Value	\$4,284.83	\$1,446.88

GENERAL OPINIONS AND CONCLUSIONS

It is apparent, I think, that the Board set itself certain limited objectives and that in a fair measure these have been achieved successfully. Problems affecting the economies of distribution and the necessity of ascertaining the actual costs of distribution were fully recognized by the Board, but even yet, I think, it may be fairly said that no comprehensive study has been set up which affords a basis for accurately and readily determining these important facts.

Similarly, the position of the producers is equally obscure. Apart from the studies made by Mr. H. R. Hare, and which were concluded in 1939, the Board has little information, in my opinion, as to actual producer costs.

The result of this situation will be gone into more thoroughly in the chapters dealing with the position of the producers and the position of the distributors later in this report. Nevertheless, if controls are to be exercised or enlarged, it is surely essential to find out, as a basis for any price determination, what the actual costs involved are.

This statement is not necessarily a criticism of the Board as it presently exists. It may well be that with the staff and equipment at its command, effective studies of this sort were not practicable.

It would seem to me, however, very desirable that in future they should be undertaken.

Similarly, if the public are to obtain, as I think they are entitled to obtain with such a vital product as milk, a good product at the cheapest possible

price, it is desirable that in an industry in which competition has been practically eliminated by government regulations, any further steps which may tend to cheapen the costs of handling the product should not merely be suggested to the industry but should be demanded of them as part of the price they pay for the protection they are receiving.

As will appear from the chapter on the position of the distributors, the accounting practices in the distributing end of the fluid milk industry are varied and in many cases obscure. If prices are to be fixed to the public, it is surely desirable that some uniform system of accounting should be pressed on the industry, which will enable the government agency regulating the industry to readily understand the position at any time when it is deemed necessary to have such understanding.

These, however, are matters which possibly the Board should now enlarge its policies to include. In summarizing its work and administration to date, I am of the opinion that while a fairly rigid industry has been set up to which entry by outsiders has been generally denied, the rationalization of prices which was hoped could be achieved when the Act was passed in 1934 has in the main been realized. Prices much more satisfactory than those previously obtaining have been obtained for producers. Steps have been taken which enable them to be reasonably sure of payment for their product and the price of the product to the public has been fixed to the distributor so that he knows with some certainty the spread on which he has to operate.

As I stated before, the number of persons in the business has been drastically curtailed and for practical purposes new entries have been eliminated.

As will appear from the subsequent chapter on the regulations affecting milk, fluid milk as a food product sold to the public has become virtually standardized, and in the result I think it can be said that the only field of competition left within the industry is one concerning the service which they can render to the public.

These results have been achieved, not by forcing them on the public, but by a continuous pressure which apparently at no time has become too insistent, and in the result the present situation has been achieved primarily by agreement of the larger part of the industry itself.

In view of the present costs of fluid milk, however, it may be questioned whether this process of letting nature take its course can be pursued with the same devotion, and it would seem to me that the work and scope of the Board should now be liberalized and enlarged.

To date the prices arrived at both for producers and distributors have been candidly guess work. The fact that the guess work has been moderately successful does not, I think, alter the fundamental nature of the situation. To illustrate, it became apparent quite early in the enquiry that there is a very great variation between the costs of various producers. These arise from many factors, such as crop growing conditions, fertility of the producers' farms, cost and efficiency of labour, weather conditions insofar as they affect feed grain supplies on the producer's farm, efficiency of herd management, costs of purchased feed, and the geographic situation in which the producer finds himself in relation to his market. It is obvious, I think, that the best that can be done in the way of fixing prices for the producer, is to attain a figure which will give an efficient producer a reasonable reward for his efforts but will still encourage the not so efficient producer. This is essential if a continuous and adequate supply of fluid milk is to be obtained in any market.

What has to be done of necessity is to fix an average price taking costs

on a wide scale and finding a middle price somewhere which gives a reasonably efficient farmer a fair return.

It was quite apparent from the evidence before me that despite the efforts of producers to assess their costs, in many cases such costs were prepared under tutelage for the purposes of the enquiry, and that certainly before the enquiry the farmer in question had no real idea of the cost of producing one hundred pounds of milk. There is undoubtedly an obligation on a class of producers whose price is fixed on a basis which will give them a fair return, to produce their product as economically as possible, if they are going to receive the continued protection of government authority. It would be desirable if, as a class, producers knew more accurately what their costs were.

As will appear, however, in the section of this report dealing with producers, the difficulties of dairy farming in the last five or six years have been enormous. Costs have been constantly fluctuating and on the whole have been steadily increasing. Nevertheless it is, I think, fair to say that neither the Milk Control Board nor the individual producers at any time have had sufficiently accurate information on which to base any opinion as to cost. As will appear later, certain very valuable studies were conducted up to the outbreak of war under the auspices of the Dominion Department of Agriculture, by Mr. H. R. Hare, of that department, and his study of four years milk production in Ontario was constantly referred to by the producers before me. Nevertheless, I think Mr. Hare would be the first to recognize that the elements entering into producers' costs are so variable and so fluctuating, that it is impossible to use a study completed in 1939 as an accurate guide to the determination of such costs at the present time.

The factors entering into the determination of the producers' costs even as I have enumerated them, obviously are subject to many changes from year to year. For example, there may be improvements in methods such as improving pasturage, improvement in feeds and feeding methods, an increase in the production per cow and for the whole herd; all these things may change the relationship of the results found by Mr. Hare in 1939, and some continuous study of producer's costs would seem to be a primary necessity for any milk control board in the future. There are a number of ways in which this could be done and these will be dealt with later in the chapter relating to producer costs, but a study, even on a very limited scale, should undoubtedly be undertaken.

While the principle enunciated by the Milk Control Board in its 1939 report of letting the industry regulate itself, was, I think, from their viewpoint at that time, a sound one, nevertheless under the conditions I have found any costs set forth by the producers must have been more or less guess work.

On the other hand, despite the great variation in cost between the various distributors, which will be alluded to later, it is fair, I think, to say that as a class the distributors are in a much better position to know their costs, and consequently one must observe that the bargaining that took place was very heavily loaded in favour of the distributors. It is amazing that it has worked as well as it has.

The only possible basis for determining producers' costs is a continuous study with a fairly wide sampling of producers' costs from year to year across the province. It is recognized that as between say, Northern Ontario and Southern Ontario, there are certain very drastic differences, but no one year is a safe guide to the determination of such costs which depend on such

factors as good or bad crops, the freight rates on Western feeds, and the price of farm labour.

It would, therefore, seem desirable that the Board be permitted to set up and conduct a comprehensive and continuous study of producers' costs over a period of years. A need for this was recognized in the early years of the Board's operations, but owing to changes of personnel and probably to the pressure of great demands on a small staff very little appears to have been done.

In stating this I do not wish to seem to be criticizing the Board adversely. It has been asked to administer and regulate a very substantial industry in the province, with a very small staff, and there is a limit to what human flesh and blood can do, but affairs have now reached a stage where it would seem most desirable that the work of the Board be enlarged and its own work, if I may say so, rationalized by setting up a proper basis for the determination of producers' costs.

The remarks above in respect of producers' costs apply in a somewhat more limited way to distributors. If the distributors are to continue to enjoy the benefits of fixed prices, not only for the purchase of their raw product but for the sale of their product, prices presumably must be fixed on a basis which allow a reasonably efficient distributor to continue in business whether his volume be large or small. It should also be based, not on guess work or a somewhat superficial examination of financial statements, which frequently I fear conceal more than they reveal, but should rather be based on a uniform system of accounting which all distributors should be required to maintain, and a continuous study of such accounting from year to year. If price fixing is to continue, this is the only rational basis on which to carry it on.

While it is specially important to secure accurate estimates of production and distribution costs, there are several other types of information which the Board should undertake to obtain and keep up to date if it is to be in a position to reach intelligent decisions in respect to prices. Any price established is likely to prove satisfactory to the extent that it reflects the supply and demand conditions which actually exist and, better still, the conditions which are apt to prevail during the period in which the price is expected to be operative. This suggests that any agency responsible for price determination should have as complete knowledge as possible of the direction and extent of the trends of the various factors which go to make up the supply and demand situation. A few examples may serve to indicate the specific nature of the information that is required.

ESSENTIAL STATISTICAL DATA

One of the things most needed is a series of indexes showing the latest developments and the general trends in the conditions of both agriculture and industry. More specifically the statistical information should show the general level of prices being paid by farmers for goods purchased by them, the general level of farm selling prices, the general relationship between the prices being paid and those being received by farmers, i.e. the situation in respect of farm purchasing power, the provincial farm income in general and that of dairy farming in particular, the existing stocks and production of the various kinds of hay and feed grains, the average prices received by farmers for the various home grown feeds, the average prices of the several types of purchased feeds, the average wages paid to hired farm labour, dairy cow and heifer numbers, and pasture conditions. In the same way it should

include an index of the cost of goods bought by wage earners and lower salaried workers, an index of industrial employment or unemployment, and one designed to show the size of the industrial pay roll.

Another type of statistical data should relate to the general dairy price situation. In addition to the official whole milk prices it should show the average price actually received by whole milk shippers, i.e. the prices resulting when sales at surplus prices have to be considered along with those at the regular or quota price, the price of fluid cream, condensery products, cheese and creamery butter, the average prices received by farmers for milk sent to the condenseries, cheese factories and creameries and the differentials between these prices and those obtained for whole milk. Still another set of statistics should be provided to give a detailed picture of the situation in respect of whole milk production and consumption. They would show the total amount of milk going to all whole milk markets in the province, the amount going to each of the larger markets, the amount finally consumed as fluid milk in the province and also in the larger markets, the amount for which producers were paid surplus prices, the amount sold by distributors at wholesale and at retail, the degree of regularity of production, the actual number of producers and any net changes in the number. It might also be desirable to maintain maps showing the location and population of each of the more important markets together with the location and number of producers who supply these markets.

Information of the various types just indicated would provide a basic background in the light of which the price-making decisions of the Milk Control Board could be made with a reasonable degree of confidence.

As in the case of the information relative to cost of production and distribution, it would serve not as a final or sole determinant but as a very useful guide. In those cases where necessary statistics are already being collected by other governmental agencies, steps should be taken to secure and arrange them in the form best suited to the Board's requirements. Where the statistics themselves are non-existent, the Board should undertake the responsibility of securing them. While this sphere of activity might require a considerable expansion in the number of Board employees and the addition of some employees with special skill along statistical lines, such a development would appear to be necessary if anything in the nature of scientific price determination is to be undertaken. A good idea of the kind of information required can be obtained by examining the Compilation of Statistical Material prepared by the Dairy Division of the Surplus Marketing Administration of the United States Department of Agriculture. A recent issue of this material as it relates to the Chicago Marketing Area may be found in Appendix 8 to this report.

CONSUMER REPRESENTATION

One cannot go through the various reports of the various Milk Control Boards without realizing that they were very conscious of their obligations to protect the public, and by and large I think that result has been achieved by them. It has not, however, arisen out of the provision for consumer representation as presently provided by the Act.

Almost without exception in the evidence before me the consumer representative suggested that at no time were the facts and records in the possession of the Board revealed to them when they were asked to sit in on the fixing of prices in the market in which they represented the consuming public. They were in practice, it would appear, left on the outside rather than taken into the Board's confidence in that respect. This proceeding, if consumer repre-

sentation is to mean anything at all, seems utterly irrational and fantastic. It was said that a great deal of the information was confidential, but it is surely quite possible to see that consumer representatives are sworn to secrecy in the matter and treat them with the responsibility which their position warrants. There was no actual evidence before me which would suggest consumer representatives as they existed were unworthy of that trust and confidence.

Normally in a Board of this kind the Board has been made up of a Chairman, presumably independent, a representative of the producers and a representative of the distributors as a group. The proper function of the Chairman of the Board would appear to be that of an independent person whose chief function was to represent the public interest for which the government appointing him is responsible.

Suggestions were made particularly by consumer representatives before me that there should be special consumer representation, and certain of the trade union representatives thought organized labour, apart from other consumer groups, should receive special consideration.

Unless the Board is to become completely unwieldy, it would not seem to me to be possible to differentiate between the various consumer interests in the community. They all have a common interest, and while it might seem desirable than an independent person representing the consumer interest be added to the Board, it would probably be safer to put that duty squarely on the Chairman's shoulders.

The only danger resulting from this is that in the course of time any person in his position is apt to become so familiar with the needs of the industry as such, and so involved in attempting to regulate it, that the special interests of the public may at times be overlooked. If this is the case, it might be advisable to appoint a consumer representative who would ideally be a person capable of reading and understanding not only company's statements but studies of producer's costs. It was said that a four-man Board would be unwieldy. I do not know, however, if in practice this would necessarily be so, and such a Board might find considerable public approval, and it is very hard to argue strenuously against it.

In concluding my observations on the administration of the Milk Control Board under the Milk Control Act I do not wish at this stage to make any recommendations, as these will depend to a considerable degree on the recommendations arrived at after study has been made of the position of the producers and distributors respectively. I propose, therefore, to make recommendations in respect to the Milk Control Board as part of the general conclusions and recommendations at the end of the report.

I would not like to conclude the review of the administration of the Milk Control Board, however, without paying tribute to the patience and courtesy of Mr. C. M. Meek, the present Chairman of the Board. No one has been more obliging and helpful to the Commission under what at times must have been trying circumstances, than has Mr. Meek. He has loyally endeavoured to supply all the information asked, and has been most co-operative throughout the enquiry.

It was impossible not to be impressed by his conscientious regard for his duties and his desire to do what he deemed best in the somewhat difficult task for which he is responsible. I would like to express my thanks of those associated with me for the helpful assistance he has given me.

CHAPTER IV

Legislation Peculiarly Applicable to the Dairy Industry in Ontario

Apart from The Milk Control Act (R.S.O. 1937, Chap. 76), there are three Dominion Statutes, three Dominion Orders-in-Council, nine Provincial Statutes, a plethora of municipal by-laws, and extensive regulations appurtenant to most of the statutes all directly applicable to the dairy industry in the Province of Ontario, in one way or another. The Commission was fortunate in having the evidence of James C. Hay, Esq., Solicitor for the Department of Agriculture, Ontario, to assist it in considering this mass of legislation. Mr. Hay also prepared a brief containing the various acts, regulations and sample municipal by-laws which has been invaluable in reducing the legislation to a form in which it can be readily considered.

Dominion Legislation:

- (a) *The Dairy Industry Act*, R.S.C. 1927 (Chap. 45) and Regulations made thereunder.

This Act is designed to impose a uniform dominion-wide standard of manufacturing, inspection, grading, marking and packaging for sale of dairy products, but most particularly butter and cheese.

All cheese factories and creameries are required to register with the Dairy Products Division of the Dominion Department of Agriculture and cheese and butter produced by such plants is inspected and graded by officials appointed under the Act and Regulations.

The chief purpose of the Act is to control grades, marking and packaging of butter and cheese. In addition the Act prohibits the manufacture, importing or selling of oleomargarine or any other butter substitute.

- (b) *The Cheese and Cheese Factory Improvement Act*, Statutes of Canada (1939) Chap. 12 and Regulations made thereunder.

There are two objects of this Act, first, to encourage the reduction in the total number of cheese factories, by authorizing grants up to 50% of the cost of constructing any cheese factory of proper design, etc., which is being built to replace two or more factories, and secondly to encourage the highest quality of Cheddar cheese by paying a premium out of consolidated revenue of one cent to two cents per pound for highest grades.

- (c) *The Food and Drugs Act* (R.S.C. 1927, Chap. 76)

The regulations passed under this Act contain definitions, applicable throughout the Dominion of milk products processed for human consumption, and hence set uniform minimum standards for such products.

- (d) *Orders-in-Council*.

The various Dominion Orders-in-Council were the product of wartime emergency and provided for the payment of certain

subsidies and the elimination of trade practices that tended to be wasteful of commodities in extremely short supply.

Province of Ontario Legislation

In addition to The Milk Control Act, which is dealt with in detail elsewhere in this report, Provincial Legislation in this Province has been enacted under four main heads. These, with the relevant legislation, are as follows:

I. CHEESE MANUFACTURE

- (a) *The Cheese and Hog Subsidy Act, Statutes of Ontario* (1941) Chap. II.

This Act authorizes the payment of a two cent per pound Provincial Producer subsidy for cheese. The Act is for one year's duration, but has been renewed annually to date, and is supplementary to the Dominion Cheese and Cheese Factory Improvement Act.

- (b) *The Consolidated Cheese Factories Act, R.S.O. 1937, Chap. 37.*

This Act, like its Dominion counterpart, provides for generous loans for the construction of cheese factories to replace two or more old ones and having a very substantial output. It is designed to assist in the reduction of processing costs in the manufacture of Cheddar cheese by stimulating mass production to assist the producers in getting an adequate return for their milk.

II. PUBLIC HEALTH

- (a) *The Public Health Act, R.S.O. (1937), Chap. 229.*

This Act applies particularly to fluid milk insofar as it deals with compulsory pasteurization, and the minimum sanitary requirements for pasteurizing plants. Compulsory pasteurization is in force in most areas in Ontario and the regulations dealing with plants are very elaborate.

The Act also makes general provision for the condemning of food unfit for human consumption and provides penalties for its distribution, sale or possession.

- (b) *The Milk and Cream Act, R.S.O. 1937, Chap. 302.*

This Act authorizes all municipalities except counties to pass by-laws to control the quality of milk and cream offered for sale within its boundaries and for the licensing of vendors of such products. The Act provides that municipalities may regulate the minimum butter-fat and solid content of milk and cream but prohibits the sale of cream of less than 16 per cent butter-fat and milk of less than 3.25 per cent butter-fat. This latter provision is inconsistent with the views of nutritional experts—see particularly the evidence of Dr. Tisdall and Dr. Pett, Appendix 2—and should receive careful consideration with a view to revision.

- (c) *The Dairy Products Act 1938, St. of Ont. 1938, Chap. 7.*

This Act and its regulations control the construction and operation of cheese-factories, creameries, condenseries, milk concentrating and milk separating plants. It provides for the licensing of such plants, and the examining and licensing of cheese-makers, butter-makers, etc.

The whole Act is under the direction of a Director of Dairying and is specifically designed to ensure a very high standard of dairy product in the Province of Ontario.

III. TRANSPORTATION

The Commercial Vehicle Act, R.S.O. 1937, Chap. 290.

This Act and its regulations govern the transportation for hire of persons and goods, in the Province of Ontario, including raw milk from producer to processor. A farmer or group of farmers jointly, owning a truck, do not need a P.C.V. license to haul their own product, but if a farmer hauls for his neighbour or neighbours, he comes under the Act.

An applicant for a license to haul milk for hire must appear before the Municipal Board, prepared to show that the service he offers is necessary in the community. The Producers' Association, Milk Control Board, and any local Transport Associations are given an opportunity to appear also and approve or oppose the application. If the applicant can establish public necessity and convenience, he will probably receive his license.

In this connection it is to be noted that in the markets of Toronto, Hamilton and Guelph there are very strong Milk Transport Associations who have entered into agreements for routes and rates with Producer and Distributor Associations and under the eyes of the Milk Control Board with a view to bringing some measure of control by the industry itself with respect to transportation in these areas.

IV. MARKETING

- (a) *The Farm Products Grades and Sales Act*, R.S.O. (1937), Chap. 307.

This Provincial Statute is to some extent a duplication of the Dominion Dairy Industry Act in that it sets up standards for cheese and butter and makes specific provision for grading, marking, inspection and enforcement by Provincial personnel. It does not conflict with the Dominion Act, in that the grades are the same and arrived at in the same way. The Act is of wider application than the Dominion legislation, in that it may be extended by regulation to include every type of farm product. At present the Regulations only extend to Dairy Products.

- (b) *The Co-Operative Marketing Loan Act*, R.S.O. 1937, Chap. 85.

This Act is designed to provide financial assistance to groups of producers in erecting facilities for grading, packing, storing, cleaning, drying, processing and marketing of farm products. For purposes other than cold-storage plants, the maximum sum that may be loaned is \$15,000, but for cold storage plants the amount shall be up to 50% of the value of the property and plant up to a maximum loan of \$65,000.00. This is in essence another act to assist the primary producer to secure the maximum share of the ultimate consumer's dollar, and of course is applicable in its terms to virtually every phase of the dairy industry.

- (c) *The Farm Products Marketing Act*, 1946, St. of Ont. Chap. 29.

This Act replaced the Farm Products Control Act of 1938 and is designed to provide a legal means for farmers to set, under the authority of Provincial Law, prices for farm products. Each product, brought under the Act by the adoption of a scheme, is, thenceforth, a regulated product, and strong powers are provided to maintain any price structure adopted.

The mechanics of the Act involve first of all an association of

producers, then a scheme providing for the creation of a local marketing board, and finally the vesting of appropriate powers in such board. The whole scheme as propounded must be approved by the Minister of Agriculture and duly promulgated.

At the present time ten such schemes have been approved, namely,

- I. The Ontario Cheese Producers' Marketing Scheme.
- II. The Ontario Seed Corn Growers' Marketing Scheme.
- III. The Ontario Asparagus Growers' Marketing-for-Processing Scheme.
- IV. The Ontario Bean Growers' Marketing Scheme.
- V. The Ontario Berry Growers' Marketing Scheme.
- VI. The Ontario Pear, Plum and Cherry Growers' Marketing-for-Processing Scheme.
- VII. The Ontario Vegetable Growers' Marketing-for-Processing Scheme.
- VIII. The Ontario Peach Growers' Marketing - for - Processing Scheme.
- IX. The Ontario Sugar Beet Growers' Marketing-for-Processing Scheme.
- X. The Ontario Hog Producers' Marketing Scheme.

There are others in the process of drafting and consideration, but an examination of those approved, leads immediately to the observation that the product regulated,—in all cases—is capable of a certain time of storage pending marketing. It would appear that products which are susceptible to regulation by this Act must have this quality in order to give local boards a little time to negotiate sales and to permit handling.

This essential characteristic, while shared by many dairy products after processing, is peculiarly not a characteristic of fluid milk in its raw state. Similarly, the markets for fluid milk in the raw state overlap each other to a very great degree, particularly in south-central and south-western Ontario,—with the result that no local board could be appointed that could reasonably deal with this particular product in any locality. As an illustration of the problem to be faced, some milk, destined for the fluid milk trade in Toronto, comes from the shores of Lake Huron every day,—and every county in between has its quota of shippers to the Toronto Milk Shed.

There has been some suggestion that this particular Act might usefully be employed in the marketing of raw milk, and therefore the matter has been discussed at some length, to bring out the important points which in my view render it inapplicable to this particular product.

Municipal Legislation

Under the Milk and Cream Act, R.S.O. 1937, Chap. 302, authorized municipalities have passed regulatory by-laws dealing with the marketing of these products within the municipality. A typical by-law is that of the City of Brantford, which appears as Appendix 9.

ORGANIZATION OF THE DAIRY INDUSTRY IN ONTARIO

As will be seen from the more detailed discussion of the associations which have been formed by various groups of persons engaged in the dairy industry in Ontario, the whole industry has in comparatively recent times become strongly organized in representative associations. There is no doubt

that these associations have contributed much to the progress and development of the industry, and there is every reason to expect that in the future they will continue to exercise their influence for the good, primarily of their own members, but indirectly and as a consequence for the benefit of the public at large.

The associations referred to may be listed as follows:

Producers:

- (a) The Ontario Whole Milk Producers' League, representing 16,000 producers of whole milk.
- (b) The Ontario Concentrated Milk Producers' Association, representing 12,000 producers of milk for condensary purposes.
- (c) The Ontario Cheese Producers' Association, representing 25,000 producers of milk for manufacture into Cheddar cheese.
- (d) The Ontario Cream Producers' Association, representing upwards of 76,000 producers of cream for manufacture into butter.

Distributors and Manufacturers:

- (a) The Ontario Whole Milk Distributors' Association, representing 400 processors and distributors of fluid milk, comprising over 75% of the total business in the Province.
- (b) The Ontario Creamery Association, representing 221 out of 279 manufacturers of creamery butter in Ontario, and producing 88% of the creamery butter made in the Province.

A more detailed discussion of the organization and operation of these associations is set out in the chapters relating to producers and distributors respectively, but for ready reference it was thought desirable to list all the associations at this point.

CHAPTER V

Production and the Position of the Producer

The position of the producers as to the prices paid them for fluid milk was placed entirely on the ground of cost in the evidence before me. It was not until the concluding sessions of the enquiry that they apparently took into consideration the question of consumer demand particularly as it was conditioned by the price charged to the consuming public. What the producer can get for his milk in the fluid market is, of course, very directly governed by the consumer demand and by the prices the consumers are willing to pay for the product. In determining what a fair price to the consumer is, therefore, the producer should never lose sight of these hard facts and irrespective of his cost what he can get for his milk must inevitably be influenced in part by the other factors I have mentioned.

At the same time the producers as a class should not lose sight of the fact that these other conditions may from time to time be altered not only by the general level of income of the consuming public but by education and propaganda among the consuming public as to the advisability of giving milk a larger place in its diet. They should also never lose sight of the fact that after all the basic condition of large quantity consumption of milk is low price.

Until the producers as a class put themselves in the position where they can effectively make the consuming public understand the full implications of their position, there is little real hope of convincing the public of the necessity of paying a retail price for milk corresponding with their reasonable costs of production. Efforts along these lines have been made through the establishing of Milk Foundations which have accomplished considerable in this direction. It would appear that much more must be done, and that the nature of the operation carried on by the dairy farmer and the conditions under which he works should be made more plain to the consuming public.

The Organization of the Producers' Part of the Dairy Industry in Ontario

Development, control and regulation of the dairy industry in Ontario insofar as the application of the Milk Control Act is concerned, has been very considerably facilitated by the existence of strong and representative associations of some of the major groups involved in milk production.

The Ontario Whole Milk Producers' League is an incorporated body having approximately 16,000 producers of whole milk in the Province of Ontario in its membership. In area it is province-wide and all but a negligible number of the farms producing fluid milk for consumption in the Province of Ontario are members of this league.

The league functions mainly through seventy-three local associations which are to a degree independent organizations operating under the general supervision of the parent body. The authority of these locals is particularly important with respect to the negotiating of prices, the establishment of quotas and the provision of outlets for the product of the individual members.

The Ontario Concentrated Milk Producers' Association is also incorporated under the Agricultural Societies Act and has a membership of approximately

12,000 producers concentrated mainly in the southwestern and southeastern parts of the province. There are between one and two thousand producers of milk for concentration who are not members of the association but who no doubt share in any benefits which the association may bring about. The members of this association produce fluid milk for delivery to condensaries where milk is processed into various commodities.

Like the Ontario Whole Milk Producers' League, this association operates to a large degree through twenty-nine local associations who enjoy a substantial measure of independence with respect to the negotiating of contracts and securing of outlets for the product of their members. There may be some overlapping in membership between the league and this association in that some members of the league may ship to condensaries surplus milk during flush seasons.

The Ontario Cheese Producers' Association represents approximately 25,000 producers of milk in the Province of Ontario whose milk is delivered to cheese factories and manufactured into Cheddar cheese. Very few producers of milk for this purpose are not members of the association. The Provincial Association is divided into five areas which are represented on a provincial board of directors and each area in turn has a county association for each county in the area.

Ninety-five per cent of all cheese factories in Ontario are either owned by producers supplying milk to be processed or are owned and operated by a qualified cheese maker. There are upwards of 570 cheese factories in these two categories, and the remaining 30 to 40 cheese factories are owned by large companies such as the Kraft Company which manufactures in the main processed cheese as opposed to the Ontario Cheddar cheese.

This association is very largely concerned with the marketing of the finished product, under the Dominion Dairy Industry Act and the Ontario Farm Products Marketing Act. So important is this part of the association's work that it caused a company known as the Ontario Cheese Producers Limited to be incorporated for the express purpose of acting as a marketing agency.

The Ontario Cream Producers' Association is an unincorporated association which was only initially organized in October, 1946. While very new, it claims to be representative of upwards of 76,000 producers of cream for the manufacture of butter in the Province of Ontario. One of the chief objects of this association is the formulation and approval of a marketing scheme under the Farm Products Marketing Act.

While not directly a part of production, the transporting of fluid milk is of great importance to the position of the producers. There is no provincial-wide association of persons engaged in the transporting of fluid milk from producer to distributor, but there are three substantial local transport associations, namely Toronto, Hamilton and Guelph, who have been sufficiently successful in organizing to negotiate contracts which have resulted in a substantial measure of control over the haulage of milk into these markets, and so much so that the Milk Control Board and the Department of Highways and the Municipal Board are able to deal with these local associations as thoroughly representative of the market.

The Ontario Creamery Association, organized in 1917, is an unincorporated trade association representing 221 of the 279 creameries in Ontario. The members of the association produced, in 1945, 88 per cent of the creamery butter made in the Province of Ontario. This association, therefore, is clearly qualified to speak for the industry, and it has, on occasion, made appropriate representations, with respect to prices and marketing, and its

very existence is of great value in the enforcement of legislation with respect to manufacture and grading.

The Producers

As appears elsewhere, the producers of whole milk are by and large chiefly members of an association known as the Ontario Whole Milk Producers' League. All producers of fluid milk are not necessarily members of this trade association, but it can be fairly said that the greater number of them are, and it is thoroughly representative of the producer and of the industry.

The purposes and objects of the league are numerous, but there are three expressed in its charter which it has pursued rather vigorously. These are:

- “(a) To improve and maintain the standard of milk, cream, and all dairy products.
- (b) To co-operate with any other organization or organizations.
- (c) To co-operate with any person, firm, corporation or governmental body in the preparation and carrying out of regulations for the purposes aforesaid.”

It has acted generally for its members in connection with hearings before the Milk Control Board and submissions to the Wartime Prices and Trade Board.

In membership it is divided into local associations of which a list is set out in Appendix 10, and it was stated to me that each local was entitled to nominate directors to serve on the board of the league. If the membership of a local association is two hundred or less, one director is nominated. If it is larger than that the local nominates one director for the first two hundred and one director for each additional five hundred members or part thereof.

The annual meetings are composed of delegates nominated by the local association and the actual direction of the league is conducted by eleven members appointed by the delegates in attendance at the annual meeting.

The local associations are semi-independent organizations functioning on their own responsibility as to local problems. The general or provincial association is merely a co-operative association of the various locals and is concerned with matters of interest to the members as a whole.

It was said that the league has been recognized by the Dominion and Provincial Governments and the Milk Control Board, and is fully representative of producers in the fluid milk field. I think it can be fairly said that the producers of fluid milk are looked on as being among the most progressive, well organized and prosperous elements in the farming community of Ontario. Their lot, however, is not entirely a happy one and they have many problems and troubles affecting the operation of their business as well as being under the necessity of a constant and unremitting attention to their dairy herds. As one of the witnesses appearing before me at London said, the secret of successful dairy farming is herd management, and this unquestionably calls for constant and continuous care and attention.

Mr. Douglas Hart, who is looked upon as one of the most successful dairy farmers and breeders of dairy cattle in the province, and who carries on a very large and successful operation in Oxford County, stated in evidence that despite a large number of employees he found it necessary himself to work anywhere from sixteen to eighteen hours a day. As he put it, it was not that the work was so hard but that it was long and that constant attention to it was necessary if success was to be assured.

Many producers find that they must not only work themselves but must

call on their wives and children to do a substantial part of the work in connection with the production of fluid milk. A brief on the trials of a dairy farmer's wife, which at first blush may seem somewhat of an exaggeration, was presented by a representative of the Women's Institute in Carleton County in the Ottawa Valley. A sober consideration of the evidence as I have heard it convinced me that this statement does not exaggerate the true state of affairs and I am accordingly setting it forth in Appendix 11. I am convinced from the evidence that there are countless farm wives in Ontario who would find it a very truthful statement of the conditions under which they have to carry on.

The principal problem of the producer has been in essence a financial one, that is, to obtain a fair return for his product. In its result, however, it is not so limited but has many general social aspects which must call for consideration if a reasonable standard of life is to be preserved among the milk producers of the province.

It would appear to me, to put the matter shortly, that the farmer producing fluid milk for consumption in towns and cities of the province is as much entitled to a fair return for his work as a consumer who works in a factory or an office. If up to the present time, through lack of sufficiently effective organization, he has not been able to make his demands felt, that is not a reason for asking him to produce milk for the fluid market at prices less than his cost plus a reasonable profit. He is primarily entitled to the costs of producing milk and to a fair profit on that labour.

This is a point of view that must be seriously considered and maintained if the farming population of this province are to have a fair share of the general income produced and if adequate supplies of milk are to be available for consumption by urban populations. In saying this I quite recognize the fact that there is an obligation on the producer to take steps to learn how to produce milk as cheaply as possible, if he has to have the benefit of governmental protection and intervention on his behalf. He must recognize that he is under an obligation to produce high quality milk as cheaply as he can, and it cannot always be said that this obligation has been fully recognized.

There is also the other consideration previously mentioned that no matter what the cost of production, there is a maximum price above which milk consumption will diminish and if this fact is fully recognized by the producers it might operate to produce more efficient production methods and better herd management in the long run. It is unquestionably true that low cost milk means high consumption, and low cost milk is the goal to which the producer should be constantly bending his efforts.

Milk production, of course, is not confined to production for the fluid milk market. As has been stated earlier in this report, milk is also produced on the farms of Ontario for cheese factories, condensaries, and by far the greater number of farmers in Ontario selling milk products sell cream to creameries for the production of butter.

The problems affecting the production of milk for condensaries, creameries and cheese factories will be considered separately. In this chapter I am limiting the discussion to the position of those producing milk for the fluid milk market for consumption by the urban populations of the province. The word urban, of course, includes villages as well as the towns and cities.

Insofar as the fluid milk producers as a group are concerned, their degree of specialization varies very widely. At one end of the scale you have a farmer who produces for the fluid milk market with a purebred herd and who also engages in what is probably more profitable, that is the production

of animals for breeding purposes. At the the other end of the scale you have the farmer who probably carries on several farm enterprises, and who may produce as little as one can of milk per day for the fluid market. There is the greatest possible range and variation between the producers as such.

As in other aspects of the dairy business, it is unquestionably true that where there is a variety of enterprises, either the raising of breeding stock or some other line of farming, there is greater certainty of the average farmer showing a larger net income from his effort.

As was said by the distributors, however, when this matter was discussed with them, if a business is to be successful every branch of it should stand on its own feet and show some profit, even if a small one. It cannot be said that the producer's business is in a sound position if he cannot show a reasonable profit on the production of fluid milk as such.

Factors Affecting the Cost of Production

As appears from the chapter dealing with the administration of the Milk Control Board, sporadic attempts have been made from time to time to ascertain the cost of producing milk for the fluid market, and for the other markets into which it flows. The Board itself has never undertaken, as far as I can ascertain, any very substantial inquiry, but in the late 1930's a joint survey was undertaken by the Economics Department of the Ontario Agricultural College at Guelph, and the Economics Division of the Dominion Department of Agriculture. The study was under the general supervision of Mr. H. R. Hare of the Dominion Department of Agriculture, and started off with the co-operation of some 780 farmers who kept records of their business for the twelve months ending June 30, 1937. It carried on from 1936-37 and included the year 1939-40. It was not carried on during the war.

The various methods of determining costs of producing fluid milk will be discussed later in this chapter but the study made under Mr. Hare's immediate supervision is the only serious attempt which has been made in Ontario, at least in recent times. Whether his calculations are now valid some eight years after the last cost records were taken is a question which will be discussed below, but the various factors which affect the cost of producing fluid milk which he set out still strike me as having considerable validity. They may be briefly listed as follows: size and fertility of farm, size of milking herd, milk sales per cow, cost of labour and efficiency thereof, crop yields, feed costs, hauling costs, to mention the most obvious items.

It will readily be seen on any reflection at all that there is a possibility of the greatest variation in these factors as between farm and farm, but despite this there are certain general considerations which may throw some light on the condition of the farmer producing milk for the fluid milk market. For one thing, it is unquestionably true that the amount of capital invested by a farmer producing fluid milk is more substantial than that of a farmer engaging in general farming.

In the case of fluid milk producers, the first part of the capital investment is represented by the cost of cattle themselves. Over the last six years this has increased substantially. Part of this increase is unquestionably due to the inflationary conditions existing in the United States where a ready market for good milk cows has existed. As was stated before me, dairy cattle exports from Ontario to the United States have greatly increased. In June, 1946, the number of dairy cattle shipped from this province to the United States amounted to 4,445 head as compared with 374 in June of 1939. During the whole of 1945 exports amounted to 26,242 head exported as against 6,537 head in 1939. This increased exportation has increased the

prices which farmers must pay if they are to obtain good milk cows by way of purchase. It would also indicate, I think, that selling good milk cows has in many cases been more profitable than keeping them for the production of fluid milk at the prices prevailing for that commodity.

The total figures of exports of dairy cattle from Ontario to the United States for the years 1939 to 1946 are as follows:

1939—	6,537	
1940—	8,679	
1941—	14,205	(These figures do not include
1942—	14,381	cattle from Eastern Ontario
1943—	19,094	moving through Quebec
1944—	19,845	ports.)
1945—	26,242	
1946—	38,292	

The evidence before me led me to believe that, on the average, prices had doubled or even more than doubled during the period under discussion.

It was also quite apparent from the evidence before me that a dairy farmer, once he commits himself to this type of farming, is committed to it for a number of years, and that, since a good milk producing herd cannot be built up in a short time, it is not possible for a dairy farmer to shift readily to other kinds of farming.

A perusal of the sanitary regulations which farmers producing milk for the fluid milk market have to comply with and which are indicated in this report indicate a considerable amount of additional equipment of an expensive type which the dairy farmer must possess. He unquestionably has to have more expensive buildings, stables and milk houses than the farmer who is engaged in general farming. He thus has a much more substantial amount of fixed capital tied up in his business than farmers pursuing different types of farming enterprise. It is true that all farming is essentially a business involving definite risks such as the vagaries of the weather, pests and blight and many other uncontrollable factors. In addition to these, however, the dairy farmer is under the additional risk of losses from the special dairy cattle diseases which may be, and often are, very serious. It would appear that the more nearly dairy cows are made to produce to full capacity the greater is the likelihood of one or other of the diseases developing among them.

In the brief presented to me by the Hamilton Milk Producers' Association, which was one of the most thoroughly prepared briefs I received, the following statement was made:

"Heavy losses are incurred by dairy farmers due to animal diseases. These losses comprise a substantial part of the cost of milk production, and must be met by the price received by producers for whole milk. Dr. A. L. MacNabb, Principal of the Ontario Veterinary College, an authority on this subject, has conducted investigational studies on Government herds to determine the incidence of disease. He estimates the loss to dairy herds from mastitis infection in Ontario at from ten to fifteen million dollars and from contagious abortion at twenty million dollars annually. He states these figures are built on the assumption that there is a five per cent herd loss annually, and a milk production loss ranging from ten to fifty per cent. In abortion disease the loss of the calf crop reduces production and efficient breeding. The average production life in years of Ontario dairy cows is six to seven years."

In connection with the average production life in years of a dairy cow in

Ontario, the general evidence heard by me would make me place it at somewhere less than six or seven years as mentioned above. On the evidence I heard I would be of the opinion that the effective production life in years of an average dairy cow, under present day conditions, is closer to four or five years than to six or seven.

The fluid milk producer is under another obligation which does not affect farmers producing milk for other markets, and that is the necessity of maintaining a steady flow of fluid milk. Under natural conditions cows freshen in the spring and the largest supply of milk is generally available in the spring and summer months. The fluid milk producer must, however, so arrange his breeding that he has his cows freshening in all periods of the year and it is not possible to do this without adding greatly to his expenses of production.

It may be interesting to note the amount of milk produced from year to year for the fluid milk market in Ontario. Over the last six or seven years there has been a most impressive increase in volume. From the evidence it would appear that this increase has largely resulted from bringing in new producers rather than from increasing the amount supplied by each producer. In this connection the following table may be of some interest:

TOTAL MILK PRODUCED IN ONTARIO FOR FLUID CONSUMPTION
IN LBS.

JANUARY	1939	1941	1944	1946
Fluid Sales.....	.....	100,598,000	131,407,000	144,120,000
Farm Home Consumed..	.....	41,431,000	36,120,000	41,668,000
MAY				
Fluid Sales.....	.....	102,924,000	129,576,000	150,081,000
Farm-Home Consumed..	.....	43,730,000	44,266,000	43,385,000
JUNE				
Fluid Sales.....	.....	100,965,000	128,299,000	144,548,000
Farm-Home Consumed..	.....	41,284,000	41,155,000	39,904,000
OCTOBER				
Fluid Sales.....	.....	105,371,000	126,592,000	126,137,000
Farm-Home Consumed..	.....	40,453,000	41,402,000	43,710,000
Total for year—Fluid Sales.	1,179,675,000	1,223,824,000	1,511,678,000	1,664,338,000
Farm-Home Consumed	492,129,000	489,149,000	498,760,000	506,374,000
Grand Total.....	1,671,804,000	1,712,973,000	2,010,438,000	2,170,712,000

Figures supplied by D.B.S.

Monthly figures for 1939, not available.

It is interesting to compare these figures with the amount of milk produced for butter, cheese and concentrated milk in the same period. Tables covering milk consumed for these purposes and the amount of finished products recovered are as follows: (in pounds)

	1939	1941	1944	1946
Butter				
As Product.....	102,832,000	100,843,000	82,799,000	76,711,000
As Milk.....	2,407,304,000	2,360,731,000	1,938,325,000	1,797,339,000
Cheese				
As Product.....	90,130,000	104,174,000	107,684,000	96,106,000
As Milk.....	1,009,456,000	1,160,436,000	1,206,062,000	1,070,621,000
Concentrated Whole Milk				
As Product.....	100,776,000	119,111,000	126,380,000	128,734,000
As Milk.....	264,673,000	312,901,000	365,972,000	373,513,000

It may also be of interest to consider in conjunction with this the total number of milk cows in Ontario in the years under review. They are as follows:

1939	1941	1944	1946
1,182,878	1,142,008	1,187,618	1,257,800

A consideration of these two tables discloses not so much an increase in over-all milk production as a pronounced shift from one product to another of the milk produced. Of particular significance is the fact that a steadily increasing percentage of the total has been consumed as fluid milk. It is also significant that the total amount of milk produced for all purposes over the period is relatively much greater than the increase in the number of cows. This clearly indicates a pronounced increase in productive efficiency on the part of the farmers.

One cannot peruse the various reports made on the milk industry in Great Britain without being struck by the similarity between conditions found there and those in Ontario. I was constantly told by witnesses who should be in a position to know, that conditions were so dissimilar to ours in Great Britain that their experience was not a safe guide. Despite this, consideration of the various reports of committees there establishes a very profound similarity of essential conditions insofar as producers are concerned.

You are there, of course, dealing particularly since the start of the war with a condition where there is a scarcity of fluid milk in relation to the demand for it existing. That is admittedly not the case in Ontario today. Nevertheless, it is obvious that, insofar as fundamentals are concerned, the problem of the dairy farmer in Great Britain has not been tremendously different from that of dairy farmers in Ontario. A very useful guide to some of the paths along which the producers might develop their section of the industry can be obtained from a perusal of the various reports prepared by commissions and committees under the Ministry of Agriculture in Great Britain during the last ten or twelve years.

So far in this report I have approached the problem of the producer from the viewpoint of cost. Cost, however, must be only one of the factors which enter into the price which may be obtained by the producer for fluid milk. There is no greater fallacy in industry generally than the naive belief that price must always be made high enough to cover cost plus a fair profit. Prices are not and cannot be arrived at in that manner. In the eventual result they are the outcome of an interaction between supply and consumer demand for the product in question.

The producer must, of course, try to obtain his cost of production plus a fair profit. But if he is to obtain this he must continually strive to reduce his cost. The experience in fluid milk sales since October, while undoubtedly affected by general increases in the cost of living, would also indicate that.

There appears to be a price limit insofar as the consuming public is concerned beyond which it will reduce its demand for fluid milk. It may be argued that this is unfair, that incomes on the part of the urban population have increased out of all proportions to those of the agricultural part of the population, but it is a fact which nevertheless exists and until the producers can convince the consuming public that they should pay a higher price for milk there will be the greatest resistance to such a condition of affairs, and the resistance will show in decreased consumption.

The following table shows the amount of fluid milk consumed in Ontario in the period from January, 1946, to the end of June, 1947, expressed in quarts:

1946		1947	
January:	38,788,000	January:	36,874,000
February:	36,386,000	February:	34,578,800
March:	40,645,000	March:	37,743,600
April:	39,637,000	April:	36,551,300
May:	41,328,000	May:	37,874,800
June:	39,106,000	June:	36,152,300
July:	41,268,000		
August:	40,168,000		
September:	38,539,000		
October:	37,824,000		
November:	37,092,000		
December:	36,953,000		

Also set out in Appendix 12 is a study furnished me by the Hamilton Milk Producers' Association which I accept as valid and which shows the increases in income of urban consumers in the vicinity of Hamilton and also in Ontario since 1939. The purpose of this study was, of course, to show that urban consumers could afford to pay more for milk. Unless they show a greater willingness to do so than they have in the past, that argument is rather academic, but it is of assistance in assessing the general position.

Roughly speaking, there was a most impressive increase in the consumption of fluid milk in Ontario during the war years from 1941 on. With the price increases in the spring and fall of 1946, that increase was reversed, and since then there has been a gradual decline. It is quite true that this is probably due to the large increase in the general cost of living which has taken place in that time and milk is only one of several necessary foods all of which have increased in price to the consumer. Nevertheless, the fact that this decrease has occurred must indicate very clearly to producers that there is a limit at the present time, whatever the future may hold, beyond which they cannot hope to sell milk in the volume they have previously sold it.

The following table, which shows the total wholesale and retail commercial sales of fluid milk in Ontario, expressed in quarts, since 1941, may be of interest:

1941	1942	1943	1944	1945	1946
290,089,400	324,948,700	386,734,500	411,963,000	432,857,000	467,736,000

MILK PRODUCTION COSTS, THEIR CALCULATION AND USE

During this enquiry a great deal of consideration has been given to the cost of producing milk on the farm and matters relating thereto.

There are two main reasons for this. Since one of the chief matters requiring determination has been the degree of adequacy of the prices received by producers for their milk, it has been necessary to find some measuring rod which would enable me to suggest what prices might be considered necessary and desirable. In searching for such a measure it has seemed to me that the best and, indeed, the only practicable way of deciding whether a price was satisfactory or not was to try and discover whether it was sufficient to cover the costs of production. In saying this I am not suggesting that prices should always be high enough to cover all costs at all times. Under the dynamic conditions which actually prevail and which result in fairly constant changes in both supply and demand, it is obvious that prices may be higher or lower than costs at any specific point of time.

It seems equally obvious, however, that, over any considerable period of time or in the long run, prices must be at least sufficient to cover all costs of reasonably efficient producers. Such a cost-price relationship seems necessary if sufficient milk of desirable quality is to be forthcoming, if the dairy farm production plant is to be maintained satisfactorily, if dairy farmers and their families are to enjoy the material standard of living to which they are entitled, and if a proper economic balance between dairy farmers and other classes in the population is to be secured and maintained.

These statements will probably suffice to explain why every possible attempt has been made to obtain reliable cost information and to relate it to producer prices.

The second reason for studying the producer cost situation is not unrelated to the first one. It is in the public interest that consumers of milk products should receive these products at the lowest possible price consistent with the giving of reasonable remuneration to those who supply them. It is clear that the possibilities of giving consumers cheaper milk as time goes on must depend upon the possibilities of reducing costs of production on the farms as well as the costs of processing and distribution after leaving the farms. In view of this fact considerable attention has been given to the matter of production cost trends and, in particular, to policies and programs that might be expected to produce cost-reducing effects in future.

Because of the extremely widespread tendency to advocate the use of cost data as a basis for price fixing, as indicated earlier, by far the greater part of the evidence submitted to me by individual producers and producer organizations related to costs and the cost-price relationships. Because of the current consumer interest in producer costs as related to producer prices, it seems desirable to say something about the problems encountered in connection with the calculation and use of cost information and also something about the possibilities of effecting further cost reduction.

Methods of Determining Costs

To begin with it is necessary to note that there are several fairly distinct methods of general procedure that may be used when attempting to secure the actual cost information. Since the start of the century four main methods have been developed and employed in both Canada and the United States as well as elsewhere. The Estimation Method uses data already gathered by some one else as the basis for the desired cost figures. The sources of data may include cost studies previously made and federal or provincial publications containing information on farm expenses and income. Ordinarily this method is used when only a rough estimate of costs is required. It has sometimes been employed, however, because the figures were needed immediately and when, therefore, there was insufficient time to conduct a careful and accurate study. Its use has tended to decline as the desire for increasing accuracy has made necessary the employment of more thorough-going methods.

The Survey Method involves the personal visiting of farmers by an enumerator who secures answers to a prepared list of questions. The farmer is asked to give his estimate of each of the various cost items of the dairy enterprise and usually, also, his estimates, or actual records if he has such, concerning his entire farm business. The data secured relate to the year preceding the making of the survey. Except in the case of the relatively small percentage of farmers who keep regular and detailed farm business records, the use of the Survey Method makes it necessary to rely on the

farmer's memory concerning events covering a twelve-month period. This necessity of depending on the memory rather than the actual record of what transpired is unquestionably the big weakness of the survey method. While it has commonly been assumed that errors of memory in one direction will be offset by other errors in the opposite direction, it has often been found that, in connection with certain kinds of questions at least, the majority of errors tend to run in the same direction. In defense of the Survey Method, however, it should be said that any margin of error in the answers given is bound to become less pronounced as the percentage of farmers keeping regular records of their business steadily increases. As that development occurs the answers become transformed from estimates to records of actual fact. Speaking generally the special advantages of the Survey Method are that it gives results that are much more reliable than those obtained from using the Estimation Method, that it permits information to be obtained from a much greater number and variety of farms with a given expenditure of funds than is possible when using more detailed accounting methods, and that it makes possible the collection of data in a relatively short time.

A method sometimes known as the Farmer's Record Plan differs from the Survey Method in that it involves an arrangement whereby a representative group of farmers agree to keep more or less complete records of costs. When this plan is followed the number of farmers keeping records is usually fairly large and the amount of assistance which farmers receive from field supervisors is relatively limited. The main advantage of the method is that data can be obtained from actual records, which avoids the necessity of depending upon the estimates or memory of the farmer. The main disadvantage is that records have to be kept for at least one full production season before the data can be collected and analyzed.

The Detailed Accounting or Route Method is somewhat similar to the Farmer's Record Plan, but is considerably more elaborate and detailed in character. Detailed accounts are kept, usually by the farmer himself but under close or direct supervision of a field man or route man who makes regular visits to take inventories, check up on entries, etc. In order to be able to allocate expenses to an individual product such as milk it is necessary to find out how many hours of labor were spent on the dairy enterprise, how much of each kind of feed was consumed by the dairy herd, how much manure was obtained, etc. This involves the use of an elaborate set of labor, feed and other records. The strong argument in favor of this method is that it yields the most accurate and dependable data that can possibly be obtained. One of its main weaknesses lies in the high expense involved. Experience indicates that 25 farms are about as many as a route man can handle. This matter of large expense per farm is likely to mean that the number of farms from which data can be obtained is not sufficiently large to provide a representative sample. Furthermore the high degree of farmer co-operation which this method requires makes it almost certain that the data will be secured from farmers that are much above the average in efficiency.

In addition to the methods just mentioned, all of which are well established, reference may be made to a plan followed in many areas in recent years and which is based on the use of a formula. The formula is derived from information disclosed by an actual study of costs previously undertaken in accordance with one of the methods already referred to and indicates the physical quantities of the various kinds of feed and also the amount of labor required to produce 100 pounds of milk. The basic

assumption is that these quantities tend to remain fairly constant from year to year. To the extent that they do remain constant it is possible to calculate the cost of producing milk at any particular time as well as to measure the changes in costs as between periods by simply multiplying the various quantities indicated in the formula by the current values of the respective items. In using this plan all costs are reduced to terms of feed and labor since all past studies have shown that these two items constitute the major part of total costs.

It is further contended that feed and labor costs together account for a definite percentage (usually about 80 per cent) of the total. In using feed and labor as the basis for calculating the cost of producing milk, it is assumed that as feed and labor prices rise or fall the other costs items and also the credit items will fluctuate more or less in the same proportion. While the costs of all items probably never change in exact unison, experience has shown that they keep near enough together to permit comparisons to be made.

The Formula Plan has the great merit of being simple, inexpensive and capable of yielding immediate results. Its great weakness lies in the fact that the kinds and quantities of feed and labour do not remain constant for any great length of time. Furthermore it must be remembered that the formula itself can only originate if an actual study of costs has previously been undertaken. Details of formulas developed in various centres may be found in Appendix 13.

The foregoing discussion may perhaps serve to indicate the several types of general procedure that may be employed in obtaining cost information and also the extent to which particular circumstances either permit or dictate the use of one procedure rather than another. In addition and in particular it may help to explain the choice of methods followed during the present enquiry. From what has been said it will be obvious that it was not possible for me to adopt any plan of procedure which would have required a representative sample of producers to keep actual cost records during a full producing year. In view of this it was decided that use of the Survey Method would probably yield the best or most reliable results under the special circumstances. An independent commission survey of costs of representative producers in different sections of the province has therefore been made. The forms used in this survey are shown in Appendix 14. In addition the evidence relating to costs submitted by a large number of individual producers as well as that presented by the provincial and regional producers' organizations has been closely studied. Some of this evidence was based on actual records kept by farmers independently, a considerable part was the result of estimates, while some was calculated with the aid of a formula such as that described above. The conclusions reached regarding costs after careful study of all the data secured will be stated later.

Irrespective of the procedure used to obtain cost information it seems necessary to indicate the nature of several major difficulties which are connected with the calculation of costs and their use as a basis for price determination. These difficulties are primarily due to the very nature of farming and the inherent characteristics of farm-cost data. One matter which presents considerable difficulty is the question of what all should be considered as cost items. In this connection the item concerning which experts seem most inclined to differ is the one ordinarily known as wages of management. Whether remuneration which a dairy farmer receives

for performing the function of management, as distinct from his labour and capital, is to be included as a cost item must depend on whether his reward for managing is considered as a profit, that is the difference between his costs and his selling price, or whether it is regarded as something which he must be paid in order to induce him to produce.

While there is a real problem of accounting principle and general economic reasoning in deciding what items are legitimate parts of cost, there is even greater difficulty when it comes to evaluating many of the items that are included. Correct values are hard to establish for two reasons. One is that cost elements are often used jointly by two or more enterprises, which means that the joint expense has to be divided between the enterprises on an arbitrary basis. Very few producers who are ordinarily called dairy farmers produce and sell nothing but milk. While dairying may be their major enterprise, their products usually include several kinds of crops and several kinds of livestock, other than dairy cattle, or livestock products in addition to milk. Labour, feed, building space, equipment use and other expense items are actually spread over all of these products and the resulting joint cost is incurred in respect of the total farm production. What part of the joint cost has been incurred because of the production of milk as distinct from everything else is obviously very difficult to determine with any accuracy. While this part of the valuation problem may be relatively non-existent when considering costs of whole milk producers who, as a class, are more specialized than other dairy farmers, it becomes increasingly serious as the farms considered are generalized rather than specialized in character. In the case of creamery patrons, with many of whom the dairy enterprise is distinctly secondary, it becomes really acute.

The second reason for the valuation problem lies in the fact that many of the costs incurred do not actually involve an immediate cash outlay. At what rate should such cost elements be valued? For example, what value should be placed on the farmer's own labor or that of his wife and family, on home-grown feeds, on manure, or on horse labor? Or again, what value should be placed on the use of land and buildings owned by the farmer and how is the depreciation on dairy cattle and mechanical equipment to be estimated? Since, in all types of farming, and dairy farming in particular, a relatively large part of the total cost is composed of these non-cash elements, it is obvious that reasonably accurate values, while most desirable, are extremely difficult to obtain.

The difficulties thus far mentioned are connected with the securing of cost information as distinct from the using of it. Still further difficulties are encountered whenever an attempt is made to use cost data as a basis for price determination. Before any price can be based upon or even partially related to cost of production, costs must be expressed in the form of a single summary figure. Such a figure is hard to obtain, however, because the milk is produced by a very large number of independent operators and because costs vary widely from farm to farm and region to region in any one year and from one year to another. The fact that feed costs ordinarily account for half of the total, and that weather and climatic conditions by affecting crop yields largely determine home-grown feed supplies and, indirectly, the extent of expenditure on purchased feeds is, in itself, sufficient to explain why such cost variations exist. Since they do exist it is necessary to make two kinds of decisions if cost is to be related to price. First, in order to insure that the cost figure secured will be truly representative, the sample of producers included in a cost study must be

large enough to insure that the effect of abnormal costs will be ironed out or minimized and varied enough to reflect the differing degrees of producer efficiency. Similarly the period covered by the study must be long enough to eliminate the effects of abnormal weather or other producing conditions and continuous enough to permit cost-raising or lowering effects of important changes in production methods to be fully registered.

The second kind of decision concerns the choice of an average cost. Since, in any study, the costs will be found to vary considerably from farm to farm and since only one cost figure can be used as a price-fixing guide, it becomes necessary to decide which one of the many individual cost figures or what average of all of them should be chosen. In other words, it is a question of deciding whose costs or what costs to use when trying to arrive at a figure which is supposed to represent "*the*" cost of producing milk. In this connection I know of no one who has suggested that either the highest or the lowest cost figures should be selected. A price based on the highest cost figure would obviously bonus unwanted inefficiency, while one based on the lowest cost would be entirely unfair and inadequate for the great majority of producers, and would be certain to cause serious reduction in milk supplies. On the other hand, a price equal to the simple average of all costs would be unsatisfactory, since it might result in half the producers operating at a loss. One commonly-suggested plan is to choose a figure high enough to cover the costs of the great bulk of producers who produce all but a small fraction of the milk. While this bulk-line method, as it is called, is satisfactory in certain respects, it has no real scientific basis and is somewhat arbitrary in character. Probably the most reasonable answer to this problem would be to suggest that the figure selected should be one calculated to give a fair return to all reasonably efficient producers. The trouble with this answer, however, is that it assumes the existence of some means whereby one can decide the exact figure beyond which reasonable efficiency begins or ends. Since there is no scientific way of doing this the cost figure chosen must admittedly remain somewhat arbitrary.

The foregoing discussion of some of the problems connected with the calculation and use of cost data is not intended to suggest that it is either impossible or undesirable to obtain and use cost information. At the same time it has seemed necessary to give some indication of what is actually involved in carrying out such a program. From what has been said it should be clear that the special nature of dairy farming and farm cost items make it impossible to secure cost information that is more than approximately accurate. It should also be obvious that the securing of a summary figure representing the costs of large numbers of producers, calls for specialized knowledge, requires a very considerable amount of time and is relatively expensive. Any program in respect of costs which ignores these facts is unrealistic and likely to yield very disappointing results.

POSSIBILITIES OF FURTHER COST REDUCTION

The very fact that some producers' costs are considerably and consistently lower than others suggests the possibility of reducing the general or average level of costs.

It is clear that such a result would be secured if the costs of all or even a fair percentage of the producers could be reduced to the level already reached by the lowest cost group. In considering the chances of fulfilling such a condition, however, it becomes necessary to discover the reasons for the present variation in costs. In this connection the first thing to remember

is that, in order to produce milk, a great many agents or factors of production have to be combined. These agents include land, labour, feed, buildings, mechanical equipment of various kinds, the cow herself and a miscellaneous list of other things. Since all these agents cost money it follows that a producer, in endeavouring to produce milk at the lowest possible cost, must follow two main lines of action. He must try to obtain the various agents as cheaply as possible. And he must try to combine them both quantitatively and qualitatively in such a way as to obtain the largest possible amount of product from his total expenditure. To make progress along these lines the producer must be able to get and act upon many kinds of information. Some of this information is physical or technical in character while part of it is of an economic or financial nature. The fact that producers differ greatly in their ability and inclination to become informed plus the further fact that many of them, because of geographic location, financial status or other reason, are unable to make practical application of information gained serves to explain why costs of some producers are consistently higher than those of others. In this connection the highly scientific character of modern dairy farming should be borne in mind. It is no exaggeration to say that, in order to achieve real efficiency in the production of milk, a present-day dairy farmer must be nothing less than a generalized specialist. Those who exhibit this all-round ability in unusual degree are ordinarily referred to as outstanding farm managers.

What has just been said leads to the conclusion that, in the last analysis, the main requirement for the production of low cost milk is the possession of high managerial capacity on the part of the farm operator. It is quite true that milk cost studies have shown low cost to be associated with relatively large area farms, large-sized herds, high production per cow, high crop yields, efficiency in the use of labour and capital, and, particularly, large volume of business or large volume of milk sales per farm per year. Since, however, the items in this list are themselves generally associated with, or the product of, superior management, it would seem that the basic prerequisite for low costs is good farm management. This conclusion is in line with evidence given by several producer witnesses during this enquiry. I have been impressed by the extent to which good management was regarded as the factor most responsible for efficiency in dairy farming.

This relationship between good management and low costs suggests the desirability of fostering programs which might help develop a higher level of managing ability. It may well be that the number who are inherently capable of becoming really outstanding managers is relatively small. This does not mean, however, that new knowledge and improved methods cannot find fairly general application. Indeed it is only necessary to list the many developments that have taken place already to realize that tremendous increases in knowledge and improvements in methods are being effected continuously. A good illustration of this is found in the quite pronounced increase in milk production per cow during the war years, shown earlier in the chapter.

Generally, the concrete forms which these improvements take are both numerous and widely varied. They may aim at securing newer and better feeds and feeding methods, higher crop yields, the development of higher producing cows, more efficient use of labour, buildings and mechanical equipment, reduction of cattle diseases or reduction in general overhead through an increased volume of total business. In every case the general purpose is to secure efficiency gains in respect of each of the many cost

items and of costs as a whole. While many such changes and improvements have taken place, and will continue to take place, there are two general facts in respect of them which should be remembered. The first is that all such improvements must of necessity be gradual in character. The second is that, after a certain amount of improvement has been brought about, it becomes increasingly difficult to effect still further improvement. In other words the possibilities of cost reduction tend to be limited by operation of the principle of diminishing returns.

Variations in cost of the type or class just discussed reflect in a general way the variations in the knowledge and ability of farmers themselves. It is precisely because they are, at least to some extent, amenable to human control, that I have seen fit to discuss them here at some length. They are the kind of variations which are perhaps susceptible to some reduction over the long run. There are, however, at least three other *general* classes of variations which should be mentioned. The first of these includes the many variations in cost from farm to farm, county to county and year to year, which are due to unusual weather conditions plus accidents of various sorts. Continuous wet weather during the 1947 seeding season, for example, is certain to result in an abnormally small crop of spring grains and abnormally large requirements in the way of purchased grain. A further result is a serious rise in costs due to the necessity of preparing seed beds several times. At the same time the effect is likely to be quite different in different sections of the province depending on the type of soil, topography of the land, amount of drainage, etc. The point to note, however, is that the variations in cost resulting from such weather conditions are not only bound to occur but are entirely beyond human control. The same is true in cases where cattle are killed by lightning or where buildings and feed supplies are destroyed by fire.

Another class of cost variations are due primarily to major and continuing differences in producing conditions in different regions or areas within the province. The result is that these variations tend to continue over the years. In most of Northern Ontario the short summer growing season, combined with the long and severe winter feeding season, make for high labour costs and heavy purchases of feed, the price of which ordinarily includes an expensive transportation charge. In addition, the relative scarcity of producers in some sections results in high cost of transporting milk. In a large part of the milk-producing area of the Niagara Peninsula, crop yields have tended, year in and year out, to be considerably below the provincial average. The particular texture of the soil in much of this area is such that the period during which satisfactory seeding can take place is particularly short. Moreover, the soil is expensive to work and especially incapable of withstanding drought conditions. In this area also, the large number of secondary industries tend to result in higher than average farm wage rates. Another example of this type of variation is found in the case of those particular farmers who supply whole milk to the Toronto market and who live in the outer zones of the Toronto milkshed. Irrespective of the degree of efficiency in transporting milk, these producers' costs must continue to reflect the influence of greater distance from market.

Finally there are the cost variations which depend upon the kind of dairy farming engaged in. Costs of producers who supply the fluid milk market must normally be considerably higher than those of farmers who ship to condensaries, cheese factories or creameries. The main reason for this is that the fluid shipper's produce when consumed is still in the extremely

perishable form of milk and that consumer demand for it is relatively constant throughout the year. This means that the fluid shippers must aim to maintain a relatively even output at all times. No such requirement exists in the case of the other three kinds of producers, since the milk which they supply is not consumed until it is processed into some fairly non-perishable product such as butter or cheese. The more even production on the part of the fluid milk producers necessitates much more production during the winter months which, of course, means higher feed and labour costs. Winter-produced milk requires feed that has been expensively harvested and stored and special labour to do the feeding and cleaning. Where milk is produced in summer the main feed is harvested by the cows themselves and very little cleaning of stables or hauling of manure is required. Again, where year-round production is necessary, feeding has to be done with special care, special difficulties are often encountered in getting cows to freshen at particular seasons and the task of finding extra cows becomes both common and expensive. Other reasons why costs of fluid shippers are higher than those of the other groups are that the fluid people have to comply with much more rigid sanitation requirements and that their product often has to be brought a much greater distance to market or brought in a less transportable form.

In connection with this important matter of cost trends it is necessary to remember that at the same time that certain influences may be operating to reduce costs, other influences may be operating to raise them. Such a situation is extremely common and may, indeed, be pretty much the rule. Under these circumstances the general level of costs will tend to move up or down depending upon which set of influences is the stronger. An illustration may make this point clearer. As the result of a general herd improvement program which may involve a more careful selection of sires, artificial insemination units, regular weighing and testing of milk, and a weeding out of low producing cows, the average amount of milk produced per cow may very well be raised somewhat. At the same time that this is happening, however, the dairy farmer may be finding it necessary to pay more for the hired man who feeds and milks the cow, for the materials needed to construct or maintain the buildings or for the various types of machinery and equipment required to grow the feed and generally operate the dairy enterprise. In this connection the recent and pronounced upward trend in prices of the many things which farmers have to buy is of special significance. It is also important to note that wages of hired farm labour were never subject to ceiling levels during the war, and have continued to rise during the period covered by the present enquiry. Evidence submitted to me suggests that hired labour is going to be available in future only if wage rates, housing facilities, working hours and general conditions of employment are made distinctly more satisfactory than in the past. In view of the fact that labour costs make up a sizable part of the total cost of producing milk, it seems advisable to take special note of recent and prospective developments on the labour front. Another significant trend of recent years is the increasing prevalence of serious dairy cattle diseases. It must also be realized that the continued drive to improve the average quality of milk is bound to be accompanied by some additional cost.

What has just been said should be sufficient to indicate that trends in milk production costs cannot be considered apart from such things as the general price and wage levels, the general social standards in respect to farm labor and the general effort to obtain a higher standard product. It should also make clear why production improvements of a purely technical sort do not always mean a net cost reduction in terms of dollars and cents.

USE OF COST INFORMATION IN PRICE DETERMINATION

As already indicated, by far the greater part of the evidence submitted by producers, both individually and through their organizations, had to do with the cost of producing milk. The obvious purpose of this evidence was to show what was considered necessary or reasonable in the way of producer prices. It was clear that, in the minds of producers, price should be sufficient to cover the cost of production. Nor was there any tendency on the part of distributor or consumer interests to disagree with this view.

While it may seem not only fair and right but economically desirable as well that the price received by producers should be high enough to cover all their costs, the fact is that, in practice, such a price can be obtained only when demand conditions are particularly favourable in relation to those of supply. With a less favourable demand situation a price sufficient to cover all costs can be obtained only if somewhat less than the total supply available is actually offered for sale. Since October, 1946, for example, producers have been able to secure the price which became effective on October 1st last, but the amount of milk which they could sell at this price has been reduced considerably as consumer demand has become less effective.

Since all prices, including the so-called fixed ones, are only scientific and enforceable to the extent that they reflect conditions of demand as well as those of supply, it follows that in the setting of fluid milk prices something more than cost of production must be considered. To base these prices on costs alone would, it seems to me, be equivalent to approaching the price problem from the supply side only. In addition, even if supply and demand conditions were such as to warrant a price in line with costs, there still remains the question as to whether one calculated on some other basis might not be even more satisfactory. One other basis that has been widely advocated in recent years in both Canada and the United States is the parity price plan. This involves selection of a basic period during which the relationship between the farmers' selling and buying prices is regarded as satisfactory. Having once established what this relationship should be, the aim would be to maintain it by seeing that all farm prices in future are set at the parity level, that is the level which would give farmers the same purchasing power as they had in the base period.

While it may not always be either possible or desirable to fix milk prices at levels corresponding with costs of production, it by no means follows that cost data cannot be used to advantage when determining prices. In my opinion they should and can be used as a general guide rather than as the all-important determinant. It seems pretty obvious that any price arrived at should reflect the general supply and demand conditions and should therefore be decided upon only after the various indexes of those conditions have been carefully examined. In the last analysis, however, it must not be forgotten that the price received by the producer for milk is also the price paid by the distributor. In fact it is very likely to be a price agreed to by the representatives of the producers and distributors after a period of bargaining. Wherever such bargaining takes place it is generally agreed that a distinct advantage lies with the bargainer who has the more complete knowledge of his costs. There can be little doubt that in the milk price bargaining that has gone on producer representatives have been seriously handicapped because of incomplete knowledge of their costs.

Where producer price cannot be arrived at by mutual agreement between the two groups directly concerned and where, consequently, a price has to be arranged by arbitration, an arbitrating authority such as the Milk Control

Board would, I think, be greatly helped by the possessions of reliable information on both the costs of production and distribution. Any arbitrating authority, since it is arranging a price between two parties, must surely be concerned with seeing that the price arrived at is equally fair to both of them. One way of deciding whether any price change is equally fair to both producers and distributors is to see whether the cost-price relationships of the two groups are likely to be affected in equal degree. In cases where a price reduction is necessitated by a drop in demand effectiveness, the impact of the price reduction should, in my opinion, be spread equally between the two groups. In other words prices should be arranged so that both groups will share in the benefits or burdens of the general market situation. From the evidence I have received it would appear that the general practice in past price fixing has been to have any changes in prices charged consumers reflected in corresponding changes in prices received by producers. This has meant that distributor price margins have remained substantially unchanged. This is not true in the case of the last price increases. Whether this policy has resulted in the gains and losses being anywhere near equally shared by producers and distributors is difficult, if not impossible, to say. What does seem probable, however, is that this policy has caused the extremes between good and bad times to be much greater in the case of producers than in that of distributors. Whereas variation in distributor income has been due mainly to changes in volume of business handled rather than to changes in the unit margin charged, the income of the producer has been subject to pronounced variations, not only in the volume of milk sold for liquid consumption but also in the price per hundred pounds at which it was sold.

GENERAL CONDITIONS UNDER WHICH FLUID MILK IS SOLD

Before discussing the general conclusions of the Commission regarding the cost of producing milk and the relationship between the cost and the selling price, it may be desirable to explain briefly one or two important general conditions under which fluid milk is sold.

Sale on the Butter-fat Basis

It should be noted that, when producers sell whole milk to the distributors, the price received varies depending upon the butter-fat content of the milk. The regular or officially-stated price, when milk is used for fluid consumption, is paid for 100 pounds of milk testing 3.4 per cent butter-fat and for each tenth of one per cent below or above this figure the price is reduced or increased $3\frac{1}{2}$ cents per hundred pounds. For example, if the milk tests 3.2 per cent the price paid is seven cents less than the official price, whereas, if it tests 3.6 per cent, the price paid is seven cents more than the official figure. Where milk prices are mentioned in the ensuing pages they refer to 100 pounds of milk containing 3.4 per cent butter-fat. Milk with this percentage of fat is known as standard milk.

While milk was originally sold on a weight or volume basis only, this became increasingly unsatisfactory for several reasons. To begin with, it constituted a direct invitation to milk watering on the part of a certain type of producer. In the second place it resulted in all milk being sold at the same price per 100 pounds despite the fact that some of it, because it contained more fat, had much greater food value measured in calories, and was therefore more valuable commercially than the rest. At the same time that producers shipping milk with high fat content were being discriminated

against, the distributors who were able to buy this particular milk secured a distinct advantage over their less fortunate competitors.

The practice of paying the same price for milk regardless of its food value or fat content, became increasingly unsatisfactory as more and more producers selected particular breeds when developing their dairy herds. It became obvious that milk from Jersey or Guernsey cows which tested up to five per cent fat or even more was quite different from milk from Holstein herds testing in the neighbourhood of three per cent. It was also clear to producers that the cost of producing 100 pounds of the high testing milk was much greater than that involved in producing an equal amount of the lower testing article.

In order that the price paid for milk might correspond more closely with its true value, it was decided many years ago that milk should be sold on the basis of its butter-fat content. Despite the fact that other constituents as well as the fat go to determine the full food value of the product, it was felt that sale on a butter-fat basis would result in a reasonable approximation to fairness to all concerned. There was the additional fact that a relatively simple method of determining the fat content had been developed.

While sale on the butter-fat basis cannot be considered entirely satisfactory, particularly in view of the evidence of the nutritional experts mentioned at the beginning of this report, it appears to have the general acceptance of those in the industry, and no reasonably satisfactory substitute for it was suggested to me during the course of the enquiry. In saying this I am not overlooking the fact that it was suggested that bacterial tests by the use of Methylene blue dye and a sediment test might be combined with the butter-fat method of grading. Under present conditions no practical way of doing this seemed apparent. Whether it is fallacious or not, there has been a very general belief on the part of the consuming public that rich milk is the equivalent of better milk, and this belief has actually been fostered by the advertising policies of the distributors. Despite this situation one cannot help feeling that the time has arrived when a more scientific basis of valuing milk should and could be found. In this connection the following quotation from a recent bulletin prepared by Dr. E. G. Misner of Cornell University, a noted authority on dairy marketing, is extremely significant. The bulletin is entitled "Commercial Value of Milk of Different Fat Tests" and was issued in July, 1946. The quotation is as follows:

"The method used in paying for fluid milk when all of the constituents of milk are used in commercial ways is of considerable financial importance to producers of milk containing different percentages of milk fat. When the producer separated the milk, sold the cream and kept the remainder at home on the farm, it was logical to pay him for the cream on the basis of the fat which it contained. Under such conditions, he could use the separated milk at home for feeding hogs, calves, chickens, turkeys, or for household uses, thereby converting it into income. The income that he derived from skim milk so utilized depended upon the effectiveness of the use. For example, if he had valuable purebred cattle or hogs, the feeding of separated milk to them could result in an extraordinarily high realization from its use in that manner.

"But to-day, where fluid milk is delivered to a plant or handler, the method of paying for that milk on the basis of the fat which it contains is outmoded and, wherever it is now used for any class of milk, should be replaced by a more scientifically economic method of varying the price to the producer. The reason why this should be done is simple. About one-half of the food value of milk (milk energy value in calories) which

tests 3.5 per cent is contained in the solids-not-fat, while the other half is contained in the fat itself. The solids-not-fat do not increase in the milk proportionately to the increase in fat. While the fat increases 0.1 pound, the solids-not-fat increase only 0.04 pound, or 40 per cent as much. Because the one-half of the value of the milk contained in the solids-not-fat increases only 40 per cent as much as the fat, payment to producers on the basis of fat deprives the producer of low testing milk of some of the commercial value of the product and returns to producers of higher testing milk more than the commercial value of the product. For this reason it is ridiculous to vary the price to producers for their milk in a manner which is directly proportional to the fat test of the milk. It would be more scientifically correct to vary it according to the total food value (milk energy in calories) of the milk."

Until such time as some plan is devised and adopted which will make it possible for the total food value of milk to be more nearly reflected in the price paid, the present method of selling on a butter-fat basis will probably continue. In view of this prospect the actual extent of the price variations which correspond with the variations in fat content should be carefully reviewed. At the present time fat in the milk is valued at 35 cents per pound, and this rate has prevailed for several years. Even if it is assumed that all fat should be valued on the basis of its value for butter-making as distinct from its value when disposed of in the form of sweet cream or ice cream, the adequacy of the prevailing rate of 35 cents per pound would seem to be open to question. The price of butter at the present time would suggest that the rate should be considerably higher. If milk is to be sold on a butter-fat basis the price variations resulting from variations in the fat content should at least be reasonably in line with the true commercial value of the fat. Despite the fact that it may not be feasible to make frequent changes in the price at which the fat in the milk is valued, there seems no justification for regarding the rate as something that should remain fixed indefinitely.

Under the Dairy Products Act (Ontario) 1938, Chapter 7, certain regulations were approved. Regulation 14 was as follows:

(1) Milk received at a milk and cream distributing plant shall be purchased on the differential basis of 3.4 per centum butter-fat as set forth in subsection 3, provided that milk that tests over 4.5 per centum butter fat shall be purchased at the same price as milk testing 4.5 per centum butter fat or at a higher price.

(2) A differential for the price of milk received at a milk and cream distributing plant shall be allowed for each one-tenth per centum butter fat above or below a test of 3.4 per centum butter fat and such differential shall be based on the wholesale price of creamery butter in Montreal and Toronto during the first ten days of each calendar month as reported by the Director.

(3) (a) The increased differentials for the price of milk received at a milk and cream distributing plant testing 3.4 to 4.5 per centum butter fat inclusively, shall be on the following basis:

Average Price of Butter	Increased Differential in Price for Each One-Tenth Per Centum Butter Fat			
	3	3½	4	4½
Under 25 cents per pound	cents	“	“	“
Under 25 cents per pound	per 100	“	“	“
25 cents and under 30 cents	“	“	“	“
30 cents and under 35 cents	“	“	“	“
35 cents and under 40 cents	“	“	“	“
40 cents and over	“	“	“	“

(b) The decreased differential for the price of milk received at a milk and cream distributing plant testing below 3.4 per centum butter fat shall be on the reduced basis set forth in clause (a).

(5) No change in the differential price of milk shall be made for a period of less than one month.

(6) For the purposes of this Section "milk and cream distributing plant" shall mean any plant where milk or milk and cream is brought for the purpose of re-sale for human consumption in its natural state or pasteurized.

This regulation was rescinded by Order-in-Council on December 7, 1940. The current regulation which came into effect on the same day is No. 27 of the regulations under the Milk Control Act as prepared and drafted by the Milk Control Board of Ontario and this regulation is as follows:

"27. Milk supplied to a distributor by a producer and required to be purchased at the basic price shall be paid for on the following differential basic price:

(a) milk testing 3.4 per centum butter-fat shall be paid for at the basic price;

(b) milk testing more than 3.4 per centum butter-fat shall be paid for at the basic price plus three and one-half cents per one hundred pounds of milk for each one-tenth per centum butter-fat that such milk tests over 3.4 per centum butterfat;

(c) milk testing less than 3.4 per centum butter-fat shall be paid for at the basic price less three and one-half cents per one hundred pounds of milk for each one-tenth per centum butter-fat that such milk tests below 3.4 per centum butter-fat;

(d) where a basic price has been established for a class of milk at an amount which is higher than the basic price for standard milk such higher basic price shall be used in connection with the payment for such class of milk."

In my view the current regulation unreasonably benefits the owners of Jersey and Guernsey herds producing very high test milk and at the same time works to the great disadvantage of the farmer whose production comes from Holstein herds. The bulk of the production of milk in this Province comes from either pure bred or grade Holstein herds.

I am at a loss to understand the acquiescence of the Ontario Whole Milk Producers' Association in the regulation made under the Milk Control Act, and I am equally at a loss to understand the failure of that Association or in fact of any producer to draw my attention, during the hearings of this Commission, to the situation set out above.

The Quota System

While some producers are fortunate enough to have all their available production taken by their distributors, this situation does not prevail in respect of the industry generally except in periods of unusual scarcity and very large consumer demand. Ordinarily the average producer is on what is called a quota. The quota system is simply a method by which the total requirement for fluid milk is rationed out among the producers so that all may get a fair share of the limited market which is available. In many markets the arrangement of quotas is undertaken by committees representing the distributors and producers.

When producers are on quota, only the milk taken from them by the

distributor for distribution as fluid milk is paid for at the agreed price. Any additional milk purchased by the distributor is treated as surplus milk and paid for at the surplus price. While the spread between fluid milk prices and the surplus milk price varies slightly from market to market, it may be said with reasonable accuracy that at the present time surplus milk is sold at \$1.00 per 100 pounds less than the fluid milk price.

The bases on which quotas are set will be discussed later in greater detail, together with the surplus milk disposal problem. The effectiveness with which the surplus milk can be disposed of is an important factor in determining the amount which the producer actually receives for his total product. In the meantime it may be well to keep in mind the general explanations given above when attempting to assess producer costs and income from the fluid milk market.

One other general consideration that may be mentioned in passing is the fact that all producers serve certain definite markets. The areas supplying each of these markets are popularly spoken of as milk sheds. In the organization of these milk sheds there is a great deal of overlapping and they have not been planned with what might be called scientific accuracy, but have rather grown with the passage of time. A general discussion of them in a more detailed way will be found in the chapter dealing with transporting of milk from the producer to the distributor as, logically, the problems they involve seem to be more closely linked with those of transportation.

FINDINGS IN RESPECT OF MILK PRODUCTION COSTS

The steps taken to obtain reliable information regarding the actual cost of producing milk have been outlined above. Very careful study was given not only to the considerable volume of evidence relating to costs submitted by individual producers and producer organizations, but in addition an independent survey was undertaken on behalf of the Commission to supplement and to verify this evidence. This was undertaken in weather conditions last winter which added to the difficulties, but by and large a check was made in all parts of the province.

In the result, putting the evidence and this survey together, I believe that a reasonable indication of milk production costs has been obtained during the 1946 calendar year. This is, of course, a general average for the province, and is subject to variations owing to unusual climatic conditions, variations in soil conditions, and transportation costs which affect certain specific parts of the province somewhat differently. For example, the cost of producing milk in the mining areas of Northern Ontario is, for reasons which are too obvious to mention, a heavier one than the production of the same product in, say, the long established dairy county such as Oxford.

It is also true that, for reasons which have been discussed above, the 1946 costs may differ from those of any other single year, but this is true at any given time, and merely underlines the necessity of a continuous cost study if the producer's position is to be known by them at any one time.

As I have said, a very great number of individual attempts to work out cost were presented to the Commission in various parts of the country, and there was a wide variation in these, as one would naturally expect.

In the brief of the Ontario Whole Milk Producers' League, a study was made of costs as they related to the Toronto milk shed, and it was stated they were of general application in Hamilton and the Niagara Peninsula markets.

The general survey undertaken by the Commission showed that for the

most part there was not a very great variation of cost, save in Northern Ontario and those parts of the Niagara Peninsula comprising what is known as the Haldimand Clay Belt. In these two areas costs were found to be somewhat higher. A comparison of the results obtained by the Commission with those disclosed in the Hare Report, which dealt with costs during 1936 to 1939, would seem to show that these differences are relatively permanent.

The tables furnished the Commission by the Whole Milk Producers' League are set out below in full from their brief.

Prices of Items Entering Into Cost of Production

Concentrates:	Denom.	1943	1946
Oats	cwt. } (1)	\$1.62	\$1.78
Barley	cwt. }	1.39	1.58
Dairy Conc.	cwt. (2)	2.85	2.85
Roughage:			
Mixed hay	ton	9.89	10.22
Silage	ton	4.00	4.50
Labour	hour (3)	.32	.46
Haulage	cwt.	.28	.28

Note (1): These prices do not include any charge for chopping. It is the view that this is 5c to 10c per cwt. and this might be legitimately included, thus raising the price per cwt.

Note (2): This is the wholesale price F.O.B. Toronto. It includes no freight or trucking charges to the farm. These might legitimately be included, thus raising the price per cwt.

Note (3): This is merely the cost of the actual number of hours of labour required to produce 100 lbs. of milk. These costs repay the farmer only on the basis of the manual worker and there is no allowance made for any managerial or supervision costs. Such cost might be legitimately added.

Having established, by the foregoing table, the cost of the items entering into the cost of production the following table gives the net average cost of producing 100 lbs. of whole milk on a delivered basis, i.e. delivered to the distributor.

Average Net Cost of Producing 100 lbs. Whole Milk (delivered basis)

	1943	1946	Increase
Concentrates (1)	\$.65	\$.70	\$.05
Hay (2) .....	.39	.41	.02
Silage (3) .....	.32	.37	.05
Pasture (4) .....	.27	.31	.04
Labour (5) .....	.96	1.38	.42
Depreciation (6) .....	.34	.44	.10
Hauling (7) .....	.28	.28	
Breeding (8) .....	.04	.06	.02
Misc. (9) .....	.22	.24	.02
	<hr/>	<hr/>	<hr/>
	3.47	4.19	.72
Less credits (10) .....	.45	.54	.09
	<hr/>	<hr/>	<hr/>
NET COST	\$3.02	\$3.65	\$.63

Note (1): This is the cost of 36 lbs. (made up of 21 lbs. of oats, 8 lbs. of barley and 7 lbs. of dairy concentrates).

Note (2): This is the cost of 80 lbs. of mixed hay.

Note (3): This is the cost of 160 lbs. of silage.

Note (4): This is 1/30 of an acre per 100 lbs. of milk on 12 months average.

All of the foregoing amounts are premised on an annual production of 8,000 lbs. of milk per cow which is well above the average. The average would be about 7,500 to 7,600 lbs. only.

Note (5): This is on the basis of 3 hours. As indicated before this is actual manual labour only.

Note (6): There are three items in depreciation, viz:

(a) Buildings at 5%;

(b) Machinery and equipment at 12½%;

(c) Herd at 20%.

Buildings were valued at \$2,400 on basis of requirements for a herd of 20 cows. The same figure was used for both 1943 and 1946.

Machinery and equipment was valued at \$800 in 1943 and \$1100 in 1946. This again was on the basis of requirements for a herd of 20 cows. The difference between 1943 and 1946 values is accounted for by some increase in prices of machinery and equipment and to more extensive investment in labour saving devices.

Herd was that of 20 cows at \$120 per cow, viz. \$2,400. This price per cow is low.

Note (7): This is the figure established by the Milk Control Board and remains constant.

Note (8): This is based on the actual cost of servicing the cow and presupposes only one fee of \$5.00—the cost in 1946. In 1943 it was \$3.50 only.

Note (9): This miscellaneous item includes bedding, minerals, taxes, insurance, association fees, insecticides, veterinary services, telephone, etc., or so much thereof as is attributable to the dairy. This is admittedly fairly difficult to average between farmers and must of necessity be an estimate only.

Note (10): As the foregoing figures in the table are based on gross production by the farmer certain credits must be allowed as follows:

(a) milk utilized on farm—estimated at 10% of gross production;

(b) one calf per year per cow—valued at \$5.00;

(c) manure produced by cow—estimated at 5 tons per cow per year of the value of \$1.25 per ton;

(d) appreciation in value of cow because of present upward trend of prices. It is extremely doubtful if this should properly be included. Its exclusion would reduce the credit.

In the foregoing items of cost of production of 100 lbs. of milk it should be observed that no account has been taken of

(1) any interest to the producer on his capital investment in buildings, machinery and equipment, and herd; or

(2) any interest to the producer on any working capital made necessary because of the time lag between delivery of and payment for the milk and due to the fact that feed, etc., must be produced or purchased and paid for in quantity in advance of use.

The result of the Commission's studies are shown in the following summary table. It will be noted that there is some variation between the two. Insofar as the Commission's estimate of costs is concerned, the various elements that enter into that figure have been set out. It emphasizes also the importance of each element, the average net cost for the entire province, and the average total cost, including what is called the administration allowance to cover interest on investment and to give the farmer some profit from his enterprise. In this case, as in the tables submitted by the Whole Milk Producers' League, the figures relate to the cost of producing 100 pounds of milk for the whole milk market.

*TABLE SHOWING AVERAGE COST OF PRODUCING WHOLE MILK
IN ONTARIO, 1946*

	Cost per 100 lbs. Milk
Concentrates .....	.94
Hay .....	.50
Silage .....	.31
Pasture .....	.28
<hr/>	
Total feed cost	\$2.03
Dairy herd labour	\$1.17
Depreciation of dairy buildings and equipment .....	.14
Hauling .....	.22
Miscellaneous .....	.48
<hr/>	
Gross cost	\$4.04
Credits:	
Milk used on farm .....	.16
Manure .....	.25
Cattle sales less cattle purchases and inventory adjustments .....	.44
<hr/>	
Total credits .....	.85
<hr/>	
Average net cost	\$3.19
Administration allowance .....	.48
<hr/>	
Total cost	\$3.67

In regard to the above table there are two or three points which seem worthy of special note. One of these is the extremely large part which the feed and labour items contribute to the total cost picture. It will be observed that feed and labour costs combined coincide almost exactly with the average net cost figure. Another fact which is really a counterpart to the one just mentioned is that the sum of the costs other than feed and labour, i.e., depreciation, hauling and miscellaneous, is completely offset by the total credits. A third point which seems to me to be particularly significant is the large credit resulting from dairy cattle sales. This credit above amounted to 44 cents per 100 pounds of milk, largely because the number of dairy

cattle sold during 1946 was much larger than usual and because the selling price was relatively high. The mere fact that these sales can and do vary markedly from year to year indicates the necessity of a continuous cost study if serious attention is to be paid to cost data at any particular time. Had there been no cattle sales in 1946 the average cost of producing milk would have been 44 cents a 100 pounds higher than it actually was.

Finally something should be said in explanation of the item called "Administration Allowance". In the reports of many milk cost studies which I have examined interest on investment in livestock, dairy buildings and equipment has been included as part of the net cost. This was the method followed in the Hare study, the study undertaken by the Ontario Milk Production Committee in 1920 and 1921, the ten-year study of milk costs in the Montreal region carried out by the Quebec Department of Agriculture from 1923 to 1938, and indeed in most studies that have been made in various parts of Canada and the United States. In these studies the cost on account of interest ran from about 12 to 15 or more cents per 100 pounds, depending upon whether the study was made in a high or low value period, the rate of interest prevailing, etc. In the calculations made by this Commission, however, it has been thought preferable to calculate net cost exclusive of interest and to add the interest cost later. This has been done partly because it is in line with current business practice and partly, also, because most of the briefs submitted by individual producers and producer organizations did not include an interest item. While opinions may differ as to the method of inclusion, there seems no doubt but that interest forms a very definite part of the cost of producing milk.

In addition to interest, however, it seems to me that the dairy farmer, like any other business man operating under our free enterprise system, is entitled to a reasonable profit on his whole undertaking. Whether the amount permitted is considered as a special wage of management, a reward for risk, or a straight profit margin, i.e., the difference between costs proper and the selling price, the principle involved is the same. It is at least a social cost, something which society must expect to pay for getting the job done. Whether it should be regarded as part of production cost in the strict sense may be open to debate. In my opinion, however, it should very definitely be included in the amount of money which producers receive for their milk. To suggest otherwise would be to discriminate against the farmer as compared with other business men or to claim that nobody is morally entitled to receive any profit. As to the actual amount of the allowance as distinct from its justification, I feel that the figure here suggested is an extremely reasonable one. A comparison with normal rates of profit in other lines of business will, I believe, readily confirm this view.

When the cost figures shown in the above table are compared with the prices received by producers for their milk, certain conclusions become fairly obvious. One is that, prior to October 1st last, the average producer's returns, including the producer subsidy of 55 cents per 100 pounds, were considerably less than sufficient to cover his net cost, to say nothing about providing him with interest on his investment and something by way of a profit. This was particularly true in respect of producers in North Western Ontario and in the Niagara Peninsula area where costs were very considerably above the provincial average. In the second place it would appear that, even with the increased prices which became effective after October 1st, 1946, the price received by producers in the two areas just mentioned was still insufficient to cover the net cost of production. On the other hand, so far as producers in the balance of the province were concerned, the higher prices received

after October 1st was apparently not only sufficient to cover net cost but was sufficient to meet a very considerable part of the administration allowance suggested here as well. This last statement, however, is based on a very important assumption and one that has become less and less valid with the passing of the period since last October. That assumption is that whole milk producers have been able to sell all their milk at the top price. According to the evidence presented to me, the demand for milk for fluid consumption during most of 1946 and for a considerable period previous to that, was such that all available supplies were readily absorbed. Under these circumstances all whole milk shipments were sold at the regular or official whole milk price. Since the latter part of 1946, however, a growing surplus above fluid requirements has appeared, and this surplus or secondary milk has had to be sold at the secondary or butter-fat price which, as previously stated, is very much below the regular whole milk price. What percentage of the milk produced by whole milk shippers is now being used for surplus purposes and paid for at surplus prices, I am unable to say, but I am informed that it is considerable and steadily increasing. That this is so can be readily substantiated by examining the official figures of retail milk sales.

This fact that a large and increasing part of the milk is being sold at much less than the regular whole milk price means that the average price received for all the milk shipped is being steadily reduced, the rate of reduction depending upon the percentage that has to be sold at the secondary price. This fact of a drop in the average price received has an obvious effect on the cost-price relationship. While the average price received falls as the amount sold at the surplus price increases, cost of production remains as before. It costs just as much to produce and transport the milk sold as surplus as it does to produce that sold at the regular market or quota price. In fact, it seems altogether probable that costs have risen rather than fallen in recent months. The most recent official figures of farm wage rates would suggest this to be the case. In light of these circumstances it would appear that the average price received at the present time is, at best, no more than sufficient to cover the net cost indicated above. That is, it is not sufficient to provide any interest on investment, to say nothing of any clear profit. In the light of this situation it is significant that the chief officials of the Whole Milk Producers' League, in their final appearance before the Commission, stated very definitely that the producers' organization was interested in maintaining the existing prices rather than in securing any further price increases. This stand was taken despite the fact that the existing prices were considerably below the cost figures previously submitted by the League. It was quite apparent that the League officials recognized that the amount of surplus milk was steadily increasing and that, consequently, the average price being received for all milk sold was steadily falling. Their recommendations in respect of the prices desired reflected a recognition that, under the prevailing conditions of demand as well as supply, producers were likely to be worse rather than better off with higher official selling prices.

The cost figures thus far presented relate to the province as a whole. Consideration of costs on a regional basis indicates that, during the period surveyed, costs were considerably higher in North Western Ontario and in the Hamilton and Niagara Peninsula area than elsewhere in the province. More specifically our calculations indicate that in the Kenora, Dryden and North Western Ontario districts the net cost is \$3.97 per 100 pounds which, with an administration allowance of 48 cents would give a total cost of \$4.45. Similarly, in the Hamilton and Niagara Peninsula district the indicated net cost is \$3.47 and the total cost \$3.95. An explanation as to why

costs tend to be higher in these two sections of the province than elsewhere has, I believe, been offered in an earlier section of this report. Aside from the two areas mentioned, no really pronounced cost variations of a regional character were found. Because of this the cost data relating to all of the province except the two areas specified above has been grouped together. When so grouped, the representative figures resulting show a net cost of \$3.09 or a total cost of \$3.57 a hundred pounds. While costs were apparently reasonably uniform throughout this large area in 1946, it does not follow that a similar situation will continue indefinitely. It may well happen in the future as, indeed, it has happened in the past, that costs in a particular year will be higher in the Toronto, the Ottawa or the Windsor district than in the rest of this large area. The main point to stress, however, is that, whereas regional cost variations within this area are year to year phenomena, the higher levels of cost which characterize the North Western and Niagara Peninsula areas are likely to continue year after year.

In comparing the cost figures submitted by the Whole Milk Producers' League with the findings arrived at by the Commission after a correlation of the evidence and its own survey, there are certain substantial differences. It cannot be said, however, that the general result shows any significant difference. Part of the differences which do exist may be accounted for from the fact that the League's statement was based generally on the Toronto market conditions while the Commission's study represents the provincial average. This fact alone would account for a higher hauling charge in the case of the producers' computation and also for the somewhat heavier feed cost.

As for the difference in the amount allowed for depreciation, this is partly explained by the fact that the Commission's figure was based on somewhat lower depreciation rates for both buildings and equipment, and partly by the difference in the method used to calculate the depreciation on dairy cows. The larger credits allowed for in the case of the Commission's findings are primarily due to the very extensive sales of dairy cattle at relatively high prices during the year 1946. This particular factor was not given sufficient weight in the League's computation.

The remaining major difference may be attributed to the fact that in the Commission's findings an administration allowance of 48 cents per 100 pounds to cover interest and provide some very moderate reward for management has been included. No such provision has been made in the case of the League's presentation.

THE TESTING OF WHOLE MILK

Mention has already been made of the fact that fluid milk is sold on a butter-fat test basis, and some consideration has been given to the extent to which that basis may be regarded as satisfactory. For the purposes of the previous discussion it was assumed that there was no particular problem connected with the actual taking of the tests and that the tests, when made, could be absolutely relied upon. At this stage of the report, however, it seems necessary to discuss some important problems which have arisen in connection with the performance of the testing operation and, in particular, to consider the possibilities of eliminating dissatisfaction with the testing results.

In considering this matter the first point to note is that not only is all milk sold subject to test, but that the testing is done in the distributors' plants and by distributor employees. This situation leads inevitably to a two-fold result. In the first place it is obvious that the producer's returns will vary

with the accuracy of the test. On the other hand, since the butter-fat test has economic significance and since the testing is left in the hands of the distributor, it is only natural that producers should be inclined to wonder whether the tests received are as high as those to which they are actually entitled.

The need for preventing or eliminating producer dissatisfaction with the tests as given by distributors has led to adoption of the system known as check-testing. As the name implies, arrangements have been made whereby qualified testers employed by either the producers' organization or the Milk Control Board make occasional visits to the distributor plants for the purpose of making tests with which those made by the distributors can be compared. This testing represents an important part of the work entrusted to the full-time fieldmen employed by the Milk Control Board. These fieldmen are divided into two groups. The complete task of the eight men in one group consists in making occasional checks to see that legal regulations are observed with respect to weighing, sampling, butter-fat testing and paying for milk supplied by producers. The two men in the other group undertake special investigations regarding major irregularities reported by the first group, as well as complaints made by producer and distributor organizations and special audits on behalf of the Board itself.

So far as the checking of butter-fat tests is concerned, there can be little doubt that the work undertaken to date has had a very beneficial effect. Apart from the actual correction of mistakes and the satisfaction of complaints, the very fact that a check test may be made at any time, and is actually made at least occasionally, has undoubtedly helped to deter certain distributors and reassure many producers. At the same time I think it must be admitted that even an expanded check testing service can never do more than act as a check. It would seem that, at the very best, it can reduce the number of inaccurate tests but cannot hope to eliminate them entirely.

During this enquiry the amount and character of producer evidence relative to the milk testing problem was such as to indicate that a very considerable measure of producer dissatisfaction still exists. In connection with this matter I am inclined to think that the number of actual complaints made is far from an adequate measure of the amount of dissatisfaction which prevails. My impression is that more complaints would be made were all producers fully conversant with the facilities available and procedure required for considering them. I was also impressed by repeated statements to the effect that producers have refrained from complaining about the tests because they feared the results of incurring distributor ill-will. It is clear to them that, in all but periods of unusual scarcity, a relatively large scale distributor can readily dispense with the milk of any individual producer. Moreover it is quite possible to do so since the distributor deals with each producer individually rather than with the producer organization when agreeing to take the milk. In other words, the extremely weak bargaining position in which the individual producer is placed makes him hesitate to risk weakening it still further by complaining about the butter-fat test.

In considering the possibilities of bringing about improvements in the testing situation, there are one or two things which it seems necessary to bear in mind. In the first place it is fairly obvious that it is physically or technically impossible to have the laboratory analysis made at the producer's farm, although there appears to be no reason why sampling should not be done at the farm. In the second place, it is equally clear that, since such analysis is normally made at the headquarters of the distributor and by

him or his representative, the actual testing results cannot and do not represent the combined judgment of the two interested parties.

Since variations in the test represent variations in the price paid to or received by producers, it seems only logical to suggest that producers should have some direct say in the determination of the tests. In order that they might have this say it would apparently be necessary for qualified testers employed by and representing producers to actually participate in the testing work at the distributor plants. The practical problem is how to provide for this producer participation without at the same time bringing about a duplication in the number of testers and therefore in the cost of doing the testing job. While this problem is by no means a simple one I do not think that it should be regarded as incapable of solution.

In connection with this important matter I feel that serious consideration might well be given to adoption in Ontario of the plan that has been followed for several years in connection with the milk sold by the Twin City Milk Producers' Association which operates in the Minneapolis and St. Paul district. Under this plan all the testing is done in the distributors' plants but under the direct supervision of the producers' association. No attempt is made to test every can or every day's shipment of milk. Instead fresh milk samples of each producers' milk are tested four or five times each month. This method makes it possible for four producer association employees to do the entire testing job. While it is recognized that tests vary from day to day and even from one milking to the next, experience has shown that the average of a few tests taken during the period of a month gives a highly reliable figure. In employing men as testers, care is taken to see that they have had previous experience in testing work and also to see that they are properly bonded. The bonding company investigates the character of the employee for at least ten years prior to his employment by the association. After he is employed the company keeps in touch with him and, should anything develop to indicate that he is not perfectly honest, the bond is cancelled. During the association's entire experience there has been no evidence of dishonesty on the part of any tester.

According to the officials of the Twin City Producers' Association, this method of dealing with the testing problem has been extremely satisfactory. In fact it is looked upon by them as the real solution to that problem. There is no doubt that such a plan, if adopted in this province, would require a considerably larger number of testers than the number employed by the Twin City organization. On this point, however, it is well to remember that several times that number of people are already engaged in check-testing in the province. An alternative plan might be to have the testing done by employees of the Milk Control Board rather than by those of the provincial producers' association. Such a plan would more or less parallel that employed by the Dominion Government in respect to the grading of hogs in the packing plants. All things considered, however, it would probably be better to have the testing done by the producers' organization rather than to entrust it to any government agency. It seems to me that there exists in this sphere an excellent opportunity for the producer section of the industry to practise the policy of self help.

SURPLUS MILK

If the fluid milk producer produces more milk than his distributor can absorb for the fluid milk market, he has a surplus of milk on his hands.

The price which he obtains for this surplus milk is always an important factor in determining the amount he actually receives for his fluid milk. It costs him as much to produce and transport as the milk he sells at the standard fluid milk price, and if the market for fluid milk cannot absorb it he must sell it, if possible, as surplus milk. If he is not able to sell it, it is a dead loss apart from the use to which he can put it on his own farm. If he can sell it, he sells it at what is known as the secondary price which, in the case of the fluid milk market, as has been stated above, is roughly \$1.00 less than the prevailing price for fluid milk consumed as such.

Since surplus milk must be sold for much less than milk used for fluid consumption, it follows that the average price for all milk produced is reduced according as the surplus portion becomes a larger part of the total. This means that, when the amount that must be sold at the surplus price becomes at all significant, the satisfactory determination of that price is just as important to the producer as the determination of the price which is paid for that part of the milk which is sold for fluid consumption. While it is undoubtedly true that no use to which surplus milk can be put can justify a price equal to that paid for milk consumed in the fluid form, it does not follow that nothing can or should be done to effect improvement in the surplus milk price. On the contrary the very fact that the surplus must be sold for less than the fluid price plus the other fact that the surplus seems likely to constitute a very considerable and steadily increasing part of the total production suggests that every possible effort should be made to obtain surplus prices that are in line with the full commercial value of this milk.

If one is to deal with the problem in detail, three kinds of surplus milk may be mentioned.

The first is the seasonal surplus. Ordinarily a larger amount of milk than at other seasons is produced in the lush pasture season during the months of May, June and sometimes part of July. This surplus corresponds with seasonal variations in farm production.

Secondly, there is a marginal surplus, that is, a surplus which a distributor must buy to protect himself against day-to-day variations in supply and in consumer demand. Under the present marketing agreements, if this milk is used for fluid consumption it must be paid for at standard fluid milk prices.

There may also be mentioned a constant surplus, which is the amount of milk available every month of the year in excess of the average daily consumption by consumers together with the marginal surplus. This results from over-production by the producer for the fluid milk market, but in practice it is extremely difficult to control. As has been stated earlier, the fluid milk producer has to arrange the management of his herd so that he has a constant supply at all seasons of the year. He must arrange matters so that he has cows freshening at different periods during the year rather than the normal time, in the spring.

In addition there is always a large potential surplus. As appears by the figures of the Dominion Bureau of Statistics cited to me by the Hamilton Milk Producers' Association, in the year 1945 fluid milk sales took only 26 per cent of the total of the milk produced in Ontario in that year. Consequently, if fluid milk prices become profitable and consumer demand increases, as it did during the war years, there is always a tendency for those farmers who have not been previously producing for fluid milk consumption to endeavour to enter the fluid producing field. This, of course, also occurs when the prices realized for cream, milk for cheese factories, and condensaries, falls sharply behind those paid for milk used for fluid

consumption. There has always been a distinction between these prices because by and large production of milk for cheese, butter and the condensaries has been a seasonal one in this country, but if the returns from these are low there is always a temptation and an incentive to the farm producing for these products to change and obtain entry into the fluid milk market. With the generally increased demand for fluid milk during the war years this is what occurred. While there has been some increase in the average production per cow as the table cited above in this report shows, nevertheless by and large the increasing consumer demand during the war years was met by the entry of more and more producers in the fluid milk field.

It is obviously much cheaper to produce milk at certain seasons of the year than others. When the cows are on pasture the amount of feed and feeding which has to be undertaken is sharply reduced. Nevertheless if the producer is to effectively operate in the fluid milk field he must, as I have said, arrange his production so that he has a constant supply throughout the whole year, and this costs money. There is a great variation between individual producers in this respect. The more efficient ones have reached a stage where their supply is reasonably constant over the years; many others have not attained this objective.

It is apparent that the problem of surplus is one of the most fundamental ones to be faced by the fluid milk producer, and it is a cruel fact that the more efficient a producer becomes and the more he reduces his cost of production and increases his production per cow, the more likely he is to have a surplus on his hands.

Overhanging the fluid milk producer there is also the constant threat from the greater body of farmers who produce what I have called the potential surplus. As soon as the fluid milk producer gets himself in the position where demand increases and he is able to obtain a lucrative price, he is faced with pressure from other dairy farmers who may seek to enter the field.

The problem has been met in Great Britain by the formation of a marketing authority, with which I will deal shortly. It is a problem, however, which constantly overhangs and threatens the Ontario producer in the fluid milk field. It must, I think, also be said that this threat is likely to assume constantly increasing proportions.

The efforts being made to improve dairy herds, of course, are not confined to those producing for the fluid milk field, and over the years there appears to be a steady increase in production per cow per farm, and this increase appears to be more rapid than the increase in consumer demand for fluid milk.

This problem assumed serious proportions in Ontario during the 1930's. During the war years, with the amazing increase in consumption of milk by consumers, it almost disappeared. It has now reasserted itself and is a problem requiring the liveliest consideration by the producers of fluid milk. The information reaching me is that during recent months it has steadily become more serious, and the present situation appears to arise directly from the decrease in consumption since the increase in price in October, 1946. Consequently it would appear that the producers must either take steps to increase the demand for fluid milk by a decrease in price of standard milk which would reflect in presumably lower consumer prices, or by finding other and more profitable ways of disposing of the surplus. In respect of this whole matter reference may be made to methods adopted in other jurisdictions. In the Montreal milk market, the Montreal Milk Producers' Co-Operative Agricultural Association some thirteen years ago undertook to

process and sell the members' surplus milk. Up to that time, like the Ontario Milk Producers' League, the Association had been a purely protective group financed by its own members. In January 1935 a plant was opened by the Montreal Association for the handling of surplus milk, and it has been stated that in the first year of operation ending in December, 1935, the plant handled 9,000,000 pounds of milk and that the returns to member-producers were much better than they had obtained for their surplus under the old system. In 1941, some 31,000,000 lbs. of milk were handled, and in 1946 a second plant was opened. The Association apparently takes all surplus milk from its member producers. This milk is then handled according to current requirements without competing with distributor dairies. If the dairies are short of milk, it is sold to them at standard prices, butter is manufactured and also sold to dairies, and from the skim, milk powder and casein are produced.

It was stated in a local publication recently that in the twelve-month period ending December 15, 1946, the Association received 16,855,840 pounds of milk, and from this manufactured 195,771 pounds of butter, 685,587 pounds of skim milk powder, and some 174,248 pounds of wet casein. Incidentally, it may be mentioned that included in the milk handled is milk supplied by Ontario producers living in the most easterly part of the province supplying the Montreal market.

Payment to the members, that is the producers supplying the milk, is made on a basis of butter-fat content, and is made on the 15th of each month for the preceding calendar month. In 1946 it is said that an average of 62.9 cents per pounds was paid for butter-fat, and during the first month of 1947 this materially increased. Included in this price, of course, are the current subsidies from the Dominion Government and this fact should be borne in mind. At the present time I am advised that the Toronto Milk Producers' Association has initiated steps whereby some similar operation may be developed. In my view this is a step in the right direction.

The Fraser Valley Milk Producers' Association, which supplies fluid milk to the Vancouver market, is another organization which has developed an independent program designed to yield as large returns as possible from the disposal of surplus milk. This organization has owned and operated a number of processing plants for a good many years, with the result that the average returns obtained from the disposal of its surplus has been very materially increased.

Still another example of a long and successful producer attempt to cope with the surplus problem is found in the case of the Twin City Milk Producers Organization which operates in the Minneapolis and St. Paul area of the United States. From the time it was organized some 31 years ago, the Twin City Milk Producers undertook to handle and dispose of all milk supplied by its members. In recent years considerably more than half of all milk supplied has been processed by the organization into one or other of several products. The organization owns and operates a dozen or more processing plants throughout the producing territory. The list includes several cheese factories, condensaries and one or more creameries.

The general experience of this organization in the handling of surplus milk has apparently been extremely satisfactory, particularly in more recent years.

At the time the British Marketing Scheme was inaugurated in 1933 the British producers were facing similar conditions. There was and is this difference, however, between the situation in Britain and that in the Province of Ontario, namely, whereas around 70 per cent of all milk produced in Britain was consumed in the fluid form, the most recent corresponding figure

for Ontario is around 26 per cent. Since the advent of the war years the percentage consumed in the fluid form in Britain has risen to 90 per cent or better. This difference between the situations in the two countries means that the fluid milk producer would be called upon to accept a considerably lower average price in Ontario than has been true in the case of Britain.

The details of the British Marketing Scheme, however, merit the closest attention.

As I have said before, I think the salvation of the fluid milk producer, if he is to get a better return, lies in his own hands, but it does not lie for the most part in his personal efforts. If, through associations like the Ontario Whole Milk Producers' League he can co-operatively build up methods of handling his surplus product, he will unquestionably in the long run be in a much stronger position and obtain better results. If the producers as a class do not so further extend their organization, I see little hope for improvement in their economic position. They are always going to be selling in a buyer's market.

MAINTENANCE OF CONTROLS FOR THE BENEFIT OF THE PRODUCER

During the course of the enquiry questions were put to most producer witnesses as to the necessity from their standpoint of maintaining the type of controls set up in the Milk Control Act. With complete unanimity they declared themselves in favour of the maintenance of the type of control exercised by the Milk Control Board in respect of producer prices. They were satisfied that if this backing of their price arrangements were removed, the chaotic conditions which occurred in the early 1930's and which led to the passing of the Milk Control Act and to the setting up of the Milk Control Board would inevitably reoccur.

It can be repeated that originally the Milk Control Act was passed for the benefit of the fluid milk producers who were at the time in a very depressed condition. It is true that their organization, the Ontario Whole Milk Producers' League, is now in a much stronger position than it was in 1933 and 1934. Nevertheless the universal opinion of those connected with the business of producing fluid milk was that they were not yet strong enough to preserve their bargaining position unless their efforts had the sanction of government authority and enforcement behind them. With this view I think I must agree. One cannot peruse the reports dealing with similar problems in other jurisdictions without finding almost universal agreement on this point, and from the nature of the facts in the case the conclusion seems inescapable.

If there is not a fixed price to the producer with the sanction of a law behind it, 16,000 or more individuals, no matter how organized, will always contain a minority who are prepared to break away and cut prices or give secret rebates to distributors. It is unquestionably true that the more reputable distributors will not engage in this kind of business, nevertheless experience in this and other jurisdictions has demonstrated that there are always some who will do so. In the result, particularly in periods of declining demand or expanding supply beyond market requirements, a situation approaching that which obtained in the early 1930 years will probably reoccur.

It has been suggested that the control is too elaborate, and that the situation might be met by the setting up of schemes throughout the province under the provisions of The Farm Products Marketing Act (1946). This Act, and

The Farm Markets Control Act which preceded it, has operated largely in connection with certain fruit and vegetable crops, such as tomatoes, sweet and sour cherries, asparagus, etc. It will be noted that these are seasonal products and do not involve year-round distribution. It has also operated in connection with cheese, which again is produced on a seasonal basis and which, if properly kept, can be preserved for a considerable period of time. There is, I believe, at the present time, a move on foot to establish some such scheme in connection with the sale of fluid cream to creameries for butter-making purposes, and it will be interesting to see how this operates. It may be that this will indicate the degree to which this legislation is applicable to a product such as fluid milk. It should be remembered, however, that the great part of Ontario butter is produced in the spring and summer months. There are, of course, a very great number of fluid milk markets in the Province and in many cases they overlap. Under the stress of the demand of the war years large markets such as those of Hamilton and Toronto reached out in all directions for supplies of milk, and in Oxford and Middlesex Counties it is possible to find farmers side by side who are shipping to London, Hamilton, Brantford and Toronto. This state of affairs was, I am advised, present to some degree even prior to the war.

Insofar as fluid milk is concerned, there is a necessity for a constant supply throughout the year and the maintaining of a uniformly high standard of quality.

It is in no sense a seasonal product. It is also a highly perishable product that can be preserved in its original form for very short periods only. The cost of producing it, particularly when the costs of labour and purchased feeds such as mineral concentrates is considered, can change drastically from time to time on very short notice.

There are also a large number of markets for fluid milk in the province. These considerations would, in my view, make the application of The Farm Products Marketing Act in its present form a very cumbersome and complicated matter. The type and degree of administration and supervision which would be called for would be vastly different from anything envisaged by any of the schemes presently in operation under this act.

It would also appear that the difficulties of enforcing these schemes might be considerably greater than the agreement under which producers operate under the authority of the Milk Control Board, and in the final result I question whether more would have been done than to replace the Milk Control Board which in its present work is a specialized body dealing with a very large and important industry by loosely organized Boards under the Farm Products Marketing Act. While there would be general supervision by the Farm Products Marketing Board, it would have to consider not only many delicate and intricate problems of the dairy industry but the problems associated with the other schemes already set up under The Farm Products Act. The experience of the Milk Control Board indicates their difficulty in adequately regulating the fluid milk business alone.

As will appear in the chapter dealing with Milk Consumption and the Consumer, there is articulate demand for more effective consumer representation on the Milk Control Board in respect of its price-fixing functions. The Farm Products Marketing Act makes no provision for the representation of such an interest. It would appear to me that the problem of enforcement would be much more difficult. This was certainly the opinion of the producer witnesses I heard. Generally speaking, the function which

would have to be performed would be substantially similar to those already undertaken or which should be undertaken by the Milk Control Board. And it is open to question whether any saving would be effected in such an administration when compared with the present arrangements.

Until the producers are organized in a more comprehensive way than they are at present, it seems to me that as a class they have neither the bargaining power to deal on anything like equal terms with distributors generally, nor the capacity to protect themselves from the operations of unscrupulous distributors in particular. If, in the final result, as will be suggested later, they were able to organize themselves into a marketing authority which would have control of the sale of their products; then obviously many of the functions now performed by the Milk Control Board might well be performed by such an authority. In my view this would be a much healthier position for both the producers and the general economy at large. However, until the producers as a body are prepared to so organize themselves, my opinion would be that they need the authority of some such body as the Milk Control Board to help establish the prices for their raw products and enforce them after they are established.

At the final hearings in Toronto there was filed a formal expression of opinion of the Ontario Whole Milk Producers' League in connection with this and other related matters, and it is set out in Appendix 15.

If circumstances changed and it was decided to try to operate the producer end of the fluid milk business under the provisions of The Farm Products Marketing Act, I would suggest that careful attention be given to the provisions governing and the procedure followed in marketing milk in the State of New York. Many provisions similar to those found in the New York statute and the regulations might well have to be considered. A brief summary of the scheme as it operates in New York was filed before me and from additional investigation I believe presents a brief but accurate picture of its operation. It was stated to me as follows:

NEW YORK STATE MILK MARKETING SCHEME

"The milk marketing scheme has been in effect in the State of New York for many years and takes the form of various regional schemes in that they are known as Milk Marketing Areas. Under the provisions of the State of New York Agriculture and Markets Law the Commissioner of Agriculture and Markets is entitled to issue an official order to regulate the handling of milk produced for sale in an area defined by the said order and known as the milk marketing area. The official order so issued includes detailed regulations for the handling of milk in the area, fixing of the price to be paid for the various classes of milk produced, the licensing of producers, marketers, collection co-operatives, milk plants, distributors, etc. The actual sale of milk is principally handled through pooling plants which are licensed by the Milk Administrator appointed under the Act. The Milk Administrator has the duty to fix the price for all milk produced for sale in the area fixing the same by the purposes for which the milk is used and fixing also the haulage costs and other charges to be made by milk handlers and milk producers. The actual payment for all milk sold is made individually by each distributor or processor to the producer but in many areas collecting co-operatives have been established which collect for all milk sold through them and in turn make payment to their producers."

CURRENT PRICE RECOMMENDATIONS

In respect of the prices to producers arrived at under agreement made between the producers and distributors in September of 1946, which initiated the present price structure to the consumer, it will be observed that since this price increase, owing doubtless in part to the increase itself, to the changing economic conditions arising in the after-war period and to the pronounced increase in the cost of living generally, the consumption of milk between May, 1946, and May, 1947, has decreased approximately 10 per cent. However, comparing September, 1946, the last month before the price increase, with May, 1947, there is in May an increase in consumption of 2.7 per cent. In my view this indicates that under present conditions of large volume consumption, any increase in price to the consumer will only result in a further decline in demand from consumers.

This, I believe, is recognized also by the Whole Milk Producers' League. In the presentation of their brief at the sittings of this Commission held in Toronto, they formally abandoned their request for any higher producer price at the present time. This was done despite the fact that they had filed a brief indicating that the price of \$3.45 per cwt. for standard milk in the Toronto markets was not sufficient to meet their average costs of production. This position was taken, in my opinion, because decreasing demands were resulting in substantial increases in the amount of surplus milk. This could only be expected under the conditions prevailing. After some years of capacity demands it again brought very forcibly to the attention of the producers the fact that the price they could obtain for their product in the long run must be modified in the light of consumer demand as well as their own costs. As Mr. A. E. Coleman, an accountant employed by the Toronto Milk Producers' Association said: "Quite a considerable portion of the milk going to distributors was now surplus milk and paid for at surplus prices." As he observed, speaking of the surplus milk situation in the year 1947: "Quite a considerable portion is coming in much earlier this year than in previous years."

Mr. R. F. Lick, the Secretary-Manager of the League, was asked by Commission Counsel whether his association and the distributors' association were in agreement with prices as they now exist and he said yes, and he had no further recommendations to make as to the present price paid producers.

Mr. Fenton MacIntyre, the President of the Whole Milk Producers' League, was asked by Commission Counsel whether at the present moment he felt that \$3.45 per cwt. price in the Toronto market was a reasonable price, and whether, speaking as of that date, that is March 1947, the object was to hold the line at that price. He stated that it was.

In the result, therefore, I think it must be said that no increase in the standard price of fluid milk to the producers can be recommended at the present time. Any further decrease in consumption will inevitably result in a larger supply of surplus milk in the hands of the producer, with a corresponding decline in the average price which he receives.

In the result, therefore, it would appear that, despite his apparent cost position, the producer has reached a maximum price under present conditions. There is an urgent necessity on him to further reduce, if possible, his cost of production, or to discover, as has been previously indicated, more lucrative ways of disposing of his surplus milk. His salvation lies substantially in his own hands, and as I see it, it is only through enlarging the functions and capacities of the Ontario Whole Milk Producers' League,

that there is any real hope for the producer obtaining better returns.

Producers as individuals can, of course, obtain some relief to the extent that more efficient production methods can be followed. There are many ways of achieving this objective. For example, something substantial has been done, and more will probably be done in future, in improving the dairy herds of the province through the introduction of improved blood strains. One of the avenues of approach to this is the setting up of artificial insemination stations, which in certain parts of the Province has been done by groups of farmers co-operatively. Another method of improving the quality of the herds is that undertaken by the dairy farmers of Essex County who, in conjunction with the Ontario Department of Agriculture, have employed an expert to keep production records for a selected list of herds, and as a result of his over-all experience to suggest better means of improving both feeding and breeding of dairy animals.

There are countless ways in which the dairy farmer can improve the efficiency of his production but it is, I think, obvious that in a great many cases any improvement must come through joint and co-operative efforts of himself and other dairy farmers. Probably the best source of information in respect of such methods is available through the work of the Ontario Agricultural College, and through expanded research and assistance generally to the producer on the part of the Ontario Whole Milk Producers' League.

As I have said before, there is in my opinion a very definite obligation on the dairy farmer to pursue these objects. In the public interest he is not entitled to have the protection of government authority for the prices paid him unless he, on his part, is prepared at every opportunity to reduce the cost of his product which, in itself, is a necessity for the consuming public in the province at large. In any event, increased efficiency in production is always in the general interest.

MARKETING SCHEMES

One cannot examine the producer's general position without coming to the conclusion that the eventual solution of the difficulties facing whole milk producers, and probably all milk producers in the province, lies in the setting up of a marketing organization that will control the disposal of all milk produced by fluid milk producers for the fluid market, and ideally of all milk produced in the province.

From the evidence that I have heard, this seems to be an inescapable conclusion. Nevertheless, equally from the evidence, I can only say that at the present time I question very much whether the farmers in Ontario in general, or the whole milk producers in particular, are ready for such a drastic move. However, in my opinion it is the ultimate and only effective solution of their marketing difficulties.

It was notable that the criticism directed at this proposal by the distributor witnesses was based chiefly, if I may say so, on sentimental grounds. What they particularly regretted was the severing of the intimate personal ties that had grown up between producer and distributor. Nevertheless, I think the facts of the case render such a divorce desirable, and economically speaking almost imperative.

Various schemes have been proposed, and thinking among the whole milk producers at least has reached a point where some such scheme is being seriously contemplated and studied. It, undoubtedly, plays a larger part in the thinking of those producers supplying the condensaries and cheese factories. The supplementary brief filed before me on behalf of the Ontario Concentrated Milk Producers' Association discussed at some length the milk

marketing scheme in force in the United Kingdom, and in conclusion the brief suggested that some scheme of milk marketing was necessary for the welfare of Ontario milk producers, and stated:

- “(1) THAT a marketing scheme for all milk produced in Ontario would appear to be desirable for the general welfare of the dairying industry.
- “(2) THAT in the time available to the Commission it is impracticable to formulate a scheme which would be suitable to Ontario conditions.
- “(3) THAT it would be desirable for the Ontario Department of Agriculture to commence immediately a thorough study of Milk Marketing with a view to propounding a scheme suitable to Ontario conditions and in such study the Department should co-operate with the joint Ontario Committee already established by the different producers' associations.”

I question whether thinking has progressed far enough among the milk producers of Ontario to justify the establishment of such an all-embracing scheme as yet. On the other hand, I would suggest that a commencement might be made by establishing a marketing scheme with the force of law behind it in selected areas in respect of those producing for the fluid milk market. Such a scheme might be handled under the direction of the Milk Control Board or might be more effectively worked out by the Ontario Whole Milk Producers' League itself with whatever government assistance and backing, particularly in respect to enforcement, which might be found necessary.

It is quite true that in comparing conditions in Ontario with those of the United Kingdom, one has to remember that in the United Kingdom there is a serious deficiency of dairy products and that generally speaking the country is always on an import basis in respect of them. The position in Ontario is different in that a large amount of cheese and milk manufactured in Ontario is sold outside of the province, either in the other provinces of the Dominion or overseas. These differences, however, do not affect the fundamental similarity of the producer problems existing and the basic solution required. Any differences which exist are primarily matters of degree and affect the technique of marketing the product rather than the general principles involved. There are, of course, very elaborate provisions in the English scheme in respect of the administrative organization, and it may well be that these would require some modification to meet the special needs of Ontario conditions, but so far as the basic plan itself is concerned I would recommend it as a model for study and possible imitation.

In the five-year review of the milk marketing scheme in the United Kingdom, published by the Milk Marketing Board in 1933, it is stated:

“By 1932 the bargaining strength of producers had weakened considerably. There was under-cutting in the retail market; prices of imported butter and cheese had declined to such an extent that manufacturers at home could not compete, and much of the milk normally used in creameries was sold on the liquid market at very low prices.

“The whole price structure of the industry was rapidly becoming unstable, and it was eventually realized that recovery could not be achieved through voluntary efforts.”

I think these words might have been said with equal truth of conditions in Ontario in the years 1933 and 1934. It is quite clear that at that time in the United Kingdom the sale of milk was unremunerative to a large number of dairy farmers, and that the increasing pressure of producers on remunerative markets was becoming a dangerous factor making for even more serious reduction of prices.

The result of this situation was an investigation by a Commission under the Chairmanship of Sir Edward Grigg, which finally resulted in the setting up of the scheme under the provisions of The Agricultural Marketing Act of 1931. This was preceded by a poll of milk producers in which some 96 per cent voted in favour of the scheme. Quite obviously no such scheme could be successfully organized in Ontario unless it had the support of a very large percentage of the producers.

Executive authority under the British scheme is vested in The Milk Marketing Board, which consists of fifteen producer-representatives with two independent members who are co-opted after consultation with the market supply committee. The scheme provides for the election of Board members by the producers themselves. Twelve are chosen from the regions into which the country is divided, while three are special members elected by a national vote of the producers. For purposes of administration the country is divided into eleven regions and for each region there is allotted a committee consisting of county representatives of milk producers. These regional committees act in an advisory and consultative capacity to the Board and they are brought together when matters of major importance arise.

While this scheme has been modified in some respects by war conditions in the United Kingdom, it still continues to function effectively as an instrument of the producers themselves.

The principal powers of the British Milk Marketing Board are laid down in detail in the Scheme, and may be summarized briefly as follows:—

- (a) To prescribe the description of milk which may be sold, its price, the persons who may sell it, and the terms on which it may be sold;
- (b) To regulate the grading, packing, storing, adapting for sale, insuring, advertising, and transportation of milk on behalf of producers;
- (c) To exempt any class of producers from the operation of the Scheme. (Any producer not so exempted is subject to the regulations of the Board);
- (d) To impose penalties upon producers contravening the regulations.

The Board also has various other powers, such as the right to buy and sell milk, and to encourage and promote agricultural co-operation, education and research, etc.

The Board has regulated the sale of all milk produced in England and Wales, with the exception, for a period, of the "Certified" and "Tuberculin-Tested" grades, and supplies from certain small producers.

Regulation is in two main directions:—

Milk sold wholesale by producers to distributors is regulated by means of an annual contract setting out the prices and the conditions of sale.

Milk sold retail by producers themselves is regulated by means of a licence issued by the Board. The licence sets out the minimum retail prices below which the milk cannot be sold as well as the conditions to be observed in the sale.

These have been the two principal channels of control from the outset and they are the foundation of the whole fabric of organised milk marketing in England and Wales.

Powers are granted to the Board in the terms of the Scheme for the determination of the prices of milk. Before prices are prescribed, however, the Board must consult those who are best qualified to express the views of the buyers of milk. In practice the consultative body has been the Central Milk Distributive Committee, a voluntary organisation representative of all buying interests.

In my opinion the recommendations made to the Commission on behalf of the Concentrated Milk Producers' Association deserve very serious study and consideration. I question whether all farmers producing milk in Ontario are ready for the all-over control of the type adopted in 1933 in Great Britain. I would suggest, however, that those farmers producing for the fluid milk market might well initiate the first stages of such a scheme. I would also suggest that the larger aspects of the matter be considered and worked out without any great delay by the recently formed Joint Committee representing all four sections of the Dairy Producers.

The producer situation in Ontario has been bettered by the administration of the Milk Control Board, but it can be improved to a far greater extent through the adoption of some such scheme as I have indicated. Whether such a scheme should be operated by the Whole Milk Producers' League or as a part of the administration of the Milk Control Board, is a question depending on the direction of overall policy in respect of these matters. It will be dealt with in this light in the final chapter containing recommendations.

CHAPTER VI

Transportation of Fluid Milk*(1) General*

The transportation of milk for fluid trade from a producer's farm to the distributor's plant is an important factor in the ultimate cost of milk delivered to the consumer. In the Province of Ontario at the present time all but a negligible proportion of milk for the fluid trade is transported by motor truck and generally by some one whose sole business is the haulage of fluid milk from producer to distributor. On the average, three-quarters of a cent out of the price paid by the consumer for each quart of milk has been devoted to the transporting of that milk from the farm to the dairy. If this sum represents the cost of bringing an adequate supply of milk of a proper quality to the market, avoiding excessive waste and duplication of effort, then it represents a fair charge to the consuming public, and it is from this point of view that the problem will be examined.

(2) Legislation and Regulation

The transport of milk by motor vehicle is governed by the Commercial Vehicle Act, R.S.O. 1937, Chap. 290, and the regulations passed to implement this Act. With the exception of a farmer who chooses to haul his own milk to the dairy, any person or firm desiring to enter such a business is required to apply to the Minister of Highways for a Class "E" license under this Act. The applicant is required to specify the route that he proposes to serve and to produce evidence that the public need for such a service is not being adequately met by existing licensees. The application is then referred to the Municipal Board for consideration and the Municipal Board in turn, having notified any interested producer and distributor and transport organizations already in the area, refers the application to the Milk Control Board for approval or otherwise. If the Milk Control Board opposes the application it is my understanding that such application is invariably refused. The foregoing limitations apply with equal force to a producer who undertakes to haul, in addition to his own milk, that of his neighbours, and equally to a co-operative venture by a group of farmers. With the exception of three organized markets, this is the extent of control now exercised over this part of the industry.

In addition to The Commercial Vehicle Act and its regulations, the transporter of milk is subject to the regulations passed pursuant to the Milk Control Act, R.S.O. 1937, Chap. 76. Each transporter is required to obtain from the Milk Control Board an "M" license annually. Section 15 of the regulations under the Milk Control Act provides that "no licensed transporter shall change his route, add new shippers of milk or transfer shippers from one plant to another unless the change has been approved by a joint milk transport committee recognized by the Board for the market, or permission has been secured from Board." This regulation, which in effect freezes the organization of milk routes throughout the province, automatically makes the haulage of milk a matter of importance to the producer and distributor as well as the hauler.

(3) *Organized Markets*

In the Toronto, Hamilton and Guelph markets agreements have been entered into which have been approved by the Milk Control Board, setting up a joint transport board for each of these areas and specifying the rates to be charged for the haulage of milk to these markets. The Milk Control Board Order relating to the Toronto market is No. 39-15 effective June 1st, 1939, and is, for easy reference, attached as Appendix 16 to this report. The Order relating to the Hamilton market is No. 45-12 and that relating to the City of Guelph is No. 46-6. In each of these areas a joint committee on milk transportation has been authorized and appointed, consisting of 15 members in the Toronto market and 9 members in each of the Hamilton and Guelph markets. The Local Milk Producers' Association, The Local Milk Distributors' Association and The Local Milk Transport Association each appoint an equal number of members to the joint committee. These committees operate as boards of arbitration to deal with differences between the producers and shippers and to deal with the question of variations in rates as between producers and individual shippers, and generally to bring such rationalization to the trucking industry as is possible. The evidence indicates that, generally speaking, these joint committees have worked satisfactorily and have been of considerable assistance in the organization of this important department of the milk industry.

(4) *Transporter*

To understand the problems involved in any administration of milk transport, it must be realized at the outset that over a period of years each milk route has become a vested interest, a definite commercial asset of the owner of such route, having a value in the Toronto milk shed which may be calculated on the basis of \$80 to \$100 per can including equipment. Routes are readily saleable at such prices.

For convenience the Toronto milk shed will be referred to frequently, because it is an organized market and also because of the fact that it represents 31 per cent of the total fluid milk market in the Province of Ontario. In this market approximately 3,727 producers ship 14,570 cans of milk by truck every day. In addition, one company receives milk by rail from time to time. In the month of May, 1947, 1,081 cans, or 35 cans per day on the average, were shipped by rail from the Woodstock receiving plant of this company to its Toronto dairy. The amount shipped by rail in this market is obviously negligible, but for comparative purposes it may be noted that the baggage and haulage costs are less than twenty cents per 30 pounds, whereas by truck the rate from Woodstock would be thirty cents.

There are some 88 independent operators trucking milk into the City of Toronto, of which 54 are single truck operators, usually driven by the owner, and the balance of 34 transporters operate from two to eight trucks, making a total of approximately 169 vehicles. In addition to the independently operated transports, there are some 39 vehicles owned and operated by distributors in the City of Toronto. These 218 vehicles, ranging in size from under three-ton capacity to over ten-ton capacity, travel daily distances up to 100 miles from the City of Toronto to transport fluid milk for this market. In the month of May, 1947, the milk transported by truck into this market represented the following distances, rates and from the number of shippers and in the volume shown below.

Distance	Truck Rate Per 80-lb. can	No. of shippers in zone rate	No. of cans in zone rate
15 miles and less	18c per can	232	31,070
For 20 miles and over 15 miles....	20c	761	85,938
For 30 miles and over 20 miles....	23c	574	69,712
For 45 miles and over 30 miles....	25c	945	113,109
For 65 miles and over 45 miles....	28c	616	73,933
For 90 miles and over 65 miles....	30c	459	58,774
Over 90 miles at	32c	17	1,937
Over 90 miles at	33c	44	5,737
Over 90 miles at	35c	52	6,237
Over 90 miles at	40c	4	464
		3,704	446,911

- (a) For distances over 90 miles the rate is not fixed, but is subject to agreement between producer and trucker.
- (b) In addition to the foregoing, 23 producers haul their own milk to the Toronto market to the extent of 4,815 cans daily.
- (c) The figures quoted above were from the records of the Toronto Milk Distributors' Association.

From the foregoing figures it will be seen that, apart from the small number of producers who truck their own milk to the market, 566 shippers, or 15.3% of the total send daily 73,149 eighty-pound cans, or 16.3% of the total daily shipment, and these shippers and this amount of milk come from distances in excess of 65 miles from the City of Toronto at a cost of 30c or more per eighty-pound can, which practically speaking is the equivalent of one cent per quart. This means that a substantial proportion of the daily milk requirements of the City of Toronto comes from farmers beyond Port Hope, Lindsay, Shelburne, Guelph, Paris and Brantford. It may be that, were it not for the fact that the producer bears the initial cost of shipping, and that so long as the producer supplies a steady volume of milk of suitable quality, the distributor has no interest in the distance which the milk has to travel before reaching market, producers would be found considerably closer to the market than is the case at present.

Bulletin No. 417, dated June, 1941, of the Ontario Department of Agriculture, is a study of milk transportation in the Toronto milk shed made by the Economics Department of the Ontario Agricultural College and the Milk Control Board of Ontario, and represents a detailed study for the years 1938-39 of milk transported into this market. I am informed by Counsel for the Toronto Milk Transport Association that, with the exception of the changes resulting from an increased number of shippers (3,727 in 1947 as compared with 3,127 in 1939) the volume of milk hauled daily (14,570 cans in 1947 as compared with 8,972 in 1939) and the general increase in costs, etc., resulting from wartime conditions, the observations made from that study with reference to duplication of service, the effect of capacity loads and concentration of shippers on routes, are as valid to-day as they were in 1939. At that time there were 161 milk routes in operation as compared with 208 in 1947, and for the purposes of the study 89 routes operating in different zones were examined in detail. The vehicles operating on these routes travelled daily 3,455 miles. On 1,562 of these miles there was only one truck operating, on 291 miles two trucks, on 162 miles three trucks, on 93 miles four trucks, on 71 miles 5 trucks, and on 17 miles six trucks. These mileages

are the mileages covered from the time of the first pickup of milk to the last, and do not include what is called "bobtail" mileage or the distance travelled from the distributor to the first shipper and from the last shipper back to the distributor. The overlapping pickup mileage amounted to 1,260 miles daily and the overlapping bobtail mileage to 2,064 miles. The economist studying the matter at that time had this to say of this overlapping service:

"It will, therefore, be seen that because of overlapping service on about 30% of the roads and because of the use of unnecessary trucks, a total unnecessary daily mileage of 3,324 miles is travelled. This estimated unnecessary mileage amounts to 22% of the total mileage travelled, and at ten cents a mile puts an extra daily cost of \$332.40 on the cost of milk, or an extra and unnecessary cost of \$120,326.00 each year."

It may safely be assumed that there has been no diminution of overlapping service. No over-riding authority has directed the rationalization of milk hauling routes, and any changes that have been made have been the result of arrangement between individual truckers, trading shippers for their own convenience, and represent isolated cases only.

The evidence before me, both from producers and transporters, indicates that the truck driver himself plays an important part in the human relations between producer and distributor. In the brief of the Toronto Milk Transport Association, the following appears:

"In the majority of cases it would be found that the trucker was responsible for bringing the producer and the distributor together. The dairy required milk, the trucker searched the country for it; the farmer desired a market, the trucker found a dairy for him. In many instances the farmer has never been to the dairy nor met a dairy representative, and similarly no one from the dairy has been at the farm. If the farmer has a complaint as to an error in his milk statement, his test, rejected milk, etc., the trucker is the first to learn of it, and the farmer has expected him to save him a trip to the city by looking after his difficulties for him. This he gladly does. In the case of rejected milk he goes to the farm at milking time to watch and see if he can make any suggestions that would eliminate the trouble—and generally he can. Additionally, he gladly does many little personal favours, such as bringing in a broken part, leaving it to be fixed, and returning it, or picking up some items urgently needed, etc."

The foregoing, in my view, overstates the case to some extent, since the larger and more progressive distributors maintain a field force which makes direct contact with the producer. There is no doubt, however, that the truck driver, as a person, does represent an important human link in the chain between farmer and consumer. He is in effect the only real middle man in the industry. Under the regulations of the Milk Control Act, quoted above, even in those cases where there is a duplicate service, if a producer is dissatisfied with his trucker, or a trucker wishes to make an alteration in his route, changing shippers, this can only be done on consent of the Milk Control Board. Consequently, in view of the regulations, the personal relationship existing between trucker and producer, the vested interest of the trucker in his route, and the effect of practices established over a number of years, there is little, if any, encouragement to rationalization of transport routes to eliminate waste. Although the cost of the transport of milk for the most part represents only a fraction of a cent per quart, in the aggregate it represent a very large sum annually which comes out of the consumer's

pocket. Hence, in my view, action should be taken to overcome the tendency to preserve the status quo and to eliminate waste and duplication where possible.

The Toronto Milk Transport Association, in Exhibit "D" to their brief, submitted an auditor's report covering 20 truckers into the Toronto market, showing comparative figures for 1939 and 1945. These truckers operated 55 trucks in 1939 and 68 in 1945, representing approximately one-third of the total. The auditor for these truckers reports that "Operating costs have increased from 20.45 cents per can in 1939 to 22.75 cents in 1945. Profit per can has dropped from 3.40 cents per can in 1939 to 1.42 cents in 1945. . . . While in 1945 revenue had increased 47.98 per cent over 1939, certain expenses had also increased in a much greater proportion, e.g., gasoline, oil and grease, 70.94 per cent; truck repairs, 178.51 per cent; tires and tire repairs, 160.32 per cent; and wages, 77.93 per cent." For these twenty operators a total cartage revenue of \$365,004.21 was received in 1945, as compared with \$246,654.68 in 1939. In 1939 the net profit of these operators, before income tax, amounted to \$35,102.70 or 14.24 per cent of revenue, and in 1945, to \$21,526.48 or 5.90 per cent of revenue. The significant fact is that in the face of sharply increased costs, and without any change in haulage rates, the increase in volume hauled by these truckers enabled them to continue to show what on their own figures may be considered a very handsome profit. What additional benefits they might have derived as the result of a general rationalization of routes and a concentration of shippers, with resulting elimination of unnecessary and waste mileage, can only be conjectured, but it seems only reasonable to assume that such changes would have permitted these operators to show an even larger volume of profit in 1945.

The foregoing figures, as stated, have been taken from the evidence submitted by the Toronto Milk Transport Association. These figures should be compared with the report of Mr. John S. Entwistle, attached as Appendix 17.

The rates fixed for transport haulage, either by agreement approved by the Milk Control Board in the case of organized markets, or by direct agreement between producer and trucker in other areas, are collected by the distributors by means of deductions made from the purchase price of the milk received by each distributor from each producer, and are paid to the trucker by the distributor. Thus, where a rate or a price has been fixed for 100 pounds of fluid milk at, say, \$3.60, this represents the gross rate to the producer, but out of this the trucking rate must be paid. Hence the cost of trucking is always calculated by the producer as a part of his cost. Therefore it may be taken that the transporter is the agent of the producer for the purpose of carrying the producer's milk to the distributor and, as stated above, the distributor has no interest in the distance which milk is transported since the price which he must pay to the producer is fixed for the market where it is sold without regard to the location of the producer's farm. Similarly the decision as to how much, if any, surplus milk any producer ships to the dairy is that of the producer alone. In times of lush production a producer having no other outlet for his surplus milk may use a substantial part of trucking space for the carrying of milk destined for other than the fluid market. The trucker is his agent and the farmer can employ him as he sees fit. It would seem to follow that this factor may tend to cause the employment of more transport service in any particular market than the fluid trade alone requires.

(5) *The Producer*

As will be seen from the foregoing, the producer is vitally concerned in the transportation problem. He makes the arrangement for transport, selects his trucker where there is any alternative, pays him for his service and has daily contact with the distributor through the truck driver. At the annual meeting of the Ontario Whole Milk Producers' League held in Toronto on the 19th and 20th of February, 1947, the following resolution was adopted:

"WHEREAS under the Public Commercial Vehicles Act it is virtually impossible for producers to transport their milk from their farms to the dairies co-operatively.

"THEREFORE BE IT RESOLVED that we ask the Ontario Provincial Government to amend the Public Commercial Vehicles Act making it possible where any group of producers decide that it is in their best interest to transport their milk co-operatively without obtaining a P.C.V. license."

On this point a considerable volume of evidence by responsible officers of the Ontario Whole Milk Producers' League indicated that body is of the opinion that, in the case of organized markets, any group of producers proposing to truck co-operatively should have to establish their case for the new service before the Milk Control Board, but that in unorganized markets, which represent the bulk of the province, the right of producers to truck co-operatively should become virtually absolute instead of being non-existent as at present. A further resolution was adopted at this annual meeting as follows:

"WHEREAS the cost of transporting milk from the farm to the market is a factor that must be taken into consideration in milk costs to the producer;

"AND WHEREAS the volume of milk carried and the mileage travelled has an important bearing on the cost of transportation;

"AND WHEREAS the milk is the property of the producer until it arrives at the designated market and accepted by the distributor;

"THEREFORE BE IT RESOLVED that the Ontario Whole Milk Producers' League request the Royal Commission now inquiring into the cost of producing, processing, distributing, transporting and marketing of milk, taking into consideration the savings that could be effected by local producer associations transporting all the milk from the farm to the plant of the distributor, the number of trucks that could be eliminated, the saving of miles travelled and the overlapping of trucks, to recommend amending the Milk Control Act, vesting the Milk Control Board with authority to license all truckers of milk from the farm of the producer to the distributing plant, and with authority to arbitrate and fix charges for this service."

On this point the Producers' Association indicated that it was their opinion that the mere granting of power to local producer associations to go into the milk transporting business as such would, in itself, be a sufficient lever to bring about what they considered much needed reforms in the trucking business, with consequent substantial savings to the producer. The Producers' Association seemed to assume that any such savings would automatically accrue to the benefit of the producer and not to the consumer who, of course, ultimately pays all costs.

(6) *The Distributor*

The distributor's chief interest in the transport problem lies in insuring regularity of delivery according to the laid-down schedule, and in safe-

guarding the quality of the milk as it arrives at the dairy. There are some distributors, however, who have taken over on their own account the ownership of the transports required to haul milk from the farms. The evidence showed that one substantial dairy in the City of Windsor which was charging rates the equivalent of or slightly lower than those charged by other transporters, was showing substantial profit in this department. On the question of distributor-owned transports under the existing system where the producer pays the initial cost of transport by deduction from the gross price of milk, the Toronto Milk Transport Association has this to say:

"Toward the end of 1933 and through 1934, many dairies seemed determined to get into the transport field. In some cases, the distributors did so in a legitimate manner with little disruption of service, purchasing routes from the men then operating them. However, from a number of instances, two important objections became apparent. The distributors would by-pass the Producers' Association and seek to get cheaper milk with promises of special deals to individual farmers; and secondly, when starting into the trucking field, it was a practice of some dairies to throw out shippers who had been shipping to them in order to take on new ones grouped in an area convenient to their own trucks."

It is, of course, a fact that the Whole Milk Producers' Association is stronger and better able to protect the legitimate interests of its members than it was in 1933 and 1934, and, further, the Milk Control Act has come into force since that time. There are, therefore, deterrents at the present time to one of the evils referred to in the above quoted passage; in that the possibility of acquiring cheaper milk by promises of special deals to individual farmers would be much more difficult to accomplish. It is significant, however, that even under the present system where the producer bears the initial cost of transport, that on the evidence of the Transport Association distributors going into the hauling business tended at once to rationalize and shorten transport hauls. The question immediately arises as to what would be the situation if the distributor were required to pay the initial cost of transport and hence had a financial interest in the distance travelled.

(7) *The Consumer*

The simple interest of the consumer in this problem should be mentioned, because it is too easily overlooked. The fact of the matter is, that regardless of who pays the initial cost involved in transporting milk from farm to distributor, that cost ultimately comes out of the price paid by the consumer for the processed product. It seems to me only fair, therefore, that the consumer should pay not one fraction of a cent more for this essential food than is required to cover the cost of reasonably efficient operation, and that he should certainly not be called upon to pay for the perpetuation of any system merely because a change would adversely affect a so-called vested interest. In my view this aspect of the situation is overlooked in the representations made by the Whole Milk Producers' Association.

(8) *Equipment and Methods*

In the Province of Ontario, as already stated, the first haul of milk is almost entirely done by motor transport of various types and sizes. Transports range from small vehicles of a type that can be used for any general haulage to very large vehicles refrigerated and capable of carrying loads in excess of ten tons. In a few instances tank vehicles are used, but these are rare. It has also been noted that the trucking rates vary in the Toronto

market from 18 cents per 80-pound can up to 40 cents, depending upon the distance from market. In New York State a rather different system is in practice which is, no doubt, traceable to the enormous influence of the New York City market for fluid milk. In that State the great bulk of milk is transported by motor truck to local depots and then trans-shipped by rail to New York City. Revised Official Order No. 126, which became effective October 1st, 1946, of the State of New York Department of Agriculture and Markets, Division of Milk Control, regulates the handling of milk to be sold in the New York Metropolitan milk marketing area. At page 19 of this Order the transport rates for milk to be used for various purposes in the New York Metropolitan market are set out. The producer who ships by truck or rail for a distance of 191 to 210 miles from the City of New York receives the full gross price per hundred pounds of milk. Producers who ship from distances within this radius receive a premium over the gross price which ranges up to 15 cents per hundred pounds for distances less than ten miles. At distances of 500 miles from the New York Metropolitan area a deduction of 14 cents is made from the gross price per hundred pounds paid to the producer. From these figures it is evident that a shipper into the New York City market is in a position to transport his milk by freight for a distance of 500 miles at a cost of 29 cents per hundred pounds or the equivalent of 24 cents per 80-pound can, whereas a shipper in the Province of Ontario would pay 24 cents to transport an 80-pound can a distance of 30 to 45 miles. It should further be noted that, although the bulk of milk in New York State is transported by rail, the same rates apply to motor transport.

The milk remains the property of the producer until it has been delivered at the distributor's plant and accepted as meeting the minimum requirements for the purpose for which it is to be used. The can is then weighed and samples taken to determine butter-fat content which, of course, determines the price to be paid to the producer. In some small dairies, no doubt, the workman handling the milk knows whose can of milk he is handling at the moment, but it is obvious that in any sizeable dairy the employee who does the mechanical work of weighing, inspecting and sampling a can of milk has no knowledge or interest in the source of the milk and only sees a code number on the can. This point is particularly mentioned since evidence given by representatives of the Whole Milk Producers' Association indicated that for some reason, which is not easy to understand, producers seem to feel that it was to their advantage that the title to the milk should not pass until such time as it had been accepted, weighed and sampled. In my view there is no real ground to support this opinion.

(9) *Summary*

From the evidence before me I am satisfied that the present system of hauling milk from producer to distributor is not designed to insure that milk is not hauled any greater distance than necessary and the elimination of duplication and waste. It seems to me that a chief cause of this situation is the fact that the price of milk is determined as delivered at the distributor's plant. There are, no doubt, many individual producers who are prepared to receive a slightly lower net return in order to ship milk a great distance to a market such as Toronto, and while the cost of such lengthy shipment when deducted from the individual producer's annual earnings may not be a very large sum, when that cost is multiplied by many producers in the same position it becomes a very substantial sum, all of which comes out of the ultimate consumer's pocket. I believe that if the price paid for fluid

milk were fixed net at the farm, and the distributor was compelled to make his own arrangements for transporting such milk, either by contract with an individual trucker or by transport owned and operated by the distributor, a number of important alterations would result, all to the ultimate benefit of the consumer. In the first place, as is indicated by the passage quoted from the submissions of the Toronto Milk Transport Association, the distributor searching for his milk at a low cost would immediately make an effort to find a source of supply at the closest possible distance from his plant. This, it seems to me, is an obviously proper adjustment since the present system, which results in the most widespread milk sheds, is directly in the face of all economic principles. In the second place, particularly in urban markets of which the Toronto milk market is probably the best example, if substantial distributors were to take over the task of transporting milk, the amount of capital which such distributors could devote to this phase of the operation would undoubtedly result in more efficient equipment being placed on this work than is possible by a small individual trucker operating a single truck. The figures quoted, showing the maintenance of profit by transporters in the Toronto milk market area in the face of greatly increased costs, illustrate the point that maximum loads operated on concentrated routes produces a minimum cost per unit transported.

There is no doubt in my mind that payment for milk at a price determined at the farm and not at the dairy will result in some shippers in outlying areas losing their present markets, but I am convinced that after a period of adjustment the product of such shippers will reach the market which it is economically desirable that it should reach. Without minimizing the importance of the human relations between producer and the individuals with whom he is at present dealing, it is asking too much of the consumer to pay continuous tribute to the maintenance of these relations.

There is a further point to be considered, and that is that, with the exception of three organized markets, the rates charged for trucking are a matter of negotiation between individual producer and trucker. In view of the fact that the producer must get his milk to market, the relative bargaining position is poor. At the present time, if a producer is dissatisfied with his trucking service, he may be faced with the greatest difficulty in securing an alternative service. If he fails to do so his main product may never reach the market, with disastrous results to the individual producer. The question of weighing and sampling the milk, which no doubt is a serious matter, does not, however, I think, present a real obstacle to the change which I feel should be made. It surely is not beyond human ingenuity to provide a workable scheme. In the great majority of markets the actual mechanics of handling each individual can of milk would be substantially the same. However, some method of testing the milk for flavour, and freshness at the time it is picked up at the farm, would no doubt have to be provided. This does not seem to be a difficult problem. It should also be possible to take samples at the same time for butter-fat test. The principle problem is that of weight, but since the farmer is largely dependent on the integrity of his distributor, whether means of measuring the quantity by weight or otherwise at time of pick-up are developed or not, does not put the producer in any worse position than he now is. The question of check-testing, etc., is dealt with elsewhere in this report, and the views I have expressed there with respect to the protection of the producer and distributor alike apply with equal force whether the milk changes ownership at the farm or at the distributing plant.

It may be argued that, in view of the opposition to the change outlined above from both producers and transporters, some alternative method of protecting the consumer should be sought. It may be suggested that the whole question of routes and equipment should be reviewed by some competent authority, for example the Milk Control Board, and rationalization enforced. I am of the opinion, however, that this is impractical. The amount of pressure to which any administrative board would be subjected when it proposed to cut off shippers from a market to which they may have been shipping for 20 years or more, can readily be imagined, and at the best I am satisfied a very imperfect result would be achieved and one which would be full of compromises. The alternative of permitting wide opportunity to producer associations to handle their own transporting co-operatively or otherwise, is not a sufficient solution, because it overlooks the fundamental fact that the cost of transporting, regardless of how it is done, is paid by the consumer, and the methods presently employed, even if this were allowed, are too wasteful. It is possible that if the Ontario Whole Milk Producers' Association as a whole took over the co-operative transportation of milk, duplication of service would as a natural consequence be largely eliminated. I am sure, however, that milk would continue to be hauled from substantially the same farms as at present, for greater distances than are justified, and in any event it is difficult to visualize such a comprehensive co-operative transporting scheme being introduced into this province. Anything less than such a scheme would, in my opinion, merely add another competitive trucker and further duplication of service with its attendant waste and unnecessary expense. The foregoing is not intended to derogate from a recommendation which will be made in the final chapter of this report, namely, that as an immediate step producers be given the right to associate themselves co-operatively for the transporting of their own and their neighbours' fluid milk without P.C.V. license. This is, admittedly, a palliative and does not solve the major problem raised in the transporting of milk.

I feel, therefore, that steps should be taken to allow normal economic principles to govern this aspect of the industry, i.e., the distributor who supplies the consumer should be required to find his raw product at such place as provides him with the least expensive source of supply. It may be argued that the fixation of price of raw product at the farm instead of at the distributor's plant, while it should quickly bring about the elimination of unnecessary long hauls, would not in itself eliminate duplication of service on roads. This may be very true, especially under circumstances where distributors are pressed to secure adequate continuous supplies of suitable raw milk. However, that is a matter which the controlling authority must deal with, and from an administrative point of view it would appear to me that the distributor is much more amenable to regulation with regard to transport service than either producers or independent truckers paid by the producers.

In view of the conclusions I have reached on this aspect of the problem, I have not thought it necessary to go into a detailed examination of the cost and profit position of transporters under the existing system. Some study has been made of this aspect by the Commission Accountant, and his report, as stated above, appears as Appendix 17. I only wish to comment on the estimate of return as related to capital employed. From the figures available to Mr. Entwistle, it would appear that the return on capital employed in the transporting of milk may be in excess of 20 per cent. This is a difficult figure to determine because of the absence

of replacement vehicles during war years. There may be some question as to the true value of "capital employed", but if the estimate is correct such a return appears to me to be a very generous one and not in keeping with the necessity of holding consumer prices of milk at the lowest possible level. The matter is discussed in some detail in Mr. Entwistle's report. I should also direct attention to Mr. Entwistle's comment on the relatively high percentage of administrative and office salaries to total revenue, as compared with other divisions of the milk industry.

In reaching the conclusions stated, I am not unmindful of the fact that the milk truckers by and large have honestly built up their businesses and have provided vital services to the industry. It may be that they should be given an opportunity to themselves rationalize their methods of delivery before the somewhat drastic changes suggested are undertaken. But irrespective of the methods used, the consuming public should no longer be asked to bear the cost of such an inefficient system in the price to them of a vital food product.

CHAPTER VII

Distribution and the Position of the Distributor

The cost and profit position of the milk distributors as a group was the subject of a most exhaustive enquiry and study by the Accountant furnished me for the work of the Commission. The results of this work, done under the direction and supervision of Mr. John Entwistle, C.P.A., is sufficiently valuable in detail to be set out in full, and I have included it as Appendix 18 of this report. It was not work that was accomplished easily, and indeed it was not completed until early in July of this year, when the final definite draft of this report was made available to me. Fortunately, earlier and more tentative drafts were available by early June.

For the most part the accounting report speaks for itself. It is used here by way of commentary on the general conditions and tendencies disclosed, and in order to compare the results obtained with the other evidence presented during the public enquiry. Where possible, I have endeavoured to correlate the two and to value the report accordingly.

The distributors are, of course, all licensed by the Milk Control Board, and in this particular part of the report I am dealing with them for the most part in their capacity as distributors of fluid milk only. As will be seen, they comprise all sorts of operations both large and small, and the regulations governing them are such that they must be all-inclusive and must apply to all kinds of business. This is also true of the price-fixing agreements which have been entered into between the producers and distributors. These agreements are necessarily governed by the needs of the small operators as well as the larger. In the result this has been to the advantage of the larger operators who have large volume of sales and in many cases handle a variety of dairy products.

Licensing

The Milk Control Act provides that no person shall directly or indirectly engage in or carry on the business of supplying or distributing, transporting, processing or selling milk, unless such person is the holder of a license issued by the Board. The distributors of milk licensed by the Board are divided into three classes, regular distributors, producer distributors and pedlars. Pedlars are a class who habitually obtain their milk from the producer, or more generally from a licensed distributor, and sell it on a route of their own; they do not process the milk and are few in number, and very little consideration need be given them in describing these distributors, as they have little or no effect on general conditions.

In the year 1945 there were 76 licensed pedlars, and in the year 1946 the number was 83. In the year 1943, 624 regular distributors were licensed, and 389 producer-distributors. In the year 1946, the regular distributors numbered 630, and the producer-distributors 346. The Milk Control Board was first set up in the year 1934, and for the years 1934 and 1935, in their records, the type of licenses granted were not differentiated. The total number of licenses issued in 1934 to regular distributors, producer-distributors, pedlars, and milk manufacturers, was 1,335. The same figure for

1935 was 1,624. For the year 1936, when the classes I have indicated were established, 647 licenses were issued to regular distributors, 861 licenses were issued to producer-distributors, and there were 87 peddlars; making a total of 1,595.

It is obvious that there has been, over the ten year period from 1936 to 1946, a somewhat drastic decline in the number of producer-distributors. This, I think has been a natural result of the general improvement in economic conditions, which made it possible for many of these producer-distributors to confine their attention to production or, in some cases, to secure more remunerative employment elsewhere. This was particularly true as the war progressed. As suggested, there has been a tendency for the producer-distributor to revert to the position of producer and to leave the distribution of fluid milk to the regular distributors who, generally speaking, also engage in the distribution of other dairy products.

Position of Distributor in the Industry

The regular distributors are the persons, partnerships and corporations engaged in the processing and distribution of fluid milk at both retail and wholesale.

Apart from the wholesale aspect of the business and the distribution of fluid milk through retail stores, the distributor, in most cases, stands directly between the consumer and the producer, and unless the trucker of milk from the producer to the distributor can be called a middle-man, no other middle-man intervenes.

The average distributor confines himself to the distribution of fluid milk, chocolate milk, butter-milk and fluid cream. Precise figures are not obtainable, but out of the total of 630 distributors licensed in 1946, the number engaging in the sale of creamery butter, ice-cream, and concentrated milk products, does not, I am advised, greatly exceed a hundred. Disregarding the branch operations of the three largest distributors, of which mention will be made below, and of some 35 operators who are more properly classified as creameries, the number is 55. For the fiscal year preceding October 1st, 1946, the total value of all dairy products handled by these 55 distributors amounted to \$16,114,722, as against a total sales value for all distributors of approximately \$90,000,000, being 18 per cent of the total sales. This amount of business was done by 55 distributors against a total of about 630.

The three largest distributors in the province who also engage in this blended operation in the same period sold products to the value of \$35,472,455, making a total, if they are included, of \$51,587,177 for the 58 distributors so diversifying their business. The percentage of dollars for over-all sales by the three largest distributors is 39 per cent of the total dollar value of sales for the province. When the 58 distributors are considered the percentage figure is 57 per cent. It thus appears that on a dollar basis those distributors dealing substantially in fluid milk alone constitute only 43 per cent of the total intake from sales, although in number they probably constitute about 572. These figures are given without regard to the producer-distributors who, for the most part, deal only in fluid milk.

When profits are looked at, the results may be expressed as follows:

Profits of all regular distributors	\$3,294,000
Profits of 55 distributors	533,397
being 16 per cent of total	
Profits of 3 largest distributors	1,593,263
being 48 per cent of total	

Total Profits of 58 distributors	2,126,660
being 64 per cent of total	
Total Profits of balance of regular distributors is	1,167,340
representing only 36 per cent of the total.	

The importance of these figures and percentages will be apparent when the question of price-fixing at the consumer level is discussed. They also illustrate one of the essential requirements of the industry if a profitable operation is to result.

The producer-distributor, on the other hand, generally does limit his operation, and he, of course, fills a very definite need in smaller communities of the province.

The average regular distributor sells his milk, not only at retail and wholesale, but also, in many cases, sells it at wholesale to grocery stores who, in turn, sell milk to the public as one of their regular items in the course of their business.

Since December, when this inquiry actively commenced, the accountants attached to the Commission have been endeavouring to examine the financial position of the distributors, and attention was paid in this examination and investigation to the provisions of Paragraph A of the Order-in-Council, setting up this inquiry, that is, to the distributing and marketing of milk, and to the costs, prices, price-spreads, trade practices, methods of financing, management and grading of those distributing fluid milk.

While there appeared to be, in the year 1946, 984 licenses issued to distributors, our examination disclosed that, in many cases, licenses were issued to various branches and units of the same enterprises, and it may be said for practical purposes, that there are approximately 850 distributors distributing fluid milk to consumers in the Province of Ontario.

The Regular Distributors

Apart from the producer-distributors among the regular distributors, there is the greatest variation in the size and type of business carried on. There are distributors doing business with an annual sales volume as small as \$5,000 a year; and at the other end of the scale, among the so-called independents, that is apart from the three largest operators, of whom I will speak later, are firms doing a business in excess of \$1,000,000 a year. The Borden Company Limited, which is one of the three large distributors, does the largest business in the province and has an annual sales volume in excess of \$13,000,000 a year. Some of these distributors are proprietary concerns owned by an individual, some are partnerships, and many are limited companies. I have indicated above the approximate number who deal only in fluid milk and cream, and even in those cases, I am told, they frequently act as jobbers in the sale of butter and eggs, which they carry as a convenience for their customers. In the year 1945, of necessity the year into the operation of which investigation had to be made, a total of some 432,857,500 quarts of fluid milk were sold in the Province of Ontario, representing a dollar value of \$53,284,758.00. In the year 1946 the quantity of fluid milk sold was 467,736,000 quarts, representing a dollar value of \$60,488,860. These figures include the consumer subsidy of two cents paid until May 31st, 1946. As the price increased at that time by the extent of the subsidy, they are comparable. Similar figures for the sale of fluid cream, ice-cream, ice-cream mix, chocolate drink, butter, cheese and other products, including eggs, poultry and sausages, are set out in table 14 in Mr. Entwistle's report, Appendix 18.

Developments in Respect of Pricing

Without commenting at this point on the powers of the Milk Control Board to fix prices, the Board, until October, 1946, had from the year 1935 proceeded on the premise that it possessed such a power. As a result the distributors have operated in these years since the establishment of the Board in markets in which prices have been fixed either by order of the Milk Control Board or by agreements with producers, having for the most part Board approval. This result was attained gradually since 1935. The record furnished me by the Milk Control Board is set out in Appendix Number 6. A study of this appendix will show in a general way that during the years 1935 to 1937 there was considerable activity in establishing a price structure across the Province. This stabilized towards the end of 1937 and from then until 1939 there was not much change, but in the years 1941 and 1942 there was again pressure towards high prices across the entire province. As has been remarked before, in 1934 when the Milk Control Act came into operation there was a chaotic and confused situation in the milk markets of the province and a study of the minutes of the early meetings of the Board shows that at that time it was acting generally in the capacity of an investigator and was attempting by pressure on producers and distributors to obtain a more rational organization of the various markets and price agreements.

By 1935, however, when the Act was amended, a number of orders were issued setting prices for the first time. This process went on through the years 1936 and 1937. By 1937 there was a movement towards higher prices in a limited degree and increases amounting to one cent per quart retail price were given in Northern Ontario cities of North Bay, Sault Ste. Marie, Sudbury and a number of smaller points in Southern Ontario. In the Toronto market the price moved up one-half cent a quart and in that summer moved back to the former price of twelve cents and later rose to thirteen cents.

The basis of these price arrangements in the early years of control was what has been called "the recognized price." As far as one can judge from information furnished me this was the price prevailing in the late 1920's before the break owing to the depression of the early 1930's. An example of this can be shown in the following table relative to the Toronto market:

Year		Retail Price Per Quart	Producer Price Per 100
1929	May	\$.1250	\$2.36
	September	.1333	2.66
	November	.14	2.81
1930	June	.1250	2.20
	October	.13	2.50
	December	.12	2.20
1931	May	.11	1.85
1932	February	.10	1.45
1933	August	.11	1.81
1935	October	.12	2.10 (By Agreement, approved by Board Order).

The recognized price for Toronto at the time of the negotiations in 1934 and 1935 appears to have been 11 cents per quart. Evidently this recognized price was not satisfactory to producers and the price, reached by agreement, became 12 cents per quart to consumers and \$2.10 per 100 pounds to producers.

In the years 1938 to 1939 price stability seems to have been achieved for a short period, although the Toronto markets again reverted to twelve cents and price agreements were reached in a few other markets.

By 1940 a few markets moved upwards by one cent a quart, the only one of any consequence being the City of Ottawa. By 1941 the inflationary pressures which resulted towards the end of that year in the imposition of price control became more apparent. An examination of Appendix 6 shows that there was a substantial upward revision in the year of one cent per quart. It is stated that many markets applied for a second increase in that year, but that the Milk Control Board was unable to obtain the concurrence of the Wartime Prices and Trade Board. At this time the effect of the rapidly rising increase in production costs began to show in fluid milk shortages, and at the end of 1941 producer subsidies were paid by the Federal Government as a wartime measure for the first time. I am also advised that by the end of 1941 practically every milk market, with the exception of very small towns and villages, was operating under prices established by the Milk Control Board administration.

What followed from this point can best be put in the words of a memorandum furnished me by the Chairman of the Milk Control Board:

"In 1942 the Wartime Prices and Trade Board established price ceilings on milk to consumers—

Southern Ontario, 12 cents

Northern Ontario, 13 cents

Principal Markets, Toronto, Hamilton and Niagara Peninsula and Windsor at existing prices of 13, 12½, and 13 cents respectively.

A number of markets in Ontario were selling milk to the consumer at prices lower than the established ceiling prices. A number of these markets were located in close proximity to other markets at the ceiling price and, with the increased demand for milk and shortages in some markets, it was evident we would be required to level prices out and considerable of this was done in 1942.

"A further difficult situation faced the Board as a result of the W.P.T.B. subsidy payment ruling. Under this ruling the subsidy was payable only in markets which were already selling to consumers at the ceiling prices. This resulted in inequalities to producers and accentuated the demand for increases in consumer and producer prices. These circumstances brought a further levelling of prices and by the end of 1942 most of the towns and smaller cities were at the 12 cent ceiling price.

"It will be noted that the producer prices moved upward in 1942. This resulted from an Order, 42-84, of the Milk Control Board, following a ruling from the W.P.T.B., that producer subsidies were payable only on certain minimum prices being paid to producers. Therefore, from September 1, 1942, there was a fairly uniform price structure to producers, that is, in all markets selling at—

12 cents per quart to consumers—the minimum price to producers was \$2.35

12½ cents per quart to consumers—the minimum price to producers was \$2.50

13 cents per quart to consumers—the minimum price to producers was \$2.65

(Exceptions—Toronto Consumer Price 13 cents—producer price \$2.50

—Windsor Consumer Price 13 cents—producer price \$2.55).

1943-1946

"The price structure as established in 1942 carried through until September 30, 1946. A few scattered markets, which were not at the ceiling price of 12 cents for Southern Ontario, moved up to the ceiling.

Area Prices

"The first move took place in Kent County and in the Niagara Peninsula in 1936. The move in the Niagara Peninsula was not completed until 1941, when Hamilton and the Niagara Peninsula were placed on a 12½ cent consumer price and a \$2.35 producer price. In Eastern Ontario the same price structure became effective in most of the markets in 1941 or subsequently, except the Towns of Picton, Napanee, Morrisburg, Arnprior and Hawkesbury, so that by 1945 area prices were pretty well established as follows:

13 cents—Toronto, Windsor and Northern Ontario

12½ cents—Hamilton and Niagara Peninsula

12 cents—The remainder of the Province, with exceptions as above.

Uniform Prices

"It will be noted in the early days that a consumer price was accompanied by varying producer prices, for example, a 12 cent consumer price was accompanied by a producer price of \$2.10 or \$2.15 per hundred. The Board, in trying to bring about uniform prices according to consumer prices, decided that the distributor margin should be narrowed and in 1941 a 12 cent consumer price carried with it a \$2.25 minimum producer price. Later in 1942 by Board Order 42-84, a 12 cent consumer price carried a \$2.35 minimum producer price and a 13 cent consumer price became associated with a \$2.65 minimum producer price instead of a \$2.45 or \$2.50 producer price."

The price structure as it exists at the present time is shown on the map which has been supplied through the courtesy of the Milk Control Board and it appears following page 106.

Competition in Industry

Very little competition exists between distributors. As a result of the growing stringency of health regulations, including pasteurization and the price fixing agreements in all but the smallest markets of the province, the only way in which distributors can compete is in respect of service to consumers. For all practical purposes the product is standardized, which eliminates competition on a quality basis. Price is fixed and trade practices are uniform. There may be some variation in butter-fat content between distributors, but there is a fixed and ample minimum in this regard. And indeed, if attention is paid to nutritional evidence, this is no longer of great importance from a health viewpoint. The competition remaining is obviously of the most expensive and least necessary nature.

Distributor's Spread in Fluid Milk Sales

As is apparent, the price of fluid milk when consumed as such, is fixed under various price agreements, which up to September 1946 were deemed to have the force of law under the orders of the Milk Control Board. The spread enjoyed by the distributor is measured by the difference between the price he pays the producer and the price he gets for his milk when sold either at wholesale or retail.

The last order of the Milk Control Board fixing prices in the Toronto area, for example, is Order No. 42-2. The price schedule set out in it is as follows:

Re: Sale of Milk by Distributors

That milk and milk products shall be sold by distributors at the following prices only:

	RETAIL Customers		STORES Customers		WHOLESALE Customers		3-CAN Customers	
	By Stores in Paper Con- tainers	In Glass or Paper Con- tainers	In Paper Con- tainers	Add 5c Deposit per Glass Con- tainer	In Paper Con- tainers	Add 5c Deposit per Glass Con- tainer	In Paper Con- tainers	Add 5c Deposit per Glass Con- tainer
	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)
STANDARD MILK								
gal. ....					.44	.42		.38
qt. ....	.13 $\frac{1}{2}$	.13	.12	.11 $\frac{1}{2}$	.11	.10 $\frac{1}{2}$	.10	.09 $\frac{1}{2}$
pt. ....	.07 $\frac{1}{2}$	.07	.06 $\frac{1}{4}$	.05 $\frac{3}{4}$	.06 $\frac{1}{4}$	.05 $\frac{3}{4}$		
$\frac{1}{2}$ pt. ....	.04 $\frac{1}{2}$	.04	.03 $\frac{3}{4}$	.03 $\frac{1}{4}$	.03 $\frac{3}{4}$	.03 $\frac{1}{4}$		
CHOCOLATE DRINK								
gal. ....					.52	.50		.46
qt. ....	.14 $\frac{1}{2}$	.14	.13	.12 $\frac{1}{2}$	.13	.12 $\frac{1}{2}$	.12	.11 $\frac{1}{2}$
$\frac{1}{2}$ pt. ....	.05 $\frac{1}{2}$	.05	.04	.03 $\frac{1}{2}$	.04	.03 $\frac{1}{2}$		
SPECIAL MILK								
gal. ....					.52	.50		.46
qt. ....	.15	.14 $\frac{1}{2}$	.14	.13 $\frac{1}{2}$	.13	.12 $\frac{1}{2}$	.12	.11 $\frac{1}{2}$
pt. ....	.08 $\frac{1}{2}$	.08	.07 $\frac{1}{2}$	.07	.07 $\frac{1}{2}$	.07		
$\frac{1}{2}$ pt. ....	.05 $\frac{1}{2}$	.05	.04 $\frac{1}{4}$	.03 $\frac{3}{4}$	.04 $\frac{1}{4}$	.03 $\frac{3}{4}$		
IRRADIATED AND HOMOGENIZED								
qt. ....	.15 $\frac{1}{2}$	.15			.13	.12 $\frac{1}{2}$		
pt. ....	.08 $\frac{1}{2}$	.08			.07 $\frac{1}{2}$	.07		
$\frac{1}{2}$ pt. ....	.05 $\frac{1}{2}$	.05			.04 $\frac{3}{4}$	.04 $\frac{1}{4}$		
VITAMIN D								
qt. ....	.14 $\frac{1}{2}$	.14	.13	.12 $\frac{1}{2}$	.13	.12 $\frac{1}{2}$		
pt. ....	.08 $\frac{1}{2}$	.08	.07	.06 $\frac{1}{2}$	.07	.06 $\frac{1}{2}$		
SKIMMED MILK (not over 1% B.F.)								
gal. ....					.22	.20		.20
qt. ....	.08 $\frac{1}{2}$	.08	.07	.06 $\frac{1}{2}$	.05 $\frac{1}{2}$	.05		
BUTTERMILK (not over 1% B.F.)								
gal. ....					.22	.20		.20
qt. ....	.08 $\frac{1}{2}$	.08	.07	.06 $\frac{1}{2}$	.05 $\frac{1}{2}$	.05		
$\frac{1}{2}$ pt. ....			.04	.03 $\frac{1}{2}$	.04	.03 $\frac{1}{2}$		
SPECIAL BUTTERMILK								
qt. ....	.10 $\frac{1}{2}$	.10	.09	.08 $\frac{1}{2}$	.07 $\frac{1}{2}$	.07	.06 $\frac{1}{2}$	.06
pt. ....	.06 $\frac{1}{2}$	.06	.05 $\frac{1}{2}$	.05	.05 $\frac{1}{2}$	.05		
$\frac{1}{2}$ pt. ....			.04	.03 $\frac{1}{2}$	.04	.03 $\frac{1}{2}$		

	RETAIL Customers		STORES Customers		WHOLESALE Customers		3-CAN Customers	
	By Stores in Paper Containers	In Glass or Paper Containers	Add 5c Deposit In Paper Containers	per Glass Container	Add 5c Deposit In Paper Containers	per Glass Container	In Paper Containers	per Glass Container
	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)	($\frac{1}{2}$ c added)
32% CREAM								
gal. ....	.....	.....	.....	.....	\$2.10	\$2.08	.....	\$1.96
qt. ....	.....	.....	.....	.....	.52 $\frac{1}{2}$	.52	.49 $\frac{1}{2}$	.49
pt. ....	.35 $\frac{1}{2}$	.35	.....	.....	.....	.....	.....	.....
$\frac{1}{2}$ pt. ....	.25 $\frac{1}{2}$	.25	.21 $\frac{1}{2}$	.21	.....	.....	.....	.....
10% CREAM								
gal. ....	.....	.....	.....	.....	\$1.06	\$1.04	.....	.96
qt. ....	.....	.....	.....	.....	.26 $\frac{1}{2}$	.26	.24 $\frac{1}{2}$	.24
$\frac{1}{2}$ pt. ....	.10 $\frac{1}{2}$	.10	.09	.08 $\frac{1}{2}$	.....	.....	.....	.....

HOSPITAL MILK—34c per gallon and 8 $\frac{1}{2}$ c per quart in 5c deposit bottles.
9c per quart in paper containers.

SCHOOL MILK—.03c per half-pint.

SCHOOL, CHOCOLATE MILK—.03c per half-pint.

PEDDLERS—The independent drivers or peddlers be billed for all dairy products with the exception of butter at the retail price in accordance with the Toronto Milk Marketing Agreement in effect at the time and that they be given a discount of 33 $\frac{1}{3}$ % with no further discount for cash or rebate of any kind given from this price. Where no retail price is specified for "cream" the 3-can price without any discount will apply.

RELIEF MILK—Where a voucher system is in effect and handled directly by the municipality a discount of 10% may be given, but where Relief Milk is on a cash basis, the prices contained in this agreement are in effect.

In September 1946, when the current price agreements were reached between the producers and distributors, it was agreed that when the prevailing price increase went into effect there should be added to the price set forth under Order 42-2, three cents for quarts, two cents for pints and one cent for half-pints, and that these additions should govern the present price structure in the Toronto market.

It is quite obvious that the return to the distributor is directly governed by the extent of his wholesale and retail sales. The determination of this has been a matter of the greatest difficulty. While returns in respect of these are made to the Statistics Branch of the Department of Agriculture, I found that they had not been compiled. Fortunately it has been possible to tabulate a sufficient sample of the 1946 return to give a reasonable indication of the division between wholesale and retail sales in the province. This result would indicate: (See Appendix 19)

Retail or Household Sales	73.93%
Wholesale and Store Sales	26.07%

The records for other years have not been dealt with. Owing to the variety of accounting methods followed by the distributors it is, practically speaking, impossible to establish any ratio from their accounts.

Mr. Entwistle's opinion, prior to the recent price increase, put the average spread between the producer price and the price obtained from the consumers at 5.31 cents. As is pointed out in table 10 of his report, this is for the fiscal year next preceding October 1, 1946, and it is interesting to note that, under the recent price increase, the entire benefit of which did not go to the producers, there is an increase in the spread of at least .36840 cents per quart to the distributor, or for practical purposes .37 of one cent per quart. There is a possibility it is slightly larger than this. This figure, however, can be substantiated in his opinion. This brings the total spread under which the distributor operates at the present time to 5.68 cents per quart.

It is interesting to note that the difficulties arising from the great variation in accounting practice maintained by the distributors, which Mr. Entwistle encountered, is not a new experience. In the preliminary report made from investigations in the year 1922 by Mr. J. B. Hoodless and Mr. H. W. Clarke, at that time with the Department of Agricultural Economics at the Ontario Agricultural College, it was said:

"Difficulty was encountered owing to the various accounting systems in use and in many cases costs had to be arbitrarily allotted to endeavour to place them uniformly. The figures given are in all cases weighted averages of two or more businesses."

These words could be applied with equal truth to conditions 25 years later in 1947, and underline, if anything, the suggestions that have been made from time to time in this report and which will be developed later, as to the necessity of a more uniform system of accounting on the part of distributors who deal in such a vital product to the public as fluid milk. That this condition is not confined to the distributors in Ontario is evidenced by the following words in the report of the Accountants attached to the Royal Commission investigating milk markets in New Zealand in 1943:

"The books and records kept by these dairymen generally are inadequate, and it would be of assistance in any future investigations if those engaged would adopt a uniform method of bookkeeping."

Cost of Processing and Distributing a Quart of Milk

During the course of the inquiry various distributors attempted to work out, insofar as they were concerned, the cost of processing and distributing a quart of fluid milk. They, like the Accountants advising the Commission, had to arbitrarily allot costs to the fluid milk distribution end of their business. This was particularly true in the case of those distributors who sold other and more profitable lines of dairy products than fluid milk. In an industry composed of as many small units as is found in the distribution of fluid milk in the province, there is great variation in profits resulting after costs have been covered.

Taking the province as a whole, attention may be directed to table 10 in Mr. Entwistle's study in Appendix 13 where, for the whole province, a net profit per quart is shown to the distributor of .21 or roughly one-fifth of a cent. Attention should also be paid to the fact that, in Mr. Entwistle's opinion, the recent price increase benefited the distributors by as much as .37 cents per quart and that, therefore, the present profit of the distributor is increased, subject to losses from lesser volume, to the vicinity of .58 cents per quart. It must be remembered, of course, that this is an average figure taken over the whole province.

Most of the distributors who gave evidence before me showed a profit

closer to one-third than one-half cent per quart, although some were larger. Taking the Toronto market again as an example, there was filed before me a study of the average costs and profits of some 27 dairies in the Toronto market which, it was said, distributed roughly one-half of the fluid milk in the city. It appeared on cross-examination that these 27 dairies by no means constituted the most efficient half of the distributors in Toronto. The statement of their costs, as submitted to me, is as follows:

Sales	100.000%
Sundry Income—Bond Interest Received—Profit on Butter and Egg Sales and Hauling Income .....	.820
Merchandise Cost—Milk and Cream	54.995
Processing and Bottling Costs:	
Wages	5.844
Expenses	6.198
Depreciation	1.444
	13.486
Delivery Costs:	
Wages	17.147
Expenses	7.028
Depreciation .....	.551
	24.726
Administrative Costs:	
Wages—Office, Management, Sales Manager	3.185
Expenses	2.681
Depreciation .....	.038
	5.904
Sales	100.000
Sundry Income .....	.820
	100.820
Merchandise Cost	54.996
Processing and Bottling Costs	13.486
Delivery Costs	24.726
Administrative Cost	5.904
Total Cost	99.112
Net Profit	1.708
	100.820
Income Tax Based on Corporation Tax Rates .....	.893
Net Profit after Income Taxes .....	.815

I do not think I need set out the other efforts along this line which were made in other parts of the country, notably in Windsor, Ottawa and Northern Ontario areas. It is sufficient, I think, to say that in no case have distributors kept their records in such a way as would enable them to state with complete accuracy what the costs relating to the distribution of a quart of fluid milk are. Under the present accounting practices of the distributors, these calculations necessarily involve an arbitrary allocation of costs to the fluid milk part of the distributor's business. They also involve equally arbitrary allocation of charges for depreciation and obsolescence. It is a problem about which no one can speak dogmatically. It is always an arguable question when one attempts to disintegrate a blended operation, to say how much of the administration expenses and how much of the charges for depreciation and obsolescence should be allotted to the sale of fluid milk. Nevertheless, within certain limits one can speak with fair certainty and, in my opinion, it has not been demonstrated, either by the Accountants carrying on investigations for the Commission or by any distributors giving evidence before me, or by the consumer or producer groups, that the profit on the sale of a quart of milk exceeds one cent per quart. In my view it has been established by the evidence that the profit per quart is a fraction of a cent. It is probably closer to one-half cent than to any other fraction at the present time.

Necessity of Decreasing Costs and Narrowing Spread

It may be that, because of the profit resulting from a blended operation, and because of the strong position built up by large volume of business, certain of the more substantial distributors, including the three larger distributors and many of the more substantial independent distributors, would presently sell their milk at prices less than those presently prevailing. If the concept of a fixed price to consumers of fluid milk, which has obtained under the Milk Control Board, is to be continued, then obviously a price must be set which is sufficient to cover the cost within reason of all licensed distributors. A very valuable incentive towards further narrowing of the spread and further decreasing the cost of distribution is entirely removed from the industry when the consumer price is fixed. If some effective competition as to price were allowed to operate in the industry, I am satisfied that means would speedily be found by the more efficient distributors to further reduce the cost of supplying fluid milk to the consuming public. The fixed price has tended to maintain a status quo in the industry which, it seems to me, is a very unhappy one from the consumer viewpoint. One might assume that the bonus which results from the fixed consumer price to the larger and more efficient distributor, might have led them to try to increase their profits by making cost reductions. The evidence before me, however, did not bear this out.

As appears in my review of the administration of the Milk Control Board, suggestions have been made to cheapen the processing and distributing of milk since 1934. No significant measures appear to have been taken until the years 1941 and 1942, when certain improvements, reducing the cost, were brought into effect by the industry itself under the combined pressure of the Milk Control Board and the Wartime Prices and Trade Board. It is true that practically all the distributors who appeared before me stated that they continually tried to improve the efficiency of their operation and that they were continually on the lookout for better and cheaper methods of distributing their products. But, apart from these very general statements,

it was almost impossible to obtain any concrete examples of what was meant by this evidence apart from the changes already alluded to in 1941-1942. It is obvious, I think, that there must be a sharper spur behind the industry if it is to achieve more effective and cheaper methods of distributing milk than those which exist at the present time. There seems to be an assumption by the industry generally that cost plus a fair profit results in a fair and reasonable price. I do not believe that any greater fallacy has arisen in the conduct of private business. If the privately owned agencies distributing milk are to justify their existence, they must continually seek to work out methods of cheapening their processing and delivery costs and of passing on a fair measure of the savings thus obtained to the consumer. Indeed, if I am right in my assumption that cheap milk results in large volume consumption of milk, it is most essential in the distributors' interest that they should do this to a greater degree than they have in the past.

Methods of Decreasing Cost and Narrowing the Spread

It must be apparent to anyone who has followed the course of the inquiry before me, that the general attitude of the distributors in respect to lessening cost was that all that could be done was being done, and that if all was not perfect in the best of all worlds, nevertheless all that could be reasonably undertaken was being undertaken.

In fairness to the distributor I think it must be said that it is not possible to reduce the cost of distribution further without much more active co-operation on the part of the consuming public. There is, I think, no substantial evidence before me which would indicate that the cost of processing and administration are unreasonable or can be greatly reduced.

In connection with the general question of spread-narrowing, it is commonly believed that distributive spreads should be distinctly narrower in the smaller than in the larger markets. During the course of the investigation it appeared to be a common belief that costs of administration and distribution should be lower in the smaller markets than in the larger. Such, however, would not seem to be the case. The general purport of the evidence I heard was to the effect that, while processing costs were lower in the larger urban markets, costs of delivery were, on the whole, higher. In the smaller markets this process seems to be reversed and, while delivery costs are on the whole smaller, processing costs, owing to lesser volume, from the examples which I examined, generally seem to be higher. This, of course, is a general tendency and not an absolute rule. In the larger urban markets all costs do tend to be somewhat higher if only because of the higher wage rates prevailing. It is, of course, entirely probable that, with the passage of time, new and more effective methods of processing will be discovered and doubtless these will be used in the first instance by the more efficient operators and finally by most of the industry. The key at the present time to any immediate further economies must lie in some fundamental re-organization of the distributing process. Without such re-organization possible savings would be comparatively minor in nature and amount. It is interesting to note that, in the study made twenty-five years ago by Messrs. Hoodless and Clarke, the same conclusion was reached. They stated:

"The most careful study of the conditions of city milk supply as outlined above indicated that measures for such improvement of the business as will give, on the one hand a lower price to the consumer and on the other hand a more attractive price to the producer, do not consist in an attack on, or a lowering of, the distributors net profit. This item in the cost of

distribution is the smallest item. It now yields no more than a reasonable remuneration on the property used in the service, and being the smallest item in the distributing cost it offers less opportunity for tangible reduction in the costs of distribution.

"To effect tangible reductions in these costs requires the closest co-operation between the three interests affected, the consumers, the producers and the distributors. The consumers have considerable responsibility in that their co-operation with the distributors is necessary to reduce the costs due to demands for unreasonable service and to their loose regard of the property of the distributors. The co-operation of the producers with the distributors is necessary in the cutting down of costs due to unevenness of volume and quality of supply of the raw product. The distributor, in addition to the above divided responsibilities has responsibilities inherent in his business which he alone can discharge, particularly those associated with the most destructive phases of keen competition."

While in Mr. Entwistle's study the cost of bringing milk from the dairy to the door of the consumer's residence is set at 2.65 cents out of the total cost of 12.10 cents per quart, it must be remembered that this is an average figure. Roughly speaking for a large part of the industry, I think it can be said with some confidence that the cost of delivering milk from the dairy to the consumer is closer to 25 per cent of the total price charged.

I was much impressed with a communication received during the course of the inquiry from a gentleman who has spent his life in the distribution of fluid milk and who at one time was the head of one of the largest distributors in the Toronto market. I quote from his letter as follows:

"I am confident you will discover that the excessive cost of milk is entirely in the duplication of deliveries. All milk delivered in Toronto has to meet the regulations of the Health Department. Therefore, customers are assured the same quality as they now receive.

"Our sixty-five wagons had to travel a long way to reach their zone before making deliveries and then their customers were scattered over many streets. Similar conditions existed with other dairies which resembled a game of checkers moving about to supply different houses. If our entire patronage was in one area, only a few wagons would have been necessary.

"Here is my suggestion that would save at least three cents per quart.

"Have a central dairy plant where all the milk would be received and bottled, load large trailer vans similar to the largest furniture moving vans, these trailers to be delivered to different points or stations where the deliveries will commence. Then a crew of three men would take over and hitch on to the load and begin deliveries.

"Two trailers would be used for each station, one of these would be loaded with empties and picked up for return to the dairy when the loaded one arrives each day. This van would move up a street like a motor car on an assembly line, one man on each side of the street and a driver.

"With a big reduction in price the customer would be willing to co-operate by taking delivery on the front door step. There would be no calling back for collection. For a convenience, tickets could be obtained from the corner stores same as postage stamps. The merchant would welcome this because other sales would be made. A doorstep without an empty bottle and ticket would indicate no milk was required, yet a

customer could always secure the same milk at the store on the street, if she missed the delivery van.

"This system is similar to the garbage collection whereby a large truck moves slowly up the street and picks up only the cans that are left in the proper convenient place for the men to reach. If no can is left out, then the housekeeper has to wait for the next pick up.

"People are easily educated to new systems especially when reductions are obtainable. Take for instance the cafeteria, the line up for busses, the specified hours for shopping, the ready car fare, etc., etc.

"Consider the saving of taxes, buildings, and equipment contained in the many dairy plants throughout the city. All this could be absorbed in a central plant. These suggestions, of course, apply only to a municipal system."

It must, however, be remembered that, if any changes are to be made in the distributing system, such as zoning, co-operative delivery by one or more distributors, sales through depots, quantity discounts, etc., such changes can only be introduced by the distributors with the full co-operation of consumers.

It is quite apparent, as previously observed, that the product itself is almost a uniformly standard one. The consuming public, however, do not appreciate this and many consumer witnesses before the investigation, when asked if they would be willing to accept any milk offered for sale in their particular market without freedom of choice, stated that they would not. Such would inevitably be the result of a zoned delivery system which would allot certain areas on some equitable basis to each of the distributors. It can only be said that if the consumer is not willing to co-operate in effecting economies of this sort, he should be prepared to pay the extra costs involved without complaining about them.

At the present time, as already observed, any competition which exists in the industry is one of service, based on the sales ability and personality of the milk salesmen. This is unquestionably a very expensive form of competition. As I have said, if the consuming public demand it they must expect to pay for it. It is a form of competition, however, in which it is very hard to detect any social value or any economic value except to the salesman himself. It is most desirable to have the consuming public realize that substantially they are purchasing a standard product and there is little, if any, real difference between the milk sold by the various distributors.

Depot Deliveries

In 1937 it was stated in a treatise on the subject:

"A really radical reduction of distributive activities would result if consumers should become willing to take delivery at a store rather than at the doorstep. Such a move would involve nothing less than the disappearance of milk distributors as a special class and at the moment is unthinkable."

My observation would be that, insofar as the wishes of the consuming public are concerned at the present time, it is still equally unthinkable.

It may be, of course, that there are very substantial objections to depot deliveries as a universal policy. Under that system the consumers would, in effect, be making their own milk deliveries, while the present methods of processing and bottling would continue. The function of the dairy would end when milk was delivered for sale to the store or milk depot. It would

cut the present high cost of milk salesmen but the social dislocation and unemployment resulting from such a process would create another social cost which in the long run might well equal the saving. Moreover it must be remembered that the individual consumer would incur some cost in going to the depot or store. Such a method, while not universal, has been used in some of the larger United States cities and this fact has frequently been cited as evidence that the people are willing to adopt such a system if it is provided for them. It is also said that as a practical measure many consumers, especially mothers of large families, would be unable to obtain milk in this way and for many persons it would constitute a real hardship. It would undoubtedly require the institution of larger refrigeration units both in stores and in the new depots which would have to be built, and it would involve a complete loss on the present delivery equipment and the expenditure of substantial sums of money by the distributors for the erection of distributing depots.

It is almost impossible in advance to calculate the loss and gain of such a system. It can only be said that no experimentation in Ontario along these lines has been conducted by the distributors to any extent, and it may be that some cautious investigation along these lines would repay the efforts.

In this connection it should be remembered that, while the figure of 26.07 per cent of wholesale sale as against the total volume is a provincial average, it affects comparatively few of the distributors in number. As Mr. Entwistle points out, at least one distributor is exclusively in the wholesale business, and a representative cross-section of successful independent operators shows an average of 44 per cent wholesale trade. It was argued before me for the distributors that the loss of profit resulting from larger depot or store sales at discounts below the retail price to consumers would necessarily render it essential to charge more for house deliveries because of the reduction of retail sales to householders by the distributors, and that this practice would be unfair to those householders unable to take advantage of depot sales. It is noteworthy that those distributors now engaging in a substantial wholesale business have not as yet found this step necessary and are able, even with high percentages of such sales, to still show substantial profits. From Mr. Entwistle's conclusions, the new price increase has made this even more possible. In view of this it is difficult to resist the conclusion that the ultimate consumer should now have some discount for depot or store purchases or purchases in bulk. In effect, by this method some of the advantages of the recent price increase would then be passed on to the ultimate consumer.

Every Other Day Delivery

Delivery costs can also be reduced by adopting less frequent delivery, such as every other day delivery, or five day or six day delivery. These would unquestionably result in some saving on equipment and manpower, and in many markets, notably in the United States, one or the other of these methods have worked with a fair measure of success. Whether the greater lack of household refrigeration in Ontario, as compared with parts of the United States, would be a bar to such a system in Ontario cities, especially in the summer months, is a practical question that should be considered. The objections, apart from refrigeration, are all technical in nature. It is said that the necessity of keeping milk for a longer time before using it might have adverse effects on its quality and might lead to disease. New costs would be created in that distributors would have to maintain a somewhat

larger supply of bottles. The present transportation facilities for use on alternate days would probably be sufficient.

Co-operative Delivery by Distributors

A third plan suggested would not change the essential nature of the work to be done, but would eliminate duplication in the doing of it. This would involve the creation of a distributing agency for the various dairies and would result, if properly done, in a completely rationalized system of delivery. Such an agency could either be municipally-owned and operated or owned by the distributors co-operatively. In effect, this is one of the results of the municipal dairy at Wellington, New Zealand. It has been stated by some authorities that the savings from such a system might result in one and one-half to two or one-quarter cents a quart, depending on the size of the market. In effect, it would call for collective selling and delivery. In respect of the benefits obtained from such a system it is worth noting that in the majority report of the Royal Commission in New Zealand in the year 1943, it was stated that the Wellington Municipal Milk Department distributed milk in that municipality at least one penny per quart cheaper than the other privately-owned companies whose cost of distribution were investigated.

Zoning

Another plan which has been suggested would be that of zoning, which I have mentioned earlier. This, of course, would completely eliminate overlapping in deliveries and competition in selling. The result would be unquestionably a sizeable reduction in delivery mileage and delivery time and therefore delivery expenses. The distributors on the whole objected to such a suggestion when it was put to them on the ground that it did not permit them to choose their own customers or their customers to choose them. They also objected because the plan tended to eliminate the opportunity of securing volume from new business. The plan was apparently tried with success in Melbourne, Australia, in 1938 and has, I understand, operated there since that time.

In respect of suggestions made to eliminate duplication of delivery, it should be noted that the extent of this duplication varies very considerably, depending on the size of the market and also on the scale of operation of the distributor. In many of the smaller markets where the number of distributors is small and where distances are relatively short, the possibilities of duplication are obviously much less than in large urban markets where distributors are numerous. In such urban centres the smaller distributors may have to travel considerable distances in delivering their loads. On the other hand, the large scale operators in these centres have a much greater density of delivery, which assists in reducing their costs. In other words, distance between calls in their case is much less than in that of the small concerns.

Quantity Discounts

The general attitude of the distributor was to oppose quantity discounts to householders. It was stated that householders would co-operate by buying large quantities to obtain reduced prices, and the distributor regarded this practice with disfavour. It was also stated that there were grave difficulties in working out a workable system through the men distributing milk for handling these reduced charges, and generally it was not treated seriously.

I do not think, however, that any of the witnesses for the distributors were able to deny that it was cheaper to handle a large quantity of milk to one point than the same quantity to several different points, and in view of the remarks at the conclusion of the paragraph relating to depot sales, it would seem to me that some discount for quantity purchases should be seriously considered by the distributors. After all, in principle it is identical with the giving of discounts for wholesale purchases, which is a regularly established practice and already constitutes more than 25 per cent of the total milk distribution in the province.

Trade Reaction

The reaction of both the distributors and the consumers to most of these suggestions was a simple attitude that it could not be done. I do not believe this attitude is a tenable one. I think in many cases more could be done, but unquestionably some effective pressure from outside the industry is necessary to bring it about. This pressure could be in the form of a more aggressive policy on the part of the Milk Control Board, or preferably by the creation of real and effective competition within the industry itself. Unquestionably the existence of this high distribution cost and the apparent economic waste incurred is one of the strongest grounds on which public ownership and control of the distribution of fluid milk is urged. I propose to discuss this problem later but it would appear that milk is such a vital product that the public are entitled to obtain it in the cheapest possible manner. It must be remembered, however, that a price is paid for all efforts of this sort and it may well be that what is gained on one hand is lost on the other.

It was stated in Chapter 2 of this report that there are approximately 20,000 persons engaged in processing and transporting milk and milk products. A large proportion of this number is engaged in distributing milk in small municipalities, and if as a result of economies they are to be deprived of their occupations as such, the cost of this re-allocation and re-shifting of a large group must be taken into account. It is entirely desirable that those distributing milk should be well and adequately paid for the work they do, and if they can be reactively absorbed in other lines of endeavour there is not the same objection to sudden and drastic changes in methods of distribution which would otherwise arise. Possibly the key to the problem from the viewpoint of the distributor lies in the realization of the fact that essentially he is operating a public utility. This fact involves him in an obligation to be more adventurous in discovering methods of better serving the public at cheaper prices. In my view, if some definite efforts along these lines are not instituted and not pressed with more vigour than in the past, the logical alternative will be the setting up of publicly-owned utilities to carry on the functions now performed by the present distributors; and public opinion may well force this whether the results justify the change or not.

The Financial Position of the Distributors Generally

The general financial condition of the distributors, on an over-all basis, is fully discussed in Mr. Entwistle's report in Appendix 18, and I see no great advantage in repeating what he has said. Nevertheless, there are certain conclusions that he has reached that are worthy of comment. It is worthy of note that, as compared with 1944, the proportion of milk used for fluid consumption, as compared with total production, has increased from about 26 per cent to an estimated percentage of 27.67 per cent. If one

relates this to the discussion earlier in this report dealing with the producer's surplus milk problem, it will be seen that the process there indicated has taken place. The tendency for new producers to enter the fluid milk field because of better prices obtaining, has not yet exhausted itself.

Looking at the over-all examination based on the financial statements of a substantial number of independent distributors, which is set out in Exhibit B to Mr. Entwistle's report in Appendix 18, it is interesting to note that on an average the total percentage of profit as against sales amounts to only 3.02 per cent and that the percentage of profit against capital employed is 17.57 per cent before taxes. When a closer examination was made by means of questionnaires, it was noted that the profit percentage of sales is lower in the larger markets and the higher percentages are shown in Eastern Ontario, Northern Ontario and the Niagara Peninsula.

This, of course, is without reference to the earnings of the three large distributors, which in one sense dominate the industry in Ontario. As Mr. Entwistle points out, if their earnings were taken into account the percentages would be higher. The point which I wish to develop shortly is that in the distribution end of the dairy industry one of the necessary conditions to the creation of high profit is large volume distribution. It is worth noting that the percentage as against sales of the combined average of the three larger concerns is 4.49 per cent. These reflect profit not only on the distribution of fluid milk but on what I have called the combined operation on the distribution of all products handled. The fact that their net profits when considered as a percentage of sales are almost 50 per cent higher than the others, also indicate another condition of the business, that is that if large profits are to be made other lines such as ice-cream and chocolate drink should be handled. The three larger distributors are so organized. Not all the independent distributors are.

Capital Employed

The question of what capital is employed is one which is fundamental in relating profits to the capital structure and considerable divergence of opinion was expressed before me as to what constitutes this.

Mr. Entwistle, in his study, in dealing with the independent concerns, used the methods indicated by the Dominion Income and Excess Profits Tax Acts. When these were applied to the three larger distributors a somewhat curious situation revealed itself. In one sense a discussion of this point is academic because it has not been demonstrated before me that in any of the price agreements fixing the price of milk and other products to the consuming public the capital employed has played any large part in determining prices reached. The problem has apparently been generally approached from another angle, that of cost. However, it cannot, I think, be denied that the capital position of the distributor is always a matter which must, in some degree, be in the background in any discussion of price. It is a favourite device on the part of those attempting to show that the distribution end of the milk industry is a monopoly to point to the large capital structures built up by the various corporations engaged in a large way in that business. It would, however, seem to be beyond the scope of this Commission, from a practical viewpoint, to determine the extent of capital inflation in the industry unless it can be shown that it directly and significantly relates to the costs charged the consuming public for milk. It cannot, I think, be said that any such cause and effect were demonstrated before me and I do not think any useful purpose is served by going into what might be called the inflated capital position of the industry as it exists beyond

what has been done by Mr. Entwistle in his study. That there are firms in the industry in which such a condition exists is probably true, and the financing which led to this condition may be generally attributed to what are called the boom years before the depression of the 1930's.

In the report of the parliamentary committees investigating the milk industry in Canada in 1932 it was said:

"We desire to draw attention to a few of the more outstanding facts as disclosed by the evidence in respect to capitalization, depreciation charges, etc., of those engaged in the sale and distribution of whole milk products.

"1. Capitalization.—Over a period of years there is a marked growth in the capitalization of those companies which have been engaged in the business for any considerable length of time. While much of this increased capital was added in the ordinary way, because of increased business, it is very apparent that over-capitalization exists. Some of the ways in which this has been brought about are—

"(a) By purchasing or absorbing, by merger or consolidation of other companies in the same line of business. These changes of ownership very frequently took place at an enhanced valuation which generally involved an increased stock issue by the purchasing or parent company.

"(b) Goodwill.—Very substantial values were in many cases placed upon goodwill. For such goodwill the purchasing or parent company as a general rule issued common stock. No par value stock was used for this purpose in the majority of cases. This stock while nominally of no value, gradually appreciated in value as time went on, became dividend bearing and a charge upon the industry.

"(c) By 'splitting' shares.—The too-common practice of splitting or dividing shares seems to have been indulged in by many of the companies at one time or another during their history.

"2. Depreciation.—There is a very marked difference in the method of calculating depreciation on buildings, machinery and equipment. The Committee is of the opinion that depreciation reserves set up by many of the distributing companies, were calculated on an unwarrantedly high basis, and that frequently depreciation reserves cover hidden profits.

"3. Bad Debts.—To a lesser extent the remarks in the preceding paragraph might well apply to reserves for bad debts.

"4. Salaries.—Committee are of the opinion that salaries paid to some of the higher officials of the various distributing companies are at this time, entirely too high and wholly unjustifiable.

"5. Profits and Dividends.—Those engaged in the sale and distribution of whole milk products have during these very difficult times, in a substantial way at least, been able, unlike most other industries, to maintain their profits at the same level as in more prosperous times. It is true that in certain cases dividends have been reduced and in some cases discontinued. In the most of such companies however, substantial reserves continue to be set aside annually as in previous years. The Committee is of the opinion that dividends might very well have been declared by some companies in which producer-shareholders are interested. The failure to pay dividends in such cases has undoubtedly had the effect of reducing the value of the stock in the public mind and possibly cause dissatisfied producer-shareholders to sell or dispose of their stock at less than actual value.

"6. Merger, Purchase or Absorption of other Companies or Interests.—The evidence presented to the Committee clearly indicates that the sale and distribution of whole milk products is gradually getting into the hands

of fewer and larger companies. Economies to the companies interested may have resulted, but there is no evidence of any benefits accruing from such mergers to either the producer or the consumer. In many cases there is evidence that mergers have removed competition and the general effect is undoubtedly to give the distributors a more definite control of the situation."

It may be that as a result of this investigation in 1932 some of the larger distributors proceeded to squeeze what might be called the water out of their capital structure. This, I think, explains the observations on page 86 of Appendix 13, wherein Mr. Entwistle points out that by the device of issuing common stock to vendors of dairies, some of the larger concerns did, in fact, at the time such sales took place, because of the high market value of their securities, give a bonus for good-will, which Mr. Entwistle puts in the aggregate at \$20,305,360. Apparently only a very small portion of this is represented in the capital structure of the companies concerned today, and there is nothing to indicate that it is now playing a part in determining the cost of milk to the consumer. Insofar as the companies themselves are concerned, it would seem to have been a very good practice. They, in effect, were asking the vendors of the dairies sold to them to venture with them in the future prospects of the combined business. The securities issued in treasury stock did not create fixed charges on the industry which might have affected the price of milk. If any returns were to be obtained from such securities they had to be earned as profits by the companies and disbursed as dividends, otherwise there was no liability to pay. The willingness, however, of the vendors of various properties to participate in this way again accentuates the fundamental condition I have mentioned, namely, that if profits of any considerable scale are to be earned by the distributors it must be by means of a large volume distribution. In one sense I presume this may be called a monopolistic tendency inherent in the industry, and these tendencies will be discussed in some detail later. Apart from that, however, it cannot be said to be anything more than a recognition of the fact that a successful operation in the distribution end of the industry, if large profits are to be accumulated, must be a large scale one insofar as volume of distribution is concerned.

This is further borne out by the study made by Mr. Entwistle of 390 distributing businesses, two hundred and sixty-two of which were small enterprises having an annual sales volume not exceeding \$100,000. In fact, the average annual sales of this group was only \$40,313. The combined sales total of this smaller group represented 23.06 per cent of all sales made by the distributors studied, while profit contributions of the same enterprises represented only 19.89 per cent. The facts on which these conclusions are based are set out in Appendix "C" of Mr. Entwistle's report, and it is worthy of note that the profits of the distributors having annual sales in excess of \$100,000 show a tendency to increase as sales volume expands. This is true of all three groups. This would further substantiate the suggestion that when large volume distribution is obtained, increased profit margins may be expected to bear some fairly constant relationship to sales expansion. Prior to this point, however, the distributor is in the position where he has to expand his plant in anticipation of further business before he gets it so that overhead cuts into his profits to the extent already indicated in the case of the first group of distributors studied who have smaller volume.

Wage and Labour Costs

When wage and labour costs are examined in Mr. Entwistle's report, the importance of large volume is further emphasized. During the years 1939 to 1945-46 the sales of fluid milk in the group of distributors studied showed an increase of 109.18 per cent. This is higher than the provincial average for the same period, which is 87 per cent. During the same period average weekly wage rates increased by 35.01 per cent in the processing end of the industry, 39.73 per cent in the selling and delivery part of the industry, and 29.90 per cent in the administrative section. The over-all average increase was 35.15 per cent. This increase of wage rates is a most important element in the total cost of distribution. Selling and delivery wages alone represent approximately 65 per cent of the total selling and delivery expenses. It is significant, however, that when the labour cost per quart is worked out as between 1939 and 1945-46, the increased labour cost per quart advanced from 3.1899 cents per quart in 1939 to only 3.2815 cents per quart in 1945-46, an increase of .0916 cents per quart or a percentage increase of only 2.87 per cent.

It is important when considering this to remember also that in payroll disbursements there is an actual dollar value increase of 112.10 per cent in 1945-46 as compared with 1939, that the actual increase for selling and delivery costs is 112.36 per cent, and the increase of personnel 52.36 per cent. Large volume sales are undoubtedly responsible for the fact that the industry has been able to absorb these increased costs.

Something, however, must also be allowed for in the general increase of efficiency and the wartime economy measures undertaken by the distributors in 1942. To put it another way, it would appear that if consumption can be increased and maintained at high levels it is possible to absorb a very substantial wage and labour cost increase so long as increased volume of consumption is maintained. On the other hand, the ability to maintain this position must become increasingly difficult as the volume of sales declines.

Combined operations

At this point attention may be directed to the effect on profits of what I have called a combined operation, that is, an operation involving the sale of fluid milk, ice-cream, cream, chocolate drink, butter-milk and cottage cheese, and sometimes butter, etc. In this regard reference may be made to page 101 of Mr. Entwistle's report in Appendix 18.

The 58 distributors engaged in the combined operations do a very substantial portion of the business in the Province, and account for sales of \$51,587,177 out of a total sales of \$90,000,000, being 57 per cent of the total sales of all distributors. Of this the three large distributors account for 39 per cent and 55 independents 18 per cent. The profit position of these companies accounts for 64 per cent of the total profits of the industry. As against sales their profits are 4.12 per cent of their sales, which is considerably above the general average. It is important to remember this when the discussion of milk as a public utility is under consideration. I question very much whether there would be any substantial prospect of large profits from public utilities restricting their operations to the sale of fluid milk alone. If profits are to be made it would appear that such public utilities would have to engage in the related and ancillary operations carried on by the 58 distributors I have mentioned. This would be their only hope of building up a profit position sufficient to justify reduced charges to the consuming public for fluid milk.

Subsidies

As a war measure and as part of the general price control policy, the Dominion Government paid a consumer subsidy of two cents per quart effective December 16, 1942. This was continued until May 31st, 1946. The total amount paid during this period was, I am advised, \$29,649,963.97, or an average of \$8,471,418 per annum. The effect of this is discussed at Page 101 of Mr. Entwistle's report in Appendix 18.

Subsidy payments began at a time following the achievement of very substantial economies in the operation of the industry. These were effected by the distributors themselves under pressure from the Wartime Prices and Trade Board and the Milk Control Board. At this point it may be worth repeating what is set out in the earlier part of this report which deals with the work of the Milk Control Board. The following table shows the changes which were made and the times they were effected:

July 1st, 1941—

Special Deliveries Eliminated.

February 1st, 1942—

- (a) Cream sales limited to 2 grades.
- (b) Cream Containers limited to 2 sizes.
- (c) Store returns eliminated.
- (d) Delivery service limited to one per day and to regular wholesale accounts.
- (e) Special bottle caps eliminated.

July 3rd, 1942—

- (a) Charge on bottle made universal.
- (b) Retail sales established on a cash basis.
- (c) Wholesale credit sales reduced.

If the figures for fluid milk consumption are examined, it is found that in 1941 there was a total sale of 290,089,000 quarts. In 1942 the corresponding figure was 324,949,000 quarts. By 1943 it had increased to 386,645,000 quarts, and by 1946 the all-high total of 467,736,000 quarts was reached. It is interesting to compare these figures with the over-all profits before taxes of the distributors. The following table does not include the figures relating to the three large distributors:

Statement of estimated overall net profits (before taxes) for the years 1939 to 1946 inclusive

Year	% of Sales	Amount	Increase over preceding year	% of increase	% of 1939
1939.....	2.40	\$683,938	.....	.....	100.00
1940.....	2.45	768,005	\$84,067	12.29	112.29
1941.....	2.00	786,528	18,523	2.41	115.00
1942.....	1.60	693,057	(93,471)	(11.88)	101.33
1943.....	2.65	1,283,808	590,751	85.24	187.71
1944.....	2.95	1,572,060	288,252	22.45	229.85
1945.....	3.02	1,661,000	88,940	5.66	242.86
1946.....	2.70	1,654,275	6,725	.40	241.87

TOTAL..... \$9,102,671

(Note: Figures in brackets represent decrease.)

AVERAGE.. 2.53 \$1,137,834

The above table relates to the independent distributors only.

I am advised that the three large distributors show a proportionate increase not in strict proportion to the independents, but nevertheless of a substantial nature.

It is impossible, I think, to say which of the factors I have mentioned, that is, the economies effected in the distribution end of the industry, the consumer subsidy or the large increase in volume of sales to consumers, was responsible for the large increase in profits to the distributors as between 1942 and 1943, a process which continued down to 1946, but I think it is fair to say that the combined operation of these factors produced the improved profit condition indicated. It would, in my view, and in this I am confirmed by the Accountant, be impossible to now unscramble the omelette and to value each of these factors in any accurate way. The lowering of consumer price and the improved purchasing power of the average consumer during these years doubtless also played a part. Of these it is difficult to avoid the conclusion, however, that the most substantial influence on the increase in volume of consumption was exerted by the lower price. It is quite true that the improved purchasing power of a large part of the population during the war years must also be recognized.

Other General Considerations

From the financial studies it is quite apparent that the increased volume of sales over the war years, combined with the consumer subsidy and operating economies, placed the industry in what may be described as a very healthy condition. As evidenced from Mr. Entwistle's report, very substantial amounts have been set aside by the industry on the average to meet depreciation on plant and equipment which was used to full capacity through the war years. It can be said also that at the present time the industry is in a position where it is fully equipped to process fluid milk in sufficient quantities to ensure adequate supplies to the consumers at the present or higher levels of consumption. It is a fact that the present plants of the distributors are geared to an output almost twice that of 1939 and the maintenance of this large volume consumption must be one of the most serious concerns of the distributors. It is quite apparent, I think, that any substantial or continued reduction in volume would substantially increase the distributor's costs. One cannot study Mr. Entwistle's report without realizing that the percentage of profit in relation to sales is a small one. The distributor of fluid milk works on a very narrow margin. This is simply another way of saying that as the profit on each unit sold is a fraction of a cent there must be a large volume of such units to create any considerable profit.

It also, of course, emphasizes one of the great dangers of the industry, that is that if the small profit position is not maintained large and ruinous losses might speedily occur.

The determination of the price charged the consumer therefore becomes a question of considerable nicety and one which may very well mean the difference between a profit and a substantial loss. This raises the general problem of a fixed price to the consumer in any given market.

Tendencies to Monopoly

Many of the consumer representatives appearing before the Commission suggested that the distribution of fluid milk was in the hands of a monopoly and in making this suggestion they pointed to the three larger companies operating in the Province. In view of the number of licensed distributors, which is in excess of 850, this is hardly a tenable view. However, it is unquestionably true that in volume and dollar value a substantial part of

the dairy business in Ontario lies in the hands of three corporations, namely, The Borden Company Ltd., Silverwoods Dairy Ltd., and Dominion Dairies Ltd., (comprising the Acme and Producer Companies in Ontario). For the purposes of convenient reference these may be referred to as "The Big Three." For the year 1945 these three companies marketed 30% of the total dollar value of all fluid milk marketed in the Province. The proportion of cream and chocolate drink which they marketed also approximated 30% of the total dollar value of the sales of each product within the Province, while as regards butter and ice-cream it would appear that the combined sales of the three concerns was substantially more than 30 per cent of the total estimated sales of such products by the fluid milk industry within the Province of Ontario.

It should be clearly understood that the foregoing proportions are based on the estimate of the fluid milk industry's over-all sales in Ontario of ninety million dollars, which amount has been developed by Mr. Entwistle as shown in Table 14 of his report.

These three companies unquestionably exercise a large influence in the industry in Ontario, not only because of the efficiency of their methods and the high quality of their products, but because of the lead which they give independent concerns which operate in a similar fashion. The great diversification in their operation which, as will be pointed out later, has a very substantial influence on their profit position and their earning capacity, is a matter for serious consideration. This will be apparent when it is realized that, out of an estimated total of \$37,000,000, representing products other than fluid milk itself, sold by fluid milk distributors during the fiscal year next preceding 1st October, 1946, approximately 53 per cent was sold by these three large companies.

In the result they are in a position to exercise a powerful influence on the industry. The most that can be said is that while there is no actual monopoly, the distribution of fluid milk is a business in which large profits lie in large volume of distribution, and this fact naturally tends towards monopoly. From the consumer viewpoint, as long as this tendency does not crystalize into actual monopoly control, it may not be a bad thing. As an example of the tendency, the concentration of the distributing industry in a few hands may be exemplified by the record set out in Appendix 20 of the Toronto market in the years since the Milk Control Board was established. Briefly, starting in 1934 with 96 licenses issued, 1945 saw the number reduced to 53, largely through sale and amalgamation. This tendency, which is more apparent in the markets with large populations, is a development to which due weight must be given in determining any general policy of control and of price fixing.

If the tendency observed is as strongly marked under conditions in which the price paid the producer and the price charged the consumer are both fixed by governmental authority, it becomes a very important matter to determine, from the viewpoint of public policy, which direction the industry is to take in future. The problem is, of course, closely connected with the practice heretofore obtaining of fixing consumer prices, and will be discussed in greater detail. At this point it is sufficient to say that if efficiency alone and a low consumer price is the prime end, then an acceleration of the process may be desirable. If distributive monopoly grew, presumably density of delivery should increase accordingly. This might have profound effects in decreasing the amount of delivery costs. If, on the other hand, the maintenance of a large number of distributors is desired, then the process should be discouraged. It should also be

considered whether, in the event that monopoly, or quasi monopoly, is reached, the public can then be adequately protected by government regulation or whether, under that situation, the ultimate remedy in the public interest may not be an over-all publicly owned utility. The desirability of this solution, which has considerable consumer support, will be examined later.

Fixation of Consumer Prices

Almost without exception both producer and distributor witnesses expressed the view that it would be disastrous to the industry as a whole if the system of fixed prices to consumers for fluid milk was abandoned.

The fear on the part of the producers was that, with the pressure of competition on the distributors, the objectionable practices which obtained in 1933 and earlier years of the depression would return, and that some producers would be induced to sell milk at below the price fixed by law or would give secret rebates. It was also feared that it would be impossible to maintain the producer price structure unless the fixed consumer price was also maintained. The argument for the distributors was most ably put in writing to me by their Counsel, and I do not think I can do better than quote it. It was put as follows:

"The Association does wish, however, to again comment briefly on one important matter that has been repeatedly raised before the Commission, namely Price Control.

"Virtually all those who have appeared before the Commission have approved of the principle of a fixed price to the milk producer, but there has been some considerable difference of opinion as to the advisability of permitting or compelling a fixed price to the consumer. Accepting the wisdom of the control of producers' prices, this Association submits that such control will, in practice, be ineffective unless it is accompanied by a controlled consumer price, and that to have the one without the other will soon result in instability of production prices, particularly during periods of abundant milk supply. Logically, it may be argued that a free consumer price makes for true competition and for efficiency within the industry. Practically, and based on former experience, it would seem to be likely to result in a chaotic condition harmful to producer, consumer and distributor alike. Apart altogether from the possibility that some of the less ethical distributors and producers may make under-cover deals for rebates and allowances, there is the fact that in many Ontario markets there are producer-distributors, producing their own milk and marketing it to their own customers, and it is submitted that it is impossible to enforce, as to these operators, any fixed producer price. They can comply with any price fixing regulation by crediting themselves with the proper producer price, but it is difficult to see how they can be compelled to observe any such hypothetical cost when they come to fix their selling price. Any large scale price cutting by producer-distributors or by any other distributors would result in a price war, as established distributional concerns would be compelled to meet competitive prices even if they did so at a loss, and in the long run the costs of price wars are paid for by the consuming public.

"It is significant that the majority of producers and their associations, in giving evidence before the Commission, favoured both a producer and consumer fixed price, and it is equally significant that every Province of Canada has Milk Control legislation not unlike that of Ontario.

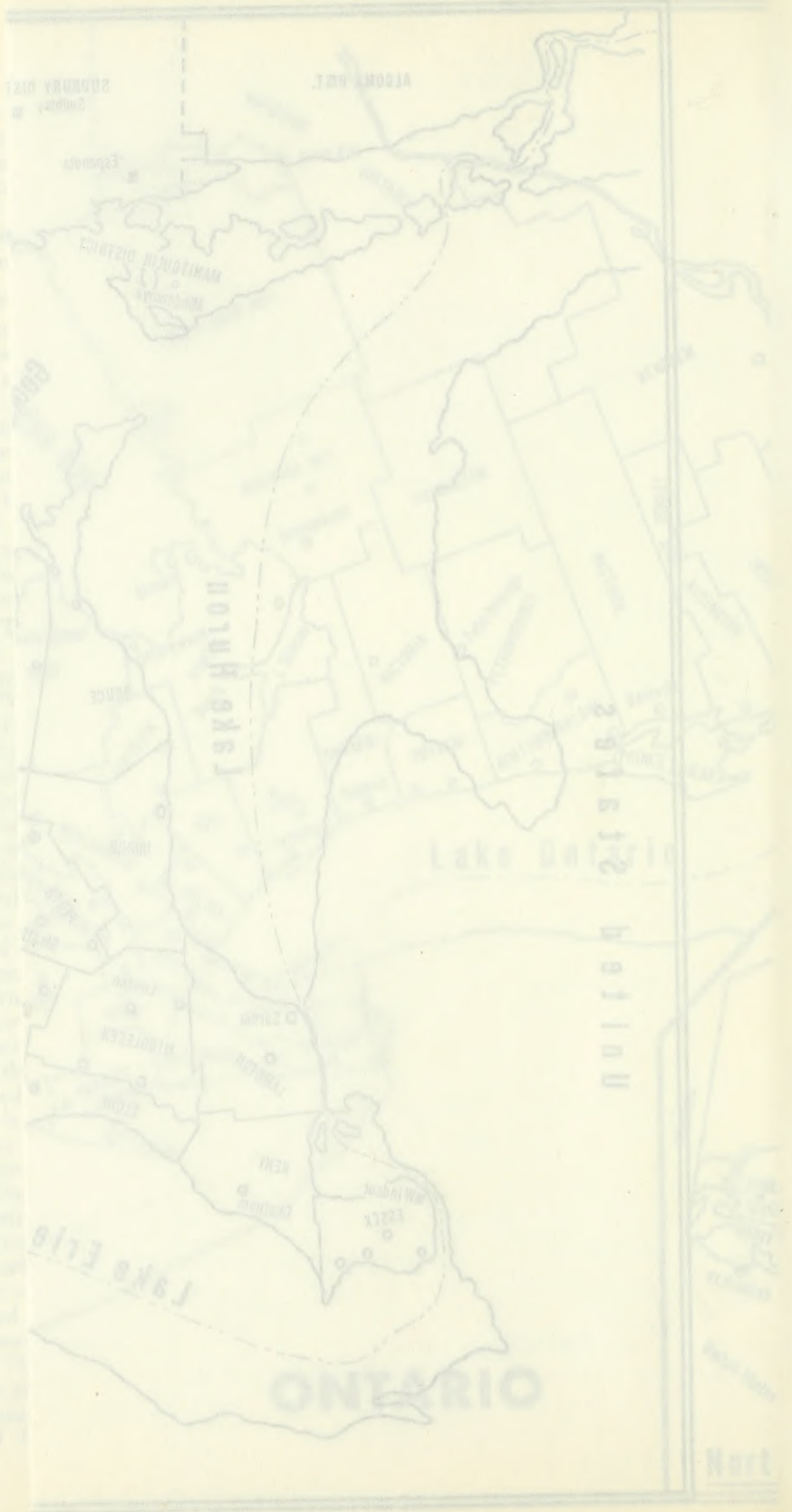
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and in every province there is some measure of fixation of both the buying and the selling prices. It is submitted that the common experience rather than the theory, furnishes the best guide. Reference has been made to the fact that in many U.S. markets the producer price is fixed while the consumer price is free, and this is admitted, but it is suggested that in most of such markets both the producers and distributors are particularly well organized, and while there may be no legal fixing of the selling price, it is in practice stabilized by trade agreement. It should also be borne in mind that some sixteen States of the Union have legislation authorizing or permitting the fixing of both prices, there being included in the list a number of the more populous states, such as California, Massachusetts, New Jersey, Pennsylvania, etc. (See Bartlett 'The Milk Industry,' page 32).

"This association does not ask for the untrammelled right to fix consumer prices by agreement within the trade, but concedes that there should be strict and constant supervision by the Milk Board of all prices, and that the price schedules should only be approved following careful and complete inquiry by the Board; that the Board should consider conditions existing in each market area; and that it should keep running statistics as to costs, profits, etc., so as to permit it to make revisions from time to time to ensure that at all times the consumer price is such as to give the producer a fair return and the distributor no more than a fair profit, based on efficient operation.

"It is also submitted that the maintenance of a stable producer-consumer market price of milk is essential if the present high quality of the product is to be properly guarded. The cutting of prices to a point where some dairies will find it difficult to operate will not probably result in a letting down of the care presently taken in processing, and in a diminution of service to the consumers. Finally, it has already been pointed out and I beg leave here to repeat, that under a somewhat rigid system of price control the price of milk over the last few years advanced less than the price of other food commodities, and is at the present time in Ontario sold for a price that compares favourably with that being charged anywhere in North America, and is considerably under what is being charged in those major U. S. markets, where there is no consumer price fixing. With proper and constant supervision and survey by the Milk Control Board, it is submitted that the fixing of the consumer price will be in the interest of the consumer as would seem to have been demonstrated over the past few years."

In my opinion the obvious answer to the fears of the producer is the creation of a marketing authority for the producers of fluid milk which would deal directly with the distributors, which would handle the accounting and which in effect would stand between the producers and distributors. While this may not be a practical solution of the difficulty at the present time, it is the only satisfactory solution open to the producers.

In my view, which is based on considerable personal experience, if prices paid to producers are to be fixed, the difficulty of enforcing them where there is no effective control over the source of supply, is, in practice, very great. It may well be that, if it is considered desirable to do away with a fixed price to the consumer, that one of the essential prerequisites of such a move is the organization of the producers on such a basis that they can enforce the price fixed to them, or that it can be readily enforced by an agency of government. If such an organization is not practicable

at the moment, consideration should be given to fixing minimum prices to consumers at a level sufficient to protect the fixed producer price. I was advised that this was practised in the Montreal market. Insofar as the distributors themselves are concerned, such a move would immediately restore a large measure of competition which has now ceased to exist. It has been pointed out that in the United States, as a result of the depression in the 1930's, some 26 states enacted legislation to fix prices which consumers should pay for milk. By the end of 1940 this practice had been discontinued in eight states and the federal government had also abandoned it. Apparently the populous states of Indiana and Wisconsin have since discontinued their control, and of the 18 states New York and Connecticut do not authorize the fixing of consumer prices. It is worthy of note, however, that the producers in three of the principal markets in New York State are organized in a much more substantial way than they are in Ontario and reference to a discussion of this may be found in an earlier part of this report dealing with producers.

One of the tendencies which might develop if consumer price fixing were abandoned in Ontario is the acceleration of a process towards monopoly. This at least would happen if the removal of the fixed prices resulted in price competition among distributors. It is quite clear that when marketing agreements are being reached and consumer prices are fixed under them with the backing of the Milk Control Board, not only the larger and more efficient distributors must be kept in mind but the requirements of all distributors in the particular market under consideration. If a consumer's price is fixed it must be one which may well result in a profit to the large volume distributor entirely out of proportion to that enjoyed by the smaller distributor.

It is a matter of general public policy to decide whether it is desirable in the distribution of fluid milk to have a few large and efficient distributors or whether there is sufficient social value in the maintenance of the 850 or more which at present operate in the province. I am satisfied that the gradual process towards consolidation, amalgamation and the purchase by larger units in the distribution end of the industry, would be greatly accelerated if the practice of maintaining a fixed consumer price were abandoned. It unquestionably cannot be abandoned without a cost to the community. This is a matter of policy on which it would not be proper for me to comment but the problem is a real one and must be faced. At a time, however, when it is obvious, I think, that the consumer price of milk is decreasing the consumption, it may well be that the consumers are entitled to the benefit of large scale operations and a lower price from those distributors who can afford to offer it. It must, I think, be recognized from the experience of the years since 1939, and in other jurisdictions, that cheaper milk means larger consumption of milk.

As will appear in the chapter dealing with the consumer case as presented to me, the increased price was represented to be a particular hardship on the lowest income groups. I doubt, however, whether the evidence produced in support of this view substantiates the position taken, which at times seemed to resemble propaganda rather than any serious presentation based on the facts of the case.

While there can be little doubt of the desirability of increased milk consumption on the part of the lowest income group, the evidence that I have heard raises serious doubt as to whether the members of this group have ever been substantial consumers of milk. They are probably too close to subsistence level to afford it. Unquestionably during the war years

many of them, through their greatly improved incomes resulting from work in war factories, and because of shortages of alternative beverages, particularly those utilizing sugar, consumed considerably more milk in one form or another than they normally did. There were, for example, large sales of chocolate drink in the factories. In the survey made on behalf of the Dominion Dairy in Toronto, evidence was given by Mr. Aird which indicated that in those parts of the market occupied chiefly by persons of low income, there was not a substantial consumption of milk in the home. The evidence I received from one representative of the Neighbourhood Workers Association in Toronto, called by Commission Counsel, indicated, however, that there had been a very substantial increase in consumption in what might be called the lower middle income group, that is where the wage earner earned \$30.00 to \$40.00 a week. This group had been reached by the nutritionists in the various Departments of Health and had become convinced of the necessity of larger milk consumption. Admittedly members of this group have been very hard hit by the increase in price of milk to the consumer in October, 1946. This group, of course, has also been very seriously hurt by the large increase in the cost of other necessary commodities, which has taken place over the last eighteen months. Despite this, however, I think it can still be laid down as a general principle that cheap milk for the most part means very substantial consumption. This has been experienced in other jurisdictions and it is interesting to see that in England, in the report of the Reorganization Commission for Milk made in 1933 under the Chairmanship of Sir Edward Grigg, the following observation is made:

“The retail price for milk in this country since the war has been maintained at a level which makes it difficult to gauge a fair price based upon consumption over any considerable period, and there is no ground for assuming that lower prices would not lead to increased consumption. The fact that retail prices in this country have not fallen in sympathy with other retail prices may be assumed to have restricted the sale of milk in some measure. If the demand for milk is to be extended gradually but steadily in future years, stimulus which would be given to this movement through a lower retail price must be constantly borne in mind.”

The findings of numerous milk consumption studies undertaken under the supervision of Dr. W. C. Hopper, then of the Economics Division of the Dominion Department of Agriculture, in different parts of Canada, clearly indicate that the factor mainly responsible for determining the amount of milk consumed is the economic ability to purchase it. The same general conclusion has been arrived at in many similar studies made in various parts of the United States in recent years.

Cheap milk is, therefore, a very desirable end to be obtained, and if competition as to price results in attaining it, then in my view it is a competition which the consuming public are entitled to have in the industry, and of which they should obtain the benefit.

The alternative to insuring effective competition in the industry is a control through the agency of Milk Boards with ample price fixing power, who would progressively force a narrowing of the distributor's spread. It would be necessary to establish such boards with sufficient power and freedom from interference to bring this about. Such a control is obviously very expensive to the public. It would involve the acquisition of the most

detailed knowledge of the cost and profit position of each distributor, and would be necessarily arbitrary and onerous to the industry.

I am satisfied, however, from the evidence before me, that it is only by some such pressure, either that of competition or of government control of prices, that the industry can be moved to effect the necessary economies in the distribution end, which would lower the cost of distributing milk. In my view this end is essentially desirable. I think the results would be better if the industry was left to find these means itself, but unless there is sufficient pressure to bring it about as a matter of necessity, the experience of the last fifteen years would indicate that the industry moves with extreme slowness.

If government control is selected, it will logically lead in the end to public ownership of the means of distributing fluid milk to the consumers. As will appear in the chapter dealing with the consumer, there was an almost pathetic belief on the part of consumer representatives who appeared before me that the creation of such a form of public ownership would inevitably result in cheaper milk. I see nothing in the experience in other jurisdictions or in the evidence I heard which would justify this assumption. It is quite true that if the sale of milk through a public utility reached large volume, in the eventual result the profits accruing from such sales, if they were at prices which would permit of a reasonable profit, would accumulate and might be used to improve the processes employed or lessen the cost to the consuming public. In any event such a solution is one which would take a considerable period of time and offers no immediate reduction in the price of milk to the consuming public. Probably the most efficient municipal dairy in the world is that at Wellington, New Zealand, and it underwent nearly five years of operation before it was in a position to pass back any of the benefits it obtained from consolidation in distribution to the consuming public. This indicates in the initial stages of public utility distribution large capital outlays are required. This fact alone prevents any immediate possibility of consumer price reductions if this method of distribution were adopted.

Public ownership does not necessarily mean cheaper milk unless it is a very well managed public ownership. The dairy industry is admittedly one which requires expert management and long experience.

As I have said, unless some real competitive element is introduced into the business at the present time, or unless pressures are brought on the distributors by government control, there is very little hope of the necessary economies being found or developed. If some means can be found by which a large number of those in the distributing end of the industry can put into effect a co-operative effort to lessen costs of distribution, such as co-operative deliveries, or if, for example, they found it advisable to enter into co-operative purchasing of supplies or could agree on the maintaining of the economies effected in 1942 under the pressure of wartime conditions, there would seem to be some hope of eventually reducing milk prices to the consumer. It is quite true that probably none of these measures in themselves would result in any startling savings. However, if a concerted effort were made by the industry, the adding together of all the small savings which might be effected would in the end prove substantial. At the moment the possibility of securing such general agreement in the industry seems far removed.

Conclusions on Price

✓ Looking at the matter strictly on a cost basis, I do not think it can be said that present prices are unreasonable from the viewpoint of the distribu-

tor. But the distributor should bear in mind that he has an obligation to the public to furnish his product more cheaply if it can be so furnished. If the distributors themselves cannot effect a further rationalization of the industry then it seems to me that one of the pressures which I have mentioned must be applied in the public interest.

To repeat, the oft repeated belief by consumer groups that public ownership of distribution would immediately result in large scale economies is not, I think, warranted. Such a result does not arise because ownership is either public or private, but must arise from lower costs achieved by better management, by more effective and rational methods of distribution irrespective of the form of ownership. If privately owned industry cannot obtain these results in connection with a vital food product, there is very strong argument for public ownership where these methods can presumably be given a trial.

One other method of insuring some measure of actual competition would be to permit the formation of consumer co-operatives which are in effect prohibited by Section 11 of the Milk Control Act, which was passed to help maintain the concept of the fixed consumer price. Surely if consumers can operate under proper sanitary standards they should be allowed to try and provide themselves with cheaper milk by being allowed to share in the profits of their operations by receiving patronage dividends. Consideration might well be given to eliminating Section 11 from the Milk Control Act. It is absurd to suggest that the distributors cannot face this form of competition.

These matters will be discussed later at greater length, but the industry must now seriously consider them.

Financial Assistance to Aid Consumption

Under present circumstances, without any of the changes which I have suggested, I think it can be fairly said that, taking an over-all view, and disregarding the position of the large distributors, there is no hope at the present moment of cheaper milk to the consuming public, apart from some form of government assistance to consumers such as the consumer subsidy paid by the Dominion Government during the war years. The objections to such payments, both from the viewpoint of the industry and the public, are serious. While they may well have been justified in view of the over-all price policy under the emergency of war, in my view they are not justified under peace time conditions.

Subsidies tend to create a false sense of values in the industry, they perpetuate static condition and, if sufficient, remove the incentive to better and cheaper methods of distribution. Moreover, they in effect create a false sense of security for both distributor and consumer as well as the producer, and any change of policy which suddenly removes them creates serious dislocations. There is, in addition, the psychological objection that the payment represented by such subsidies is not something that is truly earned. In the representations made to me in favour of them no attention was paid to the source from which they were to come. And there was no clear realization that they involved a social cost directly out of the taxpayer's pocket. Any subsidy which would discriminate in favour of those who might need it because of their low income was rejected as charity or as creating unnecessary humiliation in the recipient. It would seem to me that this is a distinction without a difference. Their charitable nature would seem to persist irrespective of the income of the recipient. If public charity is humiliating for some it is surely equally so for all who receive it. As to

the cost of the subsidy, if the experience of the war years is any guide the amount required to effect even a two cent reduction per quart of milk would amount to something between eight and nine million dollars a year. Presumably this money would have to be raised from the public pocket by taxes, and it might well be said from the viewpoint of many consumers that what they save at the kitchen door they would lose in the additional taxes they would have to pay.

If it were deemed socially advisable to reduce the cost of milk by public assistance so as to make it readily available to those persons in the community needing it most, the only recommendation I would have to make is that consideration might be given to supplying school children with milk free or at low cost irrespective of age or income group. Under the somewhat different food situation existing in the United Kingdom this policy was adopted and has met with a very fair measure of success. It would unquestionably appeal to health authorities. In effect those who can most benefit from its consumption as an article of diet would be assured of at least a minimum supply. In a small pamphlet describing the functioning of the milk marketing scheme in Britain, prepared for ex-service employees of the scheme, the following paragraphs may be of interest:

“SCHOOL MILK

“A word as to this Milk-in-Schools Scheme, which played such an important part in increasing consumption. The credit for introducing this scheme belongs to the National Milk Publicity Council. It received a great fillip from the introduction of the Milk Marketing Scheme when the Board and Distributors co-operated with the Ministry of Health and arranged the extension of the provision of milk at cheap rates in 1934, so that children received one-third of a pint of milk for ½d., equivalent to 1/- per gallon. The loss on this reduced price was borne by the distributor and the Board together with assistance from the Government.

“Experiments were also carried out in depressed areas such as the Rhondda Valley, Whitehaven, Jarrow and Walker-on-Tyne in which young children, nursing and expectant mothers received milk at a reduced price at the rate of one pint per day. It was seen at once that the average consumption of milk increased appreciably. The result was that in 1938 it was decided that a scheme of a similar type should be applied throughout the whole country, but with the introduction of an income limitation. Controlled by local authorities, the scheme was gradually coming into operation when the war began and was subsequently replaced by the National Milk Scheme.

“SPENDING POWER AND MILK

“Consumption began to rise after the out-break of war because of the increased spending power of the lower income groups. The importance of milk for young people and mothers from a nutritional aspect was recognised in July, 1940, and the National Milk Scheme was introduced. This entitled expectant mothers and children up to five years of age to one pint of milk per day at 2d. per pint. Where the applicants' income did not reach a certain level it was supplied free.

“The success of this scheme can be seen in that the amount of milk sold under it amounts to 150 million gallons per annum. Through the School Milk Scheme consumption is 43 million gallons a year.”

Apart from this somewhat limited form of public assistance to greater milk consumption it would, I believe, be better to pursue methods in re-organizing the industry itself to achieve cheap milk distribution. Such a course of action would create a condition justifying cheaper prices as a result of the actual operation of all phases of the industry and would not rest on the artificial foundation of gratuitous assistance. To grant such assistance is equivalent to admitting defeat in obtaining better and more rational methods of distribution. No such necessity has yet been demonstrated.

CHAPTER VIII

Examination of the Fluid Milk Price Increase October 1st, 1946

I have not dealt, except in a general way, with the specific price increases for fluid milk which occurred at the end of September, 1946. I asked Mr. Entwistle if, on the basis of his general over-all figure, he would calculate the result to the industry if the price increase had been limited to two cents per quart with the corresponding variations for other items, instead of the three cents which was arrived at. He has also worked out what the result would have been if the price increase had been two and a half cents instead of three cents, and the following table which he has furnished me shows the results of these calculations:

PROJECTED STATEMENT OF NET PROFITS (BEFORE TAXES)
FOR TWELVE MONTH PERIOD
ALLOWING FOR SALES OF 430 MILLION QUARTS OF FLUID MILK
ON THE BASIS OF 15 CENTS AND 15½ CENTS PER QUART TO
THE CONSUMER

<i>Overall</i>	On Basis of	
	15 cents	15½ cents
Estimated net profits from all products other than fluid milk	\$2,382,831	\$2,382,831
Add:		
Estimated profit from fluid milk based on 430 million quarts at .21 of one cent per quart as quoted in report for 13 cent milk	903,000	903,000
	<u>\$3,285,831</u>	<u>\$3,285,831</u>
Add:		
Estimated additional revenue from advance in price from 13 cents to 15 cents and 15½ cents	8,600,000 (a)	10,750,000
	<u>\$11,885,831</u>	<u>\$14,035,831</u>
Deduct:		
Amount to be passed back to producer 2.63 cents equal to \$1.00 per 100 lbs. of whole milk	11,309,000 (b)	11,309,000
	<u>11,309,000</u>	<u>11,309,000</u>
Adjusted net profits of distributive industry before provision for profits and taxes ..	<u>\$576,831</u>	<u>\$2,726,831</u>

<i>Fluid Milk</i>	On Basis of	
	15 cents	15½ cents
Profit as above	\$903,000	\$903,000
Add:		
Item (a)	8,600,000	10,750,000
	<hr/>	<hr/>
	\$9,503,000	\$11,653,000
Deduct:		
Item (b)	11,309,000	11,309,000
	<hr/>	<hr/>
Profit or (loss)	(\$1,806,000)	\$344,000
	(loss)	(profit)
	<hr/>	<hr/>

The above projection does not allow for variations in cost due to differences in volume neither does it allow for any increases in costs which may have occurred since the latter part of 1946.

The effect of a difference of one-half a cent a quart in this calculation is quite startling and illustrates the point made in the chapter on distributors, that is, that they operate on a very narrow spread. It is, I think, quite obvious that a sum as small as half a cent a quart can have a profound effect on the profit position of the distributors.

I think it should also be recognized that this calculation speaks after the event and after some months of its operation, and not in advance, and indicates the essential undesirability of price-fixing at the consumer level. It is asking too much of the Milk Control Board, or any other rate-fixing body, to calculate the consumer price of milk to the point where an absolutely desirable result, insofar as the consumer is concerned, can be guaranteed. If fractional rates affect the industry's profit position in such a marked way, it places a responsibility on the price-fixing body beyond what should be reasonably imposed. In advance of the actual operation of such a price, the price arrived at must always be essentially a good guess, and therefore more or less an arbitrary one. It is quite obvious that even a fraction of a cent too much results in tremendous profit to the large volume distributors. It is equally obvious that a fraction of a cent too little may result in equally large losses, not only to the large volume distributors but to all the distributors.

Looking at all the distributors, it must be remembered that in number the great majority of them are not large volume distributors. As appears from Mr. Entwistle's report, there are about 58 who engage in what he calls a blended operation, that is, who sell substantial quantities of other dairy products in addition to fluid milk. As I have stated earlier, the total number of individual distributors in the Province is something in excess of 850. In the opinion of the Accountants, the remarks which I am about to make would apply to something less than 150 of the total number. Looking at all the distributors in this way, therefore, it cannot be said that the prices reached at the end of September, 1946, in view of the over-all circumstances and position of the distributors, were unreasonable. Nevertheless, as Mr. Entwistle suggests, and I agree, there are unquestionably many large volume distributors who can afford to sell milk for less than they are doing at present. The number of these, however, is less than 150 and, in Mr. Entwistle's opinion, would constitute roughly not more than 12 per cent

of all distributors. This group, however, apparently sell in excess of 50 per cent of the total of milk sold for fluid consumption in the Province. The general conclusion to be drawn from this should be obvious to all. Attention is directed to the concluding observations in Mr. Entwistle's report in Appendix 18, where the matter is also discussed.

This calculation illustrates in a most graphic fashion the essential undesirability of fixing prices at the consumer level. It also underlines the observations made earlier in the report regarding the essential difficulty of arriving at prices which will permit the whole industry to operate on a profitable basis. The profit bonus to the large volume distributor in the result is generally out of all proportion to his needs. It is obvious from what has just been said that, if prices are fixed at the consumer level, any price so fixed sufficient to guarantee the continued existence of the many smaller distributors, will result in inordinate profits to the larger volume distributors.

CHAPTER IX

Consumption and the Position of the Consumers

General

The case presented by those representing the consumer groups before the enquiry was based entirely on need. The only criticism of the existing structure was directed at the distributive end and in the case of certain witnesses there was an implied assumption that lower prices for milk could be secured if certain changes in distribution were brought about. No facts to support this were presented. No concerted effort was made by any consumer body to consistently follow the course of the Commission's enquiry. Most valuable assistance was rendered, however, in the early days, by the presence at the enquiry as Counsel for the consumers of St. Patrick's Riding of Mr. A. Kelso Roberts, K.C., M.L.A., who represents that Riding for the City of Toronto. Mr. Roberts' help in cross-examination of the witnesses was of very great assistance. Apart from this, Commission Counsel, in pursuit of his duties, tried with considerable success to see that the consumer's viewpoint was examined and dealt with in the course of the evidence. The only places where any coherent and concerted effort was made to examine the consumer position was in the Cities of Ottawa and Windsor. In Ottawa Mr. Gordon Medcalf, K.C., the City Solicitor, appeared, together with two ladies of great ability, Mrs. A. S. Whiteley and Mrs. Russell White. In Windsor a group of housewives who were interested in the problem gave me the advantage of their opinions and viewpoints and I would like to record my appreciation of their assistance.

A certain amount of evidence on behalf of consumers was also received from those representing various labour unions, the C.C.F. party, representatives of the Progressive-Labour party and what is known as the Consumers' Federated Council of the City of Toronto.

Apart from the brief of the C.C.F. party, which discussed the situation in many aspects and was most suggestive, the difficulty with most of these representations as far as the enquiry was concerned, was the fact that beyond stating that milk was a necessary and essential article of diet, that its increased consumption was greatly to be desired, that the 1946 price increases had seriously curtailed its consumption on the part of the lowest income group, there was very little effort made to examine either the reasonableness or unreasonableness of the price increase insofar as the economic factors relating to it were concerned, nor to indicate practical methods of bringing about price reductions. This was qualified by three suggestions made, firstly, that fluid milk should be distributed through publicly owned utilities; secondly, that government subsidies be renewed to reduce the consumer price; and thirdly, that the Milk Control Act should be amended so as to permit the complete functioning of consumer co-operatives.

As I have said, the case was put principally on the basis of need. With almost complete unanimity, these groups indicated their belief that producers should certainly receive their cost of production plus a reasonable profit.

They were also desirous that the deliverymen for the dairies should receive their present or better scale of wages. In this connection I do not think I am unfair in saying that there they stopped short. At no time did I receive any adequate explanation of how these costs were to be met, and how the obtaining of cheaper milk could be made consistent with present or increased costs resulting from higher producer prices and higher returns to deliverymen.

It is perhaps natural that this should be the case. Owing to the dissemination of knowledge from various nutritionists in respect to milk as an article of diet, there is no question that a large section of the general public during the last few years had begun to gain a much fuller appreciation of the value of milk as a food. Its special desirability from the standpoint of growing children has become increasingly realized. The consumers are a disorganized and incoherent body. It is natural that they should be such. It was not to be expected that any concerted and consistent effort would be made on their behalf before the enquiry.

As previously indicated, three concrete suggestions emerged from the representations made by these witnesses. The first suggestion was that the way to get cheaper milk for consumers was to lower prices through the public ownership, whether municipal or provincial, of the means of distribution, secondly, legislation permitting consumer co-operatives and patronage dividends, thirdly, it was suggested that, if other means failed, there should be a subsidy from public funds. In most cases the suggestion was that it come from the Provincial Treasury in the form of a direct consumer subsidy. I have discussed the merits of this suggestion in the chapter on the Distributors. Generally it can be said that the consumer position, despite the various forms in which it was presented, was that milk was a necessity of life; that if any means could be found to reduce its cost to those who needed it, namely, the consuming public and particularly those who had no financial ability to buy sufficient quantities of it, such means should be found. If sound methods can be discovered to achieve this result I am in agreement with this view.

Dealing with the second suggestion first, that is the suggestion that the consumption of milk should be directly subsidized by the Provincial Government, I have already discussed this suggestion in the chapter dealing with distribution. As far as the various consumer representations were concerned, thinking had not proceeded beyond the suggestion itself. Very little attention was paid to the source from which the money was to come. It seemed to be assumed that it could come from some inexhaustible supply which could be drawn on without much cost to anyone. Nothing, of course, could be further from the truth. If the retail consumption of milk is to be subsidized, it is obviously a subsidy which would come from Provincial funds, and it could only be obtained from the imposition of taxes additional to those already imposed on the people of the Province. However the tax to supply these funds might be devised, the consumer would be paying them out of one pocket and obtaining the benefit of them, in accordance with the amount of his consumption of milk, in the other. There is, of course, the inescapable fact that the taxes would presumably fall on those most able to pay them, although this cannot always be assumed, and the subsidy would benefit all alike irrespective of income or financial situation. It was suggested that the subsidy might be limited to those whose need was greatest. As far as the witnesses before me were concerned, they uniformly rejected this suggestion, chiefly on the ground that any such distinction was humili-

liating, and that where a necessity such as milk was concerned, a means test should not be required of those who were not fortunate enough to be able to buy adequate quantities of it.

Insofar as the suggestion that the price increase had deprived the lowest income groups of their supply of milk, there was no direct evidence of this before me. The assertions were baldly made without supporting or factual data. The only factual data received was a survey filed on behalf of one of the distributors, which recorded the results of a sample taken in the City of Toronto by the Canadian Facts Limited, an organization whose reports, I believe, are reliable, and can be accepted. In this survey, which I am including as Appendix 21, because of its importance, a cross-section of the Toronto market was taken. Income groups were divided into High, Second, Third and Low categories, and information was obtained on a number of points of interest to the enquiry. Of the Low Income group, 26.3 per cent stated they were buying substantially less milk since the price increase. The Third Income group were also reported buying 25.5 per cent less, while the High Income group and the Second group showed reduction in purchases of 14 per cent and 13.3 per cent respectively. It is significant, I think, that those with children who were buying less constituted 26.1 per cent of the total interviewed, and those without children constituted 17.3 per cent.

Acme Farmers Dairy also made a survey on 15 routes. The results, I think, are of sufficient interest to set it out as follows:

	No. cus- tomer	Purchased more than 1 quart	Buy less than 1 quart	Buy 2 quarts or more	Buy 3 quarts or more	Buy 4 quarts or more	Buy pints
Wealthy.....	552	31.8%	68.2%	7 %	5.4%	1.6%	15.4%
Moderate-plus.....	676	26.4	73.6	3.9	2.8	1.1	13.8
Moderate.....	601	19.9	80.1	2.1	1.8	.3	14.5
Low Income.....	501	15.8	84.2	2.6	1.8	.8	30.3
Small apartments							
Low Income.....	527	19.0	81.0	3.1	2.7	.4	21.4
Total.....	2,857						

The results of these surveys would seem to agree in the main with the conclusions on milk consumption arrived at by Dr. W. C. Hopper in his milk consumption surveys conducted prior to the War. These are published by the Dominion Department of Agriculture.

If these surveys are truly representative, it would indicate that, irrespective of the health requirements of the lowest income groups, a very substantial amount of further education work must be conducted among this group before they will fully realize the necessity of larger milk consumption.

Co-operatives

As to the other suggestion, that Co-operatives be permitted to function in the distribution end of the milk industry, Section 11 of the Milk Control Act provides:

“Notwithstanding anything in The Companies Act, or in any letters patent of incorporation, or supplementary letters patent, or in any other general or special Act contained no person, firm or corporation, shall give or distribute any fund, refund, rebate, interest or dividend to any purchaser of milk therefrom either directly or indirectly in respect of any such purchases of milk except such interest or dividend as may be earned on capital invested by such purchaser in such firm or corporation.”

Obviously this prevents the basic operation of a consumer co-operative which requires that its profits be shared among its members in proportion to the patronage they supply. The section of the Milk Control Act referred to was passed as a result of what is known as the milk war in the City of Hamilton. It was obviously quite necessary under the theory that a uniform price to consumers should be fixed by force of law. Apart from this, however, it would seem to have no justification in logic or common sense. As I have already indicated, if there is to be a fixed price to consumers obviously co-operatives in the ordinary sense cannot be permitted. In my view, if a group of the consuming public desire to organize themselves into a distributing unit for fluid milk on co-operative principles; and if they have sufficient capital to comply with the health and sanitary regulations, there is no reason I can see why they should be precluded from doing so in connection with such a vital food product as milk. Indeed, it would seem the part of wisdom to encourage them to do so if they are enterprising enough to undertake such a venture.

Whether such a venture would be successful, in view of the narrow margin within which the distributing end of the dairy industry has to operate, is, of course, another question. I was particularly interested in the evidence of Mayor Lawrence of the City of Hamilton, who has been a director for some fifteen years of the Hamilton Co-operative Creameries. It was to curb the activities of this organization that Section II of the Milk Control Act was passed in the year 1935. Since that time this co-operative, not being able to declare a patronage dividend, has acted substantially in the manner of any other privately owned distributor. Mayor Lawrence was asked if there was anything excessive in the profits which that dairy made and he said none whatever. He also stated that the profit was very small. As he put it, there was a rigid ceiling fixed and during quite a lengthy period the floor had been coming up. Nevertheless, Mayor Lawrence was of the opinion that the section of the Milk Control Act which effectively prevents the operation of consumer co-operatives should be deleted. To those who are interested, I would direct attention to Mayor Lawrence's evidence, particularly under cross-examination by Mr. Sedgwick and Mr. McLean. It may well be that, under the very narrow margins now obtaining, consumer co-operatives distributing milk in any given market would not make sufficient profit or obtain a sufficiently large volume to effectively decrease the cost of milk to the consumer. Nevertheless, if there is a chance of them doing so, that road should not be closed to the consumer.

Milk as a Public Utility

Coming now to the question of the distribution of milk as a public utility, most consumer representatives seemed to feel that this would solve their difficulties. Unfortunately, the problem is not as simple as appeared to these witnesses. Obviously much depends on the efficiency of the publicly managed milk distributor and the extent to which competition is allowed by private enterprise. It did not occur to any of those advocating this scheme of things that such a public enterprise should be subject to taxation. This may or may not be desirable. Nevertheless, to the extent that such a publicly owned enterprise is free from taxation there is, in effect, being paid by the public at large a direct subsidy for its maintenance. The taxes formerly paid by private enterprise must now be raised elsewhere if the general level of public income is to be maintained. In discussing this point one must presume that no more is raised by way of taxation than is strictly necessary.

One of the most successful municipally owned dairies in the world is located in Wellington, New Zealand. It is noteworthy that the Milk Department of the City of Wellington pays all general taxes in the same way as a private company would, except income and social security taxes. As far as I am aware there is not a publicly owned milk distributing body on the North American continent except a small one in the State of North Carolina. The New Zealand experiment, which has been highly successful, is most certainly worthy of study. In consequence of this I have set forth in Appendix 22 a portion of the report of the Royal Commission appointed in March 1943 in New Zealand which enquired into the existing circumstances of the supply of milk to four metropolitan areas of the Dominion. This report was presented to the Governor General as late as August 1943. I have set out in the Appendix the observations covering the supply of milk to the metropolitan area of Wellington during 1943. Through the courtesy of the offices of the High Commissioner for New Zealand in Canada, the memorandum which I have appended to this statement of the Royal Commission was furnished by the New Zealand Secretary of External Affairs. I am advised that the present value of the New Zealand pound in terms of Canadian dollars is \$3.26 for practical purposes. In comparing prices for milk and dairy products generally in New Zealand with those in Ontario it must be remembered that the general price levels in the two areas are different. The buying power of a dollar in New Zealand is definitely greater than that of a dollar in Ontario. The whole relationship between costs, wages and prices is on a lower level. Therefore, the price of a quart of milk in New Zealand cannot be simply expressed as the equivalent of the value of the New Zealand price expressed in the exchange value of that sum in Canadian currency. It is, of course, therefore, entirely fallacious to say that, when milk is produced much more cheaply in New Zealand where production and labour costs are strikingly lower than they are in Ontario, it can be produced and sold in Ontario at the New Zealand price. Nothing could be more misleading.

I have also had the privilege of perusing a report from the Manager of the Municipal Milk Department of Wellington. It would appear that it was a number of years before sufficient profits were earned to substantially reduce the cost to consumers in Wellington. This, I think, is almost certain to be the situation in Ontario. Public or municipal ownership of milk distribution cannot be regarded as an immediate panacea for the evils of high cost milk. It must, at the least, be regarded as a long term solution. In any case, in my view, it may or it may not be a solution, depending substantially on the skill of management and on the scope of the operation.

A substantial study of this problem has been made in the United States by Professor W. M. Mortenson, of the University of Wisconsin. To those interested, reference may be made to this study published by the University of Chicago Press. His conclusions would seem to indicate that milk can best be handled as a public utility where the operation is not too large. The fact that Wellington, New Zealand, is a moderate sized market would seem to sustain this view. My opinion would be that, if Public Utility Distribution will result in more efficient distribution and lower priced milk, municipalities wishing to embark on this experiment might well be permitted to do so. As I have said, it is impossible to be dogmatic about the matter. It may or may not be a solution. The only proof as to whether it is or not must come from actual experiment. I would suggest, therefore, that permissive legislation be granted to municipalities desiring to embark on such an enter-

prise. It would seem to me, however, that if such an enterprise is permitted to function in competition with private enterprise, it should not be left in a position to take advantage of concealed subsidies, such as remissions of taxation, but should be made liable to the same taxes as a private distributor. Such an enterprise can, surely, only justify itself if it is financially able to distribute milk to the consuming public at a lower price.

Summary

Apart from these three suggestions, two of which are admittedly long term solutions, considering the state of the distributors as a whole there would appear to be no means of giving cheaper milk to the public immediately. If the operation of competition in the industry does not bring this result from those able to make some reduction, then the only immediate method would appear to be a direct consumer subsidy which, for the reasons stated, I do not recommend.

Despite the reduction in consumption since the price increases of 1946, it is worth remembering that the total consumption of fluid milk in the Province in May 1939 was 20,199,300 quarts, as compared with a total consumption for May 1947 of 37,874,800. In May 1946 the corresponding figure was 41,327,600. There is, therefore, an increase as compared with 1939, of 87.55 per cent, and a decrease, as compared with a year ago, before price increases, of 8.35 per cent. While the increased consumption since 1939 is undoubtedly due to a variety of factors, including in particular increased consumer purchasing power, it is, I think, reasonable to assume that the educational work done by what is now called The Associated Milk Foundations has had a very considerable effect. The recent tendency of these foundations to become established in a larger number of markets may well assist the consumer to greater realization of the nutritional value of milk. Admittedly there is still a large field for this, particularly in respect of low income consumers. Milk is probably one of the cheapest foods available to consumers, even at present prices. As some one suggested, it is desirable that consumers should be milk-minded as well as price-minded.

CHAPTER X

Cheese Production and the Position of the Cheese Producers

The producers producing milk for manufacture into cheese are, roughly speaking, situated generally in far Eastern Counties of Ontario, in the district centering around Belleville, and in Western Ontario in an area composed chiefly of the Counties of Oxford, Perth, Middlesex and Elgin, and areas contiguous thereto. The producers are organized in an association called The Ontario Cheese Producers' Association, and I was advised that it had a membership of approximately 25,000 members. This association was organized in 1934 and prior to that time there was little co-operative effort among those producing for the cheese factories. The producers who supply milk to the cheese factories are organized in five general areas as follows:

District Number 1, consisting of the Counties of Peterborough, Hastings, Prince Edward and Northumberland;

District Number 2, consisting of the Counties of Lennox and Addington, Frontenac, Leeds and Lanark;

District Number 3, consisting of the Counties of Glenville, Dundas, Stormont and Glengarry.

District Number 4, consisting of the Counties of Prescott, Russell, Carlton and Renfrew;

District Number 5, consisting of the County of York and every County to the west thereof having a cheese factory.

There are County Cheese Producers' Associations for each of these districts and the Counties represented in District Number 5 give some clue to where the cheese production in Western Ontario lies. The Association is financed by a levy of five cents per hundredweight of cheese produced, of which 75% is retained by the Provincial Association and 25% is sent to the County Associations. Much more cheese is produced in Ontario than is consumed in Ontario or in Canada, and I was advised that about two-thirds of the Cheddar cheese produced in Ontario is exported, and that actually this export from the Ontario cheese factories, in its turn, constituted about two-thirds of the total of Cheddar cheese exported from the whole of Canada. It has largely been exported to the United Kingdom, where over the years a market for this cheese has been built up, and I was advised that Ontario Cheddar cheese was rated in the British market as the finest Cheddar cheese imported into Great Britain.

Cheese Factories

In respect of the number of factories, the Ontario Cheese Producers' brief put it at about 600. Mr. S. L. Joss, Secretary of the Association, was inclined to place it closer to 535. These factories may be divided into two general classes: First, a relatively small number of factories owned by large companies such as the Kraft, Borden, Canadian Packers and Swifts, to cite only a few, who in number constitute about five per cent of the

cheese factories in the Province. These factories buy milk from producers for cash, and the producer has no further interest in the product. For the most part they produce what are called processed cheeses, and I am advised that, insofar as the general problem of the cheese producers in Ontario is concerned, they do not at the moment greatly affect the situation. There was some evidence that this might not always be true, as apparently a number of large processing companies have been buying up privately-owned cheese factories and operating them for their own purposes or, in some cases, closing them. It cannot be said, however, that this process has reached a point where in general it affects or threatens the general control of producers of cheese milk over the manufacture of the bulk of the cheese made in Ontario. In the view of the cheese producers it is simply a tendency that requires watchful attention.

The greater bulk of factories manufacturing cheese are located close to their source of supply and manufacture cheese for groups of producers. Some of them are privately-owned, while others are owned by joint stock companies. Still others are owned co-operatively by the cheese milk producers in the adjacent areas. I was told that the joint stock companies were originally incorporated by groups of producers who financed the erection of the factories. Their practice now is to charge a fee for the making of cheese, and in some cases the shareholders are given a return on their invested capital, either by the payment of a small fixed dividend or a rebate in the amount charged for cheese manufacture. It was stated that none of the so-called privately-owned factories in this group were operated with a view to making substantial profits for their members. The charges to the producers for the manufacture of cheese are estimated generally on a basis of obtaining sufficient profit to provide for repairs and replacements of the factory and its operation, and to cover dividends paid to the shareholders.

By far the larger group of factories, however, are co-operatively owned by the producers themselves. These factories employ a cheese maker who employs his own labour. The co-operative owns the factory, however, pays the taxes and maintenance charges and keeps it in repair. There is also another type of factory which is wholly owned and operated by a cheese maker. He manufactures the cheese for the producers who bring their milk to him and he makes a charge for this service sufficient to pay his operation and maintenance costs and to give him some return for his services. In all of these cases, however, the essential method of manufacture, as far as the producer is concerned, is the same; that is, whether the cheese factory is owned by a producer-formed joint stock company or is co-operatively owned, or is owned by a cheese maker, the cheese produced in the factory remains the property of the milk producer until it is sold on what is called a Cheese Board.

Cheese Boards

Cheese Boards have a long history, but for present purposes are part of the machinery for the sale of cheese set up under what is called the Cheese Scheme, which has the effect of law under the provisions of the Farm Products Marketing Act. When the Dominion Natural Products Marketing Act of 1934 was passed, as a result of an almost unanimous poll of the cheese producers, a scheme was set up pursuant to this statute for the marketing of Ontario Cheddar cheese, which superseded previous methods which included sale of a percentage of the cheese through a co-operative selling agency with headquarters in Montreal. Subsequently, when this

Act was declared ultra vires, it was replaced in Ontario by the Farm Products Control Act, and a similar scheme was set up under this Act. The present statute, passed in 1946, is the Farm Products Marketing Act, and a new scheme has been approved under this statute. The Board set up under this scheme is called the Ontario Cheese Producers' Marketing Board. As ancillary to this Board there was incorporated a private company which is known as the Ontario Cheese Producers' Association Limited. The directors and share-holders of this Company are the members of the Ontario Cheese Producers' Marketing Board, and the idea at the time it was incorporated in 1938 was to use this Company as a marketing agency. The operation of this Company will be discussed later, but it has not been notably successful to date in affecting the general situation. Undoubtedly wartime conditions have been partly responsible for the lack of progress made.

Apart from wartime controls and special contracts, cheese is generally marketed through what are called Cheese Boards or local auction markets, which operate under the Ontario Cheese Producers' Marketing Board. The officers of these local Cheese Boards are elected by the County Producers' Associations, and they are constituted where it is most convenient for the purpose of selling cheese. They are not necessarily confined to one county or one district. They have no permanent quarters, but meet in whatever convenient premises may be available. During the cheese-producing season Board sales are held at convenient intervals, varying from one week to one month. At the sale, I am advised, the procedure is to mark on a blackboard the cheese to be sold, giving the quantity, quality, size and type which each factory is offering for sale. Buyers present then bid by auction for any part of the cheese by factories, and the price offered is noted on the blackboard. At the end of the bidding the salesman representing the cheese factory may refuse to accept the highest bid offered, and in that event the cheese goes back to the factory to be put up for sale at a subsequent Board. If, however, the salesman acting on behalf of a particular factory accepts a bid, the sale is noted on the blackboard and this is held to constitute a contract of sale, a record of which is kept by the secretary of that particular Board. While Cheese Boards operated for many years prior to 1934, the percentage of cheese sold on the Boards declined steadily until it constituted only about 20 per cent of the total production. It was because of this situation that the 1935 Cheese Marketing Scheme and the subsequent schemes were inaugurated and it was made compulsory for the factories to sell through Cheese Boards. The evidence before me indicates that this has produced a greater uniformity in prices, and that the system, generally speaking, is satisfactory to producers.

After the outbreak of war and up to the spring of 1947 the prices for cheese were controlled as part of the over-all control of the Wartime Prices and Trade Board, and consequently an artificial price structure was created which was designed to produce the necessary supply irrespective of the cost of production, and which was activated by considerations which would normally not govern the price structure of the cheese market. When price control was made generally applicable in 1941, the first ceiling price established for Cheddar cheese for the domestic market was 24 cents per pound for first grade cheese f.o.b. factory shipping point, with appropriate reduction for lower grades. These prices were subsequently slightly reduced. In addition, as part of the war effort, a large amount of cheese was requisitioned from time to time for export to Great Britain. The price for export cheese at that time, 1941, was 20 cents per pound, which included a subsidy from the Ontario Government of two cents per pound paid under

the provisions of the Ontario Cheese and Hog Subsidy Act of 1941. This price was very considerably higher than that which applied in connection with the first export contracts. The first contract, which ran from May, 1940, to the end of March, 1941, arranged for a price of 14 cents. To this, however, a Dominion subsidy of .6 cents a pound was added in January, 1941. In May, 1941, this subsidy was increased to 1.6 cents a pound, thus bringing the total amount received to 16 cents a pound. To this price of 16 cents there was added an Ontario subsidy of two cents a pound and a Dominion quality premium of two cents a pound for cheese scoring 94 points or better. Thus, the total price on first quality cheese after May, 1941, was 20 cents a pound f.o.b. Montreal basis. This system was maintained until October, 1946, and at the time of the hearings before me the disposition of cheese was still governed by specific orders of the Wartime Prices and Trade Board, and a large part of cheese held in Ontario was subject to disposition by the Administrator of Dairy Products. A great deal of the evidence before me was directed to a demonstration of the position taken by the cheese producers that the prices realized by them under these ceilings were insufficient to pay for their costs of production. At the present time, however, price ceilings on cheese have been removed, and the only controls left which in effect still govern the price received for cheese is the existence of the British contract and the prohibition of export to areas other than Great Britain and, I believe, the West Indies. Consequently, at the present time, as a necessary aftermath of the war, any other export markets are closed to the cheese producers of Ontario. It was suggested before me that possibly token shipments might be permitted to maintain the knowledge and reputation of Ontario Cheddar cheese in American markets, but these to date have not been permitted. It is obviously not within the ambit of the matters referred to me to comment on this policy, either favourably or adversely.

Insofar as costs of production are concerned, this matter has already been very thoroughly discussed in the chapter dealing with producers of fluid milk. In large measure the same considerations apply to those producing milk for cheese purposes. In the over-all survey made by the Accountants attached to the Commission, an attempt was made to calculate the cost of producing milk for cheese. This is set out as follows:

AVERAGE COST OF PRODUCING 100 POUNDS OF MILK FOR MANUFACTURING CHEESE IN ONTARIO IN 1946	
Concentrates	\$.65
Hay .....	.46
Silage .....	.23
Pasture .....	.28
<hr/>	
TOTAL FEED COSTS	\$1.62
Dairy Herd Labour	1.00
Depreciation .....	.11
Hauling .....	.10
Miscellaneous .....	.35
<hr/>	
GROSS COST	\$3.18

CREDITS:	
Milk used on farm	\$.21
Manure .....	.24
Cattle sales less cattle purchases and inventory adjustments .....	.39
	———
TOTAL CREDITS .....	.84
	———
AVERAGE NET COST	\$2.34
ADMINISTRATION ALLOWANCE .....	.35
	———
TOTAL COST INCLUDING ADMINISTRATION ALLOWANCE	\$2.69
	———

It will be seen that, apart from any administration allowance, it works out on the general average to \$2.34 per hundredweight of milk. If administration allowance is made of 35 cents per hundredweight, the cost figure is \$2.69. This, of course, is a general average figure. At the time of the enquiry before me, the return to the cheese milk producer was estimated at between \$1.95 and \$2.10 plus the value, which seemed rather doubtful in many cases, of whey returned for each 100 pounds of milk. If the average figure is one of general application, as I believe it is, it would seem to substantiate the contention brought forward by the Cheese Producers' Association that the price structure existing at that time did not permit a return to the farmer sufficient to pay for his cost of production and give him even a modest profit. As is true of other producers, there is great variation in the costs as between individuals who produce milk for cheese. It must be remembered that the figures I have quoted are averages for the whole Province.

There is also a difference in the way milk is produced for cheese between Eastern and Western Ontario. In Eastern Ontario, apart from the Cities of Ottawa and Kingston, there are no large markets for fluid milk, and there is consequently a much greater production of milk for cheese and condensary purposes. In Eastern Ontario this is largely a seasonal production. The practice is to have cows freshen in the spring and dry up in the fall. It was stated before me that the annual fluid production per cow on an efficient farm in Eastern Ontario would probably be about 6,000 pounds. In Western Ontario production is maintained over the year, including the winter months. Admittedly this increases costs, but also increases quantity, and there, I was told, on the average the annual production per cow would be about 8,000 pounds of milk per year. One witness had cows producing as much as 12,000 and 13,000 pounds of milk per year. He, however, would, I believe, be greatly above the average producer in Oxford County. The price ultimately realized for the cheese, of course, is not related to this distinction. Any additional profit must come out of the additional quantity of cheese produced.

By and large the producers have not maintained control over their product beyond the point of manufacture. I am told that the machinery for exporting cheese to the British market largely centres in the City of Montreal, and is operated by a Canadian firm and a British firm who have built up their

businesses over a long period of time. Consequently the price realized by the producer of cheese milk is settled when his cheese is sold at a Cheese Board. While it was represented to me that Ontario Cheddar cheese was looked upon in Great Britain as a high grade article and was in effect in the class of luxury goods, any bonus accruing from this only accrues to a producer of cheese milk if it is represented in the price he obtains at a sale at a Cheese Board. As yet he has no effective control over the disposition of the cheese on the British market. It was, of course, to obtain some such control that the limited company which operates with the Ontario Cheese Producers' Marketing Board was set up, that is, the Ontario Cheese Producers' Association Limited. Its operations, however, have been on a very small scale partly, I am advised, through lack of capital. The following table sets out its purchases and sales from 1938 down to 1947:

ONTARIO CHEESE PRODUCERS' ASSOCIATION,
BELLEVILLE, ONTARIO
VOLUME OF CHEESE PURCHASES AND SALES

1938 to 1946 inclusive

	<i>Purchases</i>	<i>Sales</i>	<i>Pounds</i>
1938	\$31,000.00	\$34,000.00	213,000
1939	69,000.00	73,000.00	485,000
1940	82,000.00	87,500.00	500,000
1941		Not operating	
1942		Not operating	
1943	79,000.00	94,000.00	525,000
1944		Not operating	
1945		Not operating	
1946	107,000.00	118,000.00	600,000
1947	950,000.00	900,000.00	4,800,000

(Spring purchasing season) (Sales reported to date)

It is obvious that a much larger operation has been undertaken in 1947 with the revocation of most of the wartime controls. Nevertheless, this Company, while it may occasionally have operated as a competitive factor in the domestic market, has not operated to an extent which would enable it to exercise any very effective influence on the price obtained at various Cheese Boards. I am told that the majority of the cheese producers are not willing to wait the length of time for their returns which would be required if this Company were to operate in a more substantial and more direct way on the British market. If this is the case, then, of course, the producers have very little ground for complaint. In my view the remedy lies entirely in their own hands, and it may be that until they are prepared to extend the operation of this marketing company to Great Britain, and, in effect, see if they can sell Ontario Cheddar cheese on the British market as a luxury product at a price commensurate with that sort of goods, the producers of cheese milk in Ontario have no proper cause for complaint. If they are not willing to take independent steps to insure that the prices received are truly competitive, they must accept the prices paid by the export firms already handling the business. I am told that the export firms functioning in Canada do not show any unusual or large scale profits. I have no information, however, nor have I been able to obtain any, as to the profits earned by their principals in Britain, and I do not know whether they are inordinate or not. It would seem obvious, however, that until the producers are prepared to

test the matter out further, very little can be said as to the adequacy of the prices obtained.

While premiums, which will be discussed later, are paid for high quality cheese by the Dominion Government pursuant to the Dominion Cheese and Cheese Factory Improvement Act, it is obvious, I think, that if Ontario Cheddar cheese is to be sold as a high grade luxury product there must be a continuous and persistent effort to further improve quality.

It would appear from the evidence and from what I have been advised, that in many cases cheese factories in Ontario would benefit greatly by consolidation and modernization. By the Cheese and Cheese Factory Improvement Act, Chapter 13, Statutes of Canada, 1939, as amended in 1940, the Governor-in-Council may grant out of monies appropriated by Parliament for the purpose a sum not exceeding 50 per cent of the amount actually spent for new materials, new equipment and labour, utilized in constructing, reconstructing and equipping cheese factories, subject to certain further provisions as to cheese ripening rooms, proper insulation and refrigeration; and provided that such new factories replace two or more existing cheese factories.

Consolidation of Cheese Factories

In a notable address delivered by Dr. G. S. H. Barton, Deputy Minister of Agriculture for the Dominion to the Ontario Cheese Producers' Association in January of this year, he pointed out that from 1939 down to the beginning of 1947 in the Province of Quebec some 48 new amalgamated cheese factories were constructed pursuant to this Act, and that these new factories replaced 105 original factories. Forty of these factories were constructed as combined cheese and butter factories at an average cost of \$12,451.88. The average subsidies paid on account of all amalgamated cheese factories in Quebec was \$7,100.81, and the average cost worked out to \$14,201.62. As I have noted above, Dr. Barton stated that 48 amalgamations had taken place, and at the time of his address in January, 1947, four more were under way. As compared with this, only two amalgamated cheese factories replacing four original cheese factories were constructed in the Province of Ontario. Neither of these new factories was constructed or equipped for the manufacture of any product other than cheese. The average cost of these factories was \$13,173.88, and the average subsidy paid was \$6,586.94. He stated that two amalgamations had been completed in Ontario; that six were under way at the time of speaking; and that in all only eight had taken place. It would appear that the cheese milk producers of the Province of Quebec realize their problem and are much more progressive in their attitude towards it than those in Ontario. It is recommended that the Ontario cheese producers should consider their condition and take advantage of this public assistance, as it undoubtedly assists in producing a much better quality of product.

It may be asked why such stress is laid on the necessity of amalgamation of cheese factories. While amalgamation of the smaller existing plants is most desirable from the standpoint of greater uniformity and improvement in the quality of the product, it should also be noted that amalgamation is also desirable in that it paves the way to lower cost of cheese manufacture. A survey of cheese manufacturing conditions in the Province as they existed in 1933 was made by the Economics Division of the Dominion Department of Agriculture. The results of this survey, which would appear to be equally valid to-day, indicated very clearly

that the cost of hauling milk from the farms to the factory declined with each increase in size of factory. The more the volume per factory increased, the more was collective hauling substituted for individual hauling; and the larger was the volume of milk handled by each unit of hauling equipment. The decrease in cost resulting from more efficient use of hauling equipment was greater than any increase in cost resulting from lengthening the milk route. From this it would appear that a very considerable increase in the average size of factory is required before real efficiency in the use of hauling equipment can be brought about. By increasing the volume of milk going to each factory, not only is a reduction in the cost of milk hauling effected but there is a reduction in the cost of manufacturing the milk into cheese. It would appear that the main cause of high manufacturing cost is insufficient volume of business. The main hope of making worthwhile cost reductions in the processing cost lies in making substantial increases in the output per factory. Where the average volume per factory is relatively small, as in many parts of Eastern and Central Ontario, there is very definite room for considerable amalgamation. In these areas the small average volume suggests the need for amalgamation, while the fact that plants are close together indicates the possibility of it. To repeat, any possible increases in volume resulting from amalgamation would reduce the cost, both of milk hauling and of cheese making.

It is also worth noting that there is a definite connection between the lowering of manufacturing cost and the lowering of farm production costs. It is obvious that a larger amount of milk per cow and per farm probably results in lower production costs. The more farm costs are reduced in this way, the larger is the volume of milk from a given area. The larger the volume of milk, the lower will be the cost of transporting it and manufacturing it into cheese. As more milk is available there will be full load and full use of plant capacity. By reducing the farm production costs, therefore, by increased volume farmers are contributing to a reduction in the expenses of manufacture.

To the extent that amalgamation of factories actually occurs, the question as to the length of operating season is likely to become more important. It is obvious that an up-to-date larger-scale factory involves considerable in the way of overhead investment, and that efficiency in processing will require reasonably complete use of the plant over the whole year. On the other hand, in order that the factories may be more fully used, it will be necessary to have cheese producers continue supplying milk for a longer period of the year. As has been previously noted, this would involve considerable increase in production costs. The proper balancing of these two sets of costs is a problem which the cheese producers, particularly those in Eastern and Central Ontario, will have to most seriously consider in the future as amalgamation proceeds.

The importance of the foregoing will be realized when it is appreciated that the over-all price for cheese is inevitably determined by the price obtained for the exportable surplus. No matter what the cost of production in Ontario is, what the farmer gets for the milk he produces for cheese is determined finally by the price paid for cheese by those exporting it to outside markets. Unless the farmer can improve that price by improving quality, or can widen the spread between his cost of production and the price obtained for his cheese when sold for export, there is no way that I can see by which he can improve his income from the production of cheese milk. High quality, cheapness of production

and more efficient marketing must be the goals towards which the cheese producer's attention are constantly directed.

Summary

I do not think that I should conclude these observations without quoting a short passage from Dr. Barton's speech to which I have previously alluded: As he said:

"In the manufacture of cheese we have made substantial improvement in the quality of the product in recent years but we still have too large a proportion of our cheese which fails to meet requirements. We have improved the storage facilities in a large number of factories but we have stagnation, particularly in Ontario, in the character of the factories themselves. We have too many small factories, too many of them uneconomic units and inefficiently operated. There is only one solution for this condition and that is new factories on a consolidated basis wherever that is practicable. That is the logical means to make economic manufacture possible, to afford opportunity for first-class service, and to eliminate many of the present weaknesses. I believe, also that in such consolidation the possibilities of combination factories should be carefully examined and in many cases provision made in the plans for facilities through which diversion of milk to other purposes may be undertaken when such action seems desirable. This would add to the value of the investment, it would give the business flexibility, and it would provide security against absorption by any monopoly interest for a special purpose."

Something was made in the evidence before me of the differential in the cost of production between milk for the fluid milk market and milk for the manufacture of cheese. In view of what has been stated as to the conditions under which Ontario Cheddar cheese is produced and sold, a discussion of any differential of this sort would appear to lead nowhere as the factors which determine the return to the cheese milk producer are not directly related to his cost of production or to those governing other types of milk producers.

It is obvious that at the present time the return to producers of cheese milk is influenced to a large degree by the existing contracts with Britain. It was urged before me that if the producers in Ontario were given a free hand in the marketing of their product, they might obtain higher prices than those obtaining under the British contract. It should be remembered, however, that the British market has been the market which over the years has absorbed most of our surplus Cheddar cheese. If anything approaching a fair price is now being obtained, and it is I think impossible to say that the present price is unfair, it would seem to be good business for the producers of cheese milk in Ontario to take a price which now will in effect maintain and protect the market established in Britain over so many years. While it might seem reasonable to permit token shipments to other markets to keep Ontario Cheddar cheese before the consumers in those markets, nevertheless it must be the part of wisdom not to destroy the one substantial market which has already been developed by demanding at a time of crisis prices which are essentially out of line with those prices which would be obtained under more normal conditions.

A final word should perhaps be said in regard to the important place which the production and price of cheese plays in relation to the entire dairy structure. Even though the percentage of milk going into cheese

is but a fifth to a quarter of the total produced, it is the price received for milk at the cheese factory that tends to determine the whole dairy price structure. If the cheese price fails, milk tends to be shifted from the cheese factory to the creamery or condensary. Such supply increases tend to cause a drop in butter-fat and condensary prices. If and when this happens, there is sure to be an attempt to break into whole milk markets. Thus unsatisfactory cheese prices tend to bring about uncertain dairy prices in general. It would, therefore, seem apparent that there is a very real responsibility on all those connected with the production and marketing of cheese in Ontario towards the whole dairy industry in the Province. This may well be a factor which might lead other branches of the industry to seriously consider the suggestions made before me for the pooling and marketing of all milk produced in the Province through an over-all marketing organization.

Mr. Entwistle has made a study of the position of the cheese producers and cheese factories. Comment has already been made on certain aspects of this study without direct reference. It is set forth in full in Appendix 29.

CHAPTER XI

Cream Producers, Creameries and Butter Production

Cream Producers

The Ontario Cream Producers' Association, organized in 1946, presented a brief to this Commission and gave evidence before me. It would appear that upwards of 76,000 farmers in this Province ship cream to creameries for manufacture into butter. The flow is not uniform, in that there is no quota to be met and hence natural variations in production are reflected in the deliveries of cream.

With very few exceptions cream is a by-product on these farms, in that the herds of cattle kept are not dairy cattle but beef cattle or dual-purpose cattle, with low milk production, as compared with cattle used for the fluid milk supply.

As a matter of fact, the collection and sale of cream in many cases represents the extra labour of a farmer's wife, by which she receives a cash income to assist her in managing her home.

Notwithstanding the fact that cream production is essentially a side-line to other types of farming, Ontario is a very large producer of cream and butter, in the aggregate, and until rationing during the war years enjoyed a per capita consumption of 32 pounds of butter per year, which was higher than any other community in the world.

This enormous consumption could not be supplied by the domestic creameries, although approximately 30 per cent of all milk produced is used for butter-making, and this Province has been an importer of butter since 1915, the bulk of our requirements over and above Ontario production coming from the Prairie Provinces.

Efforts were made by representative cream producers to give an estimate of the cost of producing milk for skimming and producing cream for butter. In the brief of the Producers' Association filed, it was estimated that the cost would be in the vicinity of \$2.54 per 100 pounds of milk testing 3.4 per cent butter-fat. This, converted to a price to the producer per pound of butter-fat, would be 74 cents per pound. As a rule five pounds of butter are recovered from four pounds of butter-fat, and since the spread to the creamery under the present price structure, as estimated by Mr. Entwistle, is approximately 7½¢, a price of 74 cents per pound butter-fat to the producer means a price of 67 cents per pound of butter to the consumer.

In evidence before me, however, it was admitted that it was a very difficult matter to estimate cost of production so far as cream was concerned. It must be obvious that one would have to take into consideration the whole farm operation and try to allocate a fair proportion of costs and returns to the cream production. Without a detailed study of many farms over a period of years it would not, in my opinion, be possible to get any estimate worthy of consideration.

Generally speaking, I subscribe to the view of the cream producers that each product should stand on its own feet and that the producer should receive at least his cost of production where such is the result of efficient

operation for each necessary product. At the present moment, however, it is not possible for me to say whether or not, on the average, a producer is getting his cost of production for cream. Prior to May 1st, 1947, the producer received 40 to 42 cents per pound butter-fat from the creamery and 10 cents per pound butter-fat by way of federal subsidy. Since that date the subsidy has been cancelled, and price ceilings removed, so that he is now receiving approximately 51½ cents per pound butter-fat all paid by the consumer.

There are other provinces in Canada with substantial exportable surpluses and other countries as far away as New Zealand, who are ready and willing to ship butter into Ontario for this price and some times at a much lower price. The Ontario cream producer, in my opinion, must be subject to these factors and cannot expect to receive a higher price than that prevailing in the export market.

It seems to follow, therefore, that if the cream producer is to improve his position he must,

- (a) Improve the quality of his product to insure the highest prevailing price;
- (b) Improve his methods of production to reduce cost;
- (c) Eliminate waste and duplication in transporting the cream;
- (d) Do what he can to eliminate wasteful methods and unused plant capacity in the creamery; and
- (e) Take steps to insure that he gets the maximum competitive price for his butter-fat.

Before dealing with these five points, it should be drawn to attention that, regardless of the price of butter-fat, there is bound to be a substantial production of cream available for churning. Apart from those farmers essentially engaged in raising cattle for beef, which must of necessity produce quantities of cream, skim milk is such an essential feed factor in poultry and hog raising that cream must be produced.

Nevertheless, there is a wide-spread belief held by cream producers that, prior to recent price increases in butter, the cream producers received proportionately less for each 100 lbs. of milk produced than producers of milk for fluid consumption, cheese and manufactured milk products. It may be that this belief, although difficult to justify, has been a factor in the decline in butter production in Ontario which is shown later in this chapter.

It may be expected that during periods when the price of butter-fat is depressed, the amount of cream reaching the market for butter may decline, but if the market for hogs and poultry is at a reasonable level, this would tend to prevent a reduction in the volume of cream produced and available.

It should further be remembered that, while Federal tariff-policy may afford protection to the Ontario cream producer by excluding low-priced butter from other countries with a large exportable surplus, the Province of Ontario has no power to exclude the produce of other Provinces of the Dominion, and there is certainly a limit to what the consumer can be called on to pay to protect the farmer.

Quality of Product

Cream is graded by Sec. 15 (2) (a) of the Regulations filed under the Dairy Products Act (Ontario) 1938 Cap. 7. The basic grade is "First Grade Cream" and of course the price for this grade depends on

the price received for wholesale creamery butter. "Special Grade" Cream, as defined, provides for a premium of one cent per pound butter-fat over "First Grade." "Second Grade" Cream is to be paid for at a rate of three cents or more below "First Grade." No other cream shall be used for butter-making.

W. J. Wood, Esq., of Alliston, Ontario, President of the newly-formed Cream Producers' Association, had this to say in evidence before me (Vol. 38, pp. 5113-5114):

"I think to-day that cream is being produced in a great many instances which is not really up to the quality it should be, having regard to the care taken in producing it. To-day during the winter months, when men are milking four or five cows and they have to separate that milk, the separator should be kept in a warm place. Many farmers have not all the facilities they need, and as a consequence they bring that separator just as far into the barn as they can, or into the cow stable, and some of them even separate it right in the cow stable—even the separator is stored among the odours of feed and from the cows—and it cannot be of the best quality. That is one of the things which is going to help the farmer—that is when we get inspection—to improve the quality of the butter."

At the present time there are no standards set for cream producers with respect to sanitary conditions, and apparently the price differential of four or more cents per pound between Special Grade Cream and Second Grade has not been a great enough spur to ensure real effort by many producers to get the top price.

It is encouraging to see the officers of the new Association recognizing this and taking steps to help their members to improve methods of production to get a greater return for their work.

Methods of Production

Since cream production is essentially a side-line business, the same care and study has not been devoted to production as in the case of many whole milk producers. It seems beyond doubt that many cream producers can so increase their volume of production by improved and modern methods as to materially lower their present unit cost, and again the Cream Producers' Association, in conjunction with the Dairy Branch of the Ontario Department of Agriculture, should be of great assistance in achieving this end.

Waste in Transportation

On the average, a cream producer in Ontario will ship his product to a creamery eighty times annually—or once every four or five days, the producer paying the cost of transportation as one of his production costs. Cream transportation has always been notoriously wasteful. In March of 1944, the Services Administration of the W.P.T.B. reported that in Ontario, on the average six cream collections were being made simultaneously in every cream producing township except the far north, and in one township there were fourteen simultaneous collections and in another, in addition to trucks operated by a creamery, 29 other cream collecting trucks were operating.

In 1938, Mr. Alex Stewart, M.A., of the Ontario Agricultural College, made a survey entitled "Economic Factors in Cream Collection in Ontario," and I quote the following passage from his study:

"Since the cost of collecting cream makes up some 40 per cent of the total cost of manufacturing butter, any method of reducing this cost should mean a worthwhile saving to the farmer.

"In the Township of McGillivray (Middlesex County) 11 creameries were collecting cream in the spring of 1938. After allowing one truck on each road, there remained an estimated duplicate or waste mileage of 218 miles every time the cream of the Township was collected. On the basis of 80 collections made per creamery per year, this Township would show an estimated waste of approximately 17,500 miles per year due to overlapping in collection."

That the conditions described as existing in 1938 and 1944 are still unchanged is borne out by the evidence of officers of the Cream Producers' Association before this Commission. One of them had this to say:

"For a long time there has been quite a feeling that we have had considerable duplication in the collection of cream. It is felt that through some intelligent organization and intelligent understanding between the operators and the producers, perhaps some material savings could be made. You cannot attend a meeting of cream producers but that they protest about the number of cream trucks which travel down the road. They will, also, have to recognize that they are partly to blame since they patronize different creameries. There will have to be understandings both ways."

(Quoted from evidence of V. S. Milburn, Vol. 38, pp. 5098-5099.)

The producers individually and collectively must realize that they have no right to preserve this wasteful and costly duplication in order to satisfy their uncontrolled preferences and prejudices with respect to the creameries they choose to patronize, and at the same time claim high transportation costs as a part of production expense to be recovered from the consumer. I think the officers of the Association are well aware of their responsibilities, and it may be that the new Association will be able to accomplish much in eliminating this evil. Anything they are able to do will tend to correct the disparity between the price of fluid milk and the price of milk for cream and butter.

In some markets much of the cream is brought to the creamery by the producer. This is particularly true where the creamery is located in a good urban market city, e.g. London. The farmer combines a trip to town for various purposes, with the delivery of cream, and this of course means a very modest amount is to be charged to cream transportation. In addition it has been found that the cream usually arrives in better condition and consequently secures a higher grading than if it arrived by independent transport.

The second most satisfactory method of transportation has been by creamery-owned vehicles. Here there has been definite rationalization of routes with lowered costs resulting.

The least satisfactory has been by collecting stations where large creameries such as Swifts, Canada Packers, etc., accumulate large quantities of cream for ultimate shipment to processing plant. It is clear from studies made that the quality of the cream deteriorates in direct ratio to the length of time it is in transit, and hence the cream sent via collecting stations has the poorest chance of securing a first-grade and little, if any, chance of a Special Grade. Certain facilities, however, that the large creamery, operating through a collecting station which is frequently a country store, offer to the producer, attract producers to this type of transportation.

Waste Creamery Capacity

This factor will be dealt with in the section headed "Creameries".

Insuring Maximum Competitive Price

The Cream Producers' Association is at the present time taking steps to formulate a marketing scheme under the Farm Products Marketing Act, 1946 (Ontario). Under this scheme marketing of cream would be done by a negotiating committee, whose responsibility would be to settle agreements for minimum prices, forms of contract, conditions of sale, weighing and testing, transportation and other related matters. The scheme also contemplates local boards being set up in the various cream producing regions of the Province to assist in implementing the marketing plans. While the successful operation of such a scheme must yet be demonstrated, I feel that this organization may be able to do a considerable amount to assist the farmer in recovering the maximum possible share of the consumer dollar and perhaps, by exercising a certain amount of discipline over its individual members and reducing the number of bargaining agents, bring about many of the needed reforms in the marketing of this product.

It should be pointed out that cream, unlike fluid milk, may be susceptible to a marketing scheme under the Farm Products Marketing Act, in that it does not require daily delivery to the processing plant. Ordinarily it may wait four to five days and still be Special Grade sweet cream,—and even sour cream will make good butter. Thus local boards are not pressed for time in the same way that a local board attempting to market extremely perishable fluid milk would be.

In the interests of the producer, it is my view that the proposed marketing scheme should be given full support and encouragement, so that the Producers' Association itself may find methods of eliminating the waste and loss resulting from present out-of-date and inefficient methods of production and marketing.

In addition to possible benefits under this scheme, it is well to remember that the successful operation of a larger number of co-operative creameries would do much to ensure recovery of the maximum competitive price.

2. Creameries

The Ontario Creamery Association, organized in 1917, is an unincorporated Trade Association, having in its membership 200, or 78.93% of the 279 creameries licensed to do business in the Province of Ontario in 1945. The members of the Association produced 87.33% of the creamery butter produced in the Province in 1945. Representatives of this Association filed a brief for my assistance and gave oral evidence before the Commission, and I am satisfied that they were in a position to properly represent this branch of the dairy industry. In addition, financial statements and detailed questionnaires were received from creameries generally, and an analysis of their financial positions with respect to cost and profit has been made by Mr. Entwistle. His full report is attached as Appendix 23.

There are three headings under which I wish to discuss the position of the creameries:

- (a) Plant capacity, Volume of Production and Consolidation.
- (b) Single and Multiple Operations.
- (c) Cost and Profit Position.

While there are other headings which might be of interest, such as grading, sanitary standards, licensing and checking, I feel that there is no

major deficiency in the administration of these matters by the Dairy Branch of the Ontario Department of Agriculture. I had the benefit of a brief and evidence from Mr. H. E. Lackner, Director of this Branch, and there can be no doubt that creamery butter produced in Ontario and sold by standard grades is an excellent product and merits the full confidence of the consumer.

(a) *Plant Capacity, Volume of Production and Consolidation*

(i) *Plant Capacity and Volume of Production*

As stated before, the production of creamery butter in Ontario has steadily declined since 1939. This is significant, not only because of the effect on the Ontario producer, processor and consumer, but also because the same trend has not been true of Canada as a whole. The comparative figures are as follows:

<i>Total Annual Production of Creamery Butter 1939-1946 Inclusive</i>		
	Ontario	Canada
	lbs.	lbs.
1939	88,010,276	267,612,546
1940	87,278,149	264,723,669
1941	86,242,850	285,848,196
1942	81,025,298	284,591,372
1943	82,023,800	311,709,476
1944	75,074,100	298,777,300
1945	77,630,000	293,811,000
1946	68,954,000	271,366,000

Thus, while Ontario production in 1946 was only 78.3% of 1939 production, Canadian production in 1946 was 101.03% of 1939 production.

In the same period the number of producers of cream for churning in Ontario declined from a high of 90,000 in 1939 to approximately 76,000 in 1946, and the number of licensed creameries in Ontario declined from 337 to 286. The decline in the number of creameries has been caused by small marginal plants going out of business, particularly in Eastern Ontario, and to the extent that the available cream supply has been directed to other creameries represents a worth-while consolidation. Unfortunately the decline in the number of creameries has been exceeded proportionately by the decline in cream production.

Studies made by the Commission Accountant indicate that at present, Ontario creameries are on the average operating at less than capacity, and in some cases as much as 50 per cent below full operation. Others, however, are operating at full capacity, 48 hours a week, all year round. It has not been possible to estimate the actual loss in capacity of production by plants, but whatever it is, it represents a dead loss, in overhead, which must be absorbed in ultimate cost of production.

Similarly, volume of production, as shown by the Accountant's report, is of the utmost importance in keeping unit cost to the lowest possible level. How unfavourably Ontario compares with other provinces in this respect, will be seen from the following figures:

Approximate Average Production, in lbs., per Creamery in 1946

Ontario	240,000 lbs.
Saskatchewan	780,000 lbs.
Alberta	410,000 lbs.
Manitoba	455,000 lbs.

It must be obvious that Ontario is suffering from too many small plants, each duplicating building and administrative overhead costs, and that steps must be taken to stimulate production to the point of maximum use of plants and, wherever possible, to encourage consolidation of plants with a view to substantially increasing the average production per plant.

Attention is directed to the comparison of net profits to creameries, having regard to the volume of their sales, as set out in Exhibit "B" to the Accountant's report. It may be thought that the fact that net profit percentages appear to decline as volume of sales increase, is evidence against the economy of large-scale operation. This is not the case, however, since it is cost of processing per unit that is important. Every study made of this aspect confirms my view that as volume of production increases cost per unit decreases.

(ii) Consolidation

Reference has been made to consolidation of plants as being a desirable policy in order to reduce unit cost of processing. In this connection I have quoted elsewhere from an address of Dr. G. H. S. Barton, Deputy Minister of the Dominion Department of Agriculture made to the annual meeting of the Ontario Cheese Producers' Association in Toronto on the 7th January, 1947. Dr. Barton's remarks apply with equal force to creameries, and it should be pointed out that not a single application has been made in the Province of Ontario for financial assistance under the Provincial Consolidated Cheese Factories Act, R.S.O. 1937 Cap. 87, although generous financial assistance is available to milk producers "who desire to erect a modern dairy plant to take the place of two or more smaller ones." It is realized that this Act is primarily applicable to cheese factories, but it is suggested that without amendment it is equally applicable to combined cheese factories and creameries, and with minor amendments to creameries only. The initiative should be taken by the Ontario Cream Producers' Association, either alone or in conjunction with the Ontario Cheese Producers' Association, to take full advantage of this legislation.

(b) Single and Multiple Operations

Five out of every six creameries in Ontario have a second or more lines of business which include the following, in order of importance: eggs, poultry, fluid milk, whey butter, ice-cream, cheese, condensed or powdered milk or buttermilk and sweet cream.

Repeated studies of this problem in every major dairy country in the world have emphasized the importance of diversification of enterprise in order to reduce unit costs to the lowest level and to take advantage of fluctuations in market conditions.

The Commission Accountant, whose full report on this matter has already been referred to, estimates the average rate of profit of those concerns engaged exclusively in the production and sale of butter, at 1.26% of sales, and the average rate of profit of concerns with a diversified business at 1.97% of sales. In other words, the diversified enterprise is employing diversification as a substitute for volume, to reduce unit costs of processing and handling to the lowest level.

(c) Cost and Profit Position

The average cost and net profit realized in the manufacture of creamery butter for the fiscal year preceding October 1, 1946, is clearly set out in Table 6 to Mr. Entwistle's report. For convenience that table is set out below:

*Manufacturing Cost of Creamery Butter
for the Fiscal Year Next Preceding October 1, 1946*

	%	Cents per pound
Sales	100.00	35.25
Cost of:		
Churning cream and ingredients	82.51	29.09
Hauling	1.80	.63
Containers and packages	1.38	.49
Material cost	85.69	30.21
Cost of:		
Processing, labour	6.05	2.13
Selling, administrative and general salaries	1.85	.65
Labour cost	7.90	2.78
Cost of:		
Repairs .....	.85	.30
Depreciation .....	.90	.32
Facilities	3.40	1.20
Services cost	5.15	1.82
Total cost	98.74	34.81
Net profit before taxes	1.26	.44

I will only comment on two aspects of this table, (a) that over 82% of the sale price of a pound of butter goes to the producer, and (b) that the net profit margin before taxes is approximately 1.26%. Thus the processing margin is a small percentage and any savings made will of necessity be fractions of one per cent. It follows that the only way to achieve sizeable savings is by greatly increasing the average volume of production per plant.

Earlier in this chapter I drew attention to the Saskatchewan average plant production as being in excess of three-quarters of a million pounds annually, as compared with Ontario's quarter million pounds. I would also note the New Zealand average of over one million one hundred thousand pounds annually and the fact that in that country the bulk of production of creamery butter comes from factories which also produce large quantities of cheese.

Mr. Entwistle has analysed the financial position in detail in his report, and in view of the fact that there do not appear to be any glaring inequities, I would direct attention to this report for further observations.

Summary

Briefly, the cream and butter aspect of the dairy industry is largely dependent for improved financial return to the producer and minimum price to the consumer on steps that lie within the power of the producers themselves.

I am of opinion that full support should be given the new Cream Producers' Association in their efforts, and that every opportunity should be taken to reduce the number of creameries and increase the volume of production per plant.

CHAPTER XII

The Concentrated Producers and Manufacturers of Concentrated Milk and Their Position

I was advised during the hearing that there are approximately between 13,000 and 14,000 farmers in Ontario who produce milk for concentrated milk factories. Representations on their behalf were made through a trade association known as the Ontario Concentrated Milk Producers' Association, which, it was stated, has a membership of approximately 12,000 producers located chiefly in Southwestern and Southeastern Ontario. It was indicated that there were probably between 1,000 and 2,000 other producers of milk for concentrated purposes who are not members of the Association; but in view of the large number represented I assumed that the Association could reasonably speak for all the producers in this field.

The Association is made up of local branches, and the list of those given me would indicate that the farmers producing milk for this purpose are concentrated in Western Ontario in the Counties surrounding Oxford and south thereof; in Eastern Ontario in the Kingston area, and to a certain extent in the eastern part of the Ottawa Valley. This Association, as in the case of associations representing other sections of the producers, is maintained by fees collected from the farmers by the factories on the weight of milk sold. The condensaries manufacturing the products of these producers number something in excess of thirty. In addition, some of the larger distributors of fluid milk, like Borden and Silverwoods, engage in the condensation and evaporation of milk.

Producers and Their Cost Position

Except for a somewhat limited portion of Western Ontario, the most of the farmers producing milk for the condensaries supply the major part of the milk during the so-called flush season. There are striking variations between the amount available, say, in the month of June, and the amount available to the same factories in December. This is, of course, a factor which increases cost of manufacture. On the other hand, it should tend to reduce the producer's costs, as he does not have to go to the expense involved in maintaining a level supply of milk over the whole year. I see no object in repeating the observations made in the general Producers' chapter on producers' costs. Speaking generally, however, the same economic factors operate in this field as apply in the fluid milk field. The financial return to the producer should reflect the demand for the manufactured product and the prices obtained for it. There was some question in the mind of the Producers' Association as to whether this was actually the case. That this doubt has some justification is indicated by Mr. Entwistle's study of the profit position of some of the principal manufacturers of concentrated milk, which is attached as Appendix 24 to this report. In the brief filed before me by the Concentrated Milk Producers' Association, their general cost of production of milk was estimated at \$3.00 per hundredweight. In the examination of the cost position of the concentrated producers made on

behalf of the Commission, the general average figure for the whole province was \$2.93 per hundredweight of milk produced. This, of course, includes an administration allowance, which the Association's figures did not. The details of it are as follows:

AVERAGE COSTS FOR THE PROVINCE OF PRODUCING MILK FOR CONCENTRATED MILK PRODUCTS

Concentrates	\$.73	
Hay .....	.46	
Silage .....	.20	
Pasture .....	.24	
		<hr/>
TOTAL FEED COSTS		\$1.63
Dairy Herd Labour .....		.92
Depreciation .....		.17
Hauling .....		.12
Miscellaneous .....		.29
		<hr/>
GROSS COST		\$3.13
CREDITS:		
Milk used on farm	\$.09	
Manure .....	.20	
Cattle sales less cattle purchases and inventory adjustments .....	.29	
		<hr/>
		.58
		<hr/>
AVERAGE NET COST		\$2.55
ADMINISTRATION ALLOWANCE .....		.38
		<hr/>
TOTAL COST INCLUDING ADMINISTRATION ALLOWANCE		\$2.93

It should be remembered, of course, that this is an average figure for the whole province. It may well be asked why, if a large part of this production is on much the same seasonal basis as is production for cheese purposes, the increased cost? The evidence before me would indicate, however, that by and large the farmers producing for this market do a greater amount of special feeding with purchased grains and concentrates than is done by many of those producing for cheese. It is also partly the result of a growing tendency on the part of Western Ontario producers to supply this milk in fairly equal quantities throughout the year. It was stated in the Association's brief that the average return at the time of the hearing was about \$2.25 per hundredweight. It must, of course, be realized that at that time the industry was operating under price ceilings except as to the competitive export business. These ceilings have since been removed, resulting, I believe, in an increase in both the price of the finished product and the price paid to the producers. I am advised that the recent increase to the producers is 12 cents per hundred pounds. If the figures I have quoted are any guide, the producer is still far from receiving his cost of production.

Essentially the problem confronting the producer of milk for concentration is very closely related to the surplus fluid milk problem which has been discussed in detail in the general Producers' chapter. The Producers for cheese by and large control the manufacture of their product, but stop short of marketing it. The Concentrated Producers have by no means reached that position, and are largely in the hands of their manufacturers at the

present time. If some of the suggestions made in the general Producers' chapter leading to the erection of producer-owned concentrating plants are followed out, the competition thus afforded will, in my opinion, in great measure solve many of the difficulties facing the producers in this special group. One has only to look at the submissions made by the Concentrated Milk Producers' Association to realize that many of the problems with which they are confronted are similar to those of the fluid milk producers. They, like the fluid milk producers, are somewhat dissatisfied with their butter-fat ratings, and made the very practical suggestion that representatives of the Association should be allowed to check on the ratings given the individual producers by the various factories. To cite another example, if consideration is given to the transporting of milk to condensaries, many of the matters which are dealt with in the general chapter on transportation apply with equal force to this group of producers.

While the problems of the two groups are in many cases similar, it is, I think, generally true to say that thus far the problems of the concentrated producers have not been as effectively dealt with. Obviously, this is the result of the fact that, as a group, they are not as powerful. By and large, the condensaries are in a stronger bargaining position with their producers than are the distributors of fluid milk with theirs. In saying this I do not criticize the producers. The very nature of the business of condensing milk is entirely different from that of distributors, who must have a day-to-day supply of fluid milk for the consumers. If necessary, the manufacturers can wait.

The Transportation Problem

One of the chief complaints made by the Concentrated Producers is that they are charged a flat rate for the transporting of their product irrespective of their distance from the factories. The answer of the plants to this is that they think this basis of charge fairer to everyone concerned. From their viewpoint this practice assists in assuring adequate supplies of milk. While the cost of transportation is charged to the producer by the factory, the contracts appear to be made between factory and trucker, and the producer is thus in a position where he is asked to pay for something over which he has very little control. In my view the general recommendations made in the Transportation chapter in respect of fluid milk would apply with equal force to the transporting of milk to the concentrator factories. This view, however, is not shared by the Producers' Association. It is said that the practical difficulties of testing and weighing the milk at the farm are too great to be overcome. I must say I find it difficult to credit this. In my view, as previously expressed, thought directed towards solving these difficulties would pay substantial dividends. Insofar as producers for this market are denied the advantages of co-operative trucking and are subject to the onerous licensing provisions presently in force, I would make the same recommendations with respect to them as are made generally with respect to the transporters of fluid milk. These are contained in the general summary of conclusions and recommendations at the end of this report.

Price Fixing to Producers

With respect to the administration of the Manufacturing Milk Board, it would appear that up to 1942 the price paid the producers was calculated on the basis of a formula which was used by the Manufacturing Milk Board from 1935. The formula price as used was a composite value for milk determined on the basis of the market quotations for butter and cheese plus

a premium to cover the value of solids-not-fat in the milk. In 1942 this formula was abandoned, because what had been considered the normal relationship between butter and cheese was thrown out of balance by price changes resulting from war conditions.

It is noted that this formula established a minimum price, and in fairness to most of the manufacturers, I have been advised that the prices paid by them in many cases were in excess of these. This was particularly true of the prices paid during 1945 and 1946. With the coming of price control maximum prices were fixed for the manufactured products. This, of course, had the effect of indirectly controlling the producer price, although this price was not specifically dealt with under the dairy orders of the Wartime Prices & Trade Board. It should be noted, however, that from December, 1941, down to the end of September, 1946, producer subsidies in varying amounts were provided by the Dominion Government.

I am told that in 1945 an application was made to the Milk Control Board to review the minimum prices established for producers, but that after a somewhat lengthy hearing it was decided not to increase these. As I have stated above, while there is no formal order in existence at the present time, the manufacturers of concentrated milk have apparently agreed to increase the price prevailing to the extent of 12 cents per hundredweight. I believe this is an arrangement which is to be reviewed from month to month.

By and large it cannot be said that the Milk Control Board, through the Manufacturing Milk Board, has intervened in this branch of the industry to anything like the extent which it has in the fluid milk field, and it would appear that in future the Board should more actively arbitrate between the producers and manufacturers as to producer prices. If this is to be effective such arbitration can only be based on a full and continuous knowledge of producer costs and of manufacturing costs and profits. It has not been suggested to me in the evidence or in anything I have been able to discover that the Manufacturing Milk Board has had this information, which in my opinion is essential to its dealing properly with this important matter.

Marketing Scheme

It is interesting to note that the Concentrated Producers, more than any other group, emphasized the value to the producers in Ontario of an over-all marketing scheme. I have previously quoted their resolution in this respect in the Producers' chapter. Such a scheme would possibly solve the problems of this group of producers to a greater extent than almost any other group in the producing end of the industry. In my view, however, as I have already said, when the problem of surplus fluid milk is considered the advantages of a general marketing scheme to producers as a whole appear to be pronounced. I would suggest that the possibility of working out such a scheme be investigated without delay.

Consumer Prices, Profits, Etc.

It is significant to note that in any representations made on behalf of the Concentrated Milk Producers' Association they agreed that it was unwise and undesirable to fix a price at the consumer level for the manufactured product resulting from their milk. As will be seen when the situation of the manufacturers is discussed, milk is concentrated in Canada chiefly in the Provinces of Ontario and Quebec, and the position of the companies, insofar as costs are concerned, must be carefully weighed as between the two provinces if it is desired to retain the advantage of the processing of concentrated milk within Ontario through existing facilities. While up to the end of 1946 there has been a very large demand for concentrated milk

products for export, if the experience of the last war is any guide this may well now be on the downgrade. This is emphasized in Mr. Entwistle's study in Appendix 24, and would appear to be already in process. As Mr. Entwistle points out, it is already some 24 per cent less in the first quarter of 1947 than for the corresponding period in 1946. It must be remembered also that in the domestic market very keen competition is brought to bear in the industry by the co-operative manufacturing carried on in British Columbia and Alberta; and that freight rates to the Western Provinces are a considerable factor in determining the prices to be charged in the domestic market. These are all considerations which must inevitably affect the return to the producer. It cannot be said, however, that it is in the interests of the producer or the public at large that the manufacturer of these products should be allowed in any given period of time to accumulate strikingly high profits at the expense of the producer. This situation will be discussed later, but if it occurs, as it appears to have occurred in the period under review, there is a very strong case for producers asking that they be given a reasonable share of this benefit.

Manufacturers

Mr. Entwistle's report deals with the situation in respect to the manufacture of concentrated milk products. While I propose to deal with certain general tendencies which he notices, there is no object, in my view, in repeating what he has said, since it is available in Appendix 24.

Looking at the over-all study made by Mr. Entwistle, it would appear that the financial position of the industry is not only extremely healthy at the present time but has been very greatly improved in recent years. It must be remembered, of course, that this study presents the general average picture. The financial results differ markedly from firm to firm, not only because of variations in the scale of operations, but also depending upon the extent to which the total business is divided between domestic and export sales, and between one type of concentrated product and another. As appears in the report, while the domestic price ceilings were in operation most firms producing evaporated milk incurred considerable loss on the domestic business. On the other hand, in most cases a substantial profit was made in the domestic market in respect of the sales of condensed milk. The general financial result is further affected by the manner in which the different types of business are divided as between provinces. For example, in certain cases certain products on which satisfactory profits were available have been manufactured in the Province of Quebec, whereas other products designed for the less remunerative domestic market were produced in Ontario plants of the same companies. This practice makes it extremely difficult to determine the extent of over-all profit or loss on the purely Ontario business of some of these concerns. This is still further complicated by the fact that some of the firms concerned are branches of parent companies with headquarters in Great Britain and the United States. Because of the variations in the type of product manufactured and the markets catered to, it is fairly obvious that the various members of the industry may in practice find considerable difficulty in agreeing upon prices which they can afford to pay producers. This may have some significance when it is considered that none of these manufacturers saw fit to make any submissions or voluntarily to give any information to the Commission. It was necessary to request all the information obtained.

As appears in the report, the various costs incurred by the manufacturers of condensary products have increased substantially since the year 1939.

At the same time the increased volume of demand for these products has apparently made it possible to offset these cost increases, and indeed to leave the firms concerned in a very much stronger financial position than they were at the beginning of this period. It should be realized, however, that if demand diminishes, and particularly export demand, as it seems to be doing, this situation may not continue. Obviously any decrease in volume of production very materially increases manufacturing costs. It may well be that after a number of lush years the industry is now facing somewhat more difficult times. This tendency toward pronounced changes in the situation indicates the necessity for continuous study on the part of the Milk Control Board, both as to producer costs and manufacturing margins.

In view of Mr. Entwistle's conclusions, it may well be that consideration should now be given by the Manufacturing Milk Board to the problem of producers' prices. It would appear desirable that the powers of the Board to arbitrate prices between producers and manufacturers be clarified and clearly laid down. It may well be that, in view of the present financial position of the manufacturers, minimum producer prices approximating their present cost of production can be established. It is impossible to say this dogmatically as a result of Mr. Entwistle's study. The difficulty in this connection arises from the fact that many of the principal manufacturing concerns in Ontario are branches of larger organizations outside this jurisdiction and complete consideration could not be given to their affairs. It would seem desirable that minimum standards of accounting, together with sufficient information as to overall operations, should be established by the Manufacturing Milk Board and be at all times available to it. It is equally desirable that there should be a long-term study of Concentrated Producers' costs in the possession of the Board. At the moment all I think that can be fairly said is that it would appear from the examination that has been conducted that the producers are not at the moment receiving their full share. In saying this due consideration must be given the possibility of the costs of manufacturing outside Ontario and of the value of the present industry to the producers and public in this Province. It may well be, as I have said before, that the salvation of the Concentrated Producers is in their own hands and that co-operative manufacturing by them would carry them a long way towards solving their basic problem, which is to obtain their fair cost of production plus reasonable profits.

CHAPTER XIII

General Conclusions and Recommendations

The Milk Control Act was originally passed to relieve a state of crisis which existed in the production and distribution of fluid milk in the Province in the year 1934. Methods propounded to meet this crisis have grown into a species of control maintained long after the emergency has ceased to exist.

If it were possible to disregard this development, an arrangement where the producers of milk in this Province were organized in a marketing authority with power to direct the disposition and use of milk for whatever purpose seemed appropriate, would seem the best solution of their difficulties. As I have suggested, this might well be modelled on the present British scheme, which is in essence an organization of the producers themselves. But as I have previously indicated, the producers as a class, apart from some such comprehensive organization, are not able to protect themselves in bargaining with the distributors. If they were, I would be inclined to the opinion that the full play of competitive forces would reasonably protect the consumer in respect of distribution and would in the long run produce a much more economic and better organized system in the industry as a whole. Practically speaking, however, the producer organizations are not strong enough at the moment to fend for themselves alone. No over-all marketing organization of producers exists in the Province of Ontario. I must deal with the various factors as they exist at the present time. It would, therefore, seem essential at the present to maintain the existing controls.

The effect of the operation of the Milk Control Act since 1934 has been to remove most of those competitive pressures which ordinarily operate in respect of private business. In doing this, it has not substituted that full measure of public control which would seem to be the necessary alternative. In the result, therefore, particularly under inflationary or semi-inflationary conditions, the consumer has suffered. Instead of having the benefits of the operation of one principle or the other in the industry, the general public, in my view, have had some of the worst results of both. At the present time fluid milk as produced and sold in Ontario is, for practical purposes, a standard article sold at a fixed price. The only real measure of competition left among the distributors has been that competition in services, which is probably the most wasteful and extravagant form of competition that exists. What should be done at the moment would seem to me to be the taking of necessary measures to re-introduce some real and effective competition in the distributing end of the industry; and, for the protection of the producers, to continue the existence of the Milk Control Board. Its powers, however, should be clarified and enlarged. Under the present circumstances it is not sufficient to allow the industry to regulate itself at its own free will. There is an obligation on the Board to bring pressure to reduce waste and duplication, and to see that the interests of the three groups which are vitally concerned in the industry, namely, the producers, the distributors and the consuming public, are each reasonably protected and considered in a more definite and effective way than in the past twelve years.

While the earlier period of the Milk Board's operations may be thought of as an emergency period during which the central objective was to bring order out of chaos, the time has now arrived when the general objectives of the Board should be greatly enlarged. The basic reason for its continued existence must be its success in obtaining increased efficiency in milk production and marketing.

In respect of the Milk Control Board, therefore, certain specific recommendations are made herewith; others will appear as incidental to recommendations made under other heads.

Before making these recommendations, however, there is one other matter that should be mentioned: Sections 4 and 13 of the Milk Control Act give the Board various powers. Some doubt has been raised by the law officers of the Crown as to the power of the Board to fix prices under these sections. A perusal of the sections undoubtedly affords a reasonable basis for the doubts expressed. Without expressing an opinion on the Board's powers under the present statute, it should be pointed out that it casts a great and, in some measure, unfair responsibility on government to ask it to fix prices in a private industry, in the general administration of which it has in effect no decisive voice. The only justification for such exercise of authority would appear to be some infringement of the public interest. Insofar as price fixing is concerned, in the first instance the basic responsibility for the determination of prices would seem to rest on the industry itself. If, however, it is impossible for the parts of the industry to agree, then in dealing with a vital food such as fluid milk it may be desirable that an administrative authority such as the Milk Control Board should have the right to arbitrate between the various interests, and to determine an arbitrated price between the component sections. Similarly, if a price arrived at by the industry is against the public interest, paying attention to the interests of the producers, distributors and consumers alike, there may be responsibility on government to intervene in respect of the interest adversely affected. It is desirable also that the administrative body dealing with the problem should be able to advise the final authority on a sure basis of knowledge and accurate information. To date there has been no consistent effort to study the costs and profits of either the producers or the distributors. For example, at the time of this investigation such a fundamental fact as the ratio of wholesale to retail sales in the distribution of fluid milk was not available in the records of the Milk Control Board or the statistics branch of the Department of Agriculture. A sample study had to be made on behalf of the Commission.

I therefore recommend,

As to Price Fixing:

(a) That the Milk Control Board commence and continue the collection and study of representative cost data in respect to producers. Detailed suggestions as to how this might be done are contained in Appendix 28.

(b) That it should also undertake a continuous collection and study of the cost and profit position of the distributors. It may be that the powers of the Board under section 15 as at present constituted are sufficient for this purpose, but if not they should be reconsidered and clarified.

(c) That such additions to the staff of the Milk Control Board as are necessary to carry out (a) and (b) be considered.

(d) That sections 4 and 13 of the Milk Control Act be revised to clearly give the Board authority to arbitrate a price for fluid milk as between producers and distributors, and in cases of necessity as between distributors and consumers.

(e) Further, that the power of the Board be made clear to enable it to ultimately determine a price for fluid milk either to the producers or to the consumers if the prices obtaining are against the public interest, as determined by the rights and interests of the producers, the distributors and the consumers, with the result that in practice—

(i) The price of fluid milk at the consumer level be not agreed to or fixed in ordinary circumstances. The power should be a corrective one only, and

(ii) That prices paid by distributors to producers be fixed or agreed upon as heretofore and that such prices be ordinarily fixed on the basis of delivery at the farm unless other methods are successful in eliminating duplication and excessive cost in transportation from farm to dairy.

As to Co-operatives—

(f) That section 11 of the Milk Control Act preventing rebates by distributors to customers, and which in effect prevents the effective operation of consumer co-operatives, be repealed.

Licensing—

(g) (i) That the administrative and judicial functions of the Board as to licensing be separated by setting up an Advisory Board somewhat similar to the Insurance Advisory Board in order that the judicial functions of the Milk Control Board be exercised as provided by the statute free from administrative bias.

(ii) That the conditions entitling applicants to licenses be more explicitly set forth in the Milk Control Act.

Composition of the Board—

(h) At the moment the Board is set up on a representational basis. Without unduly criticizing the unselfish service that has already been given to it by those appointed under this system, I am unable to see much solid advantage in it. I would recommend that in future when appointments to the Board are being considered regard should be had to the capacity and fitness of the person concerned rather than to the interest he or she represents.

Consumer Representation on Milk Control Board—

(i) In respect of consumer representation on the Milk Control Board, as I have said I do not think that representation of special interests adds greatly to the strength of such a body. The present provisions in the Milk Control Act for consumer representation in special markets, should be continued, but the administrative practices in respect of them should be changed and the intent of the Act followed more closely. I would recommend that where a consumer representative is accredited to the Board and enters on his duties, he should be required to take an oath of secrecy and that all the information available to the Board be completely disclosed to the consumer representative in respect of the matter under consideration.

Recommendations with Respect to Producers

In respect to the producers, as I have already stated, my view is that the ultimate solution of their difficulties will be found in the setting up of a marketing organization for all producers. This may not be immediately practicable and, if not, I would suggest:

(a) That a start be made in organizing the fluid milk producers, and that the further study and consideration of the entire project be initiated and pursued with as little delay as possible by the existing joint committee representing the four sections of milk producers. In respect of the form of such an organization, attention is again specifically directed to the British scheme, which would seem to provide most of the necessary principles upon which to build such an organization.

(b) That the existing producer organizations, particularly the Ontario Whole Milk Producers' League be encouraged themselves to take steps to process and dispose of fluid milk not required for the fluid market. In view of Mr. Entwistle's study of production prices paid producers and distributor spreads, a substantial increase in the price paid to producers for secondary milk would appear to be justified at the present time without alteration of consumer prices for the resulting products and such increase might be found to be as much as 10% more than present prices.

(c) That the regulations of the Milk Control Board assure that producer association employees be permitted to check the accuracy of testing in distributor and processing plants to remove present suspicion and dissatisfaction regarding the accuracy of these tests.

(d) That the practice of paying price premiums or discounts in accordance with variations in butter-fat content of the milk be reviewed to the end that the amounts paid correspond with current prices for butter-fat. These particular payments should be subjected to review and, when necessary, revision at monthly intervals.

(e) That in view of the existing conditions of supply and demand no further increases in fluid milk prices be granted at the present time. This recommendation is made in view of the demand situation, and despite the fact that in the view of the Commission existing prices do not cover the cost of production plus a reasonable profit or even a proper administration allowance.

(f) That the present efforts through the Department of Agriculture be intensified to assist producers in applying the knowledge gained by research and study to the further improvement of volume and quality of production and to the further reduction of producers' costs.

Special Recommendations in Respect to Transportation

It is obvious from a perusal of the discussion of Transportation in this report that I regard the present system as uneconomic and wasteful. Ideally, I think it would be desirable to fix the price of milk at the farm and allow normal competitive pressures on the distributors to lead them to rationalize their methods and costs of collection. This may not be immediately practicable, but, if it were possible, I would recommend:

(a) That where the price of milk to producers is fixed, it be fixed on the basis of delivery at the farm.

(b) In default of this I would recommend that the Milk Control Board be given the power to fix rates for transporting milk and to designate and license all truckers of milk.

(c) That the licensing of such truckers under the Commercial Vehicle Act be discontinued.

(d) That the practice of conducting hearings before the Municipal Board be discontinued, and that the whole power be vested in the Milk Control Board.

(e) The regulations under the Milk Control Act, and the Milk Control Act itself, should also be clarified to give the Board authority to designate routes for such truckers.

The foregoing observations in respect to the transportation of fluid milk apply with equal force to the transportation of milk and cream to condensaries and creameries.

(f) That the regulations be changed and the Commercial Vehicle Act be amended to permit farmers to haul milk co-operatively through co-operative associations for themselves and their neighbours, and that such permission be granted without regard to other existing facilities.

Special Recommendations in Respect to Distribution

In the hope that experiments in further economies, such as quantity discount sales, depot sales, every-other-day delivery, five and six-day delivery, zoning and similar practices will be actively investigated and tried, it is recommended:

(a) That the retail consumer price should be made open and competitive without fixation by agreement or Milk Control Board order.

(b) That the special distributor economies brought into effect in 1941 and 1942 under wartime conditions be retained by the distributors.

(c) That all distributors be required to maintain a complete and standardized set of business and financial records.

(d) That returns sufficient to enable the Milk Control Board to determine their costs and profit margins be required of all distributors, to be filed not less than three months after the end of their fiscal year, these records to include details of capitalization, depreciation and financial policies generally.

Recommendations in Respect to Consumers

It must be apparent from a perusal of Chapter 7 that, looking at the over-all picture in Ontario, no recommendations as to price reductions from those presently obtaining can be made when the interests of all the distributors are considered. Mr. Entwistle's report shows that about 12 per cent in number of the distributors, who apparently distribute more than 50 per cent of the fluid milk in the Province, could sell milk at cheaper prices. I suggest that cheaper prices might be brought about by providing for a free competitive price at the consumer level. If it is done by other means it may well be that the larger number of the distributors, something in excess of 750 in all, will not be able to withstand the financial pressure of prices lower than those presently in effect. So far as volume distribution is concerned, it would appear that such a price reduction would adversely affect those who distribute less than half of the volume of fluid milk sold. It would unquestionably affect many of the distributors in smaller markets.

It is a question whether it is best in the public interest to maintain the existing large number of small distributors in certain cases at the cost of milk consumers; or whether through arbitrarily narrowing the distributor's spread it is better to accelerate the slow process of amalgamation that has been going on among the distributors since the passing of the Milk Control Act in 1934. Arbitrary narrowing of the distributor's spread at the present time would undoubtedly accelerate the process of amalgamation and consolidation, and the distribution end of the industry would end in the hands

of a few large distributors. As they are presently situated, the smaller distributors, except in rare instances, could not withstand the financial pressure resulting from such a policy. Insofar as many of them are concerned, the result might be financial embarrassment, forcing them to amalgamate with their competitors to obtain larger volume, or they might be forced to sell out to the existing large volume distributors. Which state of affairs is the most desirable is a question of public policy, on which it would not be proper for me to comment. In my view, however, the abolishing of the practice of fixing prices for fluid milk to the consumers and the restoration of competition as to price among the distributors, is well worth trying before other measures are considered.

Nevertheless, despite the apparent costs of production and distribution at the present time, in view of the fact that cheap milk generally means large volume of consumption, it might well pay both the producers and the distributors of fluid milk arbitrarily to cut their prices all along the line to something approaching the level obtaining before the price increases of October 1, 1946, or in any event by a substantial amount. The problem of the producers' surplus, which seriously affects the average price received by the producer, might no longer be so pressing. The experience of the distributors over the war years under conditions of rapidly expanding volume and low consumer prices might justify them in again trying the experiment.

It is recommended that the necessary amendments be made to the Municipal Act and the Milk Control Act to permit the setting up and operation of municipally owned distributor plants with power to deal in all dairy products and that in so doing such distributor operations be made liable to Municipal and Provincial taxes in like manner as other Distributors.

Finally it is recommended that consideration be given to supplying milk to school children in primary and secondary schools through public assistance at cost, or in cases of necessity free of charge; and that in considering the same, attention be paid to the provisions of the National Milk Scheme in Great Britain.

Recommendations in Respect to the Cheese Producers

In respect to the cheese producers, discussion of their problems in the Chapter relating to them does not give rise to any special recommendations, but it would seem essential:

(a) That they take steps which should be implemented in any way possible by the Department of Agriculture to improve the quality of their product and to extend a further and more effective control over its final marketing.

(b) That steps should be taken to familiarize the industry with the provisions of the legislation, both provincial and dominion, providing for financial assistance with respect to the erection of amalgamated factories.

(c) That the cheese milk producers give most serious consideration to the formation of an over-all marketing scheme.

Recommendations in Respect to the Cream Producers and Creameries

The general recommendations made in respect of Transportation would apply with equal force to the transportation of fluid cream used for butter-making. The recommendations already made in respect of an over-all marketing scheme apply with particular force to this large group of producers.

No doubt any experience gained in the marketing of cream under the Farm Products Marketing Act should be most valuable and should be studied carefully.

Specifically the only additional recommendation I wish to make is that every effort be made by producers, creameries, and through governmental assistance, to greatly increase the volume of production per plant.

Recommendations in Respect to the Condensaries

Many of the observations made in respect to the distributors of fluid milk apply to the manufacturers of milk. It is recommended:

(a) That the Manufacturing Milk Board be given clear authority under the Milk Control Act to require standard methods of accounting, and full and regular information from the manufacturers in connection with their operating costs and profits.

(b) That where such operations in the province represent branch operations of larger concerns with headquarters outside this jurisdiction, a division be made between the business done within and without the province; and to effect this, regulations be made standardizing the accounting methods of these firms.

(c) That along with the study of producer costs in other branches of the dairy industry there be included a study by the Milk Control Board of the costs of producers who produce milk for concentration.

(d) That the producers of milk for concentrated purposes be encouraged to undertake the formation of co-operative processing plants as a means of ensuring that these producers receive the full competitive price for their milk and that consideration be given to providing public assistance for such projects.

(e) That the Milk Control Board investigate the present prices paid concentrated producers for their milk, and in view of the financial situation of the manufacturers, consider whether price increases to producers beyond those already granted should not now be enforced.

In conclusion, I desire to record my indebtedness to the Statistics Branch of the Ontario Department of Agriculture for placing at our disposal much of the information available in their records, and for the ready courtesy and co-operation shown. The information has been most helpful both to myself and to Mr. Entwistle.

In connection with the survey of producers' costs, I desire to acknowledge the courteous assistance of Professor H. K. Leckie of the Economics Department and Professor N. J. Thomas of the Soils Department, of the Ontario Agricultural College. Their advice was helpful and suggestive to those assisting the Commission when this survey was made.

Sincere thanks are also due to Professor H. A. Smallfield of the Dairy Department of the Ontario Agricultural College for the information and assistance he has given to the Commission.

Appreciation of the assistance and co-operation received from Mr. C. M. Meek, Chairman of the Milk Control Board has already been recorded in this report.

I also wish to acknowledge the assistance received from producers, distributors, consumers and many other interested persons and organizations in submitting evidence, both documentary and verbal. Many troublesome questions were asked, particularly of the distributors, and for the most part the Commission received the readiest co-operation from those being questioned.

Counsel representing the various interests appearing before the Commission were at all times most helpful.

If I may do so, I would also like to record my appreciation of the very full and impartial manner in which the Press of the Province covered the course of the Inquiry.

I find it difficult to adequately express my appreciation of the assistance rendered to me by Professor W. M. Drummond, who was appointed as Economic Consultant to the Commission. His encyclopaedic knowledge of the problems involved has at all times been at the disposal of myself and all others connected with the Investigation. It is difficult to adequately measure the extent of the assistance and co-operation Professor Drummond has rendered, both during the hearings and in the preparation of this Report. It has been of the highest order. In fairness to Professor Drummond, however, it should be said that I assume full responsibility for any conclusions reached and recommendations made.

Mr. Beverley Matthews, K.C., Counsel to the Commission, was of very great assistance in the conspicuously able and impartial manner in which he brought out the evidence bearing on the matters under consideration. His advice and counsel throughout have been exceedingly helpful.

The extent of the investigation by Mr. John Entwistle, C.P.A., into the financial aspects of the industry is best measured by an examination of his reports, which were of such importance that I felt they should be included as appendixes to this Report. Much information, which it is hoped will be of value to the industry and to the public generally, has been uncovered. It would be gratuitous on my part to say more than that his reports speak very clearly for themselves. Mr. Entwistle's services have been available to me at all times, and to him and to his staff I express my sincere thanks.

To Mr. Donald A. Keith, Barrister-at-law, and Secretary to the Commission, I express my unreserved thanks. The ease with which the whole investigation was managed was largely the result of his work. He has been most active in assisting in the preparation of the Report. His efficiency and conscientious assistance has greatly simplified the task given to me.

Finally, I desire to thank Messrs. Sydney W. Brown, Arthur G. Veitch and J. B. McGregor, Chartered Shorthand Reporters, and official reporters to this Commission, for the painstaking and conscientious manner in which they and their staff performed their duties. "Daily copy" was furnished with faithful regularity, despite difficulties at out-of-town sittings. These gentlemen have also had in hand supervision of the physical production of this report.

I have the honour to be,

Sir,

Your obedient servant,

DALTON C. WELLS,

Commissioner.

Donald A. Keith,

Secretary.

Toronto, 1st August, 1947.

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to

**ONTARIO ROYAL
COMMISSION ON MILK**

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- No. 6—Schedule of Price Fixing Orders issued by Milk Control Board 1934 to 1946
- No. 7—Summary of recovery as a result of bonding of distributors.
- No. 8—Statistical material Chicago Marketing Area.
- No. 9—By-law 2990 City of Brantford, to regulate unlicensed production, sale and distribution of milk.
- No. 10—Local branches of the Ontario Whole Milk Producers' League.
- No. 11—Brief of dairy farmer's wife, Carleton County.
- No. 12—National income and wages in Canada, index of employment Hamilton and Ontario, and average wage rates in Ontario 1939 and 1946.
- No. 13—Details of formulas developed for calculating producer costs.
- No. 14—Form of dairy cost survey used by Royal Commission on Milk.
- No. 15—Supplementary brief Ontario Whole Milk Producers' League.
- No. 16—Milk Control Board Order 39-15, as amended by 39-16, re Toronto market transport control.
- No. 17—Accountant's report on milk transportation.
- No. 18—Accountant's report on distributors.
- No. 19—Summary of comparison of fluid milk sales, retail and wholesale, Ontario, 1946.
- No. 20—Record of licenses in markets of Toronto, Hamilton, Windsor, Ottawa, Kirkland Lake and Timmins.
- No. 21—Survey as to consumption of milk in Toronto by income groups, preferences and reactions to price increase.
- No. 22—Extract from report of Royal Commission on Milk, New Zealand, 1946.
- No. 23—Accountant's report on creameries.
- No. 24—Accountant's report on condensaries.
- No. 25—Accountant's report on cost of whole milk production.
- No. 26—Illustration of methods which may be used in calculating certain milk production cost items.
- No. 27—Whole milk production costs in Hamilton and Niagara district as submitted by W. D. Black.
- No. 28—Suggestions toward ascertaining production costs.
- No. 29—Accountant's report, survey of cheese manufacturers.

APPENDIX 1

LIST OF WITNESSES WHO APPEARED BEFORE THE COMMISSION AND PERSONS AND ORGANIZATIONS WHO FILED BRIEFS

Place	Witnesses' Name	Distrib- utor	Pro- ducer	Con- sumer	Trans- porter	Expert
Toronto						
	1. Mrs. Lily Phelps.....			X		
	2. A. Savage.....			X		
	3. Mrs. E. Sanderson.....			X		
	4. H. W. Emery.....			X		
	5. A. A. McLeod.....			X		
	6. S. Smith.....			X		
	7. C. Coburn.....			X		
	8. Mrs. H. Murray.....			X		
	9. T. A. Sutton.....			X		
	10. Mrs. F. H. Sanderson.....			X		
	11. C. Kidd.....			X		
	12. J. Eldon.....			X		
	13. Mrs. J. F. Cowan.....		X			
	14. W. L. McKinnon.....		X			
	15. R. H. Saunders.....			X		
	16. Dr. F. F. Tisdall.....					X
	17. J. Aird.....	X				
	18. H. G. Webster.....		X			
	19. H. T. Wright.....				X	
	20. D. R. MacQuarrie.....				X	
	21. H. Christenson.....	X				
	22. J. E. Houck.....	X				
	23. W. W. Cosburn.....	X				
	24. E. M. Cockin.....					X
	25. A. S. Thurston.....		X			
	26. C. Rosebrugh.....	X				
	27. C. Burns.....	X				
	28. W. Storey.....	X				
	29. C. Hooper.....		X			
	30. J. H. Jose.....		X			
	31. G. Rouse.....		X			
	32. Dr. L. C. Swan.....					X
	33. A. E. Coleman.....		X			
	34. R. F. Lick.....		X			
	35. E. H. Clarke.....			X		
	36. F. McIntyre.....		X			
	37. E. Kitchen.....		X			
	38. V. S. Milburn.....		X			
	39. W. Wood.....		X			
	40. J. W. Hanson.....		X			
	41. W. R. Aird.....	X				
	42. Miss N. Touchburn.....			X		
	43. M. D. Warner.....	X				
	44. J. H. Duplan.....	X				
	45. R. McMaul.....				X	
	46. J. Goodman.....				X	
	47. J. C. Hay.....					X
	48. C. M. Meek.....					X
	49. H. L. Cummings.....					X
	50. W. H. Wilmot.....		X			
	51. J. S. Beck.....			X		
	52. Ward Hallman.....		X			
	53. C. E. Lackner.....					X
Fort Arthur						
	54. D. H. Coghlan.....			X		
	55. J. D. Gibb.....			X		
	56. J. E. Quinn.....			X		
	57. L. J. Hare.....					X

Place	Witnesses' Name	Distrib- utor	Pro- ducer	Con- sumer	Trans- porter	Expert
Port Arthur—continued						
	58. W. B. Lowe		x			
	59. Jorgen Brohn		x			
	60. A. T. Oliver		x			
	61. F. N. Carter		x			
	62. Alban Bernan		x			
	63. E. J. Edmond		x			
	64. J. McLeod				x	
	64. F. Scollie	x				
	65. H. Lovelady			x		
	66. O. Bingham	x				
	67. Grace Oja			x		
	68. Gertrude Miller			x		
	69. W. Arthur	x				
	70. W. Klomp	x				
	71. L. H. White	x				
North Bay						
	72. Mrs. L. Mernaghan			x		
	73. M. Frank			x		
	74. M. E. McLeod			x		
	75. M. Abramson	x				
	76. T. Seguin				x	
	77. O. Archer	x				
	78. G. W. Ketter	x				
	79. D. Quarrell	x				
	80. D. Rousseau		x			
	81. W. R. Peters		x			
	82. A. E. Rigg		x			
	83. A. Helmer		x			
	84. R. Beithartz		x			
	85. E. Larocque		x			
Belleville						
	86. S. L. Joss		x			
	87. C. H. Ketcheson		x			
	88. E. E. Finkle		x			
	89. E. Massé		x			
	90. N. McCoutrey		x			
	91. G. Graham	x				
	92. S. Graham	x				
	93. K. D. Moncrieff	x				
	94. J. F. Tranerton		x			
	95. L. H. McCaul		x			
	96. J. I. Ballantyne		x			
	97. W. O. Coon		x			
	98. B. Crank		x			
	99. B. R. Baxter		x			
Ottawa						
	100. Mrs. M. Whiteley			x		
	101. Mrs. E. White			x		
	102. W. J. Ahearn			x		
	103. Mrs. E. Pritchard		x			
	104. B. H. Pratt		x			
	105. K. Dowler		x			
	106. D. McAllister		x			
	107. Dr. L. B. Pett					x
	108. Dr. E. F. Johnston					x
	109. W. B. Younghusband		x			
	110. H. J. Clark	x				
	111. F. J. Reynolds	x				
	112. H. Maloney	x				
	113. J. F. Casselman		x			
	114. A. Smith		x			
	115. S. A. Lowrey		x			
	116. H. E. Durant		x			
	117. L. R. Thompson		x			

Place	Witnesses' Name	Distrib- utor	Pro- ducer	Con- sumer	Trans- porter	Expert
Ottawa—continued						
118.	J. M. Arkell	x				
119.	Dr. J. Vanderleck					x
120.	S. F. Checkland			x		
Windsor						
121.	Mrs. C. W. Beaumont			x		
122.	Mrs. A. Molenko			x		
123.	W. E. Holder			x		
124.	A. Burrell		x			
125.	M. C. Dalton		x			
126.	J. R. Shuel		x			
127.	W. McCormick		x			
128.	J. F. Thomas		x			
129.	Mrs. D. Nolan				x	
130.	A. E. Gignac	x				
131.	L. Cummings				x	
132.	A. Douglas	x				
133.	A. W. Ballentyne		x			
Hamilton						
134.	Mrs. M. Berendt		x			
135.	N. A. Fletcher		x			
136.	S. W. Lawrence	x			x	
137.	W. H. Mason		x			
138.	G. H. Bethune		x			
139.	J. Drysler		x			
140.	R. Emslie		x			
141.	W. D. Black		x			
London						
142.	G. D. Lang				x	
143.	C. J. Dance		x			
144.	F. Way		x			
145.	E. Revell		x			
146.	D. J. Fletcher		x			
147.	J. C. Robb		x			
148.	L. Robb		x			
149.	Mrs. Lucy Cole				x	
150.	C. R. Shackleton		x			
151.	W. A. Shannon				x	
152.	D. Hart		x			
153.	A. L. Dust				x	

BRIEFS

Place and Name	Distributor	Producer	Consumer	Transporter	Expert	Misc.
Toronto						
1. The Ontario Milk Distributors' Association.....	x					
2. The Ontario Co-operative Union.....	x					
3. Valley View Dairy.....	x					
4. The Toronto Milk Distributors' Association.....	x					
5. The Borden Company Ltd.....	x					
6. Dominion Dairies Ltd.....	x					
7. The Ontario Concentrated Milk Producers' Association.....						
8. The Ontario Cheese Producers' Association.....		x				
9. The Ontario Whole Milk Producers' League.....		x				
10. The Ontario Cream Producers' League.....		x				
11. The Ontario Creamery Association.....		x				
12. Brief—Rural Housewife— (Mrs. T. D. Cowan, R.R. 3, Galt).....		x				
13. United Automobile-Aircraft-Agricultural Implement Workers of America—District Council 26.....				x		
14. The Co-operative Commonwealth Youth Movement—Ontario Section.....				x		
15. The Co-operative Service of Toronto.....				x		
16. The Housewives' Consumer Association (Toronto).....				x		
17. Ontario Committee of the Labour Progressive Party.....				x		
18. Scarboro Ratepayers Central Executive Committee.....				x		
19. The Co-operative Commonwealth Federation—Ontario Section.....				x		
20. The Consumers' Federated Council.....				x		
21. The Ontario Federation of Labour.....				x		
22. The Council of City of Toronto.....				x		
23. The Associated Milk Foundation.....				x		
24. Consumers—St. Patrick's Riding— (Submitted by A. Kelso Roberts, K.C., M.L.A.).....				x		
25. The Toronto Milk Transport Association.....					x	
26. Solicitor to Department of Agriculture— James C. Hay.....						x
27. Dairy Branch—Department of Agriculture.....						x
28. Milk Control Board of Ontario.....						x
29. The Shareholders' Institute.....						x
Port Arthur						
30. The Lakehead Confectioners' Association.....	x					
31. The Kenora and Dryden Districts—Milk Producers.....		x				
32. Producer-Distributors of Thunder Bay.....		x				
33. Brief submitted by Mr. D. H. Coghlan of Port Arthur—a consumer.....						x
34. Port Arthur and Fort William Trades and Labour Councils.....						x
35. Consumers of Port Arthur.....						x
36. Port Arthur Home and School Association.....						x
North Bay						
37. The Workers' Co-operative of New Ontario.....	x					
38. The Kirkland Lake Ladies Auxiliary of the International Union of Mine, Mill and Smelter Workers' Union, Local 77.....						x
39. Miss J. Macleod, Consumer, Kirkland Lake.....						x

Place and Name	Distributor	Producer	Consumer	Transporter	Expert	Misc.
North Bay—continued						
40. Ninety Patrons of the Glanworth Cheese Factory.....		x				
Ottawa						
41. The Ottawa Dairies—General Brief.....	x					
42. Central Dairies Ltd., Ottawa.....	x					
43. Highclere Dairy, Ottawa.....	x					
44. Clark Dairy Ltd., Ottawa.....	x					
45. Ottawa Dairy Company (Division of Borden's Ltd.).....	x					
46. Brief submitted by Rural Housewife—Mrs. John Pritchard, Ottawa.....		x				
47. Consumers of the City of Ottawa.....			x			
48. Brief presented by Veterinarian—E. J. Johnson.....					x	
Windsor						
49. The Borden Company Ltd., Walkerside Division.....	x					
50. The Essex Milk Producers' Association.....		x				
51. Survey of Costs—Lammermoor Farm—Courtright, Ontario—W. L. McKinnon.....		x				
52. The Housewives' Consumer League of Windsor.....			x			
53. The Municipal Council—City of Windsor.....			x			
Hamilton						
54. The Hamilton Co-operative Creameries Ltd.....	x					
55. Prospect Dairy Limited.....	x					
56. City Milk Company Ltd., Hamilton.....	x					
57. Silverwoods Diaries Ltd., Hamilton and General.....	x					
58. The Hamilton Milk Producers' Association.....		x				
59. Milk Production Costs in Hamilton and Niagara Falls District (W. D. Black, Esq.).....		x				
60. Dairy Farmers' Wives of Hamilton District.....		x				
61. Municipal Council of City of Hamilton.....			x			
62. Submissions by organizations, Niagara Falls, Ont.....			x			
63. Consumers of City of St. Catharines.....			x			
64. Brief presented by Veterinarian Dr. L. C. Swan, St. Catharines.....					x	
London						
65. The Ex-Service Men's Wives, Mothers and Guardians Association, London, Ontario.....			x			
66. London Citizens Milk Price Protest Organization.....			x			
67. Consumers of the City of St. Thomas.....			x			

APPENDIX 2

TRANSCRIPT OF EVIDENCE OF DR. F. F. TISDALL AND DR. L. B. PETT

Dr. F. F. Tisdall

VOLUME XXXI

TORONTO, ONTARIO

(SECOND SESSION)

1st February, 1947.

—The Commission resumed at 10:00 o'clock, a.m.

MR. MATTHEWS: As you know, sir, we have only one witness this morning, Dr. Tisdall, who has been good enough to come.

DR. F. F. TISDALL, Sworn,

EXAMINED BY MR. MATTHEWS:

Q. Dr. Tisdall, you are a medical doctor?

A. Yes, sir.

Q. And a graduate of the University of Toronto.

Q. And you are practising here in Toronto now?

A. Yes.

Q. And I understand you have a very close connection with the Sick Children's Hospital?

A. I am on the staff of the Sick Children's Hospital.

Q. I also understand you have for some time specialized on the subject of nutrition?

A. Yes, sir.

Q. And that you are the chairman, or a member of a good many committees. I can't remember those committees and I wonder if you would name them for me?

A. Well, I am chairman of the Committee on Nutrition of the Canadian Medical Association; chairman of the National Committee on Nutrition of the Canadian Red Cross Society; a member of the Committee on Nutrition of the Federal Department of Health and Welfare, Ottawa; a member of the Food and Nutrition Board of the National Research Council of Washington; and a member of the Advisory Committee on Nutrition of the Food and Agricultural Organization of the United Nations.

Q. I understand you were quite recently in Copenhagen for the Food Conference?

A. Yes.

Q. How long ago was that?

A. In September.

Q. Doctor, I understand you had the opportunity of reading the evidence of Dr. Pett, which he gave in Ottawa last December?

A. Yes.

Q. Are you in general agreement with what he said?

A. Yes, sir.

Q. Did you find any part of his evidence with which you disagreed?

A. If I did it was only on very minor points, and I would say in general I was thoroughly in accord with what he said.

Q. And you also had an opportunity of examining these two charts which Dr. Pett gave us?

A. Yes.

Q. And you do not disagree, I suppose, with any information disclosed on these charts?

A. I must say I didn't examine them with the idea of saying I agreed with everything, because I don't remember. I only examined them in a general way.

THE COMMISSIONER: Did anything strike you as being out of line, is that a fair way of putting it?

A. No, there was nothing out of line.

MR. MATTHEWS: Dr. Tisdall, we have had a great many briefs submitted to this Commission, and almost invariably they start off by speaking of the vital necessity of milk as part of our diet, and the reason we asked you to come here this morning, is to give us your opinion on that statement, and give us what you can of the value of milk as a food.

A. To do that, I have to take a moment, with your permission, to tell you the composition of milk, which you probably know, the composition from a nutritional standpoint.

THE COMMISSIONER: You just go ahead and say what you feel you want to.

A. Milk contains approximately 3½ per cent fat, approximately 4 per cent carbohydrates or milk sugar, and about 3½ per cent protein. In addition, it contains a large number of vitamins and practically all the minerals essential for life with the exception of iron and perhaps iodine, depending on the pasture. It is the most perfect single food we have today, there is no other single food that contains as many nutrients essential to life as does milk.

Now we want to know if all these nutrients can be replaced by other food sources, because if they can be replaced, and replaced economically, then milk is not on any pinnacle, because we could simply take perhaps three or four other foods and replace it, but I would say from our studies, our respect for milk goes up.

Now, considering the various nutrients, and we must have as a background the fact that we need between 35 and 40 individual nutrients to live, and if any one of those is taken out of your diet or mine, first of all health is impaired, and if it eventually goes on long enough we die.

Now, considering it on that basis, and I am not going to run through the whole 35 or 40 this morning, I will just pick out a few. We will take first, fat. The fat in milk can be readily replaced by fat from other sources, and I will take this opportunity of saying without being asked, that from the standpoint of setting the value of milk, the economic value of milk on its fat content is completely wrong. From the standpoint of the desires in your household and mine, it is all right because we like fats.

MR. MATTHEWS: Like the taste?

A. We like the taste. This morning I had some cream on my cereal. I would have been a little upset if I had had skim milk. Nutritionally there was no particular need for me to have that cream, that is what I am bringing out.

Secondly, the carbohydrate or milk sugar can be replaced very readily by much cheaper sources, so we are not concerned with milk from its fat content or carbohydrate content. Its protein content is an entirely different story because the protein is what is termed animal protein of the very highest nutritional order.

THE COMMISSIONER: Is it contained in cream?

A. No, there is practically none; the higher the cream content the higher the fat content; and the lower the protein.

Q. Cream is largely fat?

A. Yes.

Q. What else?

A. We can say this, that cream is milk with a fat content up to 18 per cent, or whatever the fat content is. There is certainly some milk sugar in it and protein. You simply have to look at it as milk with fat in it, and as the fat content goes up, the total of the others goes down.

MR. MATTHEWS: I think Dr. Pett said it was a source of Vitamin A?

A. Take the fat out of milk and you take the Vitamin A. I was not talking about Vitamin A—I was talking about fat, carbohydrates, and now protein, and protein is a very high quality and very valuable food.

Q. Of course we could get that protein from other foods?

A. We could get protein of equal quality from other foods.

Q. What sort of foods?

A. Taking the more common ones, meat, eggs, poultry and fish.

THE COMMISSIONER: How about cheese?

A. Cheese is milk.

Q. You say it has the same protein content?

A. Yes, cheese is the fat and protein of milk. The only difference has been to remove the fluid and some of the soluble things as well, such as some sugars and also some proteins that are soluble that won't be precipi-

tated in making the curds. We regard cheese as almost the same as milk, not quite.

Q. Not quite as good?

A. No, because you remove some of it; roughly one ounce of cheese is equivalent to 8 ounces of milk in most things—not all things. Now certainly milk does not have its high position in the nutrition world entirely on protein content because protein of a similar grade can be obtained elsewhere, although for a young infant and young child it does occupy a unique position because you cannot feed a month old baby a piece of beef steak and other things of that nature as readily as you can milk, but from the standpoint of the older child and adult, the protein in milk, although it is extremely valuable, and a very important factor in its nutritional value, it is not indispensable.

Now, when you get down to the next group, the vitamins, you find that milk is a very good source of Vitamin A, and to repeat again, Vitamin A is fat soluble, therefore, if you remove the fat you remove the Vitamin A. Milk is not unique as a source of Vitamin A as you get Vitamin A in many other things. You can get a precursor of Vitamin A, that is carotene, and when it is eaten it is acted on in the body and divided into or changed into Vitamin A chemically—and from a nutritional standpoint, if you eat a substance rich in carotene, you will never suffer from a Vitamin A deficiency. Compared with milk, 16 ounces of milk will give you 600 international units of Vitamin A, 3½ ounces of carrots will give you 12,000 units, sweet potatoes 6,000, squash 4,000, and turnips 2,500. I do not need to give you any other illustrations to show you the unique value of milk is not in its Vitamin A. Also it is not on account of its thiamine content, which is one of the members of the B complex, that milk is unique nutritionally.

THE COMMISSIONER: You talk about milk giving 600 units of Vitamin A? A. 16 ounces of milk.

Q. What fat content is that milk?

A. That could be the whole milk, roughly 3½ per cent, and if you cut your milk down to 2 per cent you have to reduce it by that proportion, and as you take out the fat, if you get it completely fat free, you have no Vitamin A left. It is all fat soluble.

MR. MATTHEWS: Is thiamine, Vitamin B, also a fat soluble?

A. No. I suppose I shouldn't correct a statement made—it is Vitamin B-1.

Q. You correct anything there at all.

A. There are 9 or 10 members of the B group and thiamine is one.

Q. As a matter of fact on that chart it is B-1 and I misread it.

A. Yes, because there are nine or ten more subdivisions of the B group, and thiamine, which is essential to life—and lack of thiamine incidentally caused more deaths in the world before this war than any single disease. Beri-beri in the Far East is caused by lack of thiamine. They polish the rice and take off all the thiamine, or most of it, and that is the cause of literally hundreds of thousands of deaths in the Far East, and it is well known in medical literature there are more deaths or were more deaths before the war due to beri-beri, than any other disease in the world.

Q. If these people could be given a constant diet that includes milk, this condition will disappear?

A. One of the recommendations of the Food and Agricultural Committee of the United Nations is, at the earliest possible moment the milk supply of those nations should be increased, and if possible the waste of skim milk in the nations that are rich in milk, waste from the standpoint of human consumption, that is being used for animal food or other purposes, should be suitably processed and distributed to those countries.

Q. That is made into powder and shipped over there?

A. Yes. Now milk is a very fair source of thiamine, it isn't a rich source, it is a very fair source. In our scheme of things it supplies an appreciable amount of thiamine.

Now you come to the next vitamin we are concerned with and you get an entirely different story, and that is riboflavin or Vitamin B-2, and I am going to take you back for a moment to the war years and tell you of some of our work with the Royal Canadian Air Force on riboflavin.

Q. That is the stuff that affects the eyes?

A. The lack of riboflavin can cause the following eye symptoms, and I would like you to think if you were a pilot in a plane, defending our country, over the Atlantic, as our boys did, and your life and the life of your crew depended on your acuity of vision and so on—the symptoms that develop are a burning sensation under the eyes, a sandy sensation under the eye lids, dizziness, headaches and lack of visual acuity.

In examination of our boys down on the east coast, back in the early days of the war, our air crew, we found that 75 per cent of the boys examined had two or more of those symptoms, and their answer was that "Sure, you cannot go out over the Atlantic for 12 hours or 18 hours at a lick and not come back without your eyes being tired, having a bit of headache, a sandy sensation under the eyes and watering of the eyes, and other symptoms." They took it for granted. Yet, when we gave those boys additional riboflavin in two months time 95 per cent had either complete disappearance of these symptoms or marked improvement, compared to only 10 per cent who were given dummy capsules and thought they were improved.

That evidence was so important from a health standpoint when presented to the proper authorities the milk ration of the Canadian armed forces was raised to the highest milk ration of any armed service in the world, that of 20 ounces per day. That was the milk ration of the Canadian armed services, which was higher than the United States, which was higher than Great Britain, and which was higher than any other armed service in the world. We gave it largely but not entirely for its riboflavin content.

Q. Can we get that Vitamin B-2 from other foods?

A. The answer is yes, technically so, but if you wanted to get the amount of riboflavin which is contained in a quart of milk you would have to eat 2 pounds of roast beef, you would have to eat 2 pounds of dried beans which when they are cooked swell up quite a bit, you would have to eat 2½ pounds of fish, 4 pounds of cauliflower, or a dozen eggs, and those are the better sources.

Q. All that sounds more difficult than drinking a glass of milk. A. I will say so.

From a practical standpoint we can say that if under our Canadian habits of eating we do not include in the diet each day the amount of milk which we recommend we can assure you that in all probability you are not receiving an amount of riboflavin which is essential for you to enjoy the optimal level of health and efficiency. That is, in our opinion, one of the unique features of our milk. It is essential to have milk in your diet if you are going to receive an adequate amount of riboflavin, an amount necessary for good health.

Q. What about calcium? Can we come to calcium at this point?

A. No. We will come to niacin. We have dealt with Vitamin A, and, to conclude this part of it, milk is a very good source of Vitamin A, but you can obtain Vitamin A from any coloured vegetable except perhaps beets. There are many other sources that are richer than milk in Vitamin A. It is a very fair source of thiamine. It also may be obtained elsewhere. It is unique as being our best source of riboflavin, but it is not a good source of niacin.

Q. Is it a vitamin?

A. It is one of the members of the B-complex.

Q. It has not a number?

A. No, it has not got a number.

Q. There is another way of writing it down?

A. No. It was referred to some years ago as the pellagra preventing vitamin, a disease which we practically never see here in Canada, but before the war there were over 100,000 pellagras in the southern United States. The evidences of the disease are skin lesions in which they get a rash and discoloration of the skin, gastro-intestinal symptoms in which they develop diarrhea and are completely upset from that standpoint, and also they are affected mentally so that they may go completely insane. When given niacin the effect is most dramatic in that in 24 to 28 hours those people who are completely off their heads are normal individuals mentally. But, that is not a problem for Canada; we do not see pellagra here at all.

One point for your interest is that in the United States in the south their

diet is largely corn and very low in milk. Even though milk is not very high in niacin it is thought that the protein and other factors reduce the requirement for niacin.

There is one other vitamin, ascorbic acid, or Vitamin C which you get in our Canadian tomatoes, in our Canadian cabbage, in our Canadian turnips, and in our Canadian potatoes. You get it in very large quantities in imported citrus fruits and fruit juices. Milk contains practically none of it, or a very small amount, so its value as a source of ascorbic acid is negligible.

We end by riboflavin standing out on a pinnacle, milk being the most practical source of this vitamin which is essential for good health and life, itself.

You ask me about minerals. There are no less than 13 minerals which are known to be essential for life. I will not bother you by going over them. You know you need calcium, phosphorus for bones, iron for blood, iodine to prevent goitre, sulphur to go in the hair and all the rest of it. There are 13 in all. We do not need to worry about these, the whole lot; we need to worry in our Canadian diet about three, namely, calcium, iron and iodine.

Q. What is the last one?

A. Iodine. In countries the food of which contains very little iodine, such as Switzerland, goitre was very prevalent and they put iodine in salt. That is the reason to-day that so much salt in Canada is iodized, because you will not develop goitre due to lack of iodine if you are taking iodized salt. There is very little iodine in milk.

We get iron in many foods. Milk is practically devoid of iron.

The third one with which we are concerned is calcium. I would say if your diet does not contain an adequate amount of milk you are not getting the amount of calcium which is essential for the optimal level of health—not just an average level of health but the optimal. We need approximately 800 milligrams of calcium a day.

Q. What is that in quarts of milk?

A. It is approximately 1½ pints of milk—30 ounces. 1½ pints of milk will supply one gram. Adults need 8/10ths of a gram. Children need more than a gram, so we believe that from a national standpoint if we take the per capita requirement of calcium for the nation for optimal health it should be about a gram a day. 30 ounces of milk will supply this, or four ounces of cheese will supply this.

Q. In normal everyday conversation I understand you usually speak of 1½ pints for a child and a pint for an adult?

A. You are quite correct. 1½ pints for a child for calcium and other requirements which are greater than for an adult. A pint for an adult.

Q. I understand you draw the line at about 21 years between children and adults for this purpose?

A. We will qualify that by saying "for this purpose."

THE COMMISSIONER: Is the bone growth complete by 21 years of age?

A. Not 100 per cent, but it is so close to it for the purposes of this discussion of calcium I think we can reasonably set something in that neighbourhood as the age at which the calcium requirements are going down. The highest requirements are with your adolescent children who are shooting up a couple of inches or more a year.

MR. MATTHEWS: Where did the man, woman, and child 5,000 years ago get calcium? They did not have dairy herds then.

A. I think we can give you the best answer to that having regard to our studies of our Canadian Bush Indian who perhaps lived a little bit like our ancestors did 5,000 years ago.

When they shoot an animal to-day, if it is a small animal they eat the bones. If it is a large animal they chop the bones up and put them in a pot and boil them for two or three days and gnaw on them the same as a dog does. That is, they will chew on it and bite on it and get the marrow out, and, along with the marrow, the calcium. We are, and dogs are carnivorous animals. They get their calcium from bones. The Canadian Bush Indian to-day gets his calcium largely from the bones he eats, and, although I was not present 5,000 years ago, I think we could infer that our ancestors got their calcium the same way.

Q. If I chew the bones in the stew do I get some calcium without eating the bones?

A. You will get some from the stew; but, do not forget, these people cut those bones up and chew them with their powerfully muscled jaws. I have seen them actually take a rabbit bone and chew it up the same as we could chew something which was softer. They will actually eat it.

Q. A rabbit bone to them is like a piece of toast to us?

A. Getting over to where calcium can be obtained elsewhere, you will note I said that milk is unique as a source of calcium. I say you can get your gram of calcium elsewhere if you want it. You would have to eat 3 pounds of celery, or 5 pounds of cabbage—

Q. That last prospect is not very pleasant.

A. —or, if you are a good Scotsman and are fond of your oatmeal, you will take 3 pounds of dry oatmeal, make it into a porridge, into a tubful, and you will get your gram of calcium.

Q. Which I can get from 1½ pints of milk?

A. Or from 4 ounces of cheese; or, if you are an Englishman and are very fond of your bread and roast beef you can get it by taking 7 pounds of bread or 17 pounds of roast beef. You just cannot get an adequate supply of calcium without including in your diet each day milk or cheese. Our study since 1919 on this aspect of our work constantly increases our respect for milk as a source of calcium.

WITNESS (Continuing): Now, that, I think, has set out in a rather lengthy form what many nutritionists believe constitutes the unique value of milk from the standpoint of food intake in Canada. We cannot get an adequate supply of calcium unless we take milk nor an adequate supply of riboflavin unless we take milk. Milk contains an excellent source of animal protein which is particularly well-handled by the young child, and also contains adequate amounts of the vitamin thiamine, and many of the minerals.

MR. MATTHEWS: Can you illustrate the importance of milk in our diet by reference by parity of accomplishment of countries? Have some countries healthier people and have they accomplished more than others because they are on a higher milk consuming diet?

A. Yes. If you take a table showing the per capita milk consumption of countries of the world and opposite that table place the accomplishments of those countries, the position they occupy in world affairs, and also the figures of longevity with respect to those countries, you will find a very distinct correlation, because in the countries that are the higher milk consumers we have the leaders in the world to-day: Canada, United States, Great Britain, Norway, Sweden, Denmark, Holland, Germany, New Zealand and Australia; those are the greatest milk-consuming countries to-day. Incidentally we have not the figures on Russia.

Now, if you look at the other end you will find that the low milk-consuming countries are such countries as China, India, and other countries that are not as great factors in world affairs to-day as the ones I have mentioned, and their longevity figures are very definitely away down. In fact, there is a very close correlation between the per capita consumption of milk and the longevity figures of those countries.

Q. Would it be fair to say that the Scottish theory that the British Empire was built on porridge is mythical?

A. No; because nobody I know of eats porridge without a little milk on it, even your Scotsman.

Q. I agree that I would not want to eat porridge without milk. Have we finished with that aspect?

A. Yes.

Q. Apart from taste and flavour, which I presume anybody will agree is largely a matter of habit, what would you say would be the optimum butter-fat content of milk for normal every-day use?

A. For adults just the way it comes from the cow plus being pasteurized. Raw milk is distinctly unsafe even on accredited herds, and I say that with very personal knowledge because I am a farmer and have 28 head of Ayrshire cattle; I would not think of allowing my family to drink raw milk from my herd, although the barns and equipment are perfectly clean, because pasteurization is essential. For the average adult the milk that comes from the cow, which is 3½ per cent fat, is best. If, however, you

are not an average individual and are having digestive trouble, fat is the most difficult element to digest.

Q. You speak of the way it comes from the cow?

A. 3½ per cent fat.

Q. The way it comes from the cow, is, for all practical purposes, the same as the way we find it in the bottle? A. Yes.

Q. And so for adult purposes you say the way we are getting our milk now is about right?

A. The only way you can modify that, I gather, is to take the fat off.

Q. Yes? A. We have already said that the fat content of milk is not of tremendous value and can be replaced by other sources of fat that are cheaper, but it has great value because the Vitamin A is in the fat. Therefore if you skim the milk you take off some of the Vitamin A, but you can get over 12,000 units from a helping of carrots as compared with 650 units from 16 ounces of milk.

Q. What about children? What would be the optimum fat content for them?

A. If we run across digestive trouble in children the first thing we look for is fat as the cause, and nutritionists throughout Canada will not use whole milk; they use whole milk with some of the fat taken off, say 3 per cent down to 2 per cent, and if you have a baby that is having digestive upsets very frequently the procedure is to reduce the fat content.

Q. Then it is important that people should be able to get skim milk?

A. Yes, and you can take off the cream for father and give the youngsters the skim milk; that is the way to get it.

Q. And that is as effective as any other way?

A. Certainly. If you get over into economics I must remind you that I am a doctor and know nothing about economics, and would not care to answer questions on the subject of milk from the standpoint of dollars and cents. I am no authority on that; in fact, I can hardly understand my auditor's reports, other than the money in the bank.

THE COMMISSIONER: Have you any money in your bank from your farming operations?

A. I have paid out a great deal of money in connection with my farming operations, but I have yet to receive any money from the farm to put in the bank.

Q. That is what I suspected.

A. I gather that you are passing over to an economic problem; would it not be better to skim off the fat and sell it at the high price it gets for butter and use the very valuable partly skimmed milk. I am completely ignorant of economics, because there are one thousand and one things that are involved therein. I may say that that aspect of it has received study from various groups who are aware of the economic aspect. It is a most complex problem, and may change our whole dairy industry.

Q. Along the same line, the way milk is valued at the moment is by the butter-fat test. Have you any suggestions as to say other tests? I think the butter-fat test is used because it is handy and simple, and could be universally applied. Before it was used I understand milk was sold by volume?

A. I am sorry, sir, that I cannot answer that question; I have not given any thought to it.

MR. MATTHEWS: Thank you very much indeed, Dr. Tisdall.

MR. SEDGWICK: I represent the dairies, doctor, and desire on their behalf to express gratitude to you for your very valuable contribution. I was so impressed by it that I thought my clients might like to have it printed and give it wide distribution. I do not think the story you have told us this morning should be confined to the minutes of this Royal Commission.

THE COMMISSIONER: It may find its way into the report.

MR. SEDGWICK: I hope so.

WITNESS: May I point out to Mr. Sedgwick, and hope that he in turn will point out to his clients, that we at the Hospital for Sick Children in Toronto are the best salesmen they have got. Please remember that when contemplating donations to the hospital.

MR. SEDGWICK: I shall certainly pass that information on, doctor.

THE COMMISSIONER: I would like to express my thanks to you, too, doctor. Your evidence has been most helpful.

---Witness withdrew.

DR. LIONEL B. PETT, sworn:

EXAMINED BY MR. MATTHEWS:

Q. Dr. Pett, you are a medical doctor and also a doctor of philosophy?

A. That is correct.

Q. And at the present time you are holding the appointment of Director of the Division of Nutrition in the Department of National Health and Welfare here in Ottawa?

A. That is correct.

Q. And you have been kind enough at the Commission's request to prepare two tables to show the nutritional value of milk, is that right?

A. Yes, sir.

Q. And I would like, Mr. Secretary, to have those filed as two exhibits.

—EXHIBIT NO. 14: A comparison of the nutritive values of skim milk, whole milk, 3.0% fat, whole milk, 3.5% fat, prepared by Dr. L. B. Pett.

—EXHIBIT NO. 15: Table prepared by Dr. L. B. Pett showing the amount of energy units (calories) the consumer of milk gets for one dollar.

Q. Now copies of these two exhibits have been distributed as far as they will go, and I would like you to direct your attention first of all, doctor, to the bigger picture, the one that shows the greater detail, and I take it that this exhibit deals with all the nutritive values contained in a quantity of milk, is that right?

A. Yes, not only of milk, since nutrition specialists like myself classify all foods in terms of these particular subdivisions, and perhaps one or two others; in other words, this is the common denominator by which all foods can be judged nutritionally.

Q. And are some of these figures more important than others, that is to say, would you agree with me that the protein division is perhaps more important than some of the others?

A. Well, in nutrition we divide foods rather sharply according to whether they provide energy alone, of which I think a good example would be sugar, since it contains energy or heat value alone, but no other nutritional value. On the other hand, all the other subdivisions such as are listed here have very specific physiological value in the body, of which perhaps protein is the chief and most valuable. It originally was given the name protein because that name denoted its meaning, it is the prime substance of importance to living beings.

Q. And am I right in thinking that the calories are in the category of providing the energy you speak of?

A. That is right, a calory is a unit of heat, which is a method of measuring either heat or any other form of energy.

Q. Now comparing the value of skim milk as against the other two types of milk containing respectively 3 and 3.5 per cent butter-fat, I take it that in protein the skim milk is just as good as the other two?

A. That is the meaning of this chart.

Q. And of calcium, phosphorus, iron, Vitamin "A", thiamine or Vitamin "B-1", riboflavin, niacin and ascorbic acid, the same is true?

A. The same is true in all these items.

Q. Now, I see in the case of carbo-hydrate per volume, the skim milk is better than the other two?

A. Yes. Carbo-hydrate is another term in this case for sugar and there is a slightly larger amount in a given volume of skim milk. I would hesitate to say that that is a very significant amount, but it certainly is not less than milk containing butter-fat.

Q. Then, the three headings under which skim milk doesn't quite measure up are calories, fat and Vitamin "A"?

A. Yes.

Q. Would you comment on that?

A. As I said, foods have to be distinguished as to whether they supply calories for energy or whether they supply other nutritional values. Fat

primarily contributes calories for energy and nothing more, with the exception as shown quite clearly in this graph of what is known as Vitamin "A". However, I might say in passing that Vitamin "A" is not usually nutritionally sought in milk. It is there and it is very useful to be there, but the protein, riboflavin, calcium, phosphorus in milk are all nutritionally much more important factors than the Vitamin "A".

THE COMMISSIONER: Are there many other sources of Vitamin "A"?

A. The richest substance, sir, is ordinary carrots and they are common and prevalently used and are relatively cheap.

MR. MATTHEWS: You do not feed milk to get a supply of Vitamin "A", in other words?

A. No.

Q. Would I be right in saying that the calories and fat can be quite readily obtained in other food?

A. Yes, obviously we get energy, that is calories, from almost all other foods, but some more than others. Particularly in Canada cereals make our great contribution to calory requirement, not fat requirements but calory requirements. Fat is an essential part of the diet but it can be obtained from a number of other products, notably meats.

Q. Then you have attempted to sum that up in the second exhibit?

A. Yes. The second exhibit illustrates the use of two kinds of units that have been in use in our department for some time, again to reduce all foods to some common denominator, either energy units on the one hand or what we call nutrition units on the other. The nutrition units take into account the minerals, calcium and iron, and all the vitamins. In this particular chart, in fact in all these cases, we distinguish and we keep these two things separate, energy and other nutritional values, because you can get, as I said before, energy from a variety of things and nutritional units from other things. However if you wish it is possible to get some idea of the total contribution in return for the consumer dollar by adding these two together. You can add together the two black lines on this chart and you get a total of 192, you can add together the white ones for 3% butter-fat milk and you get a total of 152 and you can add together the barred ones, 3.5 butter-fat milk and you get 157. I would call your attention to those last two totals, 152 and 157, yet there is only one-half per cent of butter-fat difference. In other words, most of the nutritional value, energy value, health value, lies in the solids—not fat—in the milk.

Q. So looking at that exhibit the consumer is getting a lot more for his or her dollar in skim milk than any other type of milk?

A. Per dollar that is correct.

Q. I take it that milk is considered a very important food product more because of its content in minerals and protein and other things rather than its content of calories and fat?

A. I would say that most emphatically, yes. Nutritionally speaking and from the health standpoint the fat content of milk is not the most important factor.

Q. Now, doctor, before this Commission we have heard a good deal of evidence which indicates quite clearly that milk is very often chosen by the consumer on the basis of the butter-fat content, and, in fact, that has been carried so far that to-day the price of milk that is paid to the producer is based on the butter-fat content of the milk rather than on some other gauge. What comment would you make on that?

A. Nutritionally speaking I would say it is an unfortunate trend.

Q. And have you any thoughts as to how that can be explained?

THE COMMISSIONER: I suppose it is an easy way of measuring.

A. I think that is the basis of it, Mr. Commissioner, it is an easy, convenient measurement, and these others are not nearly as convenient.

Q. It would be almost impossible to expect anybody but a chemist to measure it?

A. That is right but the Babcock test has been the standard test over this continent for many years.

MR. MATTHEWS: Looking at the fat value of milk would you like to comment on its value in various age groups?

A. Yes, I wanted to mention one of the reasons, and only one, why I consider unfortunate this trend to have milk evaluated generally or exclusively on butter-fat content. In medical practice, particularly in the early ages of children, a good deal of harm may be done by milk of too

high a butter-fat content. This can carry through into a fairly old age group. In other ages of course, that is to say the adolescent who is vigorous and has plenty of vitality and expends a lot of energy, they need all the butter-fat content you have in the milk, and they will eat bread and jam and everything else you can place before them as well for their energy requirements. Again in older adult groups there is medical experience to show that the ability to digest fat may materially decrease, and that a digestive disturbance will result from the larger fat content in the milk.

Q. Well, I take it from what you have said before that even in these age groups where the calories and fat are more important, it is not a difficult problem to find substitutes for these calories and fats in other food products?

A. No.

Q. So looking at the whole picture, and taking into account all the age groups, if you were to work out what you considered would be an optimum butter-fat content, I take it it would be somewhere below 3.4 per cent?

A. I think it might be well below 3.4 per cent butter-fat content, but I would like to point out that the actual setting of the standard for butter-fat content of milk is not exclusively a nutritional consideration. There are, I realize very well, other considerations involved, but there is no health reason why it should be 3.4 per cent rather than 3.0, no nutritional reason.

Q. One of the other considerations you have in mind would be the matter of testing, is that right?

A. That is a possibility.

Q. What other considerations did you have in mind?

A. Well, I think there is a generally demonstrated problem involved which cannot be exclusively decided on the health basis. What it is, I am not an expert and I cannot say, all I can say is that I do not think the health value alone, the nutritional value, can be used to set a precise figure that would be the best butter-fat content of milk at which to set a standard.

THE COMMISSIONER: If you were setting it from a health standpoint alone what figure would you put it at?

A. Without a good deal of further study I do not think I could set a precise figure, I would just say it could be well below 3.4 per cent.

Q. I gather from your general attitude that you wouldn't put it below 3 per cent?

A. It might go below that but I would hesitate to say so.

Q. Somewhere in that range between 3 and 3.4 per cent?

A. The only thing is there is no health reason to put it at 3.4 rather than at some lower value.

MR. MATTHEWS: In that consideration you are thinking of all age groups whereas if we are thinking of some junior age groups, it might very well be you could very well drop the butter-fat content from your point of view down to a very small percentage?

A. For certain restricted age groups it might very well be below 3 per cent.

THE COMMISSIONER: Skim milk is used in infant feeding?

A. Not skim milk but lower fat content, something below 2 per cent.

MR. MATTHEWS: Is skim milk purchasable in Ottawa at 11 cents a quart?

A. That is my information, yes.

Q. The result of this second exhibit of yours, doctor, is that a quart of skim milk at 11 cents, is a better bargain than whole milk at 15 cents?

A. Nutritionally that is right.

Q. That is all?

A. That is all I can discuss.

EXAMINED BY MR. SEDGWICK:

Q. Doctor, isn't it a fact that by Federal law distributors are compelled to sell milk that is not less than 3.2 per cent butter-fat content?

A. I don't know.

Q. Well, I am so informed and I wouldn't like the impression to get abroad that we can, if we care to, sell skim milk or almost skim milk, and it is just as valuable as whole milk.

THE COMMISSIONER: You sell skim milk, do you not?

MR. SEDGWICK: Yes, but we sell it as skim milk. We cannot arbi-

trarily reduce the butter-fat content to 3 per cent or 2.5 per cent or anything that suits us.

THE COMMISSIONER: There is nothing to prevent you selling skim milk as such.

MR. SEDGWICK: Not without any butter-fat content whatever.

Doctor, with regard to these percentages, are they constant, is all milk alike or does milk vary? Would the milk of one farmer have more calcium and iron and riboflavin than the milk of another farmer?

A. Variation is a fundamental law of biology, and cows are no different from humans or any other animal in that field. Certainly there is a variation just as in butter-fat one cow of the same breed can give 3 per cent and another up to 6 or 7 per cent, as I know in my own experience. So you can get variation; but these are average figures. I wish to say very definitely whereas butter-fat content from a given cow or herd may vary considerably in its average from time to time, the calcium content tends to be remarkably constant, that is the range of variation is very small, because that is drawn out of the cow's own bones.

Q. I had in mind phosphorus content?

A. Phosphorus content may vary.

THE COMMISSIONER: But that is not created by the addition of butter-fat? A. No.

MR. SEDGWICK: No, I wasn't considering that.

A. There is variation but if you skim all the butter-fat from any milk the resulting analysis is rather remarkable for its consistency rather than its variation. Milk is therefore one of our best foods, it is something you can expect to get a certain amount of nutritional value out of.

Q. When you speak of the nutritional value you find, are you speaking of the Ottawa markets or of all markets?

A. No, I am speaking of all analyses.

Q. Made by you all over Canada?

A. Not made by us personally, they are combined from all the figures available. These figures are taken from a textbook compiled for Canada giving the analyses that are most likely to be encountered in Canadian milk.

Q. Would the variable factor be great; for instance taking the phosphorus which you say would be .42 grams per pound, have you any idea how low that might fall or how high it might rise?

A. Specifically for phosphorus I don't know the full range but I suspect that it would be not more than perhaps .38 to .44.

Q. And the iron, would that be variable?

A. No. Iron is rather constant.

Q. The Vitamin "A" I observe is almost absent in skim milk? A. Yes.

Q. And thiamine or Vitamin "B"?

A. That remains remarkably constant although it will vary. That gives a figure of .16, and it will vary certainly from .14 to .18, perhaps even a little wider than that.

Q. And riboflavin?

A. Yes, that varies, even more sometimes, but that is more dependent on the breed, than it is within one breed. I am talking of milk throughout the country as a whole.

Q. Depending on the breed of cattle, that is it?

A. Yes.

Q. And niacin, is that variable?

A. Not very much. All of them will vary as I have already said.

Q. Yes, I understand. I was wondering if there was any sharp variability?

A. I don't think any of them will vary, let us say, by 50 per cent or something dramatic except your Vitamin "A" for obvious reasons as given here.

Q. Shall we say 20 per cent or something less than that?

A. Yes, that is more the order, 10 to 15 per cent.

Q. Did I understand you to say that doctors prescribe milk with less than 3 per cent of calory content or butter-fat content?

A. Not calory content, butter-fat yes.

Q. That is pediatricians prescribe it for very young children? A. Yes.

Q. Is that an alternative to homogenized milk or in lieu of homogenized milk?

A. I don't think it has any relation to homogenization, it is straight fat content.

Q. With young children fat may be indigestible?

A. Yes.

EXAMINED BY MR. TREPANIER:

Q. To let us understand that, butter-fat being indigestible for children, in the condensory trade in the preparation of infants food they remove a large part of the butter-fat? A. Yes.

Q. For instance, Nestle's and some of these other brands of children's food have the butter-fat purposely removed? A. That is right.

Q. And a child on a balanced diet can get along very well until the age of three without any fat from milk, is that so?

A. I think that is rather a broad statement. As a matter of fact, generalizations of that sort are extremely difficult to make in medicine because medicine is still an art and that means that you have to prescribe for the individual case.

THE COMMISSIONER: There is a variation?

A. Yes, it varies with individuals. However, it is difficult to answer it in that way; I am not quite sure.

MR. TREPANIER: You couldn't say up to what age it is preferable to keep the fat out of the milk?

A. The best method of feeding infants under one year, or under nine months is breast feeding, let us be clear on that, and even then sometimes they must be fed some kind of milk. In many cases, sometimes as high as one-half, they will do better on 2 per cent, and sometimes others will do better on 5 per cent, so it is difficult to generalize. In a large percentage of cases from the age of weaning or before that if they are bottle-fed, a lower content of fat is a definite advantage. There are many infants, and pediatricians believe at present they are actually increasing in Canada, who cannot tolerate as large a fat content in the diet as used to be the case in medical practice perhaps 30 years ago. Therefore, it is necessary to reduce the fat content of the milk by some means or other, and there are cases in my experience, even at 5 years of age, of still having to reduce it, that is some fat has to be removed, reducing it perhaps to something below the current market milk. Does that answer your question?

Q. That covers that point. Now, in the preparation of whole milk powder and skim milk powder, of which there is quite a volume produced, what have you to say as to the nutritional value of milk powder as opposed to the value of fluid milk? Is there an appreciable difference between the nutritional value of milk powder over whole fluid milk of similar fat content? A. No.

Q. So from a nutritional standpoint we would be as well off if we used milk powder of the fat content of our choice instead of using fluid milk?

A. Except for one factor, which is just as important in nutrition as anything else, and that is shall I say acceptability, palatability, some one of those phrases.

THE COMMISSIONER: Nobody has invented powdered milk that tastes very well.

A. I must disagree Mr. Commissioner, if you will permit me. During the war, in Canada particularly, for use in the R.C.A.F., there was developed not so much the powdered milk itself but a method of handling it. It was different, and I drank it many times in reconstituted form and you couldn't possibly distinguish it from fresh whole milk. I have, of course, talked to lots of fliers who have been on stations where it was not properly handled and in those cases it wasn't the milk, it was the way it was handled.

MR. McLEAN: Just one or two questions.

EXAMINED BY MR. McLEAN:

Q. In regard to the question of palatability, I think you will agree with me, taken by and large, skim milk to the general individual is not as palatable as milk with average butter-fat content?

A. No, I can't agree, in our experience that is not quite true.

Q. Have you any members of your family? A. Yes.

Q. Were they started on skim milk?

A. Two per cent milk.

Q. And they are not used to anything else but that?

A. No, they have had other kinds of milk.

Q. They were started on two per cent?

A. Since nine months anyway.

Q. You won't agree with me that skim milk is less palatable to the general run of individuals than the larger butter-fat content milk?

A. I would prefer to separate it from the two boys in my family. I have in my position as Director of Nutrition for the Department of National Health been responsible for surveys of well over 10,000 different Canadians, the results of which dietary studies I have, and I prefer to discuss those statistics from that angle rather than from my boys.

THE COMMISSIONER: I think it is more varied. What did you find there?

A. I can only record the facts in these cases, not opinions, as to whether these people like skim milk. We did find across Canada a surprisingly large use of skim milk. Almost invariably the cream to some extent was poured off the bottle, and the result must be considered skim milk to some degree or other. Offhand I can't say an over-all figure for that because we have it divided into regions but specifically the most recently tabulated area is from the Maritimes, and that showed there must have been about one-third following this habit.

Q. The habit of drinking skim milk or much reduced butter-fat?

A. Yes, much reduced.

Q. One of the things you are concerned with as a nutritionist is to increase the consumption of the healthful food, milk? A. That is right.

Q. And do you feel that the reduction in butter-fat or the introduction of skim milk more generally would not affect the quantity used? I want your view on that.

A. Well, from our observations I don't know any reason why it should reduce the amount of milk being used if there was a somewhat lower butter-fat content, or indeed if it would increase the sale of skim milk.

Q. You don't think that children generally who had been accustomed to drinking milk, or even adults, with butter-fat content, would shy away so to speak from skim milk?

A. I have no doubt some will.

Q. I am afraid I may be affected by my own reaction to skim milk compared to homogenized milk with a fairly high butter-fat content.

A. I have no doubt some individuals would shy away from it, but taking the country as a whole I don't know any reason why any reduction in the use of milk should result from a reduction in butter-fat standards.

Q. And you don't think its more general introduction would affect the quantity of milk consumed if it was carried out as a health program and so to speak sold to the public in that way?

A. No, not from the evidence on these charts which we have to go on that milk is a most valuable food.

THE COMMISSIONER: It is cheaper and might increase consumption.

MR. McLEAN: It might very well do but I am thinking in terms of children, and from my own limited experience I think they won't drink skim milk whereas they will drink homogenized milk.

THE COMMISSIONER: They are just pampered, that is all.

MR. McLEAN: A program of re-education might be necessary, sir.

The minerals in milk come from the food a cow consumes, is that right?

A. Plus her own skeleton.

Q. Which in turn was built by the food she consumed?

A. Yes, but of course cows are shipped around the country and may have consumed good food at one point and currently may not be as well fed.

Q. Do you know in fact in feeding cows and in growing grain for them, there is a loss of the mineral content of the soil in growing the necessary grain?

A. Yes, there is a slight loss.

Q. Which over a period of time must be replenished in order to keep your feed and grain equally as productive of these minerals, is that correct?

A. Yes, it might take a long time before it would need replenishment.

Q. You are not familiar with the problems in some areas where certain minerals are missing from the soil, where in consequence your milk or beef cattle are deficient in certain minerals?

A. I am quite familiar with this problem.

Q. That is a problem that does arise?

A. It is not very common in Canada.

Q. Isn't it a fact that there are some areas in Ontario where it is lacking?

A. Iodine is lacking in certain sections. I may say in response to this I don't know of any area in Ontario in which it has been proved that there is lack of calcium in milk due to its lack in the soil. I would like to say, Mr. Commissioner, we conducted an investigation about three years ago in British Columbia in which there was a definite claim in this respect that something in the milk was deficient, and the analysis didn't bear it out at all, there wasn't anything wrong with their milk, and I don't know who started the rumour, but it was most damaging to the producers at the time and we were very glad to settle it when we finally got the facts.

EXAMINED BY MR. MEDCALF:

Q. Have you any figures concerning the use of skim milk in the Ottawa market?

A. No.

Q. Do you know whether it is a fact that one must have a doctor's certificate in order to get skim milk here?

A. I do not think that can be true.

Q. I have just been informed that it is not true now, but I understand that it was true at one time. I take it that as a nutritional expert you would be opposed to any restrictions upon the purchase of skim milk by the public? You would consider that the public should be able to buy as much skim milk as they chose to buy?

A. From a nutritional standpoint, yes.

Q. And do you have any explanation of why there has been the trend towards skim milk in the Maritimes?

A. I do not know whether there has been that trend.

THE COMMISSIONER: It is a very intelligent section of the country!

MR. MEDCALF: I take it that from a nutritional point of view you are in favour of skim milk as a form of milk for purchase and consumption?

A. Yes.

EXAMINED BY MR. SEDGWICK:

Q. We have been told that the milk sold in this market has, generally speaking, 3.5 butter-fat content. Would it be fair to say that your opinion is that about one half of that would make a good, palatable and nutritional milk drink, that is, about 1.75 or 1.8 milk?

A. I would not answer that question for the Commissioner, and I will not set a figure now. I have said there is no reason why it has to be as high as 3.5 per cent, but to set a definite figure on a health basis is simply not possible under the existing arrangements for protecting the public in various respects. I would remind you, Mr. Commissioner, that the purpose of setting a standard is to assure the public of good wholesome milk that has not been tampered with in some way, and this is an administrative detail that enters into the setting of a figure. Therefore the effect cannot be stated solely on nutritional grounds.

THE COMMISSIONER: Also I suppose knowledge of nutritional values is something that increases as time goes on, and what may be valid to-day may not be necessary 10 years from now, is not that true?

A. To some extent, yes, sir.

Q. You cannot make too dogmatic pronouncements, because you may make other discoveries that will modify your present opinion?

A. That is true.

MR. SEDGWICK: I was only thinking of the case that has been presented to us here and elsewhere, the case of the mother of a large family unable to pay 15 cents per quart for milk. It struck me that a simple solution, and one of which you may approve, is that that mother might buy a quart of skim milk for 11 cents and a quart of whole milk at 15 cents and mix them together and get a satisfactory milk for her family and thus the problem might be solved. What do you say about that?

A. Nutritionally, I think it would be a good move.

EXAMINED BY MR. MATTHEWS:

Q. I am going to ask you a final question, although you may not be the best person to answer it: We have been told here that a bottle of skim milk at 11 cents is a better bargain than a bottle of whole milk at 15 cents, and we have also been told that it is not necessary to have a doctor's certificate to procure skim milk because it is readily available. Why are the people of Ottawa not buying more skim milk?

A. If I venture an answer it would be a purely personal opinion, because

I have no studies in Ottawa on which to base a factual report. My opinion would be that there are several reasons: First, that the average housewife is not even aware that she can get skim milk. Second, that there is in fact some difficulty in procuring it. I have reason to believe that you have to go directly to a distributing plant for it. There may well be other factors; for all I know the people of Ottawa have very discriminating palates.

THE COMMISSIONER: Has there not been propaganda, if you like, for years that people should drink good, rich milk, which meant that it was creamy, and that these discoveries of medical science take quite a while to spread in the popular mind?

A. Yes.

Q. There is a lag, and it may take some years to catch up.

A. Yes. The general public, I think, are not familiar with the fact that by far the best amount of nutritional value of milk does not lie in the butter-fat.

Q. I would think that is true.

A. Yes.

THE COMMISSIONER: Thank you very much, doctor.

MR. MATTHEWS: Sir, I have received a request that Mrs. Marion Whiteley should re-enter the witness box and say something on this particular subject.

THE COMMISSIONER: Certainly.

EXHIBIT NO. 14

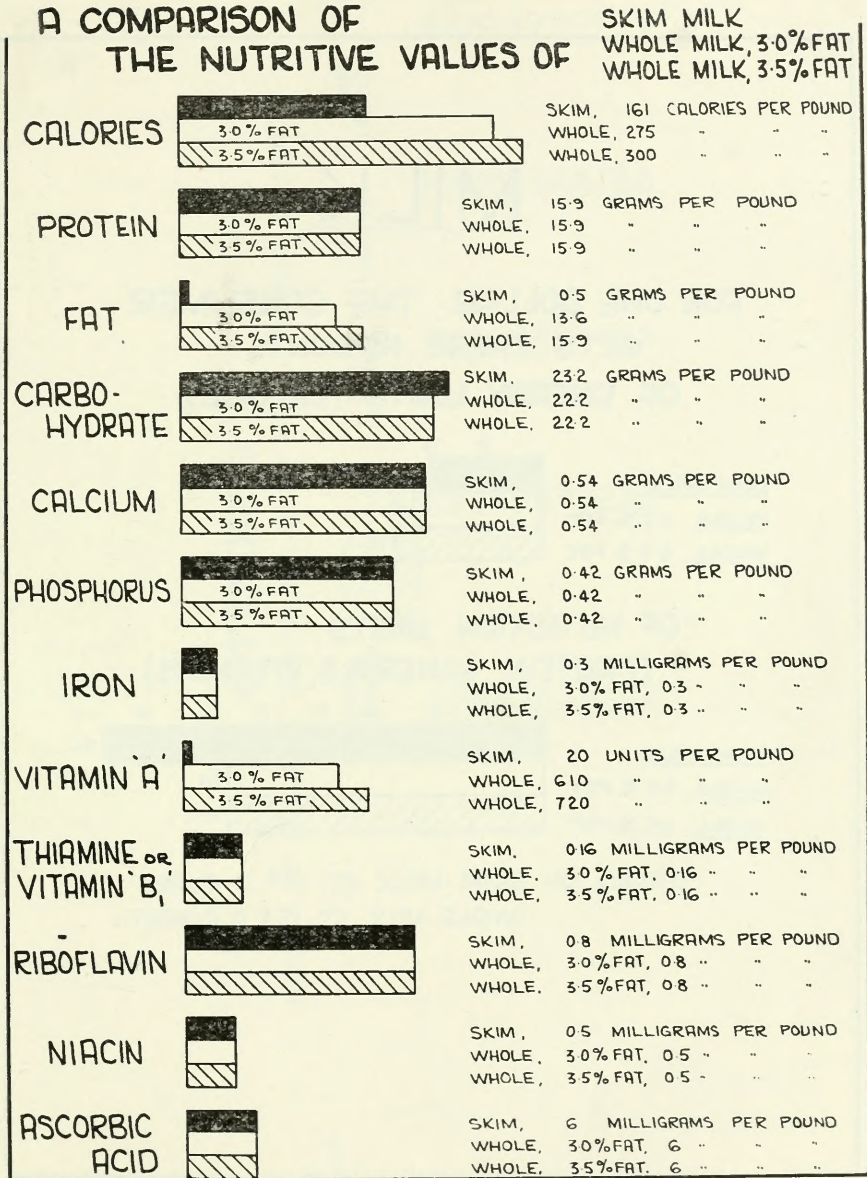
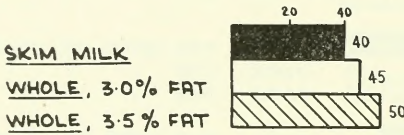


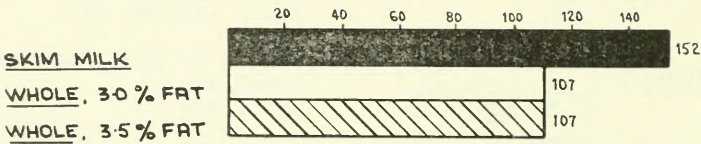
EXHIBIT NO. 15

MILK

FOR ONE DOLLAR, THE CONSUMER
GETS THESE AMOUNTS
OF ENERGY UNITS..(CALORIES)



OF NUTRITION UNITS
(PROTEIN, MINERALS, VITAMINS)



BASED ON SKIM MILK AT 11¢ A QUART.
WHOLE MILK AT 15¢ A QUART.

APPENDIX 3

NUMBER OF LICENSES ISSUED 1934-46 BY MILK CONTROL BOARD

Licenses Issued: Year	Regular Distributor	Producer Distributor		Peddler	Milk Transporters		Milk Manufacturers	Total
		Not differentiated	Differentiated					
1934.....	617	861		87	177	28	1,335	
1935.....	750	924		87	205	32	1,624	
1936.....	598	850		90	220	36	1,794	
1937.....	607	590		150	235	38	1,620	
1938.....	610	572		129	231	40	1,582	
1939.....	635	490		116	230	40	1,511	
1940.....	624	440		100	182	43	1,389	
1941.....	610	452		125	181	43	1,411	
1942.....	615	415		72	184	46	1,332	
1943.....	624	389		76	239	46	1,374	
1944.....	635	346		83	259	48	1,371	

APPENDIX 4

CHAPTER 30

Original Milk Control Act—Assented to April 3rd, 1934.
and Amendments
(UP TO 1937)

(Note: Original Act in small letters; amendments in capital letters.)

HIS MAJESTY, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

- Short title. "Milk." 1. This Act may be cited as *The Milk Control Act, 1934.*
- Board constituted. 1a. IN THIS ACT, UNLESS THE CONTEXT OTHERWISE REQUIRES, "MILK" SHALL INCLUDE WHOLE MILK AND SUCH PRODUCTS OF MILK AS ARE SUPPLIED, PROCESSED, DISTRIBUTED OR SOLD IN ANY FORM OTHER THAN BUTTER AND CHEESE. (1935, Cap. 40, Sec. 2).
- Number of members. 2.—(1) There shall be a board to be known as "The Milk Control Board of Ontario," hereinafter called the "board" which shall be a body corporate and have the powers and duties herein specified and the administration of this Act and the regulations.
(2) The board shall consist of one or more members to be appointed by the Lieutenant-Governor in Council to hold office during pleasure and if more than one member is appointed, the Lieutenant-Governor in Council shall designate which one of them shall be the chairman of the board and any vacancies in the said board shall be filled by the Lieutenant-Governor in Council.
- Remuneration, etc., of members. (3) The member or members of the board shall receive such remuneration, allowances and expenses as may be determined by the Lieutenant-Governor in Council.
- Appointment of officers, clerks, etc. (4) The board may, with the approval of the Lieutenant-Governor in Council appoint and employ such officers, clerks and employees as may be necessary, and the remuneration of persons so appointed shall be determined by the Lieutenant-Governor in Council.
- Expenses of Board. (5) All salaries, remuneration and expenses of the board and of its officers, clerks and servants shall be paid out of the Consolidated Revenue Fund upon the certificate of the Minister of Agriculture or of an officer of his Department designated by him for the purpose. (REPEALED, 1935, Cap. 40, Sec. 3.)
(5) ALL MONEYS REQUIRED FOR THE PURPOSE OF THIS ACT SHALL BE PAID OUT OF ANY SUM APPROPRIATED BY THE LEGISLATURE AND VOTED BY THE ASSEMBLY FOR THAT PURPOSE. (1935, Cap. 40, Sec. 3).
- License required. 2a.—(1) NO PERSON SHALL, DIRECTLY OR INDIRECTLY, ENGAGE IN OR CARRY ON THE BUSINESS OF SUPPLYING, DISTRIBUTING, TRANSPORTING, PROCESSING OR SELLING MILK UNLESS SUCH PERSON IS THE HOLDER OF A LICENSE ISSUED BY THE BOARD.
- Exception. (2) THIS SECTION SHALL NOT APPLY TO THOSE PERSONS OR CLASSES OF PERSONS DESIGNATED BY THE BOARD IN REGULATIONS PASSED UNDER THE AUTHORITY OF THIS ACT. (1935, Cap. 40, Sec. 4).
- Jurisdiction of Board. 3.—(1) The board shall have jurisdiction and power upon its own initiative, or upon complaint or request made to it in writing, to inquire into any matter relating to the producing, supplying, processing, handling, distributing or sale of milk and, subject to the approval of the Lieutenant-Governor, to make regulations with respect thereto or to any of the said matters. (REPEALED, 1935, Cap. 40, Sec. 5.)

Regulations. (2) Without limiting or derogating from the generality of the foregoing, the board, with the approval of the Lieutenant-Governor in Council, may make regulations,—

- (a) governing and supervising the producing, processing, handling, storing, hauling, delivering, distributing, keeping or offering for sale and the sale of milk, and all persons engaged or employed therein, and the reports and returns to be made by them to the board;
- (b) requiring persons or classes of persons engaged or employed in the processing, handling, storing, hauling, delivering, distributing, keeping or offering for sale, or the sale of milk to be licensed and to fix the term of such licenses and the fees to be paid therefor;
- (c) governing disputes and the determination of disputes arising between producers and distributors of milk, or between any two or more classes or branches of persons engaged in the milk industry as producers, processors, handlers, haulers, distributors or vendors of milk, or as being otherwise engaged in the said industry;
- (d) governing agreements which may be entered into between producers of milk and other persons or classes of persons engaged in the milk industry. (REPEALED, 1935, Cap. 40, Sec. 5.)

Application of regulations.

(3) Any regulations made under the authority of this section may be general in their application or may be limited to any locality or localities, or to any persons or classes of persons, or to any branch of the milk industry mentioned therein. (REPEALED, 1935, Cap. 40, Sec. 5.)

Duty and powers of board.

3. IT SHALL BE THE DUTY OF THE BOARD AND IT SHALL HAVE POWER,—

- (a) UPON ITS OWN INITIATIVE OR UPON COMPLAINT TO INQUIRE INTO ANY MATTER RELATING TO THE PRODUCTION, TRANSPORTATION, PROCESSING, DISTRIBUTION OR SALE OF MILK;
- (b) TO ARBITRATE, ADJUST AND SETTLE DISPUTES ARISING BETWEEN PRODUCERS, CONSUMERS, PROCESSORS, DISTRIBUTORS AND TRANSPORTERS OF MILK OR BETWEEN ANY TWO OR MORE CLASSES OF SUCH PERSONS ENGAGED IN THE MILK INDUSTRY;
- (c) TO PROHIBIT IN THE PROVINCE ANY SALE OR DELIVERY OF MILK OR OF CREAM OR OF MILK AND CREAM ALONE OR IN COMBINATION WITH ANY OTHER ARTICLE OF TRADE, AT A PRICE LOWER THAN THE CURRENT PRICE OF MILK OR CREAM OR OF A COMBINATION OF MILK OR CREAM WITH ANY OTHER ARTICLE;
- (d) TO PROHIBIT MILK DISTRIBUTORS COMPELLING OR INDUCING PRODUCERS TO INVEST MONEY EITHER DIRECTLY OR INDIRECTLY IN A DAIRY PLANT OR OTHER EQUIPMENT IN ORDER THAT SUCH PRODUCERS MAY OBTAIN OR RETAIN A MARKET FOR THEIR MILK;
- (e) TO PROHIBIT MILK DISTRIBUTORS FROM TERMINATING THE PURCHASE OF MILK FROM A PRODUCER WITHOUT JUST CAUSE (*UNLESS FIFTEEN DAYS' NOTICE IS GIVEN*);

AND IN EACH CASE SHALL MAKE SUCH ORDER AS IT DEEMS JUST, HAVING REGARD TO THE CIRCUMSTANCES. (1935, Cap. 40, Sec. 5; italicized words deleted 1937, Cap. 42, Sec. 2.)

Licenses required.

4. No person who is required by the regulations to be licensed under the authority of this Act shall engage or be employed in any branch of the milk industry without such license. (REPEALED, 1935, Cap. 40, Sec. 6.)

- When issue of license prohibited.
4. NO LICENSE SHALL BE GRANTED TO A MILK DISTRIBUTOR UNLESS THE BOARD IS SATISFIED THAT THE APPLICANT IS QUALIFIED BY EXPERIENCE, FINANCIAL RESPONSIBILITY AND EQUIPMENT TO PROPERLY CONDUCT THE PROPOSED BUSINESS, AND THAT THE ISSUANCE OF THE LICENSE IS IN THE PUBLIC INTEREST. (1935, Cap. 40, Sec. 6.)
- Power of board to refuse or revoke license.
- 4a. SUBJECT TO THE PROVISIONS OF SECTION 4 OF THIS ACT THE BOARD MAY REFUSE TO GRANT OR RENEW A LICENSE OR MAY SUSPEND OR REVOKE A LICENSE ALREADY GRANTED, AFTER DUE NOTICE AND OPPORTUNITY OF HEARING TO THE APPLICANT OR LICENSEE, WHEN THE BOARD IS SATISFIED OF THE EXISTENCE OF ANY ONE OR MORE OF THE FOLLOWING CONDITIONS:
- (a) FAILURE TO OBSERVE, PERFORM AND CARRY OUT THE PROVISIONS OF THE MILK CONTROL ACT, 1934, OR OF THE MILK AND CREAM ACT, THE DAIRY PRODUCTS ACT, THE PUBLIC HEALTH ACT OR ANY OTHER ACT OF THE LEGISLATURE OF ONTARIO, OR OF THE DOMINION OF CANADA, OR AMENDMENTS THEREOF, OR OF ANY REGULATIONS MADE UNDER ANY SUCH ACT WHICH IN ANY WAY PERTAINS TO AND GOVERNS OR REGULATES THE SUPPLY OF MILK FOR HUMAN CONSUMPTION;
 - (b) FAILURE TO PROVIDE FOR AND CONTINUE IN EFFECT PROOF OF FINANCIAL RESPONSIBILITY AS REQUIRED BY THIS ACT OR THE REGULATIONS;
 - (c) FAILURE TO OBSERVE, PERFORM AND CARRY OUT ANY REGULATION OR ORDER OF THE BOARD MADE UNDER THIS ACT. (1935, Cap. 40, Sec. 7; underlined words added 1937, Cap. 42, Sec. 3.)
- Compliance with the Act.
5. No person shall engage or be employed in any branch of the milk industry except as provided by and in accordance with this Act and the regulations.
- Settlement of disputes.
6. No action may be brought respecting or for the determination of any dispute which by the ACT OR regulations is required to be determined by arbitration, and any such dispute shall be determined as provided for in the regulations. (Amended 1937, Cap. 42, Sec. 4.)
- Appeal from decision of board.
- 6a. AN APPEAL SHALL LIE, BY WAY OF ORIGINATING NOTICE, FROM ANY ORDER OR DECISION OF THE BOARD UNDER SECTION 4 OR 4a OF THIS ACT TO A JUDGE OF THE SUPREME COURT WHO MAY RECEIVE SUCH EVIDENCE, GIVE SUCH DIRECTIONS FOR THE CONDUCT OF THE PROCEEDINGS, AND MAKE SUCH ORDER OR DECISION THEREON AS HE MAY DEEM JUST, AND HIS DECISION SHALL BE FINAL AND SHALL NOT BE SUBJECT TO APPEAL. (1935, Cap. 40, Sec. 7.)
- Promulgation of regulations.
7. Every regulation made under this Act shall be published by the board in two successive issues of the *Ontario Gazette* and when so published shall while it remains in force, have the like effect as if enacted in this Act, and all courts shall take judicial notice thereof.
- Rebates prohibited.
- 7a. NOTWITHSTANDING ANYTHING IN THE COMPANIES ACT OR IN ANY LETTERS PATENT OF INCORPORATION OR SUPPLEMENTARY LETTERS PATENT OR IN ANY OTHER GENERAL OR SPECIAL ACT CONTAINED, NO PERSON, FIRM OR CORPORATION SHALL GIVE OR DISTRIBUTE ANY FUND, REFUND, REBATE, INTEREST OR DIVIDEND TO ANY PURCHASER OF MILK THEREFROM, EITHER DIRECTLY OR INDIRECTLY IN RESPECT OF SUCH

PURCHASES OF MILK, EXCEPT SUCH INTEREST OR DIVIDEND AS MAY BE EARNED ON CAPITAL INVESTED BY SUCH PURCHASER IN SUCH FIRM OR CORPORATION. (1935, Cap 40, Sec. 7.)

Powers of board as to inquiry and report.

8. The board, or any person authorized by the board to make inquiry or report, may when it appears expedient,—
- (a) enter upon and inspect any land, place, building, works or other property;
 - (b) require the attendance of all such persons as it or he thinks fit to summon and examine and take the testimony of such persons;
 - (c) require the production of all books, records, plans, specifications, drawings, writings and documents;
 - (d) administer oaths, affirmations or declarations and shall have the like powers to summon witnesses, enforce their attendance and compel them to give evidence and produce books, records, plans, specifications, drawings, writings and documents which it or he may require them to produce as is vested in the Supreme Court.

Board may approve agreements.

8a.—(1) WITHOUT DEROGATING FROM THE GENERALITY OF THE PROVISIONS OF SECTION 3 THE BOARD MAY, IF IT DEEMS IT IN THE PUBLIC INTEREST, (AFTER CONSULTING ANY LOCAL MUNICIPAL OFFICER OR OFFICERS APPOINTED TO REPRESENT THE CONSUMERS' INTERESTS, SUBJECT TO THE PROVISIONS OF SUBSECTION 1a, APPROVE ANY AGREEMENT RESPECTING THE PRICE OF MILK AND FAIR BUSINESS PRACTICES ENTERED INTO BETWEEN PRODUCERS, PROCESSERS, MILK DEALERS, TRANSPORTERS OF MILK AND DISTRIBUTORS OR ANY OF THEM, AND WHEN SO APPROVED, SUCH AGREEMENT SHALL BE BINDING UPON EVERY PERSON, PARTNERSHIP, ASSOCIATION OR CORPORATION, SELLING, DELIVERING OR BUYING MILK WITHIN THE LIMITS OF THE AREA AFFECTED BY THE AGREEMENT. (1935, Cap. 40, Sec. 7; italicized words deleted and underlined words added 1937, Cap. 42, Sec. 5(1).)

Representative of consumers.

(1a) THE COUNCIL OF ANY MUNICIPALITY MAY APPOINT A REPRESENTATIVE OF THE MILK CONSUMERS WITHIN SUCH MUNICIPALITY WHO, UPON NOTICE TO THE BOARD OF SUCH APPOINTMENT SHALL BE ENTITLED TO APPEAR BEFORE THE BOARD OR ANY PERSON AUTHORIZED BY THE BOARD TO MAKE INQUIRY, BEFORE ANY AGREEMENT AFFECTING MILK PRICES TO THE CONSUMERS WITHIN SUCH MUNICIPALITY IS APPROVED. (1937, Cap. 42, Sec. 5(2).)

Effect of approval.

(2) WHERE THE BOARD HAS APPROVED AN AGREEMENT RESPECTING THE PRICE OF MILK AND FAIR BUSINESS PRACTICES AS PROVIDED IN THIS SECTION, NON-COMPLIANCE WITH ANY OF THE PROVISIONS OF SUCH AGREEMENT SHALL BE A VIOLATION OF THIS ACT. (1935, Cap. 40, Sec. 7.)

Establishment of fund and charges.

8b. FOR THE PURPOSE OF CARRYING OUT ANY SCHEME OR PLAN FOR THE MARKETING OR REGULATING OF ANY MILK, THE BOARD MAY ESTABLISH A SEPARATE FUND AND MAY IMPOSE DIRECT CHARGES OR TOLLS IN RESPECT OF THE MARKETING OF THE WHOLE OR ANY PART OF SUCH MILK, WHICH CHARGES AND TOLLS SHALL BE PAYABLE BY SUCH PERSONS ENGAGED IN THE PRODUCTION OR MARKETING OF SUCH MILK AS THE BOARD MAY DETERMINE. (1937, Cap. 42, Sec. 7.)

Regulations.

9. The board, with the approval of the Lieutenant-Governor in Council, may from time to time make regulations respecting,—

- (a) the meetings and proceedings of the board;
- (b) the respective duties of the staff and of other persons employed by the board;
- (c) the records, books and accounts to be kept by the board;
- (d) the practice and procedure in all matters before the board and the conduct of all persons appearing before the board. (REPEALED, 1935, Cap. 40, Sec. 8.)

Regulations. 9.—(1) THE BOARD MAY MAKE SUCH REGULATIONS, WITH THE APPROVAL OF THE LIEUTENANT-GOVERNOR IN COUNCIL, AS IT DEEMS NECESSARY IN THE PUBLIC INTEREST, AND WITHOUT DEROGATING FROM THE GENERALITY OF THE FOREGOING MAY BY SUCH REGULATIONS,—

- (a) SPECIFY THE TERMS AND CONDITIONS UPON WHICH A LICENSE MAY BE OBTAINED AND THE FEES PAYABLE THEREFOR AND THE PERSONS OR CLASSES OF PERSONS NOT REQUIRED TO BE LICENSED AS PROVIDED BY SECTION 2a OF THIS ACT;
- (b) PRESCRIBE THE TERMS AND CONDITIONS UPON WHICH MILK MAY BE RECEIVED, HANDLED, TRANSPORTED, STORED, DELIVERED, SUPPLIED, PROCESSED, KEPT FOR SALE OR SOLD;
- (c) CLASSIFY MILK PRODUCERS AND DISTRIBUTORS OR ANY OTHER PERSONS ENGAGED IN THE MILK INDUSTRY;
- (d) REQUIRE PERSONS WHO SUPPLY, DISTRIBUTE, TRANSPORT, PROCESS, KEEP FOR SALE OR SELL MILK TO FURNISH TO THE BOARD SUCH INFORMATION AS THE BOARD MAY FROM TIME TO TIME REQUIRE;
- (e) REQUIRE ANY APPLICANT FOR A LICENSE UNDER THIS ACT TO FURNISH PROOF OF FINANCIAL RESPONSIBILITY AND TO REQUIRE A BOND FROM SUCH APPLICANT IN SUCH AMOUNT AS THE BOARD MAY DEEM NECESSARY;
- (f) PROVIDE FOR THE FORM OF ORDERS AND OTHER FORMS TO BE USED FOR THE PURPOSE OF THIS ACT;
- (g) PRESCRIBE THE MEETINGS AND PROCEEDINGS OF THE BOARD;
- (h) PRESCRIBE THE RESPECTIVE DUTIES OF THE STAFF AND OF OTHER PERSONS EMPLOYED BY THE BOARD;
- (i) PRESCRIBE THE RECORDS, BOOKS AND ACCOUNTS TO BE KEPT BY THE BOARD;
- (j) PRESCRIBE THE PRACTICE AND PROCEDURE IN ALL MATTERS BEFORE THE BOARD AND THE CONDUCT OF ALL PERSONS APPEARING BEFORE THE BOARD; (1935, Cap. 40, Sec. 8)
- (k) PRESCRIBE MILK PURCHASE PLANS AND THE DATES OF PAYMENT FOR MILK PURCHASED FROM PRODUCERS;
- (l) PRESCRIBE THE RECORDS TO BE KEPT BY DISTRIBUTORS, PROCESSORS AND TRANSPORTERS. (1937, Cap. 42, Sec. 6.)

Regulations may be general or limited.

(2) ANY REGULATIONS MADE UNDER THE AUTHORITY OF THIS SECTION MAY BE GENERAL IN THEIR APPLICATION OR MAY BE LIMITED TO ANY LOCALITY OR LOCALITIES, OR TO ANY PERSON OR CLASSES OF PERSONS, OR TO ANY BRANCH OF THE MILK INDUSTRY MENTIONED THEREIN. (1935, Cap. 40, Sec. 8.)

- Prohibition against using milk containers. 9a. NO PERSON, OTHER THAN THE OWNER THEREOF, SHALL USE IN THE ORDINARY COURSE OF HIS BUSINESS ANY MILK BOTTLE, MILK CAN, MILK CASE OR ANY OTHER EQUIPMENT MARKED WITH THE NAME OF A MILK DISTRIBUTOR OR DAIRY. (1937, Cap. 42, Sec. 7.)
- Annual Report. 10.—(1) The Board shall make an annual report in writing to the Minister of Agriculture not later than the 31st day of January in every year showing a record of the meetings and an abstract of its proceedings during the preceding calendar year and containing such other matters as appear to the board to be of public interest in connection with matters within its jurisdiction or which the Lieutenant-Governor in Council may direct.
- To be laid before Assembly. (2) Every such report shall be laid before the Assembly forthwith if then in session, or if not then in session, within fifteen days after the commencement of the next session.
- Injunction proceedings. 10a.—(1) WHERE IT IS MADE TO APPEAR FROM THE MATERIAL FILED OR EVIDENCE ADDUCED THAT ANY OFFENCE AGAINST THIS ACT OR THE REGULATIONS HAS BEEN OR IS BEING COMMITTED, THE SUPREME COURT OR ANY JUDGE THEREOF MAY, UPON THE APPLICATION OF THE BOARD, ENJOIN—
- (a) ANY PURCHASER, PROCESSOR, TRANSPORTER, DISTRIBUTOR OR DEALER IN MILK FROM CARRYING ON BUSINESS AS SUCH PURCHASER, PROCESSOR, TRANSPORTER, DISTRIBUTOR OR DEALER, ABSOLUTELY, OR FOR SUCH PERIOD AS SHALL SEEM JUST, AND ANY INJUNCTION SHALL IP SO FACTO CANCEL THE LICENSE OF ANY SUCH PURCHASER, PROCESSOR, TRANSPORTER, DISTRIBUTOR OR DEALER NAMED IN THE ORDER DURING THE SAME PERIOD.
- (2) THE APPLICATION OF THE BOARD UNDER SUBSECTION 1 MAY BE MADE WITHOUT ANY ACTION BEING INSTITUTED EITHER,—
- (a) BY AN EX PARTE MOTION FOR AN INTERIM INJUNCTION WHICH SHALL, IF GRANTED, REMAIN IN FULL FORCE FOR TEN DAYS FROM THE DATE THEREOF UNLESS THE TIME IS EXTENDED OR THE ORIGINATING MOTION MENTIONED IN CLAUSE (b) HEREOF IS SOONER HEARD AND DETERMINED; OR
- (b) BY AN ORIGINATING NOTICE OF MOTION WHICH, IF AN INTERIM INJUNCTION HAS BEEN GRANTED, SHALL BE SERVED WITHIN FIVE DAYS AND RETURNABLE WITHIN TEN DAYS FROM THE DATE OF SUCH INTERIM INJUNCTION. (1935, Cap. 40, Sec. 9.)
- Application may be ex parte or by originating notice.
- Penalties. 11. EVERY PERSON WHO VIOLATES ANY OF THE PRO- or of any regulation, rule or order made under this Act or of the board shall incur a penalty of not less than \$5 for each offence, recoverable under The Summary Convictions Act. (REPEALED, 1935, Cap. 40, Sec. 10.)
11. EVERY PERSON WHO VIOLATES ANY OF THE PROVISIONS OF THIS ACT OR THE REGULATIONS, OR ANY ORDER MADE UNDER THIS ACT SHALL BE LIABLE, FOR A FIRST OFFENCE, TO A PENALTY OF \$50; AND FOR A SECOND OR SUBSEQUENT OFFENCE TO A PENALTY OF NOT LESS THAN \$100, NOR MORE THAN \$500, RECOVERABLE UNDER THE SUMMARY CONVICTIONS ACT. (1935, Cap. 40, Sec. 10.)
- Commence- ment of Act. 12. This Act shall come into force on a day to be named by the Lieutenant-Governor by his Proclamation.

APPENDIX 5

CONSOLIDATED MILK CONTROL ACT R.S.O. 1937, Cap. 76 AND AMENDMENTS

(Note: Consolidate Act in small letters; amendments in capital letters.)

- "Milk." 1. In this Act, unless the context otherwise requires, "milk" shall include whole milk and such products of milk as are supplied, processed, distributed or sold in any form other than butter and cheese.
- Board constituted. 2.—(1) There shall be a board to be known as "The Milk Control Board of Ontario," hereinafter called the "board" which shall be a body corporate and have the powers and duties herein specified and the administration of this Act and the regulations.
- Number of members. (2) The Board shall consist of one or more members to be appointed by the Lieutenant-Governor in Council to hold office during pleasure and if more than one member is appointed, the Lieutenant-Governor in Council shall designate which one of them shall be the chairman of the board and any vacancies in the said board shall be filled by the Lieutenant-Governor in Council.
- Quorum. (2a) WHERE THE BOARD CONSISTS OF FOUR OR MORE PERSONS THREE MEMBERS SHALL CONSTITUTE A QUORUM. (1944, Cap. 36, Sec. 1.)
- Remuneration, etc., of members. (3) The member or members of the board shall receive such remuneration, allowances and expenses as may be determined by the Lieutenant-Governor in Council.
- Appointment of officers, clerks, etc. (4) The board may, with the approval of the Lieutenant-Governor in Council appoint and employ such officers, clerks and employees as may be necessary, and the remuneration of persons so appointed shall be determined by the Lieutenant-Governor in Council.
- Expenses of Board. (5) All moneys required for the purpose of this Act shall be paid out of any sum appropriated by the Legislature and voted by the Assembly for that purpose.
- License required. 3.—(1) No person shall, directly or indirectly, engage in or carry on the business of supplying, distributing, transporting, processing or selling milk unless such person is the holder of a license issued by the board.
- Exception. (2) This section shall not apply to those persons or classes of persons designated by the board in regulations passed under the authority of this Act.
- Duty and powers of board. 4.—(1) It shall be the duty of the board and it shall have power,—
- (a) upon its own initiative or upon complaint to inquire into any matter relating to the production, transportation, processing, distribution or sale of milk;
 - (b) to arbitrate, adjust and settle disputes arising between producers, consumers, processors, distributors and transporters of milk or between any two or more classes of such persons engaged in the milk industry;
 - (c) to prohibit in the Province any sale or delivery of milk or of cream or of milk and cream alone or in combination with any other article of trade, at a price lower than the current price of milk or cream or of a combination of milk or cream with any other article;

- (d) to prohibit milk distributors compelling or inducing producers to invest money either directly or indirectly in a dairy plant or other equipment in order that such producers may obtain or retain a market for their milk;
- (e) To prohibit milk distributors from terminating the purchase of milk from a producer without just cause; and in each case shall make such order as it deems just, having regard to the circumstances.
- (2) NOTWITHSTANDING ANY OTHER PROVISION OF THIS ACT THE CHAIRMAN OF THE BOARD MAY PERFORM SUCH OF THE DUTIES OF THE BOARD AS THE LIEUTENANT-GOVERNOR IN COUNCIL MAY PRESCRIBE. (1944, Cap. 36, Sec. 2.)
- Administrative Duties. 5. No license shall be granted to a milk distributor unless the board is satisfied that the applicant is qualified by experience, financial responsibility and equipment to properly conduct the proposed business, and that the issuance of the license is in the public interest.
- When issue of license prohibited. 6. Subject to the provisions of section 5 the board may refuse to grant or renew a license or may suspend or revoke a license already granted, after due notice and opportunity of hearing to the applicant or licensee, when the board is satisfied of the existence of any one or more of the following conditions,—
- Power of board to refuse or revoke license. (a) failure to observe, perform and carry out the provisions of this Act or of *The Milk and Cream Act*, *The Dairy Products Act*, *The Public Health Act* or any other Act of this Legislature, or of the Parliament of Canada, or amendments thereof, or of any regulations made under any such Act which in any way pertains to and governs or regulates the supply of milk for human consumption;
- Rev. Stat., cc. 76, 302, 304, 299. (b) failure to provide for and continue in effect proof of financial responsibility as required by this Act or the regulations;
- (c) failure to observe, perform and carry out any regulation or order of the board made under this Act.
- Compliance with the Act. 7. No person shall engage or be employed in any branch of the milk industry except as provided by and in accordance with this Act and the regulations.
- Settlement of disputes. 8. No action may be brought respecting or for the determination of any dispute which by the Act or regulations is required to be determined by arbitration, and any such dispute shall be determined as provided for in the regulations.
- Appeal from decision of board. 9. An appeal shall lie, by way of originating notice, from any order or decision of the board under section 5 or 6 to a judge of the Supreme Court who may receive such evidence, give such directions for the conduct of the proceedings, and make such order or decision thereon as he may deem just, and his decision shall be final and shall not be subject to appeal.
- Promulgation of regulations. 10. Every regulation made under this Act shall be published by the board in two successive issues of the *Ontario Gazette* and when so published shall, while it remains in force, have the like effect as if enacted in this Act, and all courts shall take judicial notice thereof.
- Rebates prohibited. 11. Notwithstanding anything in *The Companies Act* or in any letters patent of incorporation or supplementary letters patent or in any other general or special Act contained, no person, firm or corporation shall give or distribute any fund, refund, rebate, interest or dividend to any purchaser of milk therefrom, either directly or indirectly in respect of such purchases of milk

except such interest or dividend as may be earned on capital invested by such purchaser in such firm or corporation.

Powers of Board as to inquiry and report.

12. The board, or any person authorized by the board to make inquiry or report, may, when it appears expedient,—

- (a) enter upon and inspect any land, place, building, works or other property;
- (b) require the attendance of all such persons as it or he thinks fit to summon and examine and take the testimony of such persons;
- (c) require the production of all books, records, plans, specifications, drawings, writings and documents;
- (d) administer oaths, affirmations or declarations and shall have the like powers to summon witnesses, enforce their attendance and compel them to give evidence and produce books, records, plans, specifications, drawings, writings and documents which it or he may require them to produce as is vested in the Supreme Court.

Board may approve agreements.

13.—(1) Without derogating from the generality of the provisions of section 4, the board may, if it deems it in the public interest, subject to the provisions of subsection 2 approve any agreement respecting the price of milk and fair business practices entered into between producers, processors, milk dealers, transporters of milk and distributors or any of them, and when so approved, such agreement shall be binding upon every person, partnership, association or corporation, selling, delivering or buying milk within the limits of the area affected by the agreement.

Representative of consumers.

(2) The council of any municipality may appoint a representative of the milk consumers within such municipality who, upon notice to the board of such appointment, shall be entitled to appear before the board or any person authorized by the board to make inquiry, before any agreement affecting milk prices to the consumers within such municipality is approved. (REPEALED, 1941, Cap. 31, Sec. 1.)

(2) THE COUNCIL OF ANY LOCAL MUNICIPALITY MAY BY BY-LAW APPOINT A REPRESENTATIVE OF THE MILK CONSUMERS WITHIN SUCH MUNICIPALITY AND UPON THE FILING OF A CERTIFIED COPY OF SUCH BY-LAW WITH THE BOARD, THE REPRESENTATIVE SHALL, BEFORE ANY AGREEMENT AFFECTING MILK PRICES PAYABLE BY THE CONSUMERS WITHIN SUCH MUNICIPALITY IS APPROVED, BE ENTITLED TO APPEAR BEFORE THE BOARD OR ANY PERSON AUTHORIZED BY THE BOARD TO MAKE INQUIRY.

Information to be furnished to representative.

(2a) THE BOARD SHALL FURNISH TO ANY REPRESENTATIVE APPOINTED UNDER SUBSECTION 2, INFORMATION IN THE POSSESSION OF THE BOARD RESPECTING THE PRODUCTION, TRANSPORTATION, PROCESSING AND DISTRIBUTION OF MILK SOLD WITHIN THE MUNICIPALITY WHEN SO REQUESTED BY THE REPRESENTATIVE. (1941, Cap. 31, Sec. 1.)

Effect of approval.

(3) Where the board has approved an agreement respecting the price of milk and fair business practices as provided in this section, non-compliance with any of the provisions of such agreement shall be a violation of this Act.

Establishment of fund and charges.

14. For the purpose of carrying out any scheme or plan for the marketing or regulating of any milk, the board may establish a separate fund and may impose direct charges or tolls in respect of the marketing of the whole or any part of such milk, which charges and tolls shall be payable by such persons engaged in the production or marketing of such milk as the board may determine. (REPEALED, 1944, Cap. 36, Sec. 3.)

Establishment of funds for producers' associations.

14. WHEN THE MINISTER OF AGRICULTURE RECEIVES FROM AN ASSOCIATION OF MILK PRODUCERS WHO ARE ENGAGED IN SUPPLYING MILK TO DISTRIBUTORS OR PROCESSORS IN ANY AREA A PETITION ASKING THAT FOR THE PURPOSE OF DEFRAYING THE EXPENSES OF SUCH ASSOCIATION EVERY PRODUCER ENGAGED IN SUPPLYING MILK TO DISTRIBUTORS OR PROCESSORS IN SUCH AREA BE REQUIRED TO PAY LICENSE FEES, THE MINISTER SUBJECT TO THE APPROVAL OF THE LIEUTENANT-GOVERNOR IN COUNCIL MAY, IF HE IS OF THE OPINION THAT SUCH ASSOCIATION IS FAIRLY REPRESENTATIVE OF THE PRODUCERS SO ENGAGED, MAKE AN ORDER

- (a) REQUIRING EVERY PRODUCER SO ENGAGED TO PAY TO THE ASSOCIATION LICENSE FEES IN DIFFERENT AMOUNTS AND FIXING THE AMOUNTS OF SUCH FEES PAYABLE IN INSTALMENTS;
- (b) REQUIRING EVERY PRODUCER AND DISTRIBUTOR WHO RECEIVES MILK FROM ANY SUCH PRODUCER TO DEDUCT THE AMOUNT OF THE LICENSE FEES OF SUCH PRODUCER FROM MONEYS PAYABLE TO THE PRODUCER AND TO PAY SUCH AMOUNT TO THE ASSOCIATION;
- (c) PREVENTING THE ASSOCIATION FROM USING ANY SUCH AMOUNT FOR THE RETAIL OR WHOLESALE DISTRIBUTION OR PROCESSING OF MILK; AND
- (d) REQUIRING THE ASSOCIATION TO FURNISH TO THE BOARD SUCH INFORMATION AND FINANCIAL STATEMENTS AS THE BOARD MAY DETERMINE. (1944, Cap. 36, Sec. 3.)

Regulations

15.—(1) The board may make such regulations, with the approval of the Lieutenant-Governor in Council, as it deems necessary in the public interest, and without derogating from the generality of the foregoing may by such regulations,—

- (a) specify the terms and conditions upon which a license may be obtained and the fees payable therefor and the persons or classes of persons not required to be licensed as provided by section 3;
- (b) prescribe the terms and conditions upon which milk may be PURCHASED, received, handled, transported, stored, delivered, supplied, processed, kept for sale or sold; (Amended 1940, Cap. 28, Sec. 20.)
- (c) classify milk producers and distributors or any other persons engaged in the milk industry;
- (d) require persons who supply, distribute, transport, process, keep for sale or sell milk to furnish to the board such information as the board may from time to time require;
- (e) require any applicant for a license under this Act to furnish proof of financial responsibility and to require a bond from such applicant in such amount as the board may deem necessary;
- (f) provide for the form of orders and other forms to be used for the purpose of this Act;
- (g) prescribe the meetings and proceedings of the board;
- (h) prescribe the respective duties of the staff and of other persons employed by the board;
- (i) prescribe the records, books and accounts to be kept by the board;
- (j) prescribe the practice and procedure in all matters before the board and the conduct of all persons appearing before the board;
- (k) prescribe milk purchase plans and the dates of payment for milk purchased from producers;
- (l) prescribe the records to be kept by distributors, processors and transporters.

- Regulations may be general or limited. (2) Any regulations made under the authority of this section may be general in their application or may be limited to any locality or localities, or to any person or classes of persons, or to any branch of the milk industry mentioned therein.
- Prohibition against using milk containers. 16. No person, other than the owner thereof, shall use in the ordinary course of his business any milk bottle, milk can, milk case or any other equipment marked with the name of a milk distributor or dairy. (REPEALED, 1946, Cap. 89, Sec. 29.)
- Annual Report. 17.—(1) The board shall make an annual report in writing to the Minister of Agriculture not later than the 31st day of January in every year showing a record of the meetings and an abstract of its proceedings during the preceding calendar year and containing such other matters as appear to the board to be of public interest in connection with matters within its jurisdiction or which the Lieutenant-Governor in Council may direct.
- To be laid before Assembly. (2) Every such report shall be laid before the Assembly forthwith if then in session, or if not then in session, within fifteen days after the commencement of the next session.
- Injunction proceedings. 18.—(1) Where it is made to appear from the material filed or evidence adduced that any offence against this Act or the regulations has been or is being committed, the Supreme Court or any judge thereof may, upon the application of the board, enjoin any purchaser, processor, transporter, distributor or dealer in milk from carrying on business as such purchaser, processor, transporter, distributor or dealer, absolutely, or for such period as shall seem just, and any injunction shall ipso facto cancel the license of any such purchaser, processor, transporter, distributor or dealer named in the order during the same period.
- Application may be ex parte. (2) The application of the board under subsection 1 may be made without any action being instituted either,—
- (a) by an ex parte motion for an interim injunction which shall, if granted, remain in full force for ten days from the date thereof unless the time is extended or the originating motion mentioned in clause (b) hereof is sooner heard and determined; or
- or by originating notice. (b) by an originating notice of motion which, if an interim injunction has been granted, shall be served within five days and returnable within ten days from the date of such interim injunction.
- Penalties. 19. Every person who violates any of the provisions of this Act or the regulations, or any order made under this Act shall be liable, for a first offence, to a penalty of \$50; and for a second or subsequent offence, to a penalty of not less than \$100, nor more than \$500, recoverable under *The Summary Convictions Act*.

	1935		1936		1937		1938		1939		1940		1941		1942		1943		1944		1945		1946	
	CP	PP	CP	PP	CP	PP	CP	PP	CP	PP	CP	PP	CP	PP	CP	PP	CP	PP	CP	PP	CP	PP	CP	PP
Fort Frances.....																								
Fort William.....			11	2.05																				
Galt.....											12	2.35												
Gananoque.....	9	1.61								11	1.91													
Georgetown.....																								
Goderich.....								10	1.75															
Guelph.....	11	1.90																						
Hamilton.....			12	2.15																				
Harrow.....																								
Hawkesbury.....																								
Hespeler.....																								
Ingersoll.....			10	1.75																				
Kenora.....																								
Kent County.....			10	1.65				11	2.00															
Kingston.....	10	1.60																						
Kingsville.....																								
Kirkland Lake.....	14	2.35																						
Kitchener.....			11	2.00																				
Leamington.....																								
Lindsay.....	10	1.76																						
Listowel.....																								
London.....			11	1.92																				
Manitowlin.....																								
Midland.....																								
Milton.....																								

12

2.10

12 2.10
2.35

	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946
	CP	PP	CP	PP	CP	PP	CP	PP	CP	PP	CP	PP
Morrisburg-Williamsburg												
Iroquois-Cardinal.....												
Muskoka-Parry Sound												
Area.....	10	2.00										
(a) Bracebridge.....	10	1.80				11	1.90					
(b) Huntsville.....				12	2.00							
(c) Gravenhurst.....												
(d) Muskoka Area.....					12				2.10			
Napance.....												
Niagara Peninsula.....												
(a) Port Colborne.....	11	1.90										
(b) Niagara Falls.....	12	2.15										
(c) St. Catharines.....	11	1.90										
(d) Fort Erie.....	12	2.15										
(e) Welland.....	12	2.15										
(f) Grimsby.....	12	2.15			12	2.15						
(g) Thorold-Merritton.....	11	1.85			11	1.90						
North Bay.....	12	2.15										
Orangeville.....	10	1.85	12	2.15			13	2.45				
Orillia.....	10	1.70					11	2.00				
Oshawa.....												
Ottawa.....	10	1.56										
Owen Sound.....	11	1.85										
Paris.....	10	1.75	11	1.80								
Pembroke.....	9	1.80										
Perth.....						10	1.80					12
Peterborough.....	10	1.71										2.45
Petrolia.....												

(f.o.b. farm)
 12 2.05
 2.10
 (f.o.b. dairy)
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 2.35
 12 2.05
 11 2.00 12 2.25
 2.35
 11 2.25
 10 1.80
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 11 2.00 12 2.25
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 2.35

APPENDIX 7

PRODUCER FUNDS RECOVERED BY MILK CONTROL BOARD

Year	Calling Bonds	Adjustments Ordered	Total
1939.....	\$12,177.57	\$ 2,200.00	\$14,377.57
1940.....	1,500.00	12,088.03	13,588.03
1941.....	3,409.44	6,834.69	10,244.13
1942.....	1,048.13	2,245.91	3,294.04
1943.....	15,017.47	5,301.25	20,318.72
1944.....	1,500.00	13,131.28	14,631.28
1945.....	4,463.29	11,789.94	16,253.23
1946.....	669.84	8,472.75	9,142.59
Totals.....	\$39,785.74	\$62,063.85	\$101,849.59

The above record does not include the early years of control. There were some bonds called but the record was not kept separately.

The recovery over the years has amounted to quite an impressive sum of money. However, the protection to the producer should not be measured by the actual recovery of producer funds. The real value in the bond requirements to a license lies in the salutary effect it has. There are numerous cases where dairies, rather than have their bond called, have raised money from other sources to meet producer accounts.

APPENDIX 8

STATISTICAL MATERIAL CHICAGO MARKETING AREA

The index only of this summary has been included to demonstrate the type of statistical material considered essential by the United States Department of Agriculture when fixing prices. The actual tables which relate to the Chicago area are not of general value to Ontario readers and because they are voluminous have not been reproduced. Any persons interested in the tables themselves may secure a full copy by writing to the United States Department of Agriculture, Washington, D. C.

COMPILATION OF STATISTICAL MATERIAL
PERTAINING TO THE
PROPOSED AMENDMENTS TO
FEDERAL ORDER 41, ORIGINAL AND AS AMENDED,
FOR THE CHICAGO, ILLINOIS, MARKETING AREA
AND
FEDERAL ORDER 69, ORIGINAL AND AS AMENDED,
FOR THE SUBURBAN CHICAGO, ILLINOIS, MARKETING AREA

March 1947

*Prepared by the Dairy Branch Production and Marketing Administration,
United States Department of Agriculture*

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APPENDIX 9

BY-LAW No. 2990

A BY-LAW TO REGULATE AND LICENSE THE PRODUCTION, SALE AND DISTRIBUTION OF MILK, CREAM AND MILK PRODUCTS.

INTERPRETATION

1. In this By-Law:

- (a) "License" shall mean a license to sell milk or cream or milk products for human consumption;
- (b) "Council" shall mean the Municipal Council of the City of Brantford;
- (c) "Medical Officer of Health" shall mean a medical officer of health for the county of Brant;
- (d) "Sanitary Inspector" shall mean a sanitary inspector for the County of Brant;
- (e) "Pasteurized" shall mean milk or cream which has undergone the process of pasteurization;
- (f) "Pasteurization" shall mean the process of heating every particle of milk to a temperature of not less than 143 degrees Fahrenheit, of holding it at such temperature for not less than 30 minutes, or such other temperature and time as may be set by Lieutenant-Governor in Council and of cooling it immediately thereafter to 50 degrees Fahrenheit or lower. Public Health Act, R.S.O. 1937, Chapter 299, sec. 1(00).

LICENSE REGULATIONS

2. No person shall sell or offer for sale, milk or cream for human consumption in the City of Brantford or directly to the consumer or shops or stores or in wholesale quantities to any person to be afterwards sold or delivered by such person to the consumer without first obtaining a license under the provisions of this By-Law.

3. Every person proposing to apply for such license shall apply to the Clerk of the municipality of the City of Brantford. Before issuing such license it shall be the duty of the Clerk to give the Medical Officer of Health the name of the applicant and his address in order that inspection may be made of the premises and equipment for the purpose of ascertaining whether they conform to the requirements of the Milk and Cream Act, this By-Law and other statutes applicable to dairies, the production or sale of milk or cream or milk products.

4. No license shall therefore be granted or issued until the Clerk shall have first obtained the signed approval from the Medical Officer of Health. Similarly the Medical Officer of Health shall be notified of any transfers of licenses.

5. It shall be the duty of the Medical Officer of Health:

- (a) To ascertain the truth of all particulars accompanying such applications;
- (b) To cause an inspection to be made of all premises in connection with which any license is applied for;
- (c) To satisfy himself as to the character of all applicants for licenses;
- (d) To keep full particulars of every application and transfer issued;
- (e) To furnish all necessary forms and to make out and sign all applications and transfers;
- (f) To inspect all premises, the owners or occupants of which are licensed under this By-Law;
- (g) To cause all persons who offend against any of the provisions of the Milk and Cream Act or of this By-Law or of any amendments thereof to be prosecuted whenever information to that end shall come to his knowledge;

6. A separate license shall be taken out for each place or premises at which the applicant carries on his business or a part thereof.

7. Every license, unless it is expressed to be issued for a shorter period, or unless it shall become sooner forfeited, shall be for the year current at the date thereof, and shall expire on the last day of December after the date thereof, and in this By-Law for the year current shall mean a period commencing on the first day of January, 1947, and ending on the 31st day of December, 1947.
8. Every person possessing a license and his servant or employee employed in selling milk or cream shall produce and exhibit the license thereof whenever required by the Medical Officer of Health, or other officials of the Brant County Health Unit, or by any police constable.
9. The Medical Officer of Health may, in his discretion, refuse or suspend any license, subject however to review by the Council.
10. Except so far as authorized by Sec. 4, a license shall not be transferable.
11. The Medical Officer of Health may grant a license to the representative of a license holder who dies or makes an assignment for the benefit of creditors during the currency of the license, to continue the business until expiration of his license.

REGULATIONS REGARDING THE PRODUCTION OF MILK

12. (a) *Care of Milk Cows:* Milk cows must be kept clean and shall not be abused in any way. Udders and flanks shall be clipped twice yearly. The teats and udders of such cows are to be wiped with a damp cloth before each milking so as to remove thoroughly from them all manure and foreign substance which may contaminate the milk.
- (b) *Health of Cows:* No milk shall be sold, held for sale or offered for sale from any milk cow that has any ailment that would affect the quality or wholesomeness of the milk and any cow subject to such ailment shall be removed and kept separated from the milking herd.
- (c) *Food for Cows:* Only clean wholesome food shall be given to milk cows. No strong flavoured food which shall affect the odor or taste of the milk shall be fed to milk cows at any time.
- (d) *Water for Cows:* All water supplied or available to milk cows for drinking and all water used in cleansing utensils, must be clean, pure and protected from any danger of pollution.
- (e) *Sanitary Conditions of Stables:* The stable in which milk cows are kept or in which they are milked must be kept clean and in a sanitary condition. It must be provided with an adequate supply of light; it must be well ventilated, and free from dust and cobwebs; it must be provided with an efficient manure gutter, which must be kept properly cleaned night and morning, the floor made tight and be provided with proper slope for drainings, no pigs kept in the stable, the walls and ceilings of the stable shall be whitewashed each spring and autumn.
- (f) *Milk House:* A milk room separate from the other rooms must be provided which shall be used only for the purpose of storing milk and milk utensils. It shall be so constructed as to be kept clean, cool and sanitary at all times. Cement floors shall be used and shall be properly drained towards an outlet. Milk coolers shall likewise be made of cement, shall be so constructed as to be kept clean and in a sanitary condition and in a good state of repair. Where water is used to cool the milk it shall be clean, pure and protected from any danger of pollution. Windows and doors shall be suitably constructed and screened during the fly season. There must be no direct communication between it and the stable, or any living room, or where manure is piled.
- (g) *Excluded Milk:* No milk shall be forwarded to the municipality of the City of Brantford for sale obtained from any cow within six weeks before and 10 days after parturition. Likewise, no milk shall be allowed to enter the municipality of the City of Brantford which is ropey, has an off-flavour or a bitter flavour, is dirty or adulterated, or which has any other abnormality.
- (h) *Small Animals:* Cats and dogs must be excluded from milk houses and cow stables during milking hours.
- (i) *Persons engaged in milking:* Every person engaged in milking cows must be in good health, be free from contagion of any kind, must

be cleanly dressed, and must be personally clean at the time of milking and of handling the milk in the milk house.

Any person milking cows, and in whose family any contagious disease occurs, must absent himself or herself at once from the dairy and stable until the Medical Officer of Health certifies that it is safe for him or her to return.

- (j) *Utensils and Cooling*: All milk utensils must be kept thoroughly clean and sterilized before use, and the process of milking and of handling milk in stable and milk house be such as will ensure a supply of clean, fresh milk.
- (k) *Premises*: All yards and premises adjoining cow stables and milk houses shall be maintained in a sanitary condition. No manure dirt, nor decayed matter shall be allowed to accumulate in such yards or premises or milk houses, or within fifty feet of the same, and shall be removed at frequent intervals.
Milk shall not be allowed to stand in the stable but shall at once be removed to the milk house, strained through a sterilized gauze and cooled to a temperature of fifty degrees Fahrenheit and kept at or below that temperature until shipped.

13. All persons selling, holding for sale or offering for sale, cream or milk within the City of Brantford or owning or operating dairies within the limits of the City of Brantford shall comply with and observe and perform the regulations as set down by the Ontario Department of Health, on Regulations of Milk Pasteurization Plants.

14. The Medical Officer of Health shall be the person to enforce the provisions of the Milk and Cream Act and this By-Law and of any regulations enacted by the Council under the authority of the said Act, and for such purposes he shall have and may exercise all the powers conferred by the Milk and Cream Act and any amendment thereof.

If upon examination and inspection any milk or cream appears to the Medical Officer of Health to be dirty, adulterated or in any way unfit for human consumption, he shall treat, destroy or cause to be destroyed, as he may see fit, all such milk so as to prevent it from being exposed for sale or used for human consumption.

Cream shall contain 18% butter fat and no milk shall be sold as cream containing lesser per cent of butter fat unless such lesser per cent is clearly shown upon the vessel from which such cream is supplied.

15. All dairymen and vendors of milk, cream, and all drivers of milk wagons and vehicles having milk or cream in their possession at the time, shall furnish the Medical Officer of Health with such samples as he may require from time to time and at such places as the samples may be demanded. All milk wagons and motor vehicles used to transport milk either to the dairy, or in the delivery to the consumer or vendor, shall be so constructed and maintained so as at all times to be in a sanitary condition.

16. The Medical Officer of Health shall properly identify all such samples of milk and cream for laboratory examinations.

17. On receipt of the laboratory report the Medical Officer of Health shall notify the dairy and he shall take such action as to him seems necessary through information gained from the report.

18. Every person vending or offering milk or cream for sale in the City of Brantford shall give full information to the Medical Officer of Health as to the source of his supply and shall not sell milk or cream from any source condemned by the Medical Officer of Health and shall notify the Medical Officer of Health within 24 hours upon taking on or discontinuing any supply of milk or cream.

19. The onus of proof that milk seized under this By-Law was not intended for sale in the City of Brantford shall be upon the party charged.

PENALTIES

Any person contravening any of the provisions of this By-Law shall incur a penalty of not less than \$1 nor more than \$50 recoverable under The Summary Convictions Act.

Passed this Twenty-third day of September, 1946.

Sgd. E. J. Campbell,
City Clerk.

Sgd. J. H. Matthews.
Mayor.

I hereby certify that the foregoing is a true, accurate and correct copy of By-Law No. 2990 of the City of Brantford, passed on the Twenty-third day of September, 1946.

Sgd. E. J. Campbell,
City Clerk.

The provisions of By-Law No. 2990 of the City of Brantford which have been passed under section 2 of The Milk and Cream Act are hereby approved. Dated at Toronto this Twenty-first day of October, 1946.

Sgd. Thomas L. Kennedy,
Minister of Agriculture.

APPENDIX 10

THE LOCAL BRANCHES OF THE ONTARIO MILK PRODUCERS' LEAGUE

The membership of the League is divided into districts or markets known as "locals" as follows:

Algoma	North Muskoka
Acton	Orillia
Aylmer	Oshawa
Barrie	Ottawa
Brantford	Oakville
Blenheim	Owen Sound
Belleville	Paris
Bracebridge	Peterboro
Brampton	Pickering
Brockville	Picton
Bowmanville	Port Elgin and Southampton
Campbellford	Port Hope
Chatham	Port Colborne
Cobourg	Prescott
Collingwood	Renfrew
Cornwall	Ridgetown
Durham	St. Marys
Delhi	St. Thomas
Elmira	Sarnia
Essex	Simcoe-Waterford
Fort Frances	Smiths Falls
Galt	Stratford
Gananoque	Thunder Bay (Port Arthur and Fort William)
Georgetown	Tillsonburg
Guelph	Temiskaming
Gravenhurst	Thorold-Merritton
Hamilton	Toronto
Hanover	Trenton
Ingersoll	Twin Cities (Kitchener and Waterloo)
Kenora	
Kingston	
Lindsay	Walkerton
Lincoln	Wallaceburg
London	Woodstock
Midland-Penetang	Warton
Niagara Falls	Welland
North Bay	Whitby

APPENDIX 11

PROBLEMS OF THE DAIRY FARMER'S WIFE AS PRESENTED TO THE ROYAL COMMISSION

December 16, 1946

The dairy farmer's wife is an "Active" partner with her husband and family in carrying on the work of a dairy farm, and therefore I feel has a right to make representation to you, Sir. She is up and on the job early in the morning. She takes charge of her kitchen range and the furnace in the basement. She often finds it necessary to go to the stable to assist in milking the cows, taking with her one or two young children, whom she cannot leave alone, and placing them in a box or cage, where she can keep an eye on them while she works. She hurries back to her kitchen when milking is completed to prepare breakfast for her husband and his hired men, as the majority of the milk for Ottawa leaves the farm by truck after being cooled before 7.00 a.m.

Her morning's work has just begun. She now tackles the job of cleaning and sterilizing dishes, pails, cans, milking machine, etc., before she can turn to the task of setting her house in order. This task in itself is not an easy one. Her scrubbing and sweeping and dusting and making beds must be done before she can turn to the task of preparing dinner for her family and hired men whom of necessity she must board, house and, worst of all, do their laundry.

Early afternoon may be free from the mad rush of the morning's work. This part of the day is devoted to catching up with the million odds and ends that have been neglected, besides the ironing and sewing and mending that are a necessary part of her day's work.

Late afternoon, however, finds her often again in the stable. Dressed in overalls and smock, and keeping a watchful eye on her babies in their cage, she spends a couple of hours milking cows and cleaning dairy utensils.

She then prepares and serves supper to her family and hired men. More dishes are to be washed; and many neglected odd jobs occupy most of her evenings. This does not allow Saturday afternoon free, the cows are a seven day care.

The life of a dairy farmer's wife is hard. Her hours are long; her work arduous and often distasteful. Necessity drives her beyond her strength to her humdrum tasks 365 days in the year. There is no let-up—little diversion. She cheerfully gives her life that others may be fed. She occasionally goes to town—sees men and women and boys and girls lined up at the beer store. She wonders why they complain so much about paying fifteen cents for a quart of milk when they so gladly pay thirty-five cents for a quart of beer or similar amounts for soft drinks, etc.

She is not paid commensurate with this work. Income tax officials will not allow it as an expense against income. Yet it enters directly into the cost of producing milk.

The dairy farmer's wife has a real problem in the matter of housing labourers. Sometimes he is a fine agreeable fellow; often he is quite the reverse. No matter what he is, she sees him by force of circumstances admitted to the intimacies of her children's conversation at meal-time and in the evenings. She hesitates to leave them alone in his company. She smarts under the injustice of having him monopolize the living room and the radio, yet she feels she cannot protest. Her husband needs him, and the work must be done.

The necessity of living and working under circumstances that are not pleasant when compared with those of her sisters who have married professional men, business men, mechanics, or labourers has a psychological effect on the dairy farmer's wife. Few seem to understand. No one seems capable of evolving a solution. In bitterness of heart, she resolves that her daughter will not be as she. She encourages her to leave the farm, to

seek a career in the city. And thus the drift from farm to town goes on from decade to decade, and it will continue until the farmer receives a price for his produce that will enable him to pay wages that will attract labour to the farm and will enable him to provide separate and comfortable living quarters for married help.

The lowest paid labourer's wife in the city has more conveniences than many or most of the dairy farmer's wives. The conveniences were denied many farmer's wives not for lack of desire of her loving husband but because of lack of finances.

I am a farmer's wife by choice. There are many things I like about it and all I ask is that a fair price or return for our labour be assured us and I will be happy to see my children follow their father's business, but one hesitates to persuade them when you can promise them so little except fresh air and a good night's sleep.

One thing that seldom has been considered in farming is holidays. City people feel because they holiday in the country the farmers are always so privileged. Help on the farm is seldom provided to allow for a spare. Urban industries find it necessary to do so and charge this cost to overhead. If one leaves the farm or is ill the remaining help must do his work. This is generally passed on to Mrs. Farmer. Few farmers' wives can allow themselves holidays either for lack of help or money to enjoy such.

Sir, in conclusion may I ask you to study this matter in your wisdom, but particularly blend your findings with the facts that farm women should have and would like the possibility of a little nail polish, an occasional permanent, and perhaps a tiled bathroom. This, Sir, can never be ours if milk goes back to former prices, and if my daughter refuses to marry a farmer for fear of lack of those things every lady loves, it is going to be bad for the future of Ottawa and Canada. The lack of ability to live with conveniences on a farm has made many a girl break a romance and left farms deserted while the boy turned to city employment. We only want our share of the nation's wealth, no more—no less.

APPENDIX 12

FARM EXPENSES HAVE RISEN SHARPLY SINCE 1939

The dairy farmer has many items of expenditure, both for commodities used in farm production and also for articles needed for the maintenance of his household.

The Dominion Bureau of Statistics publishes two valuable indexes which show the changes in prices for these two groups of expenditures. One index showing the prices of commodities used in farm production in eastern Canada indicates a rise from 98.9 for the year 1939 to 150.2 in August 1946. This index comprises implements, fertilizers, seed, feed, gasoline and oil, building materials, hardware, binder twine, taxes, interest on mortgages, and farm wages.

It is common knowledge that prices of food, clothing, fuel, furniture, and other household items have advanced greatly, and the farmers' income has definitely much less purchasing capacity in respect to purchases of this type than in 1939. Clothing in general has risen 38.3% since 1939, fuel is up 19% notwithstanding the fact that it is still subsidized, and household equipment 36%. Wages of industrial employees have been progressively raised to cope with the increase in the prices of these commodities, and it is just as necessary that dairy farmers also obtain corresponding improvement in their income.

PRICE INDEXES OF COMMODITIES AND SERVICES USED BY FARMERS IN EASTERN CANADA—1935-39 = 100

Year	Composite Index	Imple-ments	Ferti-lizers	Seed	Feed Oil, Grease	Building Materials	Hardware	Binder Twine	Taxes	Interest on Mortgages	Wages
1939	98.9	104.3	107.2	82.4	81.0	100.1	102.0	93.8	101.1	95.0	108.5
1944 August	142.6	117.2	108.0	135.3	123.3	130.6	118.8	126.4			255.4
1945 January	140.6	113.5	108.0	137.6	123.3	129.7	118.8	126.4	107.0	90.5	242.3
April	143.3	113.5	108.0	138.8	126.2	129.7	118.9	126.4			263.1
August	146.9	113.5	108.0	139.5	126.3	129.7	118.9	126.4			289.4
1946 January	143.9	113.5	108.0	141.8	125.8	129.7	118.9	126.4	107.0	90.5	263.2
April	148.0	120.8	108.0	142.6	126.0	129.7	120.8	126.4			289.3
August	150.2	120.8	110.1	141.8	126.8	129.7	123.2	126.4			303.3

GROUP INDEX NUMBERS OF FARM FAMILY LIVING COSTS IN EASTERN CANADA—1935-39 = 100

Year	Composite Index	Food	Clothing	Fuel	Household Equipment	Health Maintenance	Miscellaneous
1939	99.5	96.4	100.2	98.9	101.0	100.8	100.6
1944 August	122.3	134.2	127.7	116.2	124.4	109.3	105.1
1945 January	122.5	134.1	127.7	116.2	124.4	111.7	105.1
April	122.8	134.0	127.7	118.4	125.3	111.8	105.1
August	123.6	134.6	129.3	118.4	126.1	112.8	105.1
1946 January	124.6	135.6	129.3	118.9	126.1	115.4	107.9
April	126.1	137.0	130.4	118.9	131.1	115.7	107.9
August	130.6	140.1	138.5	118.9	137.6	116.3	110.8

Prices Branch, Dominion Bureau of Statistics, Ottawa.

AVERAGE RETAIL PRICES IN ONTARIO OF COMMODITIES
USED BY FARMERS

AUGUST, 1939, AUGUST, 1945 and AUGUST, 1946

	August 1939	August 1945	August 1946
Average wages of farm help, with board	\$24.00	\$64.34	\$68.40
Motor Supply			
Gasoline per gallon	.28	.345	.345
Motor Oil per gallon	1.26	1.34	1.34
Building Materials			
Spruce scantling M	41.19	64.83	65.00
Shingles (cedar) bundle	1.20	1.80	1.78
Brick M	24.93	33.33	35.00
Portland cement bag	.67	.73	.73
Window glass sq. foot	.11	.15	.16
Roofing paper roll	2.57	2.95	2.97
Feed			
Oats bushels	.42	.65	.65
Barley bushels	.59	.84	.83
Corn bushels	.85	1.37	1.46
Wheat bushels	.73	1.10	1.12
Bran cwt.	1.20	1.45	1.45
Middlings cwt.	1.35	1.66	1.66
Hay ton	11.79	20.50	19.81
(A) 1. Linseed Oil Cake Meal . . . cwt.	2.00	—	2.25
2. 24% Dairy Ration cwt.	2.45	—	2.70
3. 16% Dairy Ration cwt.	2.30	—	2.35
(A) Fertilizers			
2-12-6	29.25	29.00	31.20
0-12-6	25.75(0-14-7)	27.75(0-14-7)	30.35
Hardware			
Milk Can 8 gallons	6.53	8.43	8.52
Dairy Pail . . . . .	.74	.83	.88
Wire fencing per rd.	.50	.51	.57
Implements			
Tractor, 4 cylinder, 9-38', 4-ply tires	974.00	1,048.00	Prices were
Plow	21.00	23.00	advanced
Binder	256.00	300.00	generally
Drill	168.00	187.00	12 1/2%
Rake	57.00	63.00	in 1946
Drag Harrow	26.00	28.00	
Disc Harrow	56.00	62.00	

(A)—U.F.O prices

Agricultural Division, Dominion Bureau of Statistics, Ottawa.

CONSUMERS HAVE HIGHER INCOMES AND CAN AFFORD
TO PAY SUFFICIENT FOR MILK
TO ASSURE FARMERS COST OF PRODUCTION

Urban residents have considerably more money to-day than in 1939, and have benefited greatly from improved economic conditions. The index of employment compiled by the Dominion Bureau of Statistics, Ottawa, indicates the higher level of industrial activity prevailing to-day. In the city of Hamilton the index of employment, base 1926=100, has risen from 103.7 in 1939 to 175.9 in July 1946.

The Dominion Bureau of Statistics, Ottawa, also compiles data on average hourly wage rates for various occupations in Ontario industries. The following table indicates the very substantial gains recorded since 1939 by workers in rubber industry, steel mills, and electrical machinery. Hamilton is an industrial city and has factories of these types located there. The percentage change from 1939 to October 1946 ranged from 54.7% to 113.7% according to the figures below, with the average of all increases amounting to 74.7%.

Another indicator of the improved purchasing power of consumers is contained in the figures of the net national income of Canada, which rose from \$4,221,000,000 to \$9,627,000,000 in 1945, a gain of 128.1%.

The amount of Children's Allowances paid in Ontario during the twelve months ending June 30, 1946 totalled \$66,411,180. This has added greatly to the consumers' ability to pay a reasonable retail price for fluid milk. Total sales of milk in Ontario during the twelve month period ending August 1946, was 468,000,000 quarts. A three-cent per quart increase in the price for milk amounts to \$14,040,000, which is less than 25% of the amount currently being received from Children's Allowances.

Still further indications of the greater spending capacity of the general public are very clearly brought out by the figures in the table below showing expenditures on luxury and amusement items. Beer sales in Ontario increased by 142% between the fiscal year 1938-39 and the fiscal year 1944-45. Amounts wagered at race-tracks in Ontario rose 101% between 1939 and 1945, with a further increase anticipated for 1946. Theatre admissions in Ontario for the same comparison increased 53.8% and the production of cigarettes in Canada has more than doubled since 1939.

AVERAGE HOURLY WAGE RATES FOR SELECTED OCCUPATIONS
IN CERTAIN ONTARIO INDUSTRIES

Years 1939, 1945, and 1946

(Male Workers Only)

Occupations	1939 \$	1945 \$	October 1946 \$	% Change October 1946 from 1939
Rubber Products				
Cutters.....	.484	.809	.939	+ 94.0%
Millmen.....	.554	.775	.905	+ 63.4%
Curers.....	.614	.891	1.021	+ 66.3%
Shoe Makers.....	.484	.707	.837	+ 72.9%
Tire Builders.....	.714	.997	1.127	+ 57.8%
Crude Rolled and Forged Products				
Electricians.....	.656	.886	1.016	+ 54.9%
Labourers.....	.434	.641	.771	+ 77.6%
Machinists.....	.595	.869	.999	+ 67.9%
Millwrights.....	.620	.829	.959	+ 54.7%
Welders.....	.604	.845	.975	+ 61.4%
Electrical Machinery, Etc.				
Sheet Metal Workers.....	.408	.742	.872	+ 113.7%
Coil Winders.....	.523	.814	.944	+ 79.8%
Platers.....	.458	.734	.864	+ 88.6%
Inspectors.....	.504	.816	.946	+ 87.7%
Labourers.....	.419	.623	.753	+ 79.7%
Average of above percentage increases.				+ 74.7%

Figures for 1946 obtained by adding 13 cents per hour to 1945 figures to allow for recent increases.

Figures for 1939 and 1945 supplied by Research and Statistics Branch, Dominion Department of Labour, Ottawa.

INDEX OF EMPLOYMENT

1926 = 100

		Canada	Ontario	Hamilton
	1939.....	113.9	114.3	103.7
	1940.....	124.2	129.2	124.4
	1941.....	152.3	160.0	159.5
	1942.....	173.7	179.4	186.6
	1943.....	184.1	185.8	186.7
	1944.....	183.0	184.7	180.8
	1945.....	175.1	178.4	176.4
January	1946.....	168.2	172.2	169.1
February	1946.....	167.2	173.9	170.2
March	1946.....	167.0	173.6	168.9
April	1946.....	168.9	175.5	172.3
May	1946.....	169.3	176.7	172.8
June	1946.....	169.9	178.4	173.0
July	1946.....	173.6	179.6	175.9

Business Statistics Branch, Dominion Bureau of Statistics, Ottawa.

SALARIES, WAGES, AND SUPPLEMENTARY LABOUR INCOME

	CANADA		ONTARIO		
	Total (Millions of Dollars)	Per Capita \$ c	Total (Millions of Dollars)	Population (000's)	Per Capita \$ c
1938.....	2,449	219.60	1,036	3,672	282.14
1939.....	2,540	225.44	1,073	3,708	289.37
1940.....	2,860	251.30	1,227	3,747	327.46
1941.....	3,529	306.68	1,526	3,788	402.85
1942.....	4,233	363.22	1,807	3,884	465.24
1943.....	4,790	405.52	2,017	3,917	514.93
1944.....	4,969	414.95		3,965	
1945.....	5,037 (a)	415.63		4,004	

(a) Preliminary

	CANADA		
	Net National Income at Factor Cost (Millions of Dollars)	Population (000's)	National Income per Capita \$ c
1938.....	3,940	11,152	353.60
1939.....	4,221	11,267	374.63
1940.....	5,112	11,381	449.17
1941.....	6,514	11,507	566.09
1942.....	8,277	11,654	710.23
1943.....	9,069	11,812	767.78
1944.....	9,685	11,975	808.77
1945.....	9,627 (a)	12,119	794.37

(a) Preliminary

Business Statistics Branch, Dominion Bureau of Statistics, Ottawa, Canada.

CHILDREN'S ALLOWANCES

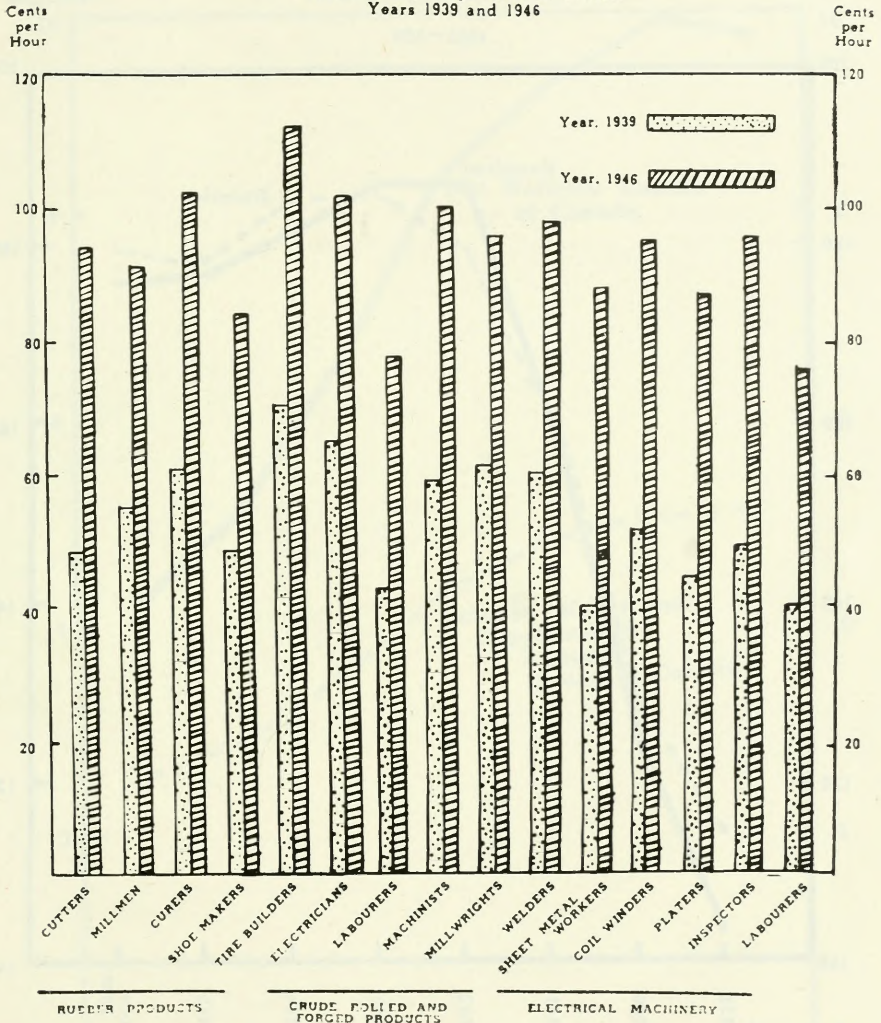
(a) Total amount paid in Ontario from July 1, 1945 to June 30, 1946	\$66,411,180
(b) No. of children registered as at June 30, 1946	941,533
(c) Average payment per child for June 1946	\$6.02

LUXURIES AND AMUSEMENTS

Beer Sales in Ontario	Fiscal Year 1938-39—	\$26,200,053
	Fiscal Year 1944-45—	\$63,502,830
	% Increase	142.4%
All Alcoholic Beverages Sales in Ontario	Fiscal Year 1938-39—	\$49,637,986
	Fiscal Year 1944-45—	\$102,885,847
	% Increase	107.3%
Amount Wagered at Race-tracks in Ontario	Year 1939—	\$12,858,640
	Year 1945—	\$25,907,764
	% Increase	101.5%
Theatre Receipts in Ontario	Year 1939—	\$15,247,941
	Year 1945—	\$23,740,871
	% Increase	55.7%
No. of Paid Theatre Admissions in Ontario	Year 1939—	59,686,373
	Year 1945—	91,817,463
	% Increase	53.8%
Production of Cigarettes in Canada	Year 1939—	7,163,433,000
	Year 1944—	15,484,605,000
	% Increase	116.2%

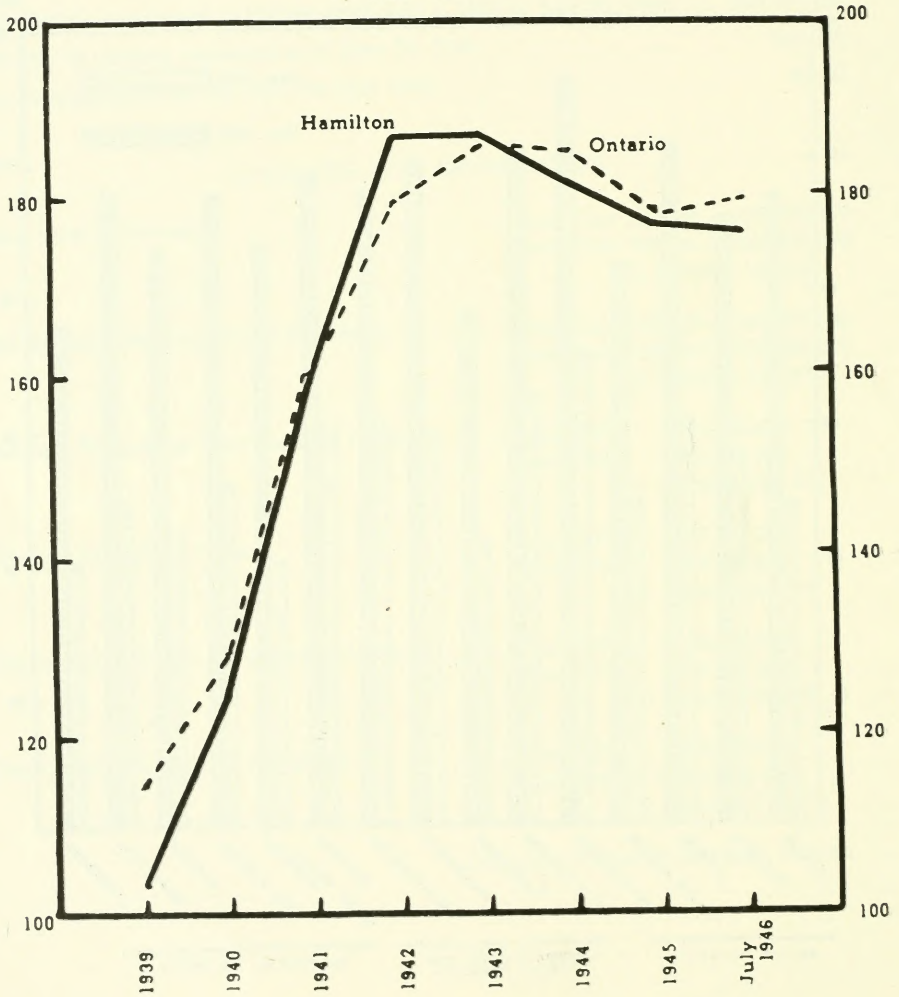
Dominion Bureau of Statistics, Ottawa

Average Hourly Wage Rates in Ontario
Years 1939 and 1946

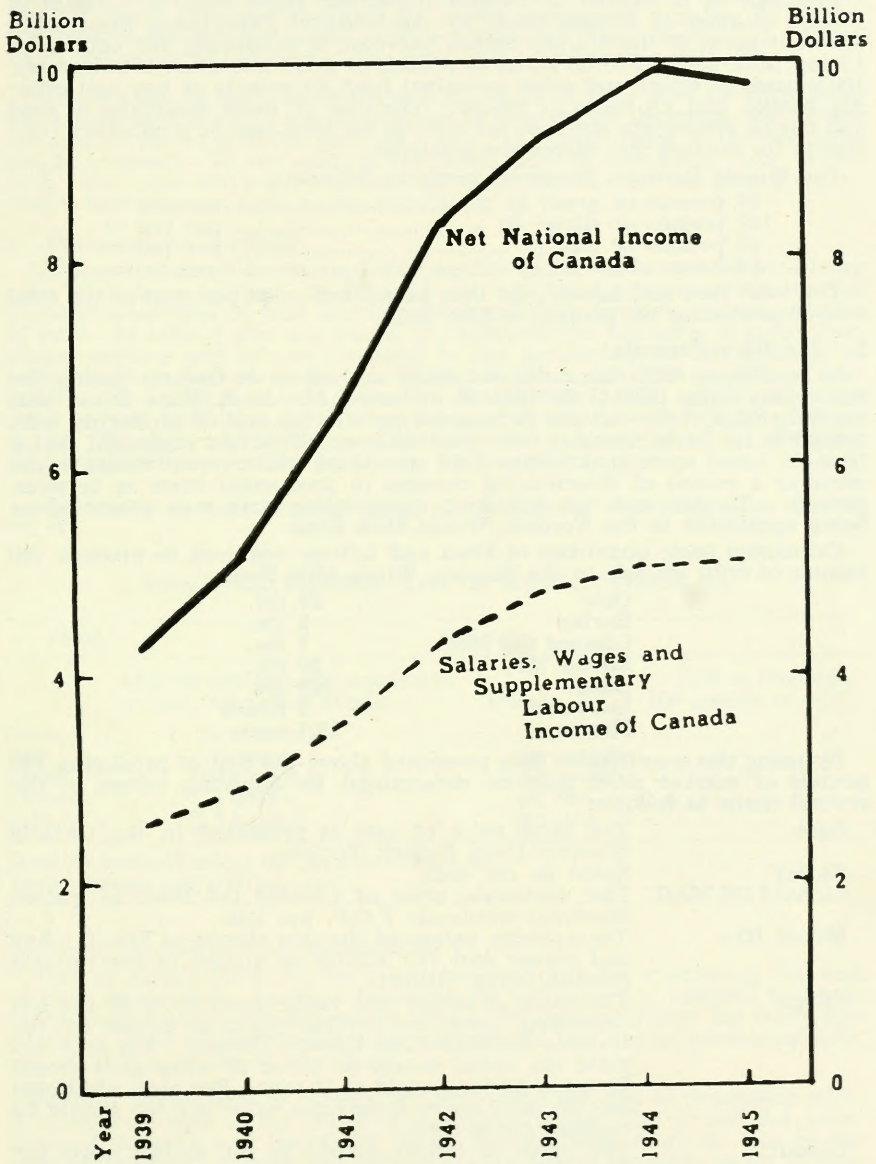


Index of Employment

1926=100



National Income and Wages of Canada



APPENDIX 13

LIST OF FORMULAE USED IN CALCULATING COST OF PRODUCING 100 POUNDS OF MILK

1. *The Misner Formula*

Professor E. G. Misner of Cornell University states that, as a result of a large number of studies made by Agricultural Experiment Stations in different parts of the United States, the cost of producing 100 pounds of 3.5 test milk appears to be about 30 pounds of grain and other concentrates, 100 pounds of silage and other succulent feed, 60 pounds of hay and other dry forage, and 2.5 hours of labour. The cost of these quantities of feed and labour represents about 80 per cent of the total cost of production after credits for manure and calves are deducted.

The Misner formula, therefore, reads as follows:

30 pounds of grain @	per ton =
100 pounds of silage @	per ton =
60 pounds of hay @	per ton =
2.5 hours of labour @	c per hr. =

The total feed and labour cost thus calculated = 80 per cent of the total cost of producing 100 pounds of 3.5% milk.

2. *The Hare Formula*

In connection with the milk cost study carried on in Ontario during the four years from 1936-37 to 1939-40 inclusive, Mr. H. R. Hare found that the quantities of the various items entering into the cost of producing milk tended to be fairly constant from year to year. This fact suggested that a formula based upon quantitative data associated with current values might serve as a means of determining changes in production costs as between periods. To this end the following quantitative data was presented as being applicable to the Toronto Whole Milk Zone.

Calculated basic quantities of Feed and Labour required to produce 100 pounds of *milk for sale* in the Toronto Whole Milk Zone:

Oats	21 lbs.
Barley	8 lbs.
Linseed Oil Meal	7 lbs.
Mixed Hay	80 lbs.
Silage	160 lbs.
Labour	3 hours
Hauling	29.9 cents

By using the quantitative data presented above the cost of producing 100 pounds of market milk may be determined by applying values to the several items as follows:

Oats	The farm price of oats as presented in the Ontario Monthly Crop Report, Toronto.
Barley	Same as for oats.
Linseed Oil Meal	The wholesale price of Linseed Oil Meal as quoted Montreal wholesale F.O.F. ton lots.
Mixed Hay	The average values of the two classes of hay (1) hay and clover and (2) alfalfa as quoted in the Ontario Monthly Crop Report.
Silage	The value of silage may range from \$3 to \$5 per ton depending upon the average yield as shown by the Ontario Monthly Crop Report, Toronto. For an 8 ton yield the value should be set at \$5 whereas it should be set at \$3 for a yield of 11 tons. For each additional ton per acre above 8 tons the value per ton should be reduced by 66 cents.
Labour	The value of labour should be set at 16.5 cents per hour weighted by current farm wage rates as follows: <u>16.5 X (average wage of males per month, incl. board)</u>

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The wages of male help to be used is that determined by the Bureau of Statistics, Ottawa.

To the sum of the costs thus calculated, add 29.9 cents to cover delivery charges from the farm to the distributing plants in Toronto. The total arrived at represents approximately 75 per cent of the gross cost of producing whole milk. Other costs to be considered include pasture, use of dairy buildings and equipment, interest on dairy livestock at 4 per cent, depreciation of dairy livestock, a proportion of the farm expenses for taxes, insurance, telephone and electricity chargeable to the dairy enterprise, and general dairy expenses incurred for dairy equipment repairs, fly spray, pedigree registration of cattle, disinfectants and other incidentals. These items represent 25 per cent of the gross cost of producing milk.

Appreciation of dairy livestock and the value of milk used by other livestock represent a credit approximating 13 per cent of the gross cost. There remains 12 per cent of the cost (25 - 13 = 12) to be added to the cost thus far determined. To the sum of the items already calculated, add 12 per cent. The total will represent the cost of production for the period represented by the prices used in the calculation.

3. *Cunningham Formula*

*Estimated cost of Producing Milk by Formula**—The cost of producing milk may be calculated by formula by applying current prices to the physical quantities of feed and labour required to produce a given amount of milk. In table 7 you are shown the approximate amounts of grain, hay, silage, pasture and labour required in the production of 100 pounds of milk, based on cost-of-production studies in the period 1930 to 1936. These items made up 90 per cent of the net cost of milk. Feed prices and wage rates for any particular period may be used to calculate the values of these items. The total of the values divided by 90 and multiplied by 100 gives the calculated net cost of producing 100 pounds of milk.

*From "Costs in Dairy Farming" by L. C. Cunningham, Cornell Extension Bulletin No. 427.

Table 7—ESTIMATED COST OF MILK BY FORMULA

Items		Formula	
Approximate amounts required to produce 100 pounds of milk.		Prices	Cost to Produce 100 pounds of milk.
Grain.....	33 pounds x	..... per pound =	.....
Hay.....	70 pounds x	..... per pound =	.....
Silage.....	100 pounds x	..... per pound =	.....
Pasture.....	2.3 days x	..... per day =	.....
Labour.....	2.6 hours x	..... per hour =	.....
Total for feed and labour (90 per cent of net cost)			.....
Yearly average cost (100 per cent)			.....

Formulas as summarized by Morrison

Various simple formulas have been worked out for estimating the cost of milk production. In these formulas all the costs are reduced to terms of feed and labour. Therefore, by taking the current prices for feeds and labour, a more or less approximate estimate of the cost of producing milk can readily be made at any time.

In using these items as a basis for calculating the cost of producing milk, it is assumed that as the prices of feeds and labour rise or fall the other items of expense and the credit items will fluctuate more or less in the same proportion. Though the costs of all the factors probably never change in exact unison, they usually keep closely enough together for purposes of comparison.

One of the formulas which has been used most widely is that of Warren of the New York (Cornell) Station. According to this formula, the cost of producing 100 pounds of milk under New York conditions is found by first totalling the cost of 33.8 lbs. concentrates, 43.3 lbs. hay, 10.8 lbs. of

other dry roughage (corn stover, corn fodder, straw, etc.), 100.5 lbs. silage, and 3.02 hours of man labour. This total represents 80 per cent of the entire cost. Therefore it must be increased by one-fourth to determine the approximate total cost of 100 lbs. of milk, according to the formula. The Warren formula has been simplified by Misner, as shown in the following table. This presents some of the formulas that have been proposed to meet conditions in various districts.

COMPARISON OF FORMULAS FOR COST OF MILK PRODUCTION

Factors in Formula	Warren (N.Y.)	Misner (N.Y.)	Pearson (Ill.)	Food Admin- istration	Indiana	Michigan
Concentrates.....lbs.	33.80	30	44	33.50	28.9	23.50
Hay..... lbs.	43.30	60	50	45.30	38.1	34.90
Other dry roughage .lbs.	10.80		39	11.50	9.9	15.20
Silage.....lbs.	100.50	100	188	102.60	104.8	110.40
Labour.....hours	3.02	2.5	2.42	2.88	2.4	2.11
Corrective factor.....%	25	25	0	23.7		45.8

To illustrate the method of estimating the cost of milk production according to a formula, let us estimate the cost, using the Misner formula. We will assume that the cost of a good concentrate mixture is \$26 a ton; of hay \$12 a ton; of silage, \$4 a ton; and of farm labour 25c an hour, including board. At these prices the total cost of 30 lbs. concentrates, 60 lbs. hay, 100 lbs. silage, and 2.5 hours man labour will be \$1.575. Increasing this total by 25 per cent to cover the other costs will give us \$1.97 as the estimated total cost of producing 100 lbs. of milk.**

**The above table and accompanying explanation is found in "Feeds and Feeding" by F. B. Morrison, Twentieth Edition, The Morrison Publishing Company, Ithaca, New York, 1944, pages 579 and 580.

APPENDIX 14

DAIRY COST SURVEY

Name of Operator.....County.....
 P.O. Address.....Type of milk shipper.....
 Acres Operated.....Owned or Rented.....Breed of Cattle Kept...
 Estimated proportion of total farm income from dairying.....%
 Beef cattle.....% Hogs.....% Poultry.....% Cash Crops.....%
 Other.....%

Enumerator.....

Section 1—Dairy Herd Inventory, 1946

	Jan. 1, 1946		Purchased 1946		Sold 1946		Died 1946		Dec. 31, 1946	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
Herd bull, pure bred...										
Herd bull, grade.....										
Cows, pure bred.....										
Cows, grade.....										
Heifers, over 1 yr. p.b..										
Heifers, over 1 yr. grade										
Heifer calves, p.b.....										
Heifer calves, grade....										
Calves, veal*.....										
Calves, bull.....										

*Includes calves sold at birth.

Section 2—Inventory of Dairy Buildings and Equipment

	Total Value	Amount Chargeable to Dairy Business		Total Value	Amount Chargeable to Dairy Business
Dairy Barn & Silo			Milking Machine.....		
Milk House.....			Milk Cooler.....		
Litter carrier.....			Cans, pails, strainer, etc.		
Feed carrier or cart			Cream separator.....		
Power & Pumping Equipment.....			Milk scales.....		
Feed grinder.....			Milk hauling equipm't.		
Root pulper.....			Misc. stable tools & equipment.....		
Oat roller.....			Other (specify).....		
Total.....			Total.....		
			GRAND TOTAL...		

Section 3—Home Grown Feed Summary

	On Hand Jan. 1, 1946	1946 Crop	On Hand Dec. 31, 46	Fed to Dairy Herd, 1946	
				Amt.	Value
Oats					
Barley					
Wheat					
Mixed Grain					
Corn (Grain)					
Corn Silage					
Corn fodder					
Soybeans					
Roots					
Hay (state kind)					
Straw (feed or bedding)					
Other					

NOTE—First three columns in Section 3 need not be filled in if amount of home-grown feed fed to dairy herd can be determined more accurately, such as on the basis of daily consumption or otherwise.

Section 4—Purchased Feed fed to Dairy Herd, 1946

	Amt.	Value		Amt.	Value
Oats			Soybean meal		
Barley			Dairy Concentrate (state kind & protein content)		
Wheat			Calf meal		
Mixed Grain			Beet pulp		
Corn			Silage		
Bran			Roots		
Shorts			Hay (state kind)		
Middlings					
Glutin feed					
Brewer's grains			Straw		
Distiller's grains			Mineral		
Linseed oil meal			Salt		
Cottonseed meal			Other		
Total			Total		
			GRAND TOTAL		

Section 5—Summary of Dairy Pasture, 1946

Acres	Type of Pasture*	Period Used	Value

*Indicate whether short or long term pasture, type of mixture used, etc. If rented, specify.

Section 6—Farm Labour Summary

Hired Labour	Months Hired	Cash Wage per mo.	Value of Board or Perquisites	Total Cost of labour

Family Labour	Months Worked	Rate Paid	Total Value
Operator			
Sons			
Women			
Other			

Section 7—Summary of Dairy Herd Labour

Month	Days	Ave. time per day hrs.	Total Dairy Labour for Month hrs.	Rate per hour	Monthly Labour Cost
January...	31				
February..	28				
March....	31				
April.....	30				
May.....	31				
June.....	30				
July.....	31				
August....	31				
September	30				
October...	31				
November	30				
December.	31				
Total, Year					

Note:—First column only in Section 7 need be completed in field.

Section 8—Farm Perquisites Used in House

	Amount	Price	Milk Equiv.	Value
Whole Milk.....				
Cream.....				
Skim Milk.....				
Dairy Butter.....				
Home-made Cheese....				

Note:—Only columns for amount and price need be completed in field. Price should be a *farm price*, not city retail price.

Section 9—Sales of Dairy Products

	J.	F.	M.	A.	M.	J.	J.	A.	S.	O.	N.	D.	Total
Fluid milk lb.													
Total Value													
Cheese milk lb. . .													
Total Value													
Manufactured milk lb.													
Total Value													
Cream lb.													
Total Value													

Note:—If possible, total value of Dairy Product Sales should be the value before any deductions for hauling, association fees, etc. These will then be shown as expenses in Section 11.

Section 10—Credits to Dairy Live Stock

	Amount	Value at farm
Whole milk fed to farm livestock & poultry		
Skim milk fed to farm livestock & poultry		
Buttermilk fed to farm livestock & poultry		
Whey fed to farm livestock & poultry		
Manure		
Prizes, etc.		
Other		

Section 11—Current Dairy Expenses, 1946

	Total Year	Dairy Share**
Repairs, dairy buildings		
Repairs, dairy equipment		
Insurance		
Taxes		
Veterinary & medicine		
Hauling and trucking*		
Feed grinding		
Electric light & telephone		
Ice		
Registration Fees		
Breeding fees		
Association fees		
Milk testing expense		
Spray material, whitewash, disinfectants, etc.		
Milk strainer discs		
Advertising, stationery		
Grease and Oil		
Misc. hardware & supplies		
Other (specify)		

*Include milk or cream hauling unless deducted from value of sales in Sect. 9.

**Expenses such as taxes, insurance, electricity, etc. which are jointly chargeable to dairy and some other enterprise should be apportioned on as reasonable a basis as possible. One method might be on the basis of income contributed by each enterprise

APPENDIX 15

SUPPLEMENTARY BRIEF ONTARIO WHOLE MILK PRODUCERS' LEAGUE

The following minutes were duly moved and seconded at the annual Meeting of the Ontario Whole Milk Producers' League, 19th and 20th February, 1947:

WHEREAS the Provincial cabinet has seen fit to announce that the Milk Control Board has no power to issue orders establishing fair prices to producers and to consumers, and;

WHEREAS the Ontario Milk Producers have every confidence in the Hon. T. L. Kennedy, who was responsible for the Milk Control Act in 1934, and as it has so effectively regulated the fluid milk industry for the past twelve years.

THEREFORE BE IT RESOLVED that we, the Board of Directors of the Ontario Whole Milk Producers' League, representing approximately 16,000 dairy farmers, urge the Premier of Ontario to not only have the Milk Control Board of Ontario sustained, but to amend the Act, if necessary, giving the Board the power to issue orders dealing with production, transportation, distribution, and the setting of fair prices, in the interest of the fluid milk industry.

RESOLVED THAT the Ontario Whole Milk Producers' League do everything in their power, within their power, to support the Concentrated Milk Producers, Cheese Producers and Cream Producers in their campaign to get cost of production and anything else in the interest of the dairy industry.

WHEREAS it is a recognized fact that quite a large percentage of the cost in producing milk for the fluid milk market is involved in keeping up a level supply and in many cases catering to fluctuating markets:

AND WHEREAS we have been able through our organization to establish the principle of cost of production as a fair price of milk for our producers;

THEREFORE BE IT RESOLVED that we recommend to all our local markets and members to study the need of these markets in the light of past experience and endeavour to regulate their supply by setting a proper quota system to meet, as near as possible, the needs of the consumer.

We further recommend that quota committees show no mercy when setting or adjusting quotas to the producer who persistently ignores his obligations to his market and his fellow producer.

We believe that if we hope to maintain a level price throughout the year it will be necessary for all producers to keep seasonal surpluses off the market and make every effort to keep up their production when milk is normally in short supply.

BE IT RESOLVED THAT the Lincoln County Milk Producers' Association assembled in Annual Meeting wish to express our appreciation of the untiring efforts of the Honourable T. L. Kennedy, Minister of Agriculture, on our behalf.

We also wish to point out the desirability for the early reinstatement of the Ontario Milk Control Board with full authority to control the sales and fix prices of milk from producer to consumer and to fix a reasonable and satisfactory rate for the distributor for services rendered in distributing our products and furthermore, to control and direct the trucking of milk and charges for this service in order that we may have orderly marketing in the fullest extent.

BE IT RESOLVED THAT the Lincoln County Milk Producers in Annual Meeting assembled do extend their unqualified support to the Ontario

Milk Producers' League in their efforts to negotiate an agreement of sale of our milk at a fair and equitable price which assures the producer cost of production.

WHEREAS under the Public Commercial Vehicles Act it is virtually impossible for producers to transport their milk from their farms to the dairies cooperatively.

THEREFORE BE IT RESOLVED that we ask the Ontario Provincial Government to amend the Public Commercial Vehicles Act making it possible where any group of producers decide that it is in their best interest to transport their milk cooperatively without obtaining a P.C.V. license.

WHEREAS the cost of transporting milk from the farm to the market is a factor that must be taken into consideration in milk costs to the producer;

AND WHEREAS the volume of milk carried and the mileage travelled has an important bearing on the cost of transportation;

AND WHEREAS the milk is the property of the producer until it arrives at the designated market and accepted by the distributor;

THEREFORE BE IT RESOLVED that the Ontario Whole Milk Producers' League request the Royal Commission now inquiring into the cost of producing, processing, distributing, transporting and marketing of milk, taking into consideration the savings that could be effected by local producer associations transporting all the milk from the farm to the plant of the distributor, the number of trucks that could be eliminated, the saving of miles travelled and the overlapping of trucks, to recommend amending the Milk Control Act, vesting the Milk Control Board with authority to license all truckers of milk from the farm of the producer to the distributing plant, and with authority to arbitrate and fix charges for this service.

THAT we, the Milk Section of the Dairy Farmers of Canada, affirm the principle of cost of production as one of the main factors in determining the price of dairy products on any market and give all assistance possible to achieve this.

THAT we commend the Milk Foundation for the excellent work they have already done and that we urge the expansion of their program because we feel that they are making a real contribution to the dairy industry and are in a position to contribute greatly, by their interest, to our national health.

Note:—The last two resolutions were passed by the Dairy Farmers of Canada and are presented here for the approval of the League.

APPENDIX 16

ORDER NUMBER 39-15 TORONTO MILK TRANSPORT

Effective June 1, 1939.

ORDER NUMBER 39-15

Respecting the Transportation of Milk from the Farms of Producers to the Plants of Distributors Located in the Toronto and District Market.

WHEREAS it is provided in the Milk Control Act that it shall be the duty of the Board and it shall have power to inquire into any matter relating to the transportation of milk and to adjust and settle disputes arising between producers, distributors and transporters of milk and in each case to make such order as it deems just, having regard to the circumstances, and

WHEREAS the regulations made pursuant to the Milk Control Act provide for the recognition of a Milk Transport Committee, and

WHEREAS a special committee "The Toronto Joint Committee on Milk Transportation," have made certain recommendations to the Board respecting the rates for transporting milk from the farms of producers to the plants of distributors located in the Toronto and District Market and for the settling of disputes respecting such transporting of milk and have requested the Board to approve the recommendations and to make an order declaring the recommendation in force, and

WHEREAS the Board having considered the recommendation and having made due enquiries have agreed to make an order to—

- (a) Recognize the Toronto Joint Committee on Milk Transportation,
- (b) Define the duties and responsibilities of the said Toronto Joint Committee on Milk Transportation, and
- (c) Establish a maximum rate that may be charged for transporting of milk from the farms of producers to the plants of distributors located in the Toronto and District market.

IT IS HEREBY ORDERED THAT—

1. For the purpose of this order the "Toronto and District Market" shall mean the Toronto and district area included in Section 1 of the agreement made between the Toronto Milk Producers and the Toronto Milk Distributors, dated the 5th day of February, 1937, which agreement was approved and ordered in effect by the Board on the 6th day of February, 1937, being Board Order number 37-5.

2. It is ordered that a Committee which shall be known as the "Toronto Joint Committee on Milk Transportation" is hereby established and recognized by the Board in accordance with the further provisions of this order.

3. The Toronto Joint Committee on Milk Transportation shall consist of fifteen members which shall be annually appointed in the following manner:

- (a) The Toronto Milk Producers' Association shall annually appoint five members to the Toronto Joint Committee on Milk Transportation.
- (b) The Toronto Milk Distributors' Association shall annually appoint five members to the Toronto Joint Committee on Milk Transportation, and
- (c) The Toronto Milk Transport Association shall annually appoint five members to the Toronto Joint Committee on Milk Transportation,

provided that in the event of a vacancy on the said Committee, the Association that appointed the member that has caused the vacancy shall forthwith appoint a member to fill such vacancy.

It shall be the duty and responsibility of the Toronto Joint Committee on Milk Transportation to supervise the transportation of milk from the farms of producers to the plants of distributors located in the Toronto and District market and to forward recommendations to the Board pro-

vided that in the event the Department of Highways have jurisdiction, the recommendations shall be made to the said Department of Highways.

In the case of a dispute between a milk transporter and any of the other milk transporters such dispute shall be referred to the Toronto Milk Transport Association and if no satisfactory settlement of the dispute is made it shall be referred to the Toronto Joint Committee on Milk Transportation and if such Committee makes no satisfactory settlement of the dispute it shall be referred to the Milk Control Board of Ontario for final settlement.

In the event a revision of the rates for transporting milk is requested by either the producers or the transporters, or any of them, and no satisfactory settlement is agreed upon by such producers and transporters the matter shall be referred to the Toronto Joint Committee on Milk Transportation, and, in the event such Committee makes no satisfactory settlement of the matter, it shall be referred to the Milk Control Board of Ontario for final settlement.

No producer or transporter shall ship or transport milk to a distributor in a can that belongs to any other distributor and no distributor shall receive milk at the plant of such distributor in a can that belongs to any other distributor provided that in the event a distributor delivers a milk can to a transporter that belongs to any other distributor such transporter shall report the same to the owner of the milk can.

Every milk transporter operating under a P.C.V. license issued by the Department of Highways shall, when transporting milk, act in the capacity of "common carrier" only and shall not purchase milk from any producer for resale to any distributor.

The maximum rate that may be charged by a transporter for transporting milk from the farm of a producer to the plant of a distributor located in the Toronto and District market shall be as follows:

For 15 miles and less	—15 cents per eight gallon milk can
For 20 miles and over 15 miles	—20 cents per eight gallon milk can
For 30 miles and over 20 miles	—23 cents per eight gallon milk can
For 45 miles and over 30 miles	—25 cents per eighth gallon milk can
For 65 miles and over 45 miles	—28 cents per eight gallon milk can
For 90 miles and over 65 miles	—30 cents per eight gallon milk can
For over 90 miles	—at such price as the producer and transporter may agree upon.

- (a) These maximum rates shall apply for the same service rendered by the milk transporters, or any of them, previous to the effective date of this order.
- (b) In any case where rates in effect previous to the effective date of this order are lower than the maximum rates provided above, the previous rates shall remain in effect unless justifiable reason for an adjustment can be shown.
- (c) The mileages mentioned in this section shall be the shortest improved road mileage from the producer's farm to the corner of King and Yonge Streets, Toronto, as defined in the road chart filed with the Milk Control Board by the special Committee of the Toronto Joint Committee on Milk Transportation.

The provisions of this order shall apply to the transportation of milk from the farms of producers to the plants of distributors located in the Toronto and District Market.

The provisions of this order shall have effect from the first day of June, 1939.

This order is made, signed and sealed, this ninth day of May, Nineteen Hundred and Thirty-nine.

(sgd.) C. M. Meek, Chairman.

(sgd.) J. B. Nelson, Secretary.

Certified a true copy of Order number 39-15 of the Milk Control Board of Ontario.

(sgd.) J. B. Nelson.

ORDER NUMBER 39-16
TORONTO MILK TRANSPORT

Effective June 16, 1939.
Amending Order No. 39-15

ORDER NUMBER 39-16

Respecting the Transportation of Milk in the Toronto and District Market.
WHEREAS it is necessary to correct a typographical error made in clause nine of Order number 39-15,

IT IS HEREBY ORDERED that the said clause nine of Order number 39-15 be amended to read:

For 15 miles and less —18 cents per eight gallon milk can
For 20 miles and over 15 miles—20 cents per eight gallon milk can
For 30 miles and over 20 miles—23 cents per eight gallon milk can
For 45 miles and over 30 miles—25 cents per eighth gallon milk can
For 65 miles and over 45 miles—28 cents per eight gallon milk can
For 90 miles and over 65 miles—30 cents per eighth gallon milk can
For over 90 miles—at such price as the producer and transporter may agree upon.

This Order is made, signed and sealed, this Sixteenth day of June, Nineteen hundred and Thirty-nine.

(sgd.) C. M. Meek, Chairman.
(sgd.) J. B. Nelson, Secretary.

Certified a true copy of Order Number 39-16 of the Milk Control Board of Ontario.

(sgd.) J. B. Nelson.

APPENDIX 17

The Honourable Justice Dalton Wells,
Commissioner,
Royal Commission on Milk.

ACCOUNTANT'S REPORT MILK TRANSPORTATION

Sir:

We have reviewed a number of financial statements of concerns engaged in the transportation of milk and have studied the brief prepared by the Toronto Milk Transport Association dated January 20, 1947, in which is included the combined operating results of twenty transportation businesses operating in Toronto, Galt, Newmarket and other centres and which serve the Toronto milk shed.

The statements received by us were in each case prepared by public accountants and relate to the year 1945. That of the Toronto Milk Transport Association covers the operations of 68 vehicles of various types and capacities and is considered to provide a fair indication of the operations of the industry as a whole and in particular a representative cross section of that portion serving the Toronto area.

Operating results for 1945 for a representative group of twenty operators

The submissions indicate that the combined earnings of the group before provision for profits taxes, were \$21,526 or 5.90% of haulage revenue for 1945 as compared with \$35,103 or 14.24% for 1939. This indicates a contraction in dollar profits of 31% although the haulage revenue in 1945 was \$365,004 and in 1939 \$246,655.

While revenues have advanced due to increased volume of milk loads and a slight increase in the average haulage rate, operating costs have also increased and below we give a tabulation showing the actual costs of the chief elements for 1945 as compared with what they would have been had the relationship to sales in 1939 remained unchanged. The summary provides an accounting of the change in revenues and earnings.

	1945 Actual cost	% of sales	1945 Theoretical cost on basis of 1939	% of sales	Excess of actual over theoretical
Sales revenue.	\$365,004	100.00	\$365,004	100.00	. . . . .
Cost of:					
Wages.	102,622	28.12	85,374	23.39	\$17,248
Gas, oil and grease	84,425	23.13	73,110	20.03	11,315
Repairs and tires. .	76,104	20.85	41,282	11.31	34,822
Depreciation.	16,567	4.54	29,857	8.18	(13,290)
	\$279,718	76.64	\$229,623	62.91	\$50,095
Administrative and office salaries and general expenses.	63,760	17.46	83,404	22.85	(19,644)
Total cost.	\$343,478	94.10	\$313,027	85.76	\$30,451
Net profit (before taxes).	\$21,526	5.90	\$51,977	14.24	(\$30,451)

It will be noted that 1945 costs have benefited considerably from reduced depreciation provision indicating that a number of the vehicles in service in 1945 were fully depreciated also that a number were experiencing their first years service in 1939 whereby the income tax regulations would permit a 25% depreciation charge against profits for that year as compared with 20% in subsequent years.

Offsetting the saving in depreciation provision is the greatly increased cost of repairs to vehicles also tire repairs and replacements. These averaged \$509 per annum for each vehicle in 1939 as against \$1,119 in 1945 indicating that the vehicles were requiring more frequent servicing and had become more costly to operate.

The apparent saving in administrative and office salaries and general expenses is chiefly brought about by the payrolls of both administrative and office salaries being held at almost the same level in 1945 as in 1939. In the last mentioned year they totalled \$23,188 representing 9.41% of revenue while in 1945 the total was \$24,207 equal to 6.63%. The cost strikes us as being adequate, nevertheless the expenditure has been satisfactorily controlled.

Under emergency wartime controls many restrictions were applied to the automotive transport industry such as mileage and territorial limitations, elimination of certain discounts from garages for repair parts, changes in the terms of guarantee relating to tire purchases. Operating costs were also advanced appreciably by increased costs of gasoline and oil and the reduced mileage from tires manufactured under wartime standards and specifications. To compensate for these adverse factors rate increases were authorized where essentiality of service and financial necessity could be proven, and this combined with the substantial increase in fluid milk consumption, was of considerable assistance to the milk transport industry in overcoming what may have otherwise been a critical period.

Financial position

The balance sheet position of the industry is not particularly strong, there being many small transport businesses operating with limited financial resources and on borrowed funds. The interest on such monies has been allowed as a charge against profits in the results herein reported.

Under such conditions it is conceivable that difficulties may be encountered by some concerns in the acquisition of new vehicles to replace the old which would no doubt result in savings in repair and operating costs.

Operating data

While it appears that for 1945 earnings (before taxes) average 5.90% of revenues for the milk transportation industry individual results vary considerably. The statements in our possession show profits ranging from 3% to 13% of revenues for some businesses, others either breaking even or showing a loss.

Dollar revenues per vehicle also reveal sharp contrasts ranging from \$4,000 per annum to over \$7,000 for an average of \$5,400 per year.

The average original cost per vehicle appears to approximate \$2,000 but at the close of 1945 some concerns had depreciated the vehicles down to an average book value of less than \$300.

Taking the group of twenty concerns as a whole it was found that in 1939 the average number of eight gallon cans transported by each vehicle was 18,804 as compared with 22,205 for 1945, an increase of 18%. In 1939 the haulage revenue per can was 23.85 cents whereas in 1945 the average was 24.17 cents, showing an increase of only .32 of one cent per can, according to the brief of the Toronto Milk Transport Association.

Observations and conclusions

Approximately 30% of the total fluid milk consumption of the Province is accounted for in the Toronto milk shed. This represents approximately 129 million quarts or 332,820,000 lbs. of whole milk per annum.

In terms of eight gallon cans the foregoing approximates 4 million units so that taking an average haulage rate of 24.17 cents per can as shown for 1945, a total annual haulage cost for the Toronto milk shed of \$966,800 is arrived at equal to .76 of one cent per quart.

As the average load per vehicle is 22,205 cans per annum it appears that over 200 vehicles may be serving the Toronto market alone.

The financial statements we have examined show a return of 5.90% of revenue for 1945. It is estimated that the capital employed for these concerns as calculated substantially in accordance with the provisions of the Dominion excess profit tax act may approximate \$90,000. It should be pointed out, however, that capital employed is not an important factor in this business. The earnings return in relation thereto is approximately 24%.

Based on the foregoing it could well be that more than 600 vehicles are engaged in milk transportation throughout the Province and that the capital employed may approach \$800,000. On the basis of revenues approximating \$3,000,000 for 1946 the return on capital employed for the whole industry may exceed 20%.

The control of this very appreciable cost factor in the price of milk is in the hands of the Toronto Joint Committee on Milk Transportation, a body formed by the Milk Control Board in 1939, comprising fifteen members, five from each of the Producers' and Distributors' Associations, and five from the Toronto Milk Transport Association.

We presume that this body is furnished with adequate statistical data at regular intervals to ensure satisfactory control over rates and services, as such cost currently represents about 4½% of the consumer price per quart of fluid milk.

There is some overlapping of territories which might be eliminated by closer co-ordination amongst individual operators as well as between the producers and distributors.

The industry may have annual revenues in excess of \$3,000,000 and if a determined effort is initiated by the Toronto Joint Committee there seems a reasonable prospect that some economies helpful to the industry may be effected and improved standards of service to producers and distributors attained with resultant benefit to the consuming public.

Respectfully submitted,

JOHN S. ENTWISTLE,

Accountant, Royal Commission on Milk,

Province of Ontario.

July 26th, 1947.

APPENDIX 18

ROYAL COMMISSION ON MILK INDEX TO ACCOUNTANTS' REPORT SURVEY OF FLUID MILK DISTRIBUTORS LOCATED IN THE PROVINCE OF ONTARIO

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ROYAL COMMISSION ON MILK
INDEX TO EXHIBITS
FORMING PART OF ACCOUNTANTS' REPORT
SURVEY OF FLUID MILK DISTRIBUTORS
LOCATED IN THE PROVINCE OF ONTARIO

EXHIBIT

- A. Index of counties comprised in each of the eight zones, or milk sheds, showing the number and type of independent fluid milk distributive businesses located in each, and the number and type from whom financial statements and other data was received and included in our survey.
 - B. Recapitulation by zones of data extracted from financial statements submitted by 387 independent fluid milk distributors.
 - C. Tabulation by zones of sales groupings of 387 independent fluid milk distributors.
 - D. Tabulation by zones showing the materials, processing, distributing, and administrative costs of 41 representative independent fluid milk distributors combined.
 - E. Tabulation by zones showing the material, labour and facilities costs of 41 representative independent fluid milk distributors combined.
- Note: The above exhibits do not include any figures relating to the three largest concerns as they are dealt with separately in the report.

The Honourable Justice Dalton Wells,
Commissioner,
Royal Commission on Milk.

*Accountants' Report
Survey of fluid milk distributors
Located in the Province of Ontario*

Sir:

We have completed our survey on the above subject and now have the pleasure to submit our report thereon.

Assignment, approach and procedure

We were required to investigate and report on the operations of fluid milk distributors located in the Province of Ontario with particular regard to costs, prices, price spreads, methods of financing, and methods of management.

These matters are dealt with in the report which follows and which includes the exhibits listed on Page 80.

Before proceeding to deal with the various points in detail, it is considered that a brief reference to certain of the more important matters relating to the industry as a whole would be of advantage.

Industry background:

According to the Milk Control Board there were 630 regular distributors, and 346 producer-distributors licensed to operate in the Province of Ontario in 1946. Of these, 416 were members of the trade organization known as the Ontario Milk Distributors' Association.

The industry within the Province comprises three large companies, whose combined dollar sales approximate one-third of the total, one hundred or more independent incorporated companies, the remainder being proprietary or partnership businesses with annual sales ranging from \$5,000 per annum to over \$1,000,000. There are also a few co-operative organizations.

Based on information coming to our notice, there have been a number of absorptions and amalgamations in recent years which may have tended to increase the influence of the larger concerns within the industry, while at the same time, perhaps, contributing to its overall efficiency.

The amount of capital employed is not high in relation to sales volume. Practically all of the concerns carry fixed assets on the books at original cost less depreciation, but certain absorptions and amalgamations have resulted in appraised values being employed in a few instances.

Besides processing and distributing fluid milk and cream, chocolate drink, and buttermilk, the industry produces large quantities of ice cream, butter, cheese, and concentrated milk products. It also trades in eggs and poultry.

With the exception of one company, operations are restricted to the domestic market, but not necessarily the Province of Ontario, as some dairy produce is shipped into Ontario, while some, which is processed within the provincial boundaries, is shipped to other provinces. This movement is, no doubt, governed by price and supply factors.

The overall sales volume of the fluid milk distributive industry in Ontario is estimated at \$90,000,000 for 1946, of which approximately 65% relates to fluid milk and cream, 8% to butter, and 7% to ice cream; the balance comprising chocolate drink, cheese, and sundry produce. The table, which follows, shows the allocation of the estimated whole milk production for that year:

TABLE 1
Allocation of estimated whole milk production
in the Province of Ontario
for the year 1946

		1946		1945
	Production	Estimated pounds of whole milk	% of total	% of total
Creamery Butter.....	68,785,800 lbs.	1,610,275,000	36.92	38.47
Factory Cheese.....	91,978,000 lbs.	1,030,153,600	23.62	26.94
Fluid Milk.....	467,736,000 qts.	1,206,758,900	27.67	23.69
Fluid Cream.....	13,519,000 qts.	148,709,000	3.41	2.89
Condensed Whole Milk.....	14,765,700 lbs.	33,665,800	.77	.77
Evaporated Milk.....	98,063,700 lbs.	215,740,100	4.95	4.83
Powdered Whole Milk.....	14,535,200 lbs.	116,281,600	2.66	2.41
		4,361,584,000	100.00	100.00

Geographically, the industry is spread throughout the Province, the smaller independents in the main serving the rural districts and the larger ones, including the three big concerns, the urban and metropolitan centres.

The number of personnel directly in the employ of the industry in the Province is approximately 8,000.

Approach and procedure:

The procedure adopted in the procurement of the data necessary for the proper completion of the assignment was as follows:

On December 7th, 1946, a circular letter was addressed to 595 distributors of dairy products and a number of producer-distributors located in the Province of Ontario, requesting that they submit to the Commission a copy of their auditor's unabridged report with certified financial statements, including assets and liabilities, trading or operating, and profit and loss statements for the fiscal year next preceding October 1st, 1946. In the event that no regular audit was conducted, the concerns were requested to furnish their own statements.

In addition, the distributors were requested to submit an estimate of net profit for their current fiscal year, before provision for income and excess profit taxes.

Although the foregoing information was requested to be lodged with the Commission not later than December 17th, 1946, it was not until toward the close of January, 1947, that a sufficiently satisfactory response was recorded enabling us to proceed with an analysis of financial data and tabulations.

Of the 595 requests, only a few unimportant businesses failed to respond. We were, however, only able to include in our tabulations the submissions of 390 concerns, due to a large number of the returns from the producer-distributors and smaller enterprises being incomplete or inaccurate and, therefore, of no value to the survey.

As regards producer-distributors we should emphasize the need for improved accounting standards particularly in regard to the proper division of revenues and expenses between farm and fluid milk distributing operations. We found these to be generally merged, and this in conjunction with insufficient data, has prevented us from submitting a separate analysis of a representative character so far as they are concerned.

We should mention that the 390 concerns tabulated account for approximately 90% of the total domestic sales volume of the industry in the Province.

Our tabulations are also comprehensive geographically, inasmuch as the majority of the communities and counties in the Province are represented. Furthermore, virtually all types and sizes of operation are included. It was from this tabulation of overall operations that a selection was made for the purposes of submitting a form of questionnaire which was primarily designed to provide us with sufficient operating and financial data to permit of more detailed analysis. This questionnaire is referred to later in this report.

Review and tabulation of financial statements showing overall operating results by zones:

In the recording of the submissions, code numbers were employed to ensure privacy, as well as to facilitate handling.

The returns were first sorted into geographical zones covering the whole Province, and record made of the location of the business, its fiscal year end, the amount of annual sales, overall net profits (before provision for income and excess profits taxes), the net book value of fixed assets, and the amounts comprised in loan capital, investments, capital and surplus. In addition, the estimated amount of net profit for the current fiscal year was also recorded.

With regard to the net profits of proprietary businesses, as distinct from incorporated companies, it was found necessary to make many adjustments in respect of proprietors' or partners' salaries in order to ensure proper comparison and a more accurate assessment of each enterprise. In many instances we found that no provision had been made for remuneration to proprietors. In other instances the charge was entirely out of proportion to the size of operation. A scale of remuneration to proprietors and partners was accordingly prepared and applied throughout our calculations, thus placing proprietary businesses on a uniform basis so far as this item of

expense is concerned and permitting a comparison with incorporated companies of similar size.

The Province was first divided into three geographical divisions; namely, western, central, and eastern. (Northern Ontario is included in the central geographical division.) Then the western and central areas were each sub-divided into three sections and the eastern into two, making eight zones, substantially in accord with the "milk-sheds" adopted for price control purposes.

Exhibit "A" attached, shows the counties or districts comprised in each zone and the number of distributors and producer-distributors located in each zone, county or district of the Province, divided as between proprietary concerns and incorporated companies. In the last three columns is shown the number of each type of concern from whom financial statements were received, reviewed, and incorporated in our tabulation. The figures do not include the branch establishments of the three large distributive concerns.

It will be noted that a substantial proportion of the limited liability companies responded with sufficiently complete returns to permit their inclusion in our tabulations; the standard of the returns from the smaller proprietary businesses, however, was such that many of them were unacceptable.

Classification of businesses by sales volume:

As regards the three major distributive concerns, each of them conduct operations in one or more provinces of the Dominion in addition to Ontario, the largest also engaging in export business on a substantial scale. Two of the three companies conduct branch operations throughout the Province, the third confining its activities largely to the Ottawa and Toronto areas.

The great majority of the independent distributors, however, have one place of business and serve the community in its immediate vicinity.

The variation in the individual sales volume of these independent concerns is considerable, and having regard to the influence of volume on net profits, it was decided to tabulate the returns by sales ranges. Six classifications, or groupings, were made, ranging from businesses with a sales volume of less than \$20,000 per annum, to those with annual sales in excess of \$500,000 per annum.

Review and Tabulation of Questionnaires:

Of the 387 independent concerns whose financial statements were tabulated, it was decided to request a fair proportion of them to complete a form of questionnaire. In making this selection consideration was given to the standard of financial statement submitted, geographical location, character and size of operation, type of business, as well as other factors, so as to ensure a fully representative cross-section of the industry from all viewpoints.

The questionnaire itself included two exhibits, relating to the financial position and operating results, and ten schedules designed to provide operating and statistical data regarding sales and selling prices, costs of raw materials and ingredients, cost of processing, selling and delivery expenses, administrative and general expenses, as well as wage rate and labour data. Instructions regarding completion were appended so as to avoid misinterpretation as far as possible and ensure uniformity of answer. In designing the questionnaire, consideration was given to our minimum requirements, also the facility with which it might be completed by the majority of distributors selected.

General:

We believe that the foregoing broadly covers our approach to the problem and the procedures followed, but reference should be made to the difficulties experienced in obtaining the required information, necessitating in a number of cases personal visitation and discussions either with the distributing concerns or their auditors.

As regards the submission of financial statements, it became necessary to send many follow-up letters due to dilatoriness on the part of many concerns and in a number of instances, to lack of the most elementary financial data, in which case, copies of income tax returns were requested.

Before the statements were passed for tabulation, each one required to be scrutinized for any extraordinary features requiring explanation, such as, disparities between actual operating results and forecasts, wide fluctuations in earnings from year to year; reasons and particulars of consideration involved in change of ownership, to mention but a few of the numerous points entailing correspondence.

As regards the questionnaires, even though the utmost care was taken in making our selection, substitutions became necessary due to change in ownership, lack of sufficiently detailed records or years of operation, all of which involved communications through one medium or another. Finally, as with the financial statements, each questionnaire was carefully reviewed for any omissions, irregularities, variations with financial statements already lodged, and many other points.

In all, over five hundred special letters were sent to fluid milk distributors alone and considerably more were received requiring individual attention, in addition to telegrams and telephone calls, which were quite numerous in themselves.

The selection of concerns for questionnaire purposes could not be proceeded with until the tabulations of the financial statements were completed. Although the questionnaires should have been returned by February 12th, 1947, it was not until March that sufficient information had been received to enable us to conduct our analysis on any worth while scale.

In fairness to the operators, however, we are bound to say that the time of the enquiry was very inconvenient inasmuch as the first request reached the distributors when, in many cases, they were preoccupied with the closing of their accounts for the fiscal year, while the questionnaire was received when taxation returns were required to be prepared and filed. Christmas and other holidays also intervened.

*Overall operating results
for the fiscal year next preceding
October 1st, 1946*

*Overall operating results
387 independent concerns, by zones:*

Exhibit B attached, summarizes the overall net profits, before provision for Dominion income and excess profits taxes, sales and certain other data extracted by us from the financial returns submitted by the 387 independent distributors. This exhibit does not include the corresponding figures of the three large concerns, as in their case a breakdown by zones or milk-sheds is not practical. We have, however, included the combined figures of the three concerns in table 2 which follows later in this report.

Commenting on exhibit B we should point out that the sales and net profits shown are the overall figures and include revenues from ice cream, butter, chocolate drink, and other products in addition to fluid milk and cream. As few concerns maintain departmentalized accounts, there was no alternative. Cost and profit margins by product are dealt with later in this report.

Of the 387 financial statements tabulated, 242 were certified by public accountants or other independent persons.

In considering the overall average net profit (before taxes) of 3.02% of sales, we should point out that there are included in our tabulations a few concerns showing operating losses. The great majority, however, show net profits ranging from less than 1% of sales to more than 5%, in a few instances the latter rate being comparable to that of the three largest concerns.

As regards the percentages of net profits between zones as well as in total, we should mention that they closely approximate the results shown by the questionnaires, with the exception of zone 4 which includes the Toronto area. In this connection the questionnaires indicate that the overall net profits, before taxes, for the Toronto area represents 1.77% of sales and not 1.37% as shown in exhibit B. The former percentage being based on a representative cross-section of the area is, of course, more accurate than the latter which simply reflects the result of a straight tabulation of financial statements received and recorded.

Apart from this, exhibit B provides a reliable comparison of the rates of overall earnings between the different zones. The St. Lawrence sector, the northern districts, and the Niagara peninsular sector showing the

highest margins and York County and the Ottawa Valley area showing the lowest. It will be noted that the percentages of net profit to capital employed show much the same comparison.

In terms of dollar contribution to overall profits for the entire industry, the position is of course totally different. Toronto, Hamilton, and Windsor areas, with their much greater sales volumes, contribute more dollars to the total overall profits of the industry than other areas enjoying higher rates of earnings.

Other tabulations made by us indicate that the independent distributors of the Province hold investments in Dominion of Canada bonds and other securities in excess of \$1,500,000; that the bonded indebtedness, mortgages, and other long term borrowings exceed \$2,500,000 and that the depreciated value of fixed assets approximates \$8,500,000.

Before concluding our observations on exhibit B, we should mention that, had it been possible for us to include the corresponding figures of the three large concerns, the rates of earnings in relation to sales in probably all the zones would have been higher.

*Overall operating results
of the three large concerns:*

After eliminating the export sales and related profits of the one company engaging in foreign trade on any substantial scale, the combined position may be summarized as follows:

Sales	\$35,472,455
Overall net profits (before taxes)	1,593,263
Net profit % of sales	4.49%

The above relates to the sales and net profits realized from production of fluid milk and all other dairy products processed within the Province of Ontario by the three concerns.

The net profit figure of \$1,593,263 is after deducting bond interest, provision for employees pension fund, as well as certain other charges and write offs. Some of these charges are substantial in amount and may or may not be allowed as deductions by the income tax authorities. However, in accordance with the principle followed by us throughout the survey we have accepted the figures as submitted.

As regards net profits the combined percentage of sales of 4.49% is almost 50% higher than the overall average of all independents shown at 3.02% of sales. Individually the earnings range from 3.46% of sales to 5.66%.

There are, however, a number of the more successful independent operators whose rates of earnings in relation to sales, exceed those of the three large concerns. They are amongst those establishments engaged in combined operations.

In general we believe that the favourable overall earnings rate of the three major companies may be attributed to diversification of product in conjunction with a relatively high standard of operating efficiency. They maintain branch establishments throughout the Province, in the larger centres, where volume business is assured, and engage in wholesale trade on an appreciable scale.

Each of the three companies conduct large and successful operations outside the Province of Ontario. The profits arising therefrom have been excluded by us, as this report is confined to operations within the Province.

The financial position of the group is inherently strong. Substantial reserves are reflected in the respective balance sheets. Fixed assets have been very considerably depreciated or otherwise written down. Our impression is that the balance sheet valuations are in each case conservatively stated.

With regard to the return of earnings on capital employed, each of the three companies presented a different problem, for just as profits relating to operations in the Province of Ontario only were required to be determined, so capital employed in the Province was similarly required to be ascertained.

In dealing with the 387 independents, our determination of capital employed was substantially in accordance with the provisions of the

Dominion excess profits tax act. It was, therefore, considered that the same principle should be applied in dealing with the three largest concerns, so that a comparable basis would result.

However, as we have already mentioned, each of the three concerns has acquired other businesses in past years on different bases, either by exchange of shares, outright purchase of shares, purchase of assets or by some other method.

These transactions have necessarily complicated the balance sheet positions, so that each of the three companies consider that the amount of capital employed as determined under the provisions of the Dominion excess profits tax act does not fully reflect the actual amount of capital employed in the business.

Having regard to the foregoing, it was thought advisable to obtain more information from each of the three companies, and in particular, separate figures showing, firstly, the amount of capital employed as computed under the provisions of the Dominion excess profits tax act and the proportion thereof applicable to Ontario operations and secondly, an alternative amount which, in the opinion of the officers of the companies, more accurately represented the actual amount of capital employed in the Province of Ontario.

Below we give the amounts reported to us by the companies in respect of each:

*Three large companies combined
Capital employed in the Province of Ontario
relating to the fiscal year next preceding October 1st, 1946*

	Capital employed	Net profit before taxes	% of capital employed
(a) Amount submitted by the companies as representing the actual amount of capital employed.....	\$26,190,355	\$1,593,263	6.08
(b) Amount as computed under the provisions of the Dominion excess profits tax act . . .	9,250,546	1,593,263	17.22
Difference.....	\$16,939,809		

With respect to item (a) it should be pointed out that a total sum of \$20,300,560, representing goodwill is included therein, whereas item (b) includes but \$3,360,751 for goodwill of which only \$389,585 is incorporated in the financial statements.

The amount of \$20,300,560 is substantially comprised of the excess of the market value of the shares, (as stated by the three companies) issued to the vendors of the various businesses, over the nominal or par value of such shares.

Inasmuch as it constituted additional consideration to the vendors, over and above the amounts paid them for net tangible assets, it affords a good indication of the value placed by the three large companies on the acquisition of the various businesses as going concerns.

It should also be pointed out that item (a), i.e., amount submitted by the companies as representing the actual amount of capital employed of \$26,190,355, does not include the sum of \$3,795,228 which one of the companies reports "represents the write off to capital of certain idle equipment and a write down during the depression in the early 1930's of excessive values of certain operating equipment to bring the book value in line with what was then considered the current market values."

Overall operating results of 390 concerns (including the three large companies):

In table 2 following is given the combined figures of the 390 concerns included in our tabulations:

TABLE 2

Summary of overall operating results of 390 dairy distributing businesses located in the Province of Ontario for the fiscal year next preceding October 1st, 1946.

(Export sales and profits thereon are not included)

	Sales	Net profits (before taxes)		Capital employed	
		Amount	% of Sales	Amount	Profit %
Western	\$31,256,686	\$1,195,315	3.82	\$6,987,396	17.11
Central and northern.....	37,177,477	1,244,439	3.35	7,338,370	16.96
Eastern.....	12,848,691	537,696	4.18	2,802,255	19.19
	\$81,282,854	\$2,977,450	3.66	\$17,128,021	17.38

For the purposes of the above table capital employed has been calculated substantially in accordance with the provisions of the Dominion excess profits tax act for all concerns including the three large companies. In their case the total amount has been apportioned over the three geographical divisions on the basis of sales.

Classification of independent businesses by sales volume and by zones:

We give below a summary of the number of concerns in each of the six sales groups as shown on exhibit C:

Group No.	Number of concerns
1	65
2	118
3	79
	262
4	69
5	39
6	17
Total	387

The above discloses that, of the 387 independent concerns tabulated, 262 are relatively small enterprises having an annual sales volume not exceeding \$100,000. The average annual sales volume for this group is \$40,313. The combined sales total is \$10,561,938, representing 23.06% of all sales recorded in the exhibit, whereas the profit contribution of \$275,430 to the total earnings of \$1,384,187 represents 19.90% showing that, proportionately, the profit contribution of the smaller enterprises is less than their contribution to total sales.

Losses by independent businesses:

Out of 387 independent concerns included in our survey, 45 operated at a loss during the fiscal year next preceding October 1st, 1946. The losses ranged from \$14 to \$10,578 and aggregated \$61,379, which amount has been allowed for in arriving at the overall profit figure of \$1,384,187 per exhibit B.

Out of the 45 concerns only 14 have indicated that they anticipated another year of loss on about the same scale. The majority expected substantial improvement and a fair profit margin.

To this extent these particular 45 concerns cannot be considered as providing any index to the earnings potential of the industry, nevertheless, it has been thought advisable to include them in our tabulations so that the fullest representation is accorded in this report.

Of the concerns incurring losses two are located in each of the cities of Hamilton, Brantford, and St. Catharines. Nine are located in Toronto, and their losses combined aggregate \$27,761, or 45.23% of total. Below in table 3 is given a breakdown by zones:

TABLE 3

Summary of independent concerns showing losses
for the fiscal year next preceding October 1st, 1946

Zone	No. of Concerns	Total
1.....	—	—
2.....	8	\$11,260
3.....	5	3,470
4.....	13	31,257
5.....	8	5,640
6.....	5	4,300
7.....	3	1,325
8.....	3	4,127
Total.....	45	\$61,379

Twenty-nine of the concerns are in the three groups having annual sales volume of less than \$100,000.

The total sales of the 45 concerns for the twelve month period was \$4,370,330 or 8% of the total of all independents. The loss of \$61,379 represents slightly more than 1% of sales.

*Analysis of operating statements
of representative cross-section of industry:*

From amongst the questionnaires returned to us, an analysis of operating costs was made of 41 concerns located in thirty different counties throughout the Province, each of the eight zones being represented. The group comprised proprietary businesses and partnerships as well as incorporated companies, and each of the six sales groupings are included. Accordingly, it is submitted that the concerns combined present a fairly representative cross-section of the industry excluding the three largest concerns.

Of the 41 concerns, five incurred losses, the remainder showing net profits, before taxes, ranging from less than 1% to more than 6% of sales.

Exhibit D, attached, provides a breakdown of operating costs under the four standard headings, while exhibit E gives a breakdown by elements of cost, i.e., materials, labour, and cost of facilities.

It will be noted that the combined overall net profits of these 41 concerns was 3.07% of sales as compared with 3.02% shown in the tabulation of 387 independents per exhibit B. A comparison by zones reveals the following:

TABLE 4

Comparison of net profit margins by zones		
Exhibit B	Zone	Exhibit D
%		%
3.64	1	3.34
2.54	2	2.63
4.08	3	4.49
1.37	4	1.77
4.16	5	4.16
4.19	6	4.58
1.52	7	1.89
4.43	8	4.39
3.02	Overall	3.07

The three main divisions of the Province compare as follows:

3.41	Western	3.51
2.66	Central and Northern	2.87
3.17	Eastern	3.01
3.02	Overall	3.07

Having regard to the similarity of the figures which were arrived at separately by two entirely different methods, we consider that the foregoing tabulation and related exhibits indicate, with reasonable accuracy, the overall profit margins of independent fluid milk distributors by zones as well as for the Province as a whole.

Commenting on the cost breakdown given in exhibit D, it would appear that the explanation for the low rates of earnings in both zones 4 and 7 is due to relatively high material costs and excessive selling and delivery expenses. The low material costs in zones 3 and 8 would seem to account for the more favourable profit margins in those areas, while as regards zones 5 and 6, economic selling and delivery expenses appear to be largely responsible for the satisfactory rates of earnings.

Processing costs in both the Toronto and Windsor areas compare favourably with the other areas, but zone 7 shows an especially low cost.

As regards exhibit E we would direct your attention to the repair costs and provision for depreciation. Collectively they account for almost 4% of total sales revenue and approximate 13% of the total depreciated book value of buildings, machinery and equipment for the group.

Selling and delivery wages are a most important element of cost and there appears to be considerable variation in this item between the different zones.

Financial position of industry

A review of the comparative balance sheets for the two years ended in 1939 and 1945/6 forming part of the questionnaire, clearly indicated that the financial position of fluid milk distributors has improved appreciably since 1939. In evidence of this statement we give below certain data relating to a representative group of independent operators. The position of the three large concerns has already been referred to.

Each of the concerns showed an improved financial position, although there exists considerable variance in their individual achievements over the period of six or seven years.

Net profits for the concerns aggregated \$874,573. During the period of six years a net total of \$370,755 was added to the reserves for depreciation giving a total to be accounted for of \$1,245,328. This amount was applied as follows:

Expended on:

Additions to fixed assets (land, buildings, machinery and equipment)	\$ 706,259
Additions to current assets (principally Dominion of Canada Bonds)	467,447
	\$1,173,706
Income and excess profits taxes	\$ 311,787
Drawings, dividends, and surplus adjustments	264,377
	\$1,749,870

Deduct:

Increase in current liabilities	\$ 296,411
Increase in capital and funded debt	208,131
	\$1,245,328

The total withdrawals for dividends, drawings, taxes, etc., of \$576,164 represents 65.88% of total earnings of \$874,573. Inasmuch as current liabilities have increased by \$296,411 and current assets by \$467,447, the working capital position has improved by \$171,036. In this regard it should be mentioned that due to the elimination of charge accounts and the introduction of the ticket system the working capital requirements are less today than in 1939, despite the increased sales volume which, together with better profits, explains why the industry has been able to make such substantial investments in Dominion of Canada bonds and other securities during recent years.

The capital and surplus accounts for the concerns combined, totalled \$532,683 at the close of 1939. From that time to the close of 1945/6 net

profits (before taxes) aggregated \$874,573. Thus, the earnings over the period, before taxes, represents 164.18% of the total capital and surplus as at the commencement of the period, i.e., 1939 and, after taxes, 105.65%.

The net additions to reserves for depreciation after adjusting retirements and write-offs for the years 1940 to 1945/6 total \$370,755. Over and above this are the charges in respect of repairs and maintenance, which approximate 2% of sales for a total of about \$420,000. Thus, we find that depreciation charges, repair costs, and other adjustments combined, for the period 1940 to 1945/6 inclusive, approximate \$900,000.

In relation to this it should be mentioned that the net depreciated value of land, buildings, machinery, and equipment at December 31st, 1939, for the combined concerns totalled \$551,922. Since that date the sum of \$706,259 has been expended on fixed assets.

In reviewing the questionnaires, it was found that only two concerns out of the group were carrying fixed assets at appraised values.

Before leaving the matter of fixed assets, it should be mentioned that the output of the group has more than doubled since 1939 and, therefore, increased cost of wear and tear might be expected, although the equipment has, in the main, only been subject to single shift operation. On comparing 1939 figures with those of 1945/6 we find the following:

	1939	1945/6	Increase	% of Increase
Provision for depreciation	\$55,214	\$ 94,997	\$39,783	72.05
Repairs and maintenance	44,836	104,920	60,084	134.00
	<u>\$100,050</u>	<u>\$199,917</u>	<u>\$99,867</u>	<u>99.82</u>

While there may be a certain amount of automotive equipment used in delivery service which has passed the stage where it can be operated economically, it would seem that ample provision has been made for its maintenance and retirement as new replacement vehicles become available.

As regards plant and processing equipment it would seem reasonable to assume that it has been maintained in a thorough manner and replacements, improvements, and additions made as and when deemed appropriate by the respective managements. As the result of the improvement in the liquid position during recent years future purchases of equipment can be made on a substantial scale without dislocation of finances.

Wage Rates and Labour Costs

From amongst the questionnaires submitted by the independent distributors throughout the Province, a number were selected for detailed analysis. The group comprised incorporated companies and proprietary businesses. All of the eight zones were represented, and the concerns have annual sales volumes ranging from \$35,000 per annum to more than \$1,500,000. To this extent the group may be considered as providing a representative cross-section of the independent distributors of the Province.

Our tabulations for the group covered the processing and distribution of 14,534,547 quarts of fluid milk, cream, chocolate drink, and buttermilk in 1939 and 29,967,573 quarts in 1945/6. This indicates an increase in sales volume of 106.18% since 1939 which is much the same as the increased consumption of such fluid products for the entire Province.

Such increased production necessitated additional help and the personnel of the processing, distributing and administrative departments were supplemented as follows:

TABLE 5
Number of Employees

	1939	% of total	1945/6	% of total	Increase	% of increase
Processing	87	27.02	149	29.45	62	71.26
Selling and delivery	191	59.32	291	57.51	100	52.36
Administrative	44	13.66	66	13.04	22	50.00
	<u>322</u>	<u>100.00</u>	<u>506</u>	<u>100.00</u>	<u>184</u>	<u>57.14</u>

The foregoing indicates that an increase in quantitative sales volume of 106% necessitated an increase of only 57.14% in personnel.

In addition to increased personnel such expansion necessarily entailed extensions and improvements to existing plant and equipment. In the main, the required funds were obtained from the respective treasuries without the necessity of borrowing or raising additional capital.

As with virtually every industry, wage rates increased substantially during the war years, and this, combined with the additional personnel, entailed greatly increased payroll disbursements. Our tabulations show the following comparison for the group as a whole, which as we have stated, provides a fairly representative cross-section of the Province.

TABLE 6

Total Payroll Disbursements

	1939	% of Total	1945/6	% of Total	Increase
Processing	\$108,804	23.47	\$251,598	25.59	\$142,794
Selling and delivery	280,669	60.54	596,016	60.61	315,347
Administrative and general	74,154	15.99	135,741	13.80	61,587
Total	\$463,627	100.00	\$983,355	100.00	\$519,728

Comparison with table 5 shows that whereas the number of personnel engaged in selling and delivery in 1945/6 was 52.36% greater than in 1939, payroll requirements were considerably higher, indicating that there must be a substantial element of wage rate increases. In this regard, we submit the following:

TABLE 7

Comparison of Average Weekly Wage Rates

	1939	1945/6	Increase	% of Increase
Processing	\$24.05	\$32.47	\$ 8.42	35.01
Selling and delivery	28.19	39.39	11.20	39.73
Administrative and general	31.63	39.03	7.40	23.40
Combined	\$27.54	\$37.31	\$ 9.77	35.48

It will be noted that the weekly wage rates of the selling and delivery division have advanced the most, and as 57.51% of the total personnel are engaged in this phase of the business, it constitutes the major part of the burden. It is, in fact, a most important element of cost so far as the distributive industry is concerned, as selling and delivery wages and commissions represent approximately 65% of total selling and delivery expenses.

To what extent female labour may have been employed to offset increased male rates is not known, but we believe table 7 above affords a reasonably accurate indication of the increased wage rates of the independent distributors from 1939 to the early part of 1946.

Turning to the effect of the foregoing on the costs of production and distribution, it was found that the greatly increased output combined with improved standards of efficiency, also wartime economy measures, enabled the group of concerns under review to absorb the greater part of the increased wage disbursements. It appears that the benefits resulting from these factors virtually offset the entire amount of the increased wages.

By dividing the total number of quarts of fluid milk, cream, chocolate drink, and buttermilk sold by the group in 1939, totalling 14,534,547 quarts into the total payroll disbursements, we find that the total labour content in 1939 was 3.1899 cents per quart, whereas in 1945/6, largely as a result of the increased sales volume, the labour content had advanced to only 3.2815 cents per quart as follows:

TABLE 8

	Labour Cost Per Quart			
	1939 Cents	1945/6 Cents	Increase Cents	% of Increase
Processing .....	.7487	.8396	.0909	12.14
Selling and delivery	1.9310	1.9889	.0579	2.80
Administrative and general .....	.5102	.4530	(.0572)	(11.21)
	<u>3.1899</u>	<u>3.2815</u>	.0916	2.87

It will be noted that the saving in administrative and general office salaries and bonuses calculated on a unit basis, practically offset the increase in selling and delivery wages, due to the number of personnel in the administrative and office section of the total payroll, advancing only 50% numerically and only 29.90% as regards average weekly wages as against a quantitative volume increase of 106%.

In support of the foregoing we should say that, although the information which we have on man hours is limited, we have, nevertheless, made certain calculations regarding 1939 and 1945 which indicate a saving in the latter year of approximately 24% in elapsed time in the processing and distribution of fluid milk.

In considering the foregoing matter of labour costs it should not be overlooked that the standard of industrial relations within the industry has improved considerably since 1939, according to the questionnaires. Working hours have been reduced and many concerns grant statutory holidays and a minimum of one week's vacation with pay plus time and one-half for overtime. It was noted that a number of the larger companies have agreements with recognized trades union organizations.

Only very few of the distributors appear to provide for pensions to employees either on a contributory or non-contributory basis.

The foregoing serves to demonstrate the ability of the industry to absorb increased wage rates within certain limits when a progressively improving market for its products prevails.

Selling and Delivery Expenses

Taking the same representative group of concerns, it was found that in 1939 the combined selling and delivery expenses were \$433,459 of which \$280,669, or 64.75%, was represented in wages and commissions. As the result of increased sales, requiring additional personnel, also advances in wage rates, as well as other expenses, the total in 1945/6 was \$868,998, or 100.48% greater, of which wages and commissions aggregated \$596,016, or 68.59%. Other expenses, including advertising, depreciation, repairs, gas, oil, feed, insurance, etc., had, therefore, risen from \$152,790 in 1939 to \$272,982 in 1945/6 an increase of 79%.

To provide adequate delivery service, 101 additional vehicles were employed making a total of 260 in 1945 as against 159 in 1939. Of the new vehicles acquired, 53 were horse-drawn and 48 automotive. This additional equipment in itself was insufficient to take care of the increased volume, but means were found whereby the vehicles carried about 25% more quarts of fluid product in 1945/6 than in 1939.

Overall it seems that the ratio of horse-drawn vehicles to total was about the same in 1945 as in 1939. Local conditions, routes, and deliveries, no doubt, have some bearing on the matter, but whether the relative operating cost of horse-drawn vehicles as opposed to automotive is fully considered, we are unable to say. From such figures as are available, it appears that in urban centres at least the horse-drawn vehicles are more economical from the viewpoint of capital outlay, as well as operation cost, but, of course, individual cases require to be separately considered.

As with most other purchases, the larger concerns probably enjoy better terms in both the original purchase and the subsequent repair cost of delivery equipment, than the smaller enterprises. When it is considered that the initial outlay for delivery equipment of the group in question approximated \$350,000, it is an important item.

Advertising expense for the group increased from \$16,239 in 1939 to \$26,140 in 1945/6 or 61%, although in relation to sales it bears a lesser percentage in 1945/6 than in 1939 when it equalled less than one percent.

Although it is not an important item from an expense viewpoint, the necessity of it might be questioned as such expenditures are frequently lost sight of.

Most of the group are operating on a seven day delivery schedule.

Tests made of the quantities of fluid milk sold per route indicate that deliveries have increased approximately 35% per route since 1939.

As a further test of the relative economy in operation between 1939 and 1945/6 it has been estimated that the quantity of milk delivered in 1945/6 per employee is 30% higher than in 1939.

The matter of routes, deliveries, and related costs is a potent factor in the operations of the distributive industry and should, we believe, be the subject of further study, as the response to our questionnaire suggests a lack of basic information on the part of many distributors on this most important matter.

The cost of delivery and selling expense per quart of milk is influenced considerably by the proportion of wholesale volume to total, but due to lack of information we have not been able to determine the extent.

Administrative and General Expenses

For the same group of concerns this overhead item might be broken down as follows:

	1939	1945/6	Increase
Salaries	\$ 74,154	\$135,741	\$ 61,587
Sundries	54,271	97,185	42,914
	<u>\$128,425</u>	<u>\$232,926</u>	<u>\$104,501</u>

The salaries item has already been dealt with under the heading of "Wage rates and labour costs". Despite the appreciable dollar increase, this item represents only 3.01% of sales for 1945/6 as against 3.31% in 1939.

The sundries item comprises depreciation on office equipment, telephone, stationery, postage, and similar items of expense.

Considering the amount of increase, and having regard to the business developments of recent years, requiring more clerical help than previously, as well as the low ratio to total sales, the expenditure does not seem unreasonable.

Contrasts in operating results

Our survey brought to light many contrasting results between reasonably comparable concerns operating in the same area, which on analysis were in most instances found to be attributable to one or more of the following factors:

- variations in average unit selling prices due to different proportions of wholesale or retail trade to total sales;
- variations in the sales volume of the different products;
- differences in the average cost of whole milk and other materials and supplies;
- variations in the operating costs of vehicles, excluding wages;
- wide disparities in the dollar sales per vehicle and per employee;
- variations in efficiency of manpower;
- differences in repair and maintenance costs.

In regard to variations in efficiency of manpower (item f) we would cite a comparison between two concerns in the same city where the wage rates of one were found to be 20% higher than the other, the hours 6% less, yet a lower labour cost per unit was indicated. The same company showed substantially more dollar sales per employee and per vehicle than the other, all contributing to a much higher rate of earnings. This particular comparison provided an informative analysis of the various factors contributing to successful operation and attractive profit margins, as opposed to the less profitable.

Items (d) and (e) are, of course, influenced by the volume of wholesale sales in relation to retail sales.

Costs and Profit Margins by products

As we have mentioned, it would appear that relatively few concerns maintain records showing the cost of the various products dealt in, while those that do, provide contrasting figures which were difficult to reconcile in many cases.

Even amongst the three large concerns the total costs reported to us show wide disparities. For instance, as regards fluid milk, total costs in 1945 were reported at 12.61 cents by one concern, 11.75 cents by another, and 11.98 cents per quart by the third. Butter costs were reported by one company at 32.08 cents per pound and by another at 37.85 cents, yet both companies showed losses on the product.

A representative group of independents showed the cost of fluid milk at 11.93 cents per quart and cream at 42.85, as against 39.04 per quart for one of the three large concerns. Ice cream for the group of independents was costed at \$1.09 per gallon and by one of the three large companies at 95.85 cents. Chocolate drink seemed to be fairly uniform at 12.41 cents per quart.

The quality of the product has considerable influence on the cost but what is perhaps the most important factor is the apportionment of overhead and indirect expenses between the different products. In this regard the introduction of some standard accounting practice is essential if reasonably accurate unit costs and profit margins are to be determined and proper comparisons made possible as they should be. From the cost data submitted it was found that some concerns were apportioning indirect charges on the basis of dollar sales of each product, others on the material cost, while in one instance product costs were arrived at by deduction, on the assumption that all products carried the same profit margin, demonstrating a lack of appreciation of accounting principles.

With the substantial volume involved on all the products mentioned, a discrepancy of a fraction of a cent in the unit cost totals a considerable amount over the period of a year and may make the difference between a profit or a loss being indicated on the particular product.

The determination of profit margins by products is not only dependent on accurate costs but also on the proper breakdown of selling prices by the different types of sales outlets and here again we find that relatively few concerns maintain adequate records. It appears that the majority do not record the units sold and the sales value of each product according to sales outlet.

Many distributors engage in wholesale trade as well as retail and in the case of fluid milk the wholesale selling prices carry an average discount of about 12½% off retail equal to 2 cents per quart at present price levels according to the questionnaire submitted. Part of this discount is no doubt offset by savings in delivery and selling expenses on wholesale deliveries as compared with retail but the extent we have been unable to determine due to lack of sufficient data.

Where the wholesale volume is substantial the effect on the overall average selling price per quart is considerable and if the figures are accepted without enquiry, the impression may be left that the margin of profit on all fluid milk is extremely narrow, whereas through analysis, it might be determined that, in some instances at least, an actual loss is being incurred on wholesale sales and a fair, or perhaps appreciable, margin of profit on retail. Under such circumstances, the consumer would be virtually subsidizing the wholesaler.

The matter of wholesale prices is dealt with later in this report, but in considering profit margins by products the subject has an important bearing.

Based on the information available to us and such analysis as we have made of financial statements and questionnaires, we believe that the figures given in tables 9 and 10 which follow, may be used as a basis of comparison or as a standard of measurement for the distributors of dairy products in the Province of Ontario.

The figures themselves relate to the fiscal year immediately preceding October 1st, 1946, but based on examination of financial statements and questionnaires relating to the year ended December 31st, 1946, we also believe they are indicative of the costs and profit margins by products for that year.

The selling prices shown represent the overall average for retail, wholesale, and surplus sales combined:

TABLE 9

Selling prices, costs, and profit margins by product for the fiscal year next preceding October 1st, 1946

	Unit	Selling Price (Cents)	Cost (Cents)	Profit (Cents)	% Profit of Sales
Fluid Milk	quarts	12.31	12.10	.21	1.71
Fluid Cream	quarts	44.00	41.36	2.64	6.00
Chocolate Drink	quarts	13.79	12.41	1.38	10.00
Ice Cream	gals.	117.00	99.45	17.55	15.00
Butter	pounds	38.00	38.76	(.76)	(2.00)
Cheese	pounds	20.00	19.25	.75	3.50

Were all sales made at the maximum retail prices profit margins would of course be improved.

For the year 1945 the average retail selling value, including consumer subsidy of 2 cents per quart of fluid milk was slightly less than 13 cents per quart. For 1946 the average retail or household price was 13.46 cents per quart due to the incidence of the three cent advance effective from October 1st, 1946.

An analysis of sales, as reported by the distributors, was undertaken by the Royal Commission which disclosed that the volume of household sales represented 73.93% of total and wholesale and storekeeper sales combined 26.07%. The latter averaged 11.43 cents per quart or 2.03 cents below retail and had the effect of reducing the overall average price by .53 of one cent per quart to an average of 12.93 cents.

Our examination indicated that the margin of profit on fluid milk, as well as other products, varies appreciably between different areas and localities.

For the fiscal year immediately preceding October 1st, 1946, it is estimated that for the entire province the cost of whole milk to the distributor, for resale as fluid milk, averaged 7.00 cents per quart and other costs, depreciation included, were as follows:

TABLE 10

Breakdown of fluid milk costs—per quart for the fiscal year next preceding October 1st, 1946

Cost of:	Per quart	% of Sales
Whole milk	7.00	56.86
Processing including bottles, and supplies	1.77	14.37
Distributing and selling	2.65	21.53
Administrative and general expenses .....	.68	5.53
Total Cost	12.10	98.29
Average selling price—inclusive of subsidy (retail and wholesale combined)	12.31	100.00
Net Profit per quart .....	.21	1.71

The above indicates that for the year under review an average spread existed between the cost of whole milk, per quart of fluid, and the average selling price of the distributor of 5.31 cents per quart, of which all but .21 of one cent was expended on costs of processing, distribution, and administration.

As will be seen later in this report, this profit margin of .21 of one cent has been increased as the result of the increase in consumer price effected October 1st, 1946.

The figures shown in table 10 above are based on data furnished by distributors. The cost of wholemilk, shown at seven cents per quart is, however, appreciably higher than that indicated by official statistics for the year under review. This difference may be partially due to a combination of several factors, including lack of information in allocation of material costs, shrinkage, premiums paid for high test milk, etc.

Selling Prices—Fluid Milk

Consumer prices:

We believe that complete data regarding past and present selling prices is in the possession of the Commission either in the form of evidence, briefs, or correspondence, so that we see no useful purpose in embodying such data in this report.

As an overall indication, the consumer price has advanced approximately from 12c per quart in 1939 to 16c as at the date of this report, an increase of 33 1/3%. Again as a general statement, producer prices, delivered at plant, have advanced from \$2.10 per 100 lbs. of whole milk to \$3.42 over the same period (1939-1947), an increase of approximately 65%. Different areas and centres, of course, show varying increases.

In 1941 federal price control was introduced, followed by subsidies in 1942. The extent to which these measures may have benefited the industry would be most difficult to determine. However, a very substantial increase in volume occurred during the war years, particularly in the metropolitan centres and urban districts, and this is probably the chief factor in providing the industry with perhaps the most profitable years in its history. As the larger concerns serve the more populated areas, it seems reasonable that they benefited to a greater degree than the smaller enterprises operating in the rural districts.

The termination of the producer and consumer subsidies in 1946 and the lifting of ceiling prices on certain products, made necessary a review of all operating costs as well as the purchase and selling prices of both the producers and distributors. Negotiations took place, as a result of which, effective October 1st, 1946, the Milk Control Board approved of an increase in the consumer price of three cents per quart of fluid milk and an increase in the producer selling price of \$1.00 per 100 lbs. of whole milk, equal to 2.63158 cents per quart of fluid milk.

It would appear that the distributor benefited by the difference of .36842 of one cent per quart. Thus, on an annual consumption of 430 million quarts the additional gross revenue would be \$1,584,206 over a twelve month period.

Our survey shows that the financial position of the industry as a whole in the Province of Ontario is the strongest since 1939, and that the overall earnings for 1946 were not materially different from those of 1945 which was a record year up to that time. It is also apparent that the greatly increased sales volume of fluid milk and other products since 1939, combined with improved efficiency and the continuance of certain economy measures introduced during the war years, have not only enabled the industry to absorb all increased costs, but also improve its financial position and earnings on an appreciable scale.

Wholesale prices:

Under present regulations there is no distinction made by the Milk Control Board between wholesale and retail types of businesses; the license permitting the licensee to engage in either, and develop his own sales policy as he chooses. Furthermore, there does not appear to exist any specific definition of what constitutes a wholesale sale as distinct from a retail transaction or other sale. For instance, in the Toronto area, which is one of a number of areas in the Province where the distinction is officially recognized, a wholesale sale is described as "any accounts except retail accounts, storekeeper accounts and hospital accounts". (See M.C.B. Order No. 42-2 dated January 27th, 1942.)

From information obtained it would appear that, as regards fluid milk and cream at least, a retail sale is considered as such by the industry when delivery is made by the distributor at the residence of the customer or sold over the counter at the established retail prices.

Where the product is sold to a store for resale to the consumer it is considered as a storekeeper sale, while the term "hospital accounts" would appear self-explanatory. Thus, it would seem that any sale not conforming with the terms of these three headings would be classified as a whole-

sale sale, regardless of the status of the buyer or the ultimate disposition of the product.

We understand that sales to chain and departmental stores are classified both as storekeeper sales, and as wholesale sales depending on the provisions of the related Milk Control Board Order for the locality in which the sale is made. Where no related order exists, such sales would probably be classified as wholesale sales.

In the aforementioned Order No. 42-2 relating to the Toronto area, wholesale prices are set out and we understand that similar orders embodying price schedules exist for certain other areas, the procedure apparently being, in some cases at least, for the local members of the Distributors' Association to prepare a schedule of prices for submission to the Ontario Milk Distributors' Association and the ultimate approval of the Milk Control Board.

In the main, the bulk of the wholesale business is done by the larger distributors, and, as a result of our enquiries, we were advised that twenty-five concerns might account for perhaps 60% of the entire wholesale volume.

A tabulation of the questionnaires returned to us indicated that eleven concerns were selling no less than 44% of their total fluid milk at wholesale prices ranging from one cent to two and one-half cents per quart less than the household price, whereas, in the absence of official statistics, we have been advised that wholesale sales might approximate 17% of volume. Accordingly the Royal Commission decided to make an independent investigation of the monthly returns of distributors to the Statistics Branch of the Ontario Department of Agriculture.

The analysis revealed that for the year 1946 wholesale sales represented 26.07% of total volume as shown hereunder:

	Quarts	% of Total	Cents Per Quart	Value
Household sales	345,796,207	73.93	13.46	\$46,549,915
Wholesale and storekeeper sales	121,939,793	26.07	11.43	13,938,945
Total	467,736,000	100.00	12.93	\$60,488,860

We attach considerable importance to the proper recording and control of these wholesale sales and would emphasize the need for official statistics regarding them.

Mention might also be made of the prices announced by the trade following the price increase of October 1st, 1946. The Windsor and district trade advanced the prices of pints and half pints of milk, chocolate drink, and buttermilk by the equivalent of four cents per quart, the prices of quarts and gallons only being increased by the three cents authorized.

Under the heading of "Costs and Profit Margins by Products", (table 9), we have given the overall average selling prices of certain products for the fiscal year next preceding October 1st, 1946. Below in table 11 we give a few selections of the average wholesale and retail prices prevailing in certain counties.

TABLE 11
Comparison of Wholesale and Retail Prices for the Fiscal Year next
Preceding October 1st, 1946

	Average Retail Price (Cents)	Average Wholesale Price (Cents)	% Wholesale Discount
<i>Essex County</i>			
Fluid Milk	13.33 qt.	11.14 qt.	16.43
Fluid Cream	41.00 qt.	31.39 qt.	23.44
Chocolate Drink	16.08 qt.	12.71 qt.	20.96
Buttermilk	10.10 qt.	8.31 qt.	17.73
Butter	40.17 lb.	38.24 lb.	4.80
<i>York County</i>			
Fluid Milk	13.67 qt.	11.00 qt.	19.54
Fluid Cream	41.00 qt.	37.10 qt.	9.52
Chocolate Drink	15.00 qt.	13.33 qt.	11.14

Buttermilk	9.00 qt.	6.00 qt.	35.00
Butter	45.00 lb.	42.00 lb.	6.67
<i>Frontenac County</i>			
Fluid Milk	12.56 qt.	10.27 qt.	18.24
Fluid Cream	59.25 qt.	46.56 qt.	21.42
Chocolate Drink	13.10 qt.	12.41 qt.	5.27
Buttermilk	5.00 qt.	4.01 qt.	19.80

It will be noted that there is no uniformity between the average prices of the various products in the different counties or in the wholesale discount rate.

As regards the Toronto area, Milk Control Board Order No. 42-2 provides "inter alia" for the following wholesale discounts:

Standard Milk	2½ cents per quart
Chocolate Drink	1½ cents per quart
Buttermilk	3 cents per quart
Hospital Milk	4½ cents per quart

Having regard to the profit margins on the fluid products referred to and the fact that the related Board Order is dated 1942, the above scale of discounts might well be reviewed.

In discussing wholesale and other special prices with the Milk Control Board, we understand there is no systematic check made by board officials regarding so-called wholesale transactions. According to the Board only occasional complaints of price cutting have been received from distributors.

Prices of Plant or Surplus Sales:

In the form of questionnaire under the classification of sales by type of outlet, provision was made for reporting particulars of retail, wholesale, and plant or surplus sales.

Four concerns in different cities reported sales under the latter heading at prices ranging from 3.16 cents per quart to 7.95 cents per quart, the individual volume ranging from less than 1% of total sales to over 11%. Taking the four concerns combined the fluid milk sales aggregated 5,094,578 quarts of which 269,570 quarts or slightly more than 5% were classified as plant or surplus sales, the average price of which was 6.88 cents per quart or practically half the then prevailing retail price.

The prices reported to us and the discounts off retail prices are as undernoted:

	Price per quart	Discount off retail price
Fluid Milk	6.88 cents	45.23%
Fluid Cream	40.01 cents	32.48%
Chocolate Drink	10.63 cents	18.86%
Buttermilk	2.97 cents	40.60%

We are of the opinion that such sales should be fully enquired into by the Milk Control Board and, if necessary, provision made for them to be reported each month to the Statistics Branch of The Ontario Department of Agriculture as such prices would necessarily have the effect of reducing the overall average price of fluid milk sales and the other products involved, if in sufficient volume.

Price Spread—Fluid Milk

Complete information regarding the purchase prices of whole milk is, we believe, in the possession of the Commission either in the form of evidence, briefs or correspondence. Accordingly, we propose limiting our comments under this heading to certain general observations.

In the consideration of price spreads, as with selling prices, allowance should be made for that volume of production sold at wholesale and other special prices, but as we have indicated, there is no statistical information available to show the proportion of wholesale volume to total sales either currently or for past years.

Based on the monthly dairy reports issued by the Ontario Department of Agriculture, the overall average selling price realized by distributors for fluid milk sales in 1946 was 12.09 per quart, exclusive of the consumer subsidy which was terminated in May of that year. In 1945 the average was 10.31 cents and in 1944 10.37 cents per quart on the same basis.

From the same source we find that the average cost of whole milk purchases for fluid consumption in 1946 was \$2.66 per 100 lbs. or 7 cents per quart on the basis of 38 quarts per 100 lbs. This indicates a gross spread of 5.09 cents per quart giving a gross margin of 72.71% on raw material cost exclusive of subsidy.

The overall average revenue per quart for the year 1946 was 12.93 cents. With a raw material cost equivalent to 7 cents, the spread becomes 5.93 cents showing a gross margin of 84.71%.

For the first four months of 1947 the overall average selling price per quart is reported at 15.20 cents. Thus, over the period 1944 to 1947 the revenue per quart, inclusive of subsidy, where applicable, has been as follows:

1944	12.37 cents
1945	12.31 cents
1946	12.93 cents
1947	15.20 cents

During the first three months of 1947 the cost of whole milk purchases has averaged \$3.42 per cwt. delivered at plant, which on the basis of 38 quarts per 100 lbs. is equivalent to 9 cents per quart leaving a spread of 6.20 cents or 68.89% gross margin.

Regarding 1939 the average cost of whole milk for fluid purposes to the distributor approximated \$2.10 per cwt. equal to 5.53 cents per quart on a 38 qt. basis. Against this the overall average selling price approximated 11.50 cents per quart giving a spread of 5.97 cents per quart equal to 108% gross margin. Thus, the following trend is indicated:

TABLE 12
Trend in Selling Prices and Gross Margins

	Overall Average Selling Price Per Quart (cents)	Average Cost to Distributor Per Quart (cents)	Gross Spread (cents)
1939	11.50	5.53	5.97
1946	12.93	7.00	5.93
1947 (to April 30)	15.20	9.00	6.20

It will be noted that on the basis of fluid milk quarts, the whole milk purchase price has increased by 3.47 cents since 1939, while the overall average selling price has advanced 3.70 cents so that the distributive industry today would seem to be better off by 23 cents per 100 quarts than in 1939. Taken in conjunction with the increased volume this constitutes an appreciable advantage.

This observation is predicated on the accuracy of official statistics which as we have pointed out on page 45, appear to show an appreciable difference, (55c per 100 quarts), from the costs reported by the distributors. Producers' subsidies have quite properly not been taken into account in either calculation.

Purchases of Whole Milk at Secondary Prices

Distributors have always been required to pay the basic price for fluid milk sales but a change in the determination of quotas has occurred since 1942 which has some bearing on the subject.

Prior to that time secondary milk purchases for the different areas were covered by separate Board orders, although in principle they were much the same, whereas at present such purchases are covered by one provincial wide order. When this change occurred, in 1942, quotas were required to approximate sales, whereas before, the quotas were set in excess of estimated sales.

Under this latter arrangement distributors were required to pay at least 85% of the quota at the basic price, even though such portion might exceed

actual fluid milk sales, no more than 15% of the quota being eligible for purchase at the secondary price and then only for purposes other than fluid milk sales.

The regulations now in force require the distributor to pay the basic price for either the quota or sales quantity whichever is the higher, there being no obligation on the producer to deliver in excess of such quantity. If, however, with the consent of the distributor, he elects to do so, secondary price can apply on any quantity they may agree upon, provided of course the milk is used for other than fluid purposes.

Official statistics indicate that in each of the years 1945 and 1946 whole milk purchases by commercial dairies exceeded fluid milk sales by about 160 million pounds, but there are no records to show the products, or quantities of each, into which such purchases have been converted, neither are there statistics to show the quantity which was paid for at the secondary price.

In discussing the matter with the Milk Control Board we were assured that only a very small proportion, if any, would be processed into fluid milk. Virtually all would be converted into products for which the secondary price is applicable, such as cream and packaged cheese, chocolate drink, buttermilk, etc.

In support of this statement we were informed that inspectors and auditors of the Board make test checks of the records of distributors about twice a year and complete form number E1998 at the completion of each inspection. This applies to markets other than those where the producers, by arrangement with the distributors, have their own auditors conduct such examination, as in Toronto and certain other markets. Our enquiries also elicited that there occasionally occurred instances where whole milk, purchased at the secondary price had been processed into fluid milk and sold at the retail price, but the quantities involved were said to be insignificant and remedial measures, satisfactory to the Milk Control Board, had been taken in every case.

As regards the supply of whole milk at the secondary price the position is equally obscure. We are informed that the distributors draw from the regular producers as well as the cheese factories, creameries and condensaries, but the quantities drawn from each source and the prices paid are not known. In this connection we made certain comparisons between the average prices paid for whole milk and the basic prices applicable to certain markets. These indicate that purchases are made at the secondary price in most markets throughout the Province and that the quantity purchased may be quite substantial in the aggregate although varying considerably between different markets.

The spread between the basic price and the secondary price varies between districts (the butter-fat premium is also slightly different), but as a general indication the secondary price approximates \$1.00 less per 100 lbs. than the basic, a considerable reduction and sacrifice from the producer's viewpoint, but one which they were evidently prepared to make, provided the distributors used such secondary purchases in products other than fluid milk.

In this connection we have the assurance of the Milk Control Board that reasonable precautions are taken and the necessary procedures are in effect to keep any abuse to a minimum, but having regard to the lack of basic statistical data, without which the proportions and complexities of the problem cannot be properly assessed, we find it difficult to understand how such an important matter can be fully and satisfactorily controlled.

We believe that this subject should be discussed with the Statistics Branch and the producers' and distributors' associations without delay, as some clarification seems desirable so far as the monthly dairy report itself is concerned. As we have indicated the Milk Control Board claims that little, if any, of the secondary milk is converted into fluid and sold at the established prices, yet the quantity, whatever it might be, is included in the dairy report under the heading of "Total purchases of milk and cream by commercial dairies for fluid sales in Ontario."

Consumer Subsidy

A consumer milk subsidy of two cents per quart was introduced by the Dominion Government effective December 16th, 1942, and continued until May 31st, 1946, when it was terminated. During this period of approximately 3½ years the sum of \$29,649,963.97 was disbursed by the Dominion Government agency and paid to the fluid milk distributors in the Province of Ontario. This amount averages \$8,471,418 per annum and may be apportioned as follows:

1942—December 16th to the end of 1943	\$ 8,856,010
1944	8,199,280
1945	8,658,814
1946—January 1st-May 31st	3,935,860
	\$29,649,964

The subsidy was paid as part of the Dominion Government's overall price control and supply policy as applied to essential foods, materials, and commodities, and accordingly the consumer price was "rolled back" by 2c per quart and subsidy for a like amount paid to the distributors.

The arrangement was beneficial to the consumer as well as the distributor and producer, inasmuch as consumption was no doubt stimulated and volume production and supply thereby promoted. The effect being to place the consumer price on a par with that prevailing in 1934, a year of depression.

In this connection it is interesting to note that the overall profits of Ontario distributors in 1943, the first full year of subsidies showed a marked increase over those of 1942. There is in fact no evidence that the industry took any "squeeze" as the result of increased labour and other costs. Individual overall operating results, as well as for representative groups of concerns, all show a progressive improvement in earnings both in terms of dollars as well as percentage-wise, from the time subsidies commenced up to the close of 1945 at least.

Subsidy payments are, of course, subject to the application of standard profits and taxes as determined under the provisions of the Dominion Excess Profits Tax Act so that where overpayments to individual concerns have occurred, recovery would be made by the Federal government if it has not already been effected. In this connection we should point out that based on the data furnished in the questionnaires, there would appear to be a number of assessments under appeal in respect of both the large and medium sized concerns.

The foregoing observations relate to the subsidy known as the "consumer" subsidy. That which was paid the producers and which at the same time served to protect the distributors' costs and supply of whole milk as well as the consumer price is another matter, which is more properly related to the operations of the producers. This subsidy was latterly the equivalent of 1½ cents per quart of fluid milk.

Diversification of Product and Effect on Earnings

Amongst the several hundred independent distributors of fluid milk in Ontario are eighty-five concerns (of which 45 are incorporated companies) who process and distribute ice cream, butter, cheese, etc., in addition to fluid milk, fluid cream, chocolate drink, and buttermilk, as do the three largest distributors.

Some of these 85 concerns, although regarded as distributors of fluid milk, would, in our opinion, be more properly classified as creameries or condensaries. Of the total, we have taken 55 as being fluid milk distributors.

Our tabulations indicate that the total sales of these 55 independent concerns engaging in combined operations amounted to \$16,114,722 for the fiscal year next preceding October 1st, 1946, with net profits (before taxes) of \$533,397, representing 3.31% thereof. In this regard the following table may be of interest:

TABLE 13

Statement of overall sales and net profits for the fiscal year next preceding October 1st, 1946 showing operating results of fluid milk distributors engaged in combined operations in relation to totals for industry

	Sales	% of total	Net Profits (before taxes)	% of total	% of Sales
55 Independents	\$16,114,722	18	\$ 533,397	16	3.31
Three largest concerns.....	35,472,455	39	1,593,263	48	4.49
Totals for combined operations...	\$51,587,177	57	\$2,126,660	64	4.12
Regular fluid milk distributors not engaged in combined operations.....	38,412,823	43	1,167,340	36	3.04
Total for industry.....	\$90,000,000	100	\$3,294,000	100	3.66

The foregoing shows the improved rate of earnings resulting from diversified production. At the same time it affords an indication of the important contribution to industry sales and profits of the 58 separate organizations engaging in combined operations.

Productive Capacity

Our survey shows that in 1946, at least, the great majority of dairies were operating their fluid milk processing plants at full capacity the year round, on a single shift basis of 48 hours per week although sharp seasonal fluctuations were noted in a few instances principally amongst the smaller proprietary concerns operating in rural districts catering to summer trade.

Two instances came to our notice where the productive capacity on a single shift basis was considerably greater than the sales volume and in each case the concerns showed operating losses.

Generally speaking, however, the fluid milk processing plants themselves have a capacity which on a single shift basis of 48 hours per week is rather more than sufficient to take care of daily requirements, a margin being provided to enable processors to meet emergency situations resulting from delays in deliveries due to inclement weather conditions and peak periods of production.

Overall it would appear that the independent operators, at least, are fully equipped to process fluid milk at a rate per day of eight hours for six days per week—sufficient to ensure the prompt processing of whole milk delivery from the producer on the one hand, and adequate supplies of fluid milk to the consumer on the other.

Any appreciable contraction in the sale of fluid milk to consumers would, therefore, affect costs of production, since present fluid milk plant capacities are geared to an output of almost twice that of 1939.

Breakdown of Overall Sales and Net Profits (before taxes) for the Fiscal Year Next Preceding October 1st, 1946

So far as we are aware, a breakdown of the overall sales and net profits of the fluid milk distributive industry has not previously been attempted due to lack of statistical data, yet, having regard to the interdependence of one product on another where combined operations are engaged in, it seemed important that a condensed, yet comprehensive, statement be prepared.

We believe the information furnished in table 14 below affords a reasonably accurate indication of the relative importance of the products mentioned from the viewpoint of both sales volume and net profits for the fiscal year next preceding October 1st, 1946.

If similar data was assembled for future years, on a quarterly basis, those connected with the administration of the industry would be better informed regarding overall earnings and seasonal trends.

TABLE 14

Breakdown of overall sales and net profits (before taxes) by products for the fiscal year next preceding October 1st, 1946 (as estimated)

	Sales			Net Profits		
	Units	Amount	per Unit (cents)	Amount	%	per Unit (cents)
Fluid Milk	432,857,500 qts.	\$53,284,758	12.31	\$911,169	1.71	.21
Fluid Cream	12,366,900 qts.	5,441,436	44.00	326,486	6.00	2.64
Chocolate						
Drink	16,322,700 qts.	2,250,900	13.79	225,090	10.00	1.38
Ice Cream	5,600,000 gals.	6,552,000	117.00	982,800	15.00	17.55
Butter	20,000,000 lbs.	7,600,000	38.00	(152,000)	(2.00)	(.76)
Cheese	1,500,000 lbs.	300,000	20.00	10,500	3.50	.75
All other	—	14,570,906	—	989,955	6.80	—
		<u>\$90,000,000</u>		<u>\$3,294,000</u>	<u>3.66</u>	

The above table indicates that whereas for the fiscal period referred to, fluid milk sales approximated 60% of total volume, it contributed only 28% of overall profits, a lesser sum than ice cream sales which represented 7% of total, whereas the related profits equal 30% of overall earnings.

The items included under the heading "all other" comprise substantial amounts in respect of concentrated milk products and eggs, also lesser sums for poultry and frozen confections as well as revenues from storage rentals and the sale of ice.

Estimated Overall Net Profits for the year 1946

The estimates of overall net profits, before provision for Dominion income and excess profits taxes, which were received in response to our circular letter of December 7th, 1946, were compared with the actual earnings for the fiscal year next preceding October 1st, 1946, and some correspondence engaged in where there appeared to be unaccountable disparities. In certain cases the actual results for 1946 were obtained before completing our tabulation.

Our final figures, which were assembled by zones or milk sheds, led to the conclusion that the overall net profits of the industry from domestic sales for the year 1946, before provision for Dominion income and excess profits taxes would, in terms of dollars, closely approximate those of the previous fiscal year.

Outlook for 1947

As regards the current year, the present indications are that there may be a contraction in fluid milk sales and possibly other products which carry wider profit margins than fluid milk, but it is exceedingly difficult, if not impossible, to predict with any degree of accuracy, the extent to which the overall earnings of the industry may be influenced.

There is not only the matter of considering the extent of any fluctuation in the sales volume of each product, and gauging the effect of each on combined earnings, but also the extent to which costs might be influenced as a result of the volume variation, aside from possible increases or decreases in the costs of labour, operating supplies and expenses.

Counter to the foregoing are the increased earnings which may be expected from the recent increases in butter and cheese prices also the effect, over a twelve month period, of the recent increase in the consumer price of fluid milk.

Considering all aspects there seems a likelihood that the earnings of the industry for 1947 will at least approximate those of 1945 and 1946 which, as we have stated, were record years.

Income and excess profits taxation as applied to the industry

The tabulations include 118 incorporated companies in the fluid milk distributive industry including the three large concerns. With the exception

of a few co-operative organizations, practically all of the remainder of the industry is composed of proprietary or partnership businesses.

The profits of the latter type of business are included in the personal income tax returns of the owners and only in a few instances is the amount of such tax disclosed in the financial statements relating to the business.

With regard to the three large concerns, calculations indicate that, for the year next preceding October 1st, 1946, they have, collectively, paid income and excess profits taxes to the extent of 58.5% of earnings, after taking into consideration the refundable portion. The combined net profits from operations in the Province of Ontario are stated at \$1,593,263 on which income and excess profits taxes of approximately \$932,059 would be provided for on the foregoing basis.

As regards the independent companies, their ratio of taxation to operating profits is less. For the fiscal year next preceding October 1st, 1946, their income and excess profits taxes are estimated at 49.3% of total earnings, after taking into consideration the refundable portion. The combined profits of the 115 independent incorporated companies are estimated at \$850,000 on which income and excess profits taxes of approximately \$419,050 would be provided for on the foregoing basis.

Thus, for 118 incorporated companies in the industry, including the three largest concerns, earnings of \$2,443,263 are estimated in respect of the fiscal year next preceding October 1st, 1946, and on the above mentioned basis income and excess profits taxes would be \$1,351,109, equal to 55.3% thereof.

The 1946 and 1947 Budgets of the Dominion Government provided for appreciable reductions in the scale of taxes. Allowing for these, and assuming that overall earnings will be maintained at about the same level, it is estimated that the total Dominion and Provincial profits taxes to be provided for in respect of 1947 operations of all incorporated companies in the industry, located in the Province of Ontario, will not exceed \$1,058,161. This indicates an estimated saving of \$292,948 as compared with the fiscal year next preceding October 1st, 1946.

Taking the entire fluid milk distributing industry of the Province, including proprietary and partnership businesses, it might well be that as a result of the net reductions in taxation applicable to 1946 and 1947, the industry may benefit to the extent of more than \$400,000 in 1947 as compared with 1945.

Observations and conclusions

Financial position and overall operating results:

The investigation clearly shows that the financial position of the independent distributors, as well as the three largest concerns, has materially improved since 1939 as the result of increased sales volume and operating profits and the general financial policy followed by the majority of concerns of re-investing earnings in their business by improvements and additions to plant and equipment and improving the working capital position.

In 1939 fluid milk sales in the Province of Ontario were 250,405,000 quarts; in 1946 they were 467,736,000 quarts, an increase of 87%.

Our tabulations of questionnaires, combined with other data, indicate that the overall domestic dollar sales of the industry have doubled since 1939 and that the overall net profits (before taxes) from domestic sales have also doubled during the years 1939 to 1946 inclusive, each year showing a progressive improvement.

The scale of overall earnings in relation to both sales and capital employed can only be regarded as being satisfactory from the industry viewpoint.

As regards 1947, although conditions have changed since 1945 and 1946, there appears to be little ground for anticipating a contraction in overall earnings. Although the present indications are that fluid milk sales may not equal those of 1946, we have indicated that there are some important compensating factors.

Net profits from sales of fluid milk:

It appears that the profit margin on sales of fluid milk approximated .21 of one cent per quart during the fiscal year next preceding October 1st, 1946. We should, however, emphasize that such margin represents the average profit on *all* fluid milk sales, including sales to storekeepers, wholesalers, and others, which we have indicated were substantial and carried an overall average discount of 2 cents per quart during the period referred to.

Were all sales made at the regular consumer prices, the profit margin per quart for the fiscal period referred to would be increased by approximately one-half cent, less whatever the increased cost of selling and delivery expenses for retail deliveries might be, as compared with the cost of wholesale deliveries.

The proportion of wholesale sales to total volume and the discounts given on such sales are matters of extreme importance in the consideration of consumer prices. Yet, as we have stated, the authorities have presently no statistical data on either.

It could well be that a thorough investigation of wholesale sales on an industry wide basis would indicate that a reduction in the volume of so called "wholesale business" and the discounts of such sales could be effected resulting in an appreciable contribution to overall profits.

Reference should also be made to purchases of whole milk at secondary prices, an important factor from the producers' viewpoint, as well as that of the distributor and consumer.

On account of the substantial quantity involved it may have considerable bearing on the profit margins of fluid milk.

The foregoing relates to the period prior to October 1st, 1946. On this date the consumer price was advanced by 3 cents per quart, mainly to compensate the producers for loss of subsidy and to offset, to an extent, increased costs.

Official statistics show that the average overall price received by the distributors since October, 1946 has been 15.2 cents per quart and, of the increase of 3 cents, 2.63 cents goes to the producer to replace the producer subsidy of 55 cents per 100 lbs. and provide for an additional 45 cents per 100 lbs. to cover increased farm costs, the balance of .37 of one cent per quart being retained by the distributors.

Thus the distributors are now averaging a net profit (before taxes) of .58 of one cent per quart as compared with .21 of one cent being the net profit as reported for 1945 and 1946. They may in fact be averaging slightly more as the selling prices of pints and half pints were adjusted on October 1st, 1946 on the basis of four cents per quart in some areas.

This additional revenue may be offset to some extent by increased costs of processing and distribution over the 1946 level, but at the time of this report there is not sufficient data available on which to base an estimate for the industry as a whole.

Undoubtedly the profit margin on fluid milk sales will show considerable improvement in 1947 over the past.

Possible increases in sales revenues:

(a) As the result of the recent increases in the retail prices of cheese and butter, some benefit should accrue to the distributors in 1947.

So far as the distributive industry is concerned butter has made little, if any, contribution to overall profits in recent years. In some instances it appears to have been employed as a loss leader by certain distributors and if this condition were remedied, some improvement in earnings should result.

(b) The present spread between so-called wholesale prices and consumer prices might be narrowed and a closer control exercised on all sales made at less than the retail prices. Under existing conditions it could well be that the consumer is subsidizing the wholesale trade to some extent at least.

(c) Before adjustment of any prices, careful consideration should be given to probable effects on volume. In the fluid milk industry the importance of volume can hardly be over emphasized.

Possible Savings and Economies:

In a recent letter from Professor Spencer, of Cornell University, recognized authority on marketing of milk, he comments on every-other-day delivery as follows:

"Practically everyone is very well pleased with the e.o.d. plan of operation. The milk companies have lower costs and more profit, the drivers get more pay for fewer hours of work, and the farmers' milk reaches the consumers at lower prices than would have to be charged if deliveries were made every day. So far as I know the e.o.d. plan of retail delivery still is practically universal in the United States."

(a) The matter of pooling delivery service has been the subject of considerable discussion from time to time, but there still seems to be variance of opinion regarding its practicability.

(b) Store deliveries, alternate daily deliveries, overlapping of routes, territorial limits as well as elimination of Sunday deliveries are also matters which should be given immediate consideration having regard to the savings that could be effected.

As regards store deliveries we have found that if conducted in conjunction with milk or dairy bar operations, satisfactory trading results are frequently attained, net revenues providing an appreciable contribution to overall earnings. Much depends of course on the location, sales volume by products, management, control, and other factors.

(c) It is estimated that the annual cost of vehicle operation for the industry, including depreciation, repairs, insurance and operating supplies, but excluding drivers' or salesmen's wages, approximates \$5,000,000, representing about 5½% of total sales revenue or approximately .80 of one cent per quart.

Comparisons between different concerns of comparable size and type show marked contrasts in the matter of delivery expense and we hold the view that careful study of store and vehicle operations on a comprehensive basis would be productive.

Delivery costs are one of the most important factors in the ultimate cost to the consumer, yet the standard of the replies to our questionnaire showed room for much improvement in the matter of suitable records essential to proper control.

(d) The fluid milk distributive trade in the Province of Ontario requires the use of a great many vehicles, both automotive and of the horse-drawn type; it is estimated that in a normal year annual purchases exceed \$1,200,000 per annum.

The collective purchasing of replacement equipment might be a practical and economical proposition, and is worth considering by the independents.

(e) Our survey disclosed that the majority of distributors are availing themselves of the maximum depreciation rates allowed under the Dominion income tax regulations. The application of these rates results in substantial charges against operations in addition to appreciable repair and maintenance costs and we are inclined to the view that, taking the industry as a whole the present rates may be higher than are actually warranted.

Records and Statistics:

It is our opinion that opportunities for the correction of uneconomic practices within the industry would reveal themselves were steps taken to improve the statistical and accounting standards of the industry.

The problem of obtaining accurate and informative data with reasonable promptitude from such a heterogeneous industry as the milk distributing trade is most difficult. This is amply borne out by the difficulties we ourselves encountered in obtaining financial statements and other data essential to the survey, and our endeavours to secure completion of the questionnaires.

It is apparent that the great majority of small and medium sized enterprises, as well as some of the larger concerns, do not maintain adequate statistical data; while their accounting standards and records leave much to be desired.

While recognizing these difficulties, we are of the opinion that, having regard to the public interest in such an essential food industry, it is most urgent that it be made fully aware of the advantages of maintaining adequate records, and indeed its obligation to do so, in order that those governmental authorities or persons who are charged with safeguarding the interests of the public and affiliated industries in such a vital food

product are in possession of accurate and informative data both as to past experience and future trends.

We suggest that the entire problem be carefully studied and consultations held with all interested parties, including the related trades associations, with a view to deciding first upon the minimum requirements and then the "modus operandi".

It is also suggested that consideration be given as to the advisability of the Ontario Department of Agriculture (Statistics Branch) obtaining more complete information regarding the breakdown of the overall volume of the industry. For example, the provincial authorities are presently dependent on the Dominion Bureau of Statistics regarding sales volume of ice cream, yet this product is one of the most important factors in the overall profit position of the industry.

If, in the establishment of selling prices of fluid milk and cream, regard is to be given to the profits or losses relating to other products, the volume, prices and profit margins of such other products should be known to those provincial authorities responsible for the observance of fluid milk and cream regulations.

Purchases of whole milk at secondary prices and the products into which such milk is converted are important matters not only to the distributors but also to the producers and the consuming public. The statistical data presently available is in our opinion inadequate to ensure a proper degree of control on such a vital matter.

We should mention the desirability of the trade associations, the Milk Control Board, as well as the Department of Agriculture, reaching a clear understanding as to the proper classification of individual enterprises.

In connection with the survey we have required certain listings of individual concerns by category, i.e., fluid milk distributors, creameries, cheese factories, and condensaries. These lists revealed duplications, also apparently incorrect classifications; viz., creameries being listed as dairies and the reverse.

With combined operations, or diversified production, there may be some difficulty in effecting a proper classification under existing headings, but on account of the considerable spread in profit margins between the four groups, incorrect allocation can result in misleading conclusions. For instance, the inclusion of a number of creameries in a tabulation of dairies would result in the overall profit being understated under price ceilings that were in effect prior to April 30th, last. Conversely, the inclusion of dairy returns with those relating to creameries would result in the profit position of creameries being overstated.

We are not aware of the existence of any records regarding capacities of fluid milk plants by areas, which would serve to show the degree of balance between the producers of whole milk, the capacity of fluid milk plants, and the consumer demand, on a year round basis as well as for peak periods.

If the industry continues on the present basis of independent competition with local supply and demand factors more or less determining its policy, such statistical data would be of value to those responsible for protecting the public interest and public policy, and would be of value to the industry.

In the light of our experience, we believe that if any of the suggestions made in this report regarding the introduction of improved accounting standards and statistical data are adopted, the quickest and best results would be attained through initially arranging for personal visitations to a few selected concerns that would provide a representative cross-section of the industry, this to be followed up by the preparation of the requisite forms and instructions for the entire industry. Such procedure would, amongst other things, ensure elimination of superfluous matter and reduce the risks of misinterpretation.

These and many other points should, we believe, receive the most careful study in the interests of the industry itself, its affiliates, as well as that of the producers and the consuming public.

Export Sales:

The profits derived from export sales by the concern included in our tabulations were substantial, both in terms of dollars and on a percentage

basis. As already mentioned, export sales and profits thereon have been excluded for the purposes of this report.

It should be noted that the producer receives considerably less for milk used for manufacturing purposes than for fluid sales whereas the manufacturer retains in full, any advantage which may exist between export selling prices and domestic. Consideration might, therefore, be given to adjustment of milk prices to the producer or alternatively a division made of the profit realized on export sales.

Amalgamations and Absorptions:

It is suggested that present procedures and regulations which may relate to, or have a bearing on, the amalgamation or absorption of fluid milk distributive businesses within the Province be reviewed with particular regard to their adequacy from the viewpoint of the public interest and that of the industry at large.

In the course of our survey we enquired into a few of the more recent absorptions and found that the ultimate objective of such transactions may not always be apparent. It would seem, therefore, that in such a vital and basic industry sufficiently comprehensive regulations are desirable.

Overall Operating Results

Three Large Concerns:

The report shows that the combined rate of earnings in relation to sales is considerably more than the rate applicable to the independent operators, whereas the return on capital employed, as computed substantially in accordance with the provisions of the Dominion excess profits tax act, is approximately the same.

As regards sales the three large concerns account for 39% of the estimated total for the whole Province, while their related earnings represent 48% of the total net profits.

It must, therefore, be granted that, combined, they constitute a dominant factor within the fluid milk distributive industry in the Province of Ontario.

This position has been attained over the years since 1928, largely by the acquisition of other businesses on terms which were no doubt attractive to both the purchasers and the vendors.

This report shows that, according to the latest available figures, the three large concerns combined placed a goodwill valuation on these acquisitions of \$20,300,560 more than the depreciated or net book value of the tangible assets taken over.

Whether such sum was partially paid in cash or was mainly represented by the excess of the stated market value of the shares involved over the nominal or par value, or a combination of both, is immaterial from the viewpoint of this report. Neither is it of great importance whether such sum was recorded on the books or not, or since written off, (only \$389,585 is presently reflected in the balance sheets). The fact remains that it reflects the purchasers assessment of the goodwill value of the businesses acquired as going concerns.

Having regard to the satisfactory rate of earnings of the three large companies and their strong overall financial position it is evident that the acquisitions of the various businesses as going concerns had considerable financial merit.

There is also the inference that for many years past the large operators have had a high degree of confidence in the potential earnings of the fluid milk distributive industry and its ability to provide a satisfactory return on both sales and capital employed under efficient management.

Increase in the Price of Fluid Milk Authorized in October, 1946:

We are aware of the extent and nature of the negotiations and enquiries which were made by the Milk Control Board and the amount of data which was submitted to it before the increase of three cents per quart was authorized last October. There are, however, some points which have an

important bearing on the matter, concerning which there seems a likelihood that the Board may not have had all pertinent data.

Firstly, there is the matter of wholesale sales. There were no official statistics showing the volume of milk sold at reduced prices to wholesalers, storekeepers, hospitals, etc., yet such sales in terms of quarts have just been found, by special investigation to represent 26.07% of the total for the year 1946 as compared with a lower estimate furnished by the Milk Control Board.

The discount on such sales ranges from one to four and one-half cents per quart and our calculations show that the total wholesale sales provide an average overall reduction from the consumer price of 2 cents per quart. This amount, in conjunction with the volume, has the effect of reducing the overall average selling price of all fluid milk sales by one-half cent per quart, thereby reducing the apparent profit margin.

Secondly, we would refer to the costs and profit margins by products which we have obtained in the course of our survey.

Wide disparities exist in the profit margins of almost every product, including fluid milk, not only between the different zones but also between individual concerns, operating in the same area, which can only be accounted for by one or more of the following factors:

1. Variations in the average selling price realized due to differing proportions of wholesale, store and other classes of business carrying discounts off the consumer price. For instance, if a concern specialized in wholesale trade to the exclusion of retail the selling price realized on fluid milk would average 2 cents per quart less than if engaged in exclusive retail trade.

2. Lack of uniformity in accounting practice and in particular the apportionment of overhead and indirect expenses.

As we have stated in the report few concerns maintain production cost records and those that do use different methods of applying overhead. Some use dollar sales, others unit quantities, material costs or some other basis.

3. Variations in the efficiency of manpower and machines, including delivery vehicles.

4. Variations in the degree of management and accounting standards and control affecting economy of operations.

5. Variations in interest charges due to differences in amount of borrowed capital.

6. Variations in proprietors' and partners' salaries or drawings. (In our survey this has been countered by the application of a pre-determined scale based on sales volume.)

The extent to which the foregoing were enquired into and considered before deciding to increase the consumer price by three cents per quart is not known, but their effect is clearly demonstrated by the following tabulations of the Royal Commission:

Cents per quart of fluid milk

	Cost	Selling price (before taxes)	Profit
Three largest concerns:			
(Average on all sales of fluid milk).....	12.6152	12.7067	.0915
	11.7500	12.0600	.3100
	11.9900	12.1500	.1600
Independents located in:			
Windsor.....	12.3310	12.6460	.3150
Windsor.....			(One of the three large concerns shows a cost of 12.3400 per quart and a profit of .3900 for the Windsor area)
Toronto.....	10.9233	11.0373	.1140
Toronto.....	12.4590	12.8130	.3540

There are many other instances which could be cited but the foregoing demonstrates the point in question. It will be noted that the average

selling prices for two companies located in Toronto differs by 1.7757 cents per quart and the profit of one is more than three times that of the other yet the cost per quart is 1.5357 cents higher. Marked contrasts also occur even amongst the three largest concerns. These differences may appear trifling on a unit basis but it should be remembered that on a volume of 400 million quarts per annum a tenth of a cent error results in a discrepancy of \$400,000. Thus in such a volume business as the fluid milk industry the seemingly trifling sum reaches tremendous proportions. By the same token the smallest economy can have the most significant effect on earnings.

The third point we would refer to is the degree of diversification of product.

Our survey shows that, according to the information submitted by the industry, the return on fluid milk sales, for the fiscal year next preceding October 1st, 1946, was only 1.71% based on various combinations and tabulations made by us from the data in our possession.

It is not clear to us whether the price increase of October last was intended to make the fluid milk business self-supporting. If it was, then we are of the opinion that the price increase has achieved that objective.

However, it would seem that the industry has not operated on that basis in recent years at least. Information submitted leads to the conclusion that the trend has been toward the development and expansion of sales of other milk products, including ice cream, which undoubtedly carry more attractive profit margins.

Admittedly these indications largely relate to the war years, the survey covering the years from 1939 to 1947, and it may be that the industry considers such policy to be unsound in the post-war era and for the future.

As a result of the price increase the position of the several hundred smaller distributors throughout the Province who do not engage in diversified production on any scale will be considerably improved and the increase in so far as they are concerned may be justified. However, there are almost one hundred larger concerns operating principally in the metropolitan and urban centres throughout the Province which engage in diversified operations on an appreciable scale and whose overall earnings as a result were already attractive before the price increase was authorized.

The majority of these concerns have paid substantial excess profits taxes in recent years and their overall earnings are such that any price fixing body would have found it most difficult, if not impossible, to justify any further increase in revenues to such concerns as a group. The increase actually realized by the distributors according to their brief is .37 of one cent per quart of fluid milk which widens the spread between prime costs and selling prices by approximately \$1,591,000 based on annual sales of 430,000,000 quarts.

Taking the distributive trade as a whole the increased dollar revenue would seem difficult to justify in its entirety if the earnings from other products are to be considered in determining the consumer price of fluid milk.

From our survey of producers' costs it would appear that the proportion of the three cent increase passed back to the producers, viz., 2.63 cents per quart was justified. This amount represents \$1.00 per 100 lbs. of whole milk of which 55 cents served to replace the subsidy terminated at September 30th, 1946 and 45 cents to offset increased farm costs. Based on sales of 430 million quarts of fluid milk, wholemilk requirements would aggregate 1,109 million pounds which at 45 cents per 100 lbs. would amount to \$4,990,500. This amount represents the maximum, as some allowance should be made in respect of secondary milk purchases.

To conclude our observations on the price increase of fluid milk in October last we give below a summarized statement showing what the effect would have been, as closely as can be projected, had the consumer price been advanced by 2½ cents per quart, to give a list price of 15½ cents instead of 16 cents (where applicable throughout the Province). In the statement we have assumed that profits from products other than fluid milk will approximate those of 1946. No allowance has been made for any increases in costs which may have occurred since the latter part of 1946.

TABLE 15

Projected statement of net profits (before taxes) for twelve month period allowing for sales of 430 million quarts of fluid milk on the basis of a 15½ cent consumer price	
Estimated net profits from all products other than fluid milk	\$ 2,382,831
<i>Add:</i>	
Estimated profit from fluid milk based on 430 million quarts at .21 of one cent per quart, as quoted in report, for 13 cent milk	903,000
	<u>\$3,285,831</u>
<i>Add:</i>	
Estimated additional revenue from advance in consumer price of 2½ cents per quart, from 13 cents to 15½ cents 430,000,000 quarts @ 2.50 cents per quart (b)	10,750,000
	<u>\$14,035,831</u>
<i>Deduct:</i>	
Amount to be passed back to producer 2.63 cents per quart equal to \$1.00 per 100 lbs. of whole milk 430,000,000 quarts @ 2.63 cents per quart (a)	11,309,000
	<u>Adjusted net profits of distributive industry before provision for profits taxes \$ 2,726,831</u>

It will be noted that the distributors, after paying the producers their increased price, would lose \$559,000 (the excess of (a) over (b)) thereby reducing the profit on fluid milk from \$903,000 to \$344,000. This latter would then represent but .53 of one percent of sales equal to .08 of one cent per quart.

The adjusted net profit (before taxes) of \$2,726,831 might still be considered as showing a satisfactory return in relation to both sales and capital employed.

In our opinion many concerns could well afford to reduce the present selling price of milk by one-half cent per quart while others might lose money and eventually be forced out of business unless there were other compensating factors such as the industry giving effect to economies recommended or outlined in this report and those embodied in the official report of the Royal Commission on Milk.

Respectfully submitted,

JOHN S. ENTWISTLE

Accountant, Royal Commission on Milk,

July 26th, 1947.

Province of Ontario.

EXHIBIT A

ROYAL COMMISSION ON MILK

INDEX OF COUNTIES COMPRISED IN EACH OF THE EIGHT ZONES, OR MILK SHEDS, SHOWING THE NUMBER AND TYPE OF INDEPENDENT FLUID MILK DISTRIBUTIVE BUSINESSES LOCATED IN EACH AND THE NUMBER AND TYPE FROM WHOM FINANCIAL STATEMENTS AND OTHER DATA WAS RECEIVED AND INCLUDED IN OUR SURVEY

	Distributors		Producer		Financial statements from distributors			Total
	Incorporated Companies	Proprietary Businesses	(Proprietary Businesses)	Proprietary Businesses	Incorporated Companies	Proprietary Businesses	Total	
<i>Zone 1</i>								
Essex.....	3	9	1		2	10		12
Kent.....	1	10	4		1	6		7
Lambton.....	1	7	5		1	4		5
	5	26	10		4	20		24
<i>Zone 2</i>								
Brant.....	4	7	...		5	6		11
Elgin.....	2	3	2		4	3		7
Haldimand.....	2	3	9		...	...		...
Huron.....	...	17	4		...	...		...
Middlesex.....	5	13	11		4	9		13
Norfolk.....	1	7	2		1	6		7
Oxford.....	4	8	...		3	3		6
Perth.....	3	7	8		1	6		7
Waterloo.....	5	19	13		4	12		16
Wellington.....	2	14	6		...	13		13
	28	98	55		22	66		88
<i>Zone 3</i>								
Halton.....	...	10	...		...	6		6
Lincoln.....	4	7	6		5	7		12
Welland.....	4	11	5		4	9		13
Wentworth.....	8	9	2		8	6		14
	16	37	13		17	28		45
<i>Zone 4</i>								
Peel.....	1	8	2		...	4		4
York.....	26	29	2		26	22		48
	27	37	4		26	26		52

<i>Zone 5</i>									
Bruce.....	1	12	6	19	1	6	19	1	7
Dufferin.....	...	4	...	4	1	...	4	1	3
Durham.....	...	6	...	9	...	7	18	...	3
Grey.....	2	9	2	4	2	2	4	4	6
Haliburton.....	...	2	6	4	...	4	4	4	4
Muskoka.....	1	7	3	11	1	4	4	4	5
Northumberland.....	3	10	2	15	3	2	7	7	10
Ontario.....	1	8	5	14	1	3	14	3	4
Peterborough.....	4	23	5	32	1	5	32	12	13
Simcoe.....	...	7	12	19	...	12	19	5	5
Victoria.....	...	...	...	...	...	...	...	...	...
13	95	51	159	10	54	64	64	64	64
<i>Zone 6</i>									
Algoma.....	...	8	5	13	1	5	13	1	6
Cochrane.....	2	7	6	15	2	4	15	4	6
Kenora.....	1	6	1	8	2	2	8	2	4
Manitoulin.....	1	2	...	3	1	...	3	1	1
Nipissing.....	2	3	...	7	1	...	7	1	2
Parry Sound.....	1	3	3	7	1	4	7	4	5
Rainy River.....	1	3	2	5	1	1	5	1	1
Sudbury.....	...	12	11	27	...	3	27	5	8
Temiskaming.....	4	10	6	10	1	6	10	7	7
Thunder Bay.....	...	7	...	15	3	3	15	3	6
13	61	36	110	15	31	46	46	46	46
<i>Zone 7</i>									
Carleton.....	6	11	43	60	4	4	60	4	8
Lanark.....	2	9	2	13	2	6	13	6	8
Prescott.....	...	7	6	13	...	...	13	...	...
Renfrew.....	1	12	4	17	1	2	17	2	3
Russell.....	...	2	10	12	...	1	12	1	1
9	41	65	115	7	13	20	20	20	20

EXHIBIT A

ROYAL COMMISSION ON MILK

INDEX OF COUNTIES COMPRISED IN EACH OF THE EIGHT ZONES, OR MILK SHEDS, SHOWING THE NUMBER AND TYPE OF INDEPENDENT FLUID MILK DISTRIBUTIVE BUSINESSES LOCATED IN EACH AND THE NUMBER AND TYPE FROM WHOM FINANCIAL STATEMENTS AND OTHER DATA WAS RECEIVED AND INCLUDED IN OUR SURVEY

Zone	Distributors		Producer Distributors		Financial statements from distributors included in tabulation			Total
	Incorporated Companies	Proprietary Businesses	Proprietary Businesses	(Proprietary Businesses)	Total	Incorporated Companies	Proprietary Businesses	
Dundas.....	..	4	2	..	6	..	3	3
Frontenac.....	1	11	3	1	15	1	9	10
Glengarry.....	..	1	9	..	10	..	2	2
Grenville.....	1	6	2	..	9	..	4	4
Hastings.....	..	17	3	..	20	..	15	15
Leeds.....	..	10	3	1	13	..	4	4
Lennox and Addington.....	..	4	4	..	8	..	2	2
Prince Edward.....	..	4	6	..	10	..	2	2
Stormont.....	2	3	11	2	16	2	3	5
	4	60	43	4	107	4	44	48
RECAPITULATION								
Zone 1.....	5	26	10	..	41	4	20	24
Zone 2.....	28	98	55	..	181	22	66	88
Zone 3.....	16	37	13	..	66	17	28	45
Zone 4.....	27	37	4	..	68	26	26	52
Zone 5.....	13	95	51	..	159	10	54	64
Zone 6.....	13	61	36	..	110	15	31	46
Zone 7.....	9	41	65	..	115	7	13	20
Zone 8.....	4	60	43	..	107	4	44	48
Total.....	115	455	277	..	847	105	282	387

EXHIBIT B

ROYAL COMMISSION ON MILK
 RECAPITULATION BY ZONES OF DATA EXTRACTED FROM FINANCIAL STATEMENTS
 SUBMITTED BY 387 INDEPENDENT FLUID MILK DISTRIBUTORS

Zone	Concerns Tabulated	Overall Net Profit (Before Taxes)	Total Sales Amount	% Profit	Capital Employed Amount	% Profit
1.....	24	\$143,387	\$3,937,197	3.64	\$836,995	17.13
2.....	88	161,835	6,377,599	2.54	1,160,950	13.94
3.....	45	286,746	7,022,851	4.08	1,359,538	21.09
Total West.....	157	\$591,968	\$17,337,647	3.41	\$3,357,483	17.75
4.....	52	\$160,961	\$11,763,560	1.37	\$1,204,077	13.37
5.....	64	155,824	3,747,792	4.16	868,270	17.95
6.....	46	264,616	6,309,879	4.19	1,261,462	20.98
Total Central.....	162	\$581,401	\$21,821,231	2.66	\$3,333,809	17.44
7.....	20	\$43,700	\$2,878,143	1.52	\$529,340	8.26
8.....	48	167,118	3,773,379	4.43	656,843	25.44
Total East.....	68	\$210,818	\$6,651,522	3.17	\$1,186,183	17.77
Total.....	387	\$1,384,187	\$45,810,400	3.02	\$7,877,475	17.57

EXHIBIT C

ROYAL COMMISSION ON MILK
TABULATION BY ZONES OF SALES GROUPINGS OF 387 INDEPENDENT
FLUID MILK DISTRIBUTORS

Zone	Group 1. up to \$20,000	Group 2. \$20,000 to \$50,000	Group 3. \$50,000 to \$100,000	Group 4. \$100,000 to \$200,000	Group 5. \$200,000 to \$500,000	Group 6. Over \$500,000	Total
1.....	\$78,916	\$133,999	\$212,622	\$690,692	\$833,415	\$1,987,553	\$3,937,197
2.....	274,616	931,918	1,463,882	1,968,240	1,738,943	2,467,247	6,377,599
3.....	78,060	345,124	620,444	1,814,995	1,696,981	.....	7,022,851
Total West.....	\$431,592	\$1,411,041	\$2,296,948	\$4,473,927	\$4,269,339	\$4,454,800	\$17,337,647
4.....	\$.....	\$422,203	\$891,818	\$1,864,878	\$3,186,155	\$5,398,506	\$11,763,560
5.....	170,522	832,529	1,184,111	899,222	661,408	.....	3,747,792
6.....	107,951	492,442	633,910	1,268,966	1,845,150	1,961,460	6,309,879
Total Central.....	\$278,473	\$1,747,174	\$2,709,839	\$4,033,066	\$5,692,713	\$7,359,966	\$21,821,231
7.....	\$48,126	\$319,776	\$172,685	\$561,048	\$.....	\$1,776,508	\$2,878,143
8.....	183,121	444,133	519,030	702,011	1,380,798	544,286	3,773,379
Total East.....	\$231,247	\$763,909	\$691,715	\$1,263,059	\$1,380,798	\$2,320,794	\$6,651,522
Total.....	\$941,312	\$3,922,124	\$5,698,502	\$9,770,052	\$11,342,850	\$14,135,560	\$45,810,400
Average Sales per group.....	\$14,482	\$33,238	\$72,133	\$141,595	\$290,842	\$831,504	\$118,373
Net Profits.....	\$49,867	\$108,830	\$116,733	\$253,572	\$333,047	\$522,138	\$1,384,187
% of Sales.....	5.30	2.77	2.05	2.60	2.94	3.69	3.02
% of Total.....	3.60	7.86	8.43	18.32	24.06	37.73	100.00

ROYAL COMMISSION ON MILK
 EXHIBIT D
 TABULATION BY ZONES SHOWING THE MATERIALS, PROCESSING, DISTRIBUTING,
 AND ADMINISTRATIVE COSTS OF 41 REPRESENTATIVE INDEPENDENT
 FLUID MILK DISTRIBUTORS

Zone	Sales	Raw Materials	% of Sales	Processing	% of Sales	Selling and Delivery	% of Sales	General and Administration	% of Sales	Total Cost	% of Sales	Net Profits	% of Sales
1.....	\$1,146,727	\$702,587	61.27	\$145,237	12.67	\$194,309	16.94	\$66,355	5.78	\$1,108,488	96.66	\$38,239	3.34
2.....	773,745	490,014	63.33	101,734	13.15	129,830	16.78	31,824	4.11	753,402	97.37	20,343	2.63
3.....	910,655	533,686	58.60	128,075	14.06	163,171	17.92	44,873	4.93	869,805	95.51	40,850	4.49
Western Ontario.....	\$2,831,127	\$1,726,287	60.98	\$375,046	13.25	\$487,310	17.21	\$143,052	5.05	\$2,731,695	96.49	\$99,432	3.51
4.....	\$3,229,444	\$1,993,226	61.72	\$384,538	11.90	\$647,728	20.06	\$146,784	4.55	\$3,172,276	98.23	\$57,168	1.77
5.....	824,665	497,459	60.32	118,659	14.39	117,950	14.30	56,320	6.83	790,388	95.84	34,277	4.16
6.....	1,471,164	932,991	63.42	186,452	12.67	203,682	13.84	80,707	5.49	1,403,832	95.42	67,332	4.58
Central & Northern Ontario.....	\$5,525,273	\$3,423,676	61.96	\$689,649	12.48	\$969,360	17.54	\$283,811	5.15	\$5,366,496	97.13	\$158,777	2.87
7.....	\$1,317,233	\$841,987	63.92	\$144,917	11.00	\$246,382	18.70	\$59,033	4.49	\$1,292,319	98.11	\$24,914	1.89
8.....	1,065,184	615,528	57.79	165,666	15.55	167,907	15.76	69,351	6.51	1,018,452	95.61	46,732	4.39
Eastern Ontario.....	\$2,382,417	\$1,457,515	61.18	\$310,583	13.04	\$414,289	17.39	\$128,384	5.38	\$2,310,771	96.99	\$71,646	3.01
Total.....	\$10,738,817	\$6,607,478	61.53	\$1,375,278	12.81	\$1,870,959	17.42	\$555,247	5.17	\$10,408,962	96.93	\$329,855	3.07

EXHIBIT E

ROYAL COMMISSION ON MILK
 TABULATION BY ZONES SHOWING THE MATERIAL
 LABOUR AND FACILITIES COSTS OF 41 REPRESENTATIVE INDEPENDENT
 FLUID MILK DISTRIBUTORS

Zone	Materials and Packaging		% of Sales	Wages Processing		% of Sales	Commissions Delivery		% of Sales	Salaries General Administrative		% of Sales	Total Wages	% of Sales
	Sales	Packaging		Wages	% of Sales		Wages	% of Sales		Salaries	% of Sales			
1.....	\$1,146,727	\$722,606	63.02	\$65,484	5.71	\$128,601	11.20	\$47,333	4.13	\$241,418	21.04	\$241,418	21.04	
2.....	773,745	507,471	65.59	44,835	5.79	83,659	10.81	21,603	2.79	150,097	19.39	150,097	19.39	
3.....	910,655	546,048	59.96	53,622	5.89	117,147	12.86	27,113	2.98	197,882	21.73	197,882	21.73	
Western Ontario.....	\$2,831,127	\$1,776,125	62.74	\$163,941	5.79	\$329,407	11.64	\$96,049	3.39	\$589,397	20.82	\$589,397	20.82	
4.....	\$3,229,444	\$2,092,943	64.82	\$150,866	4.67	\$442,704	13.71	\$82,178	2.54	\$675,748	20.92	\$675,748	20.92	
5.....	824,665	509,090	61.73	43,988	5.34	77,388	9.38	40,414	4.90	161,790	19.62	161,790	19.62	
6.....	1,471,164	961,117	65.33	73,218	4.98	132,982	9.04	47,611	3.23	253,811	17.25	253,811	17.25	
Central and Northern Ontario.....	\$5,525,273	\$3,563,150	64.49	\$268,072	4.85	\$653,074	11.82	\$170,203	3.08	\$1,091,349	19.75	\$1,091,349	19.75	
7.....	\$1,317,233	\$868,152	65.91	\$74,267	5.64	\$161,417	12.25	\$35,042	2.66	\$270,726	20.55	\$270,726	20.55	
8.....	1,065,184	627,629	58.92	82,089	7.71	107,966	10.14	49,290	4.62	239,345	22.47	239,345	22.47	
Eastern Ontario.....	\$2,382,417	\$1,495,781	62.78	\$156,356	6.56	\$269,383	11.31	\$84,332	3.54	\$510,071	21.41	\$510,071	21.41	
Total.....	\$10,738,817	\$6,835,056	63.65	\$588,369	5.48	\$1,251,864	11.66	\$350,584	3.26	\$2,190,817	20.40	\$2,190,817	20.40	

ROYAL COMMISSION ON MILK
EXHIBIT E (Cont'd)
TABULATION BY ZONES SHOWING THE MATERIAL
LABOUR AND FACILITIES COSTS OF 41 REPRESENTATIVE INDEPENDENT
FLUID MILK DISTRIBUTORS

Zone	Repairs and Maintenance	% of Sales	% of Depreciation Provision	% of Sales	Other Expenses	% of Sales	Total Services Cost	% of Sales	Total Cost	% of Sales	Net Profits	% of Sales
1.....	\$27,785	2.42	\$20,027	1.75	\$96,652	8.43	\$144,464	12.60	\$1,108,488	96.66	\$38,239	3.34
2.....	15,526	2.01	14,169	1.83	66,139	8.55	95,834	12.39	753,402	97.37	20,343	2.63
3.....	15,496	1.70	16,992	1.87	93,387	10.25	125,875	13.82	869,805	95.51	40,850	4.49
Western Ontario.....	\$58,807	2.08	\$51,188	1.81	\$256,178	9.05	\$366,173	12.93	\$2,731,695	96.49	\$99,432	3.51
4.....	\$57,230	1.77	\$71,516	2.21	\$274,839	8.51	\$403,585	12.49	\$3,172,276	98.23	\$57,168	1.77
5.....	24,125	2.92	23,309	2.83	72,074	8.74	119,508	14.49	790,388	95.84	34,277	4.16
6.....	34,953	2.38	27,450	1.87	126,501	8.60	188,904	12.84	1,403,832	95.42	67,332	4.58
Central and Northern Ontario.....	\$116,308	2.11	\$122,275	2.21	\$473,414	8.57	\$711,997	12.89	\$5,366,496	97.13	\$158,777	2.87
7.....	\$16,815	1.28	\$18,567	1.41	\$118,059	8.96	\$153,441	11.65	\$1,292,319	98.11	\$24,914	1.89
8.....	14,427	1.35	27,080	2.54	109,971	10.33	151,478	14.22	1,018,452	95.61	46,732	4.39
Eastern Ontario.....	\$31,242	1.31	\$45,647	1.92	\$228,030	9.57	\$304,919	12.80	\$2,310,771	96.99	\$71,646	3.01
Total.....	\$206,357	1.92	\$219,110	2.04	\$957,622	8.92	\$1,383,089	12.88	\$10,408,962	96.93	\$329,855	3.07

APPENDIX 19

SUMMARY COMPARISON OF FLUID MILK SALES IN RESPECT TO HOUSEHOLDERS, STORES AND JOBBERS

	Householders	<i>%</i>	Stores	<i>%</i>	Jobbers	<i>%</i>	Totals
Toronto.....	37,001,473	70.0	14,411,989	27.3	1,366,785	2.7	52,780,247
Hamilton.....	8,236,446	79.2	2,065,406	19.8	106,226	1.0	10,408,078
London.....	4,116,861	76.5	1,045,078	19.4	219,517	4.1	5,381,456
Ottawa.....	7,664,223	67.3	3,291,704	28.9	424,981	3.8	11,380,908
All Others.....	70,908,083	75.9	19,986,480	21.5	2,416,580	2.6	93,311,143
Provincial Totals.....	127,927,086	73.9	40,800,657	23.6	4,534,089	2.5	173,261,832

THE ABOVE COMPARATIVE REPORT COVERS FLUID MILK SALES IN THE PROVINCE OF ONTARIO
FOR THE MONTHS OF
JANUARY, MARCH, JULY, SEPTEMBER AND DECEMBER 1946;
WITH THE EXCEPTION OF MANY CARDS WHICH HAD TO BE REJECTED.

APPENDIX 20

RECORD OF LICENSES IN THE MARKETS OF TORONTO, HAMILTON, WINDSOR, OTTAWA, KIRKLAND LAKE, TIMMINS and comments thereon

TORONTO

This record will differ from that shown in Mr. Houck's brief and from the record given when you were in the office on January 30th. This record covers the entire Toronto area, which is described on the record, whereas the former record was for the area prior to the inclusion of Port Credit and Cooksville.

A number of dairies are shown as being "taken over by" other dairies. While our files do not give reasons or particulars we know from our personal knowledge that in the majority of cases the dairies were in financial difficulties. The same may be said of the term "amalgamated"—no doubt, in most cases there was a sale of some kind made.

The dairies which disappeared were small or medium sized businesses, except Caulfields. The dairies which took others over were small or medium sized, except Silverwood Dairies Limited, which took over two.

There is no indication of any movement toward a monopoly situation here by large chain dairies.

HAMILTON

There were three chain dairies—Bordens, Silverwoods and Eastern until the year 1940 when Acme Farmers (Eastern) sold to Silverwoods. Silverwoods also acquired during the years two other small businesses and Bordens, one.

The other changes were between small dairies.

WINDSOR

This market has two chain dairies—Bordens and Silverwoods and in the twelve years of control, no dairies were taken over by these two chains.

Purity Dairy is a large independent organization and took over one small dairy.

OTTAWA

This market is peculiar for the number of producer-distributors who have operated over the years. The explanation for this situation is, that because of the chaotic conditions that prevailed in the early thirties, a number of farmers living close to the City, decided to sell direct to consumers in order to improve their financial returns and in a number of cases gave employment to members of their families who returned to the home farm on losing their jobs in industry.

It will be noted that with the stability of prices, as the result of control, a number of producer-distributors discontinued the retailing of their business and confined their business to production only. The labor difficulties on the farms during the war also resulted in a number discontinuing, specially in 1941, 1942 and 1943.

The two large chain dairies—Bordens and Producers (Dominion) have not, according to this record, made any particular drive to take over other dairies—none of the larger plants—Bordens, Producers, Clark's and Central—have been particularly active in absorbing the smaller dairies—be they producer-distributor or distributor.

TIMMINS

This market has never been burdened with a lot of distributors. I think the main reason for this is that the distributors have always worked on a comparatively narrow margin. For years the price to the producer was \$3.24 per hundred pounds on a selling price of 14c per quart to the consumer. This is a fairly narrow spread for a northern town.

A large chain organization, Palm Dairies, operated in the market for a few years but were unable to operate at any profit and decided to withdraw from business. A co-operative organization, both consumer and producer, also found difficulty in operating under the spread allowed and

finally, because of financial difficulties, sold out to Northland Producers Dairy, who within two years found themselves in a similar position and had to sell.

The Board was requested to increase the spread allowed distributors but in view of very efficient operation and favourable profit position of the largest dairy in Timmins, could not justify any increase in operating spreads.

KIRKLAND LAKE

The history of this market is somewhat similar to that of Timmins, except that the distributors here always had a wider operating spread than Timmins; even under this wide spread the Palm Dairies could not make any profit and sold out.

Another organization, Eplett & Sons, who are in the Ice Cream business in the north in a fairly large way, could not make any money in the fluid end of its business and decided to sell out.

MILK DISTRIBUTOR LICENSES—TORONTO MARKET
and comments

Year	Number Licenses Issued	Number Licenses Discontinued	Comments	Number Additional Licenses	Comments
1934	96				
1935	89	8	Oakwood Dairy taken over by Harris Dairy Brown Dairy taken over by Fairbank Dairy Dockery Dairy taken over by Halls Cooper Dairy taken over by Lakeview Dairy Marwallow Dairy taken over by Danforth Dairies Consumers Ltd. taken over by White Oak Dairy Bankrupt—Monarch Dairy Out of Business—R. W. Smith; Primrose Farm Dairy Thos. Downing taken over by Reid-Ford Dairy Bailliff's Sale—Wm. B. Mason No license required—Devon Dairy Ltd. Tingles Dairy taken over by Highland Dairy Amalgamated—Glendale & Fairbank (Fairglen) Out of Business—W. A. Brownlee Out of Business—L. Robinson Glenholm Dairy taken over by Hastings Bankrupt—Creme-Crest Dairy Financial Difficulties—Dominion Dairy Financial Difficulties—Claremont Dairy M. Boyd, Silvercrest Dairy taken over by W. C. Prouse Out of Business—Model Dairy Amalgamated—Eglinton & Kingsdale (Kingsdale) No license required—Hunts Kingdon Bros., taken over by Weston Dairy Morrison Dairy taken over by Hillside Dairy Ravenwood Dairy taken over by Blantyre Dairy Brittain Dairy taken over by Rutherford Dairy Marr's Dairy taken over by Silverwoods F. M. Robinson taken over by Blantyre Peoples Dairy taken over by Halls A. Cryderman taken over by Fairglen R. J. Woolley taken over by Ford's	1	New D
1936	86	3			
1937	83	4		1	New PD
1938	80	4		1	New D
1939	78	2			
1940	77	2		1	New D Cream Only
1941	74	3			
1942	63	11			

MILK DISTRIBUTOR LICENSES--TORONTO MARKET

and comments

Year	Number Licenses Issued	Number Licenses Discontinued	Comments	Number Additional Licenses	Comments
1942--con.			Fernbank taken over by Briar Hill Kipling Farms taken over by Silverwoods (P.D.). Gerald Phillips taken over by Cooksville Jersey Dairy Ltd. Out of Business--Myhill & Ramsden Ford's Dairy taken over by Fairglen		
1943	58	5	Amalgamated--Caulfields Dairy, Unit of Bordens, and City Dairy, Unit of Bordens (The Borden Company Ltd.) Vita Milk Dairy taken over by Canada Dairies Kingsdale Dairy taken over by Fairglen Bell Bros. taken over by Donlands Financial Difficulties--Harris Dairy P. Agui's reverted from producer-distributor to peddler Hillside Dairy taken over by Silverwoods Empire Dairy taken over by Walnut York Dairy taken over by Donlands Amalgamation--Jersey Cream Products with Manor Park Dairy		
1944	57	1			
1945	56	1			
1946	53	3			

Note:--All "D" license holders in above list--if not, type specified.

Definition:

Toronto Milk Marketing Area

- (1) The City of Toronto.
- (2) The municipalities of East York Township, Leaside, York Township, Weston, Swansea, Mimico, New Toronto, Long Branch, Scarboro Township, Port Credit, Forest Hill Village.
- (3) Those parts of Toronto Township, south of the Britannia Side Road,
- (4) Those parts of the Township of Etobicoke located south of Wilson Avenue or its extension.
- (5) The Township of North York with the exception of the northeast part, which part is bounded on the south by Wilson Avenue and on the east by Keele Street.

MILK DISTRIBUTOR LICENSES—HAMILTON MARKET
and comments

Year	Number Licenses Issued	Number Licenses Discontinued	Comments	Number Additional Licenses	Comments
1934	35			5	2 new PD
1935	40				3 new D
1936	40	2	Purity Farms Dairy taken over by Woodhalls Dairy Out of Business—A.M. Shaver	2	1 new PD 1 new D Cream only
1937	38	2	Out of Business—J. C. Attridge License not issued—C. D. Yanch & L. Davis' License cancelled by Civic Health Authorities—no Milk Control Board license issued.		
1938	36	2	Out of Business—O. E. Baillie		
1939	35	1	Maple Leaf Dairy taken over by Prospect Dairy		
1940	35	2	Acme Farmers Dairy taken over by Silverwoods Dairies Ltd. J. Thompson taken over by Stoney Creek Dairy	2	2 new PD
1941	35		No changes		
1942	32	3	Amalgamated—East End Dairy and Prospect Dairy (Prospect) Avondale Dairy taken over by Westdale Dairy		
1943	31	1	R. Veivers taken over by Silverwood Dairies Ltd.		
1944	30	1	Brookfields Dairy taken over by the Borden Company		
1945	26	4	Westdale Dairy taken over by Silverwood Dairies Ltd Carters Dairy taken over by Woodhalls Dairy Woodley Dairy taken over by Springbank Dairy J. C. Eaton taken over by E. F. Newman		
1946	25	1	Out of Business—S. H. Hill, Clappison's Dairy A. M. London taken over by E. F. Newman		

Definition:

Hamilton Milk Marketing Area

(a) The City of Hamilton; (b) The Town of Burlington; (c) The Town of Dundas; (d) The Town of Oakville; (e) The Village of Bronte;
(f) The Village of Ancaster; (g) The Village of Watford; (h) Burlington Beach; (i) Townships of—Ancaster, Barton and Saltfleet;
(j) Those parts of the townships of West Flamboro, East Flamboro and Nelson south of one concession, north of No. 5 Highway,
and (k) Those parts of the township of Trafalgar, south of one concession north of No. 5 Highway; (l) Number 1, Wireless School,
Mount Hope, R.C.A.F.; (m) Those parts of the township of Glanford included in the 1st, 2nd, and 3rd concessions thereof.

MILK DISTRIBUTOR LICENSES—WINDSOR MARKET
and comments

Year	Number Licenses Issued	Number Licenses Discontinued	Comments	Number Additional Licenses	Comments
1934	12			1	New D
1935	13				
1936	12	1	Amalgamated—Ballantyne Windsor City Dairy and Walkerside Dairy (The Borden Co., Ltd.)	1	New PD
1937	13			2	1 PD Cream Only
1938	14	1	Amalgamated—East Windsor and A. Renaud (Peoples)	1	1 D Cream Only
1939	13	2	Amalgamated—Countryside Qualities & Peerless Dairy (Peerless Countryside Dairies Ltd.) Financial Difficulties—Maple Grove and taken over by Border Cities	1	PD Cream Only
1940	14		No changes		
1941	14		Leo Drouillard taken over by Purity Dairies		
1942	12	2	Out of Business—J. Cherkinsky		
1943	12		No changes		
1944	10	2	Peoples Dairy taken over by Peerless Countryside Dairies Ltd. Out of Business—H. L. Wilson (Deceased)		
1945	8	2	Out of Business—Srigley & Son Out of Business—Henry Steckle		

Definition:

Windsor Milk Marketing Area
Sale of milk and cream for fluid consumption in the Border Cities including the municipalities of LaSalle, Ojibwa, Sandwich, Walkerside, East Windsor, Riverside and Tecumseh.

MILK DISTRIBUTOR LICENSES—OTTAWA MARKET

Year	Licenses Issued		Licenses Discontinued		Comments:	Additional Licenses:		Additional Licenses Total	Comments:
	D	Ped	D	Ped		D	Ped		
1934	25	37	2	64					
1935	27	45	3	75					
1936	26	42	5	73	1 D changed to peddler 1 PD changed to peddler Out of Business-3 Cancelled-J. C. Kelly (Civic authorities cancelled license)	2	8	1 (11)	New licenses
1937	24	45	4	73	2 D changed to PD 1 out of Business 1 License not required 1 Cancelled-Noel Renaud and Son (Civic authorities cancelled license)	—	2	2 (4)	D changed to Ped PD changed to Ped
1938	23	43	3	69	5 Out of Business 2 Sold (H. W. Pettapiece taken over by Regal Dairy, and J. Button taken over by J. C. Bradley) 1 D changed to PD	—	5	— (5)	1 new license 2 changed from D to PD 2 cream only to PD

MILK DISTRIBUTOR LICENSES—OTTAWA MARKET

Year	Licenses Issued		Licenses Discontinued		Comments:	Additional Licenses:		
	D	Total	D	Total		D	Total	
1939	21	40	2	4	1 Financial Difficulties-Lemay Bros. (d)	—	1	(1) 1 ped. changed to PD
1940	19	41	2	—	1 Financial Difficulties-Canadian Dairy Ltd. (d) 1 Refused-W. D. Ogilvie (Civic authorities refused license). 3 Out of Business. 1 changed from peddler to producer-distributor 1 Financial Difficulties-Westboro Dairy Ltd. (d) 1 Sold-J. C. Bradley taken over by Producers Dairy. (d) 2 Peddlers-N. Gooding taken over by Clark Dairy Ltd.	—	1	(1) 1 new PD
1941	18	42	1	1	Regal Dairy taken over by Mrs. Harris. 1 Out of Business.	—	2	1 (3)
1942	18	32	1	10	1 D changed to Peddler. 9 PD's sold-Geo. Otterson taken over by Producers Dairy A. C. Scharfe taken over by C. Lillico C. R. Munro taken over by Valley Co-op. E. H. Honeywell taken over by Producers R. H. Ramsay taken over by Clark Dairy. R. M. Lillico taken over by Producers. D. A. Ireland taken over by Central Dairies W. Cosgrave taken over by Mutual Dairies. H. Switzer taken over by C. Lillico.	—	—	(2) 1 ped. to distrib. 1 pd to distrib.

MILK DISTRIBUTORS LICENSES—OTTAWA MARKET

Year	Licenses Issued		Licenses Discontinued		Comments:	Additional Licenses:	
	D	PD	D	PD		D	PD
1942	17	27	—	—	1 D sold-H. Knox & Sons taken over by Valley Co-op.	—	—
1943	17	27	—	44	1 Ped changed to distributor. 1 PD changed to distributor. 4 PD's sold-J. W. Alexander taken over by Valley Co-op. T. McNeeley & Sons taken over by Valley Co-op Ed. Piccki taken over by Ottawa Dairy. Robt. Stewart taken over by Valley Co-op. 1 D sold-T. B. Boyce taken over by Producers Dairy. 2 Out of Business. 1 Discontinued.	—	(1) 1 new PD license
1944	17	24	—	41	1 PD sold-Hills & Sons taken over by Mutual Dairies.	—	—
1945	17	20	—	37	Out of Business—4	—	—
1946	16	18	—	34	1 PD sold-Mrs. C. Delaney taken over by Producers Dairy. 1 D sold-Pit Plouffe taken over by Mongeon Bros. 1 Out of Business.	—	—

Ottawa Milk Marketing Area

Definition:

(a) The City of Ottawa; (b) The town of Eastview; (c) That part of March Township within the following described Boundaries: "Commencing at a point on the Ottawa River, thence running in a south-westerly direction along the Road between concessions 15 and 16 to a point joining Provincial Highway No. 17, thence in a south-easterly direction along the said Highway No. 17 to the easterly boundary of the said March Township; thence in a north-westerly direction along the East boundary of the said March Township to a point on the Creek running into Shirley Bay; thence along said Creek to Shirley Bay; and thence along Shirley Bay and the Ottawa River to the aforementioned starting point," and (d) That part of Nepean Township bound on the north by the Ottawa River; on the west by the westerly boundary of the said Nepean Township to a point joining the Base Line; thence along the Base Line to a point joining the line between concessions 1 and 2; thence along the line between concessions 1 and 2 in a southerly direction to a point joining the Rideau River at the Jock Bridge; and on the east by the Rideau River; and (e) That part of Gloucester Township bound by the Ottawa River on the north, the Rideau River on the west and on the south by the Road between lots 15 and 16; and on the east by the Road between lots 15 and 16 through Blackburn Station to the Ottawa River, and (f) The Village of Rockcliffe Park.

CREAM ONLY		MILK DISTRIBUTOR LICENSES—OTTAWA MARKET and comments on those who have discontinued		
Year	Total Licenses Issued	Total Licenses Discontinued	Total Additional Licenses	Comments
1934	60			
1935	93		33	
1936	95	9	11	Out of Business—9
1937	84	11	....	Out of Business—9 Granted extension to cover milk as well as cream—transferred to regular license holders—2
1938	70	14		Out of Business—14
1939	49	22	1	Out of Business—22
1940	43	6	....	Out of Business—5 Refused—1—City Health authorities cancelled local license—M.C.B. refused issuance because dairy did not comply with local requirements.
1941	40	3	....	Out of Business—3
1942	36	4	....	Out of Business—4
1943	30	6	....	Out of Business—6
1944	26	4	....	Out of Business—4
1945	22	4	....	Out of Business—4
1946	21	1	....	Out of Business—1

Note—Out of Business—(reasons) selling on market only; selling directly to dairy; No cream—only license holder sold out to an existing dairy—if so, no knowledge; All cream only license holders were licensed as "PD".

MILK DISTRIBUTOR LICENSES—TIMMINS MARKET

Year	Licenses Issued			Licenses Discontinued			Comments	Additional Licenses		
	D	PD	Total	D	PD	Total		D	PD	Total
1934	1		1							
1935	2	3	5					1	3	(4) new licenses
1936	3	3	6					1		new
1937	4	2	6				1 PD changed to D			
1938	4	2	6							
1939	4	2	6							
1940	4	..	4		2		Out of Business—D. Nora; Korman's Dairy took over Peter Sadino.			
1941	3	..	3	1			Palm Dairies & Workers Co-Operative of New Ontario taken over by producers operating under Northland Producers Dairy.			
1942	3	..	3							
1943	2	..	2				Korman's Dairy took over Northland Producers Dairy (under Bulk Sales Act)			
1944	2	..	2							
1945	2	..	2							
1946	2	..	2							

Definition:

Timmins Milk Marketing Area

- (a) Town of Timmins
- (b) Township of Tisdale
- (c) Township of Deloro
- (d) Township of Mountjoy

MILK DISTRIBUTOR LICENSES—KIRKLAND LAKE

Year	Total Licenses Issued	Total Licenses Discontinued	Comments
(all D licenses)			
1934	5		
1935	5		
1936	4	1	Model Dairy taken over by Lindfors Dairy
1937	4		
1938	4		
1939	4		
1940	3	1	Palm Dairies taken over by Lindfors Dairy
1941	3		
1942	3		
1943	2	1	S. D. Eplett & Sons taken over by Lindfors Dairy and Producers Dairy
1944	2		
1945	2		
1946	2		

Definition:

Kirkland Lake Milk Marketing Area

The Townships of Grenfell, Eby, Teck, Otto, Lebel, Boston, Gauthier, McElroy, McVittie, Hearst, McGarry, McFadden, which townships include among others, the places known as: Kirkland Lake, Swastika, Larder Lake, Virginiatown.

APPENDIX 21

THE DELIVERY OF MILK IN TORONTO

Introduction

This report gives the results of a survey among Toronto housewives to ascertain their practices and preferences in the delivery of milk. In all, 503 women were interviewed in nine wards and also in the districts of Kingsway, Swansea, Forest Hill and Leaside. By income groups they were divided as follows:

High income group	51
Second income group	150
Third income group	239
Low income group	63
	503

Of the total number interviewed 258 had adults only (i.e. over 16 years of age) in the family, and 245 had children. The actual interviews were carried out by Canadian Facts Limited, whose letter is reproduced on page 9.

The number of people in these families followed a typical distribution:

No. in family	Without children	With children
1	19	....
2	89	....
3	62	54
4	56	71
5	16	57
6	8	32
7 .....	....	15
8	1	7
9	1	4
10	2	2
More than 10	3	3
Information refused	1	1
	258	245

Do you have your milk delivered to your home by a dairy?

Of the 503 housewives interviewed, as many as 486 (96.6%) have their milk delivered to their home; only 17 (3.4%) obtain their milk from a retail store instead of from the dairy wagon. One of these was in the high income group, 10 in the third, and 6 in the low group. The answers of these 17 have been shown separately because many of the questions did not apply to them. They follow the analysis of the answers of those who have milk delivered to their homes.

Would you like to see home delivery discontinued?

Of the 486, 480 said they would not like home delivery discontinued. We have taken the answers as given, but it appears that of these six who stated they would not mind discontinuance of home delivery, only one answered correctly; the other five showed by their other answers that they appreciate home delivery. The one exception was a woman who said that it was awkward to have delivery at her home as she is working during the daytime.

Do you ever buy milk from a retail store?

Of those who normally have milk delivered to their home, 320 (65.8%) never buy in any other way. Supplementary purchases are made at a store by only 166. More families with children also buy at stores (40.8%)

than those without children (27.8%). Only 8 make store purchases every day, and most buy once a week or less, as the following table shows:

<i>Frequency of buying</i>	<i>No. mentioning</i>
every day	8
2 or 3 times a week	23
once or twice a week	7
once a week	33
twice a month	18
once a month	34
once every two months	7
every three months	9
twice a year	7
once a year	1
frequently	1
seldom	15

The reason most frequently given for buying at a store is that they run short. This was mentioned by 104 women. Other reasons were:

unexpected guests	18
for special cooking	15
if miss the milkman	8
if they need more	8
get it fresh from store	4
if driver late	2
after returning from week-end	2

Would it be possible for you to go to the store every day for your milk?

More than half of the women said that it would be impossible for them to go to the store every day for milk if they had to do so. As the income group increases, the percentage saying they could not go also increases, i.e.

<i>could not go every day</i>		
high income group	30	60.0
second income group	88	58.7
third income group	109	47.6
low income group	20	35.1
families without children	136	54.8
families with children	111	46.6
Total	247	50.8

The women who said they could not go to a store every day for milk gave the following reasons:

	Without Children	With Children	Total
Have babies or young children.....	—	49	49
Too busy.....	21	16	37
Health reasons.....	16	9	25
Can't go out every day.....	14	7	21
Inconvenient.....	14	7	21
Can't carry.....	9	7	16
Too old.....	15	1	16
Too far to go.....	7	4	11
Goes to work.....	9	2	11
Weather sometimes bad.....	7	2	9
Buys too much milk to carry.....	6	2	8
Can't walk.....	6	—	6
Unwiling.....	6	—	6
Telephones for all groceries.....	2	—	2

	Without Children	With Children	Total
Too "primitive".....	—	2	2
Takes care of invalid.....	2	—	2
Too lazy.....	1	—	1
Store milk not fresh.....	—	1	1
Wants it early in the morning.....	—	1	1

Would you have any objection to delivery of milk to your home every second day only?

The suggestion that milk might be delivered every second day only was objected to by 213 (43.8%). The number who have objections is larger in the two lower income groups than in the two higher, and is also larger among families with children than among those without children, i.e.

<i>have objections:</i>	%
high income	38.0
second income	38.7
third income	45.0
low income	57.9
without children	34.5
with children	52.5

Do you consider the milk you buy better than that sold by other dairies?

A majority of the women think the milk they buy is better than that sold by other dairies (251 out of 486, or 51.6%). Only in the low income group is the percentage low, i.e.

	%
high income	62.0
second income	51.3
third income	52.8
low income	38.6
without children	54.4
with children	48.7

Would you be content if you were compelled to buy from a single dairy, not of your own choosing, which is given the sole right to deliver milk to your house?

More than half the women would not be content to buy from a single dairy, not of their own choosing, if it were given the sole right to deliver to their homes (253 out of 486, or 52.1%). Again, the low income group appears to be the most particular, i.e.

<i>would not be content:</i>	%
high income	52.0
second income	39.3
third income	55.0
low income	73.7
without children	52.8
with children	51.3

Are you buying less milk for your family since the price went up?

About one out of five families are apparently buying less milk since the price went up; these are almost equally divided between those who are buying substantially less, and those buying slightly less. Naturally, a larger proportion of those with lower incomes are buying less than those with higher incomes, i.e.

<i>are buying less milk:</i>	no.	%
high income	7	14.0
second income	20	13.3
third income	63	27.5
low income	15	26.3
without children	43	17.3
with children	62	26.1
Total	105	21.6

The answers of those buying less were as follows:

	Substantially less	Slightly less	Not given
High income.....	1	4	2
Second income.....	9	11	-
Third income.....	28	34	1
Low income.....	10	4	1
Without children.....	16	25	2
With children.....	32	28	2

At What Hour of the Day Do You Like to Receive Your Milk?

Eight o'clock is the most popular hour at which those interviewed like to receive their milk. The detailed answers were as follows:

Before 7 a.m.	1	10 a.m.	39
Before 8 a.m.	4	10.30	2
Before 9 a.m.	2	11.00	28
Before 10 a.m.	3	11.30	2
Before 11 a.m.	1	Noon	16
7 a.m.	52	1 p.m.	2
7.30	56	3 - 4 p.m.	1
8.00	130	6 p.m.	1
8.30	29	Morning	19
9.00	73	Any time	7
9.30	11	No answer	7

(answers like "between 8 and 9" have been shown as 8.30)

Answers of Those Buying Only from Stores

Of the 17 women who buy their milk only from retail stores, one buys twice a day, 8 buy every day, and 3 every second day. Five did not say how often they buy.

The reasons given for using a store were:

more convenient	3
avoid trouble with tickets	2
don't like people at door	1
get milk when need it	1
lives near dairy	1
prefer from store	1
milkman won't climb stairs	1
doesn't buy much	1
prefer grocer to deliver	1

Five gave no reasons.

Only 3 out of the 17 thought that their brand of milk was better than other brands. Three also said that they were buying less milk since the price went up; all three said "slightly less".

HOUSEWIVES—HOME INTERVIEWS

- (a) Do you have your milk delivered to your home by a dairy?
Yes..... No.....
- (b) (If YES) Would you like to see home delivery discontinued?
Yes..... No.....
- (a) Do you ever buy milk from a retail store? Yes..... No.....
- (b) (If YES) How often would you say you do this?
- (c) Could you tell me why?
- (a) Would it be possible for you to go to the store every day for your milk? Yes..... No.....
- (b) (If NO) Would you mind telling me why it isn't possible?
- Would you have any objection to delivery of milk to your home every second day only? Yes..... No.....
- Do you consider the milk you buy better than that sold by other dairies? Yes..... No.....

APPENDIX 22

COPY OF MEMORANDUM
FURNISHED COMMISSION AND DISTRIBUTORS' ASSOCIATION
BY GOVERNMENT OF NEW ZEALAND

In respect of the Wellington Area

Department of External Affairs,
Wellington, N.Z.
2nd December, 1946.

MEMORANDUM for:—

R. M. Firth, Esq.,
Official Secretary,
High Commissioner for New Zealand,
Ottawa,
CANADA.

In response to the request of the Ontario Milk Distributors' Association for information concerning the Wellington City Milk Corporation forwarded by you, the following data is supplied:

1. Taking one (only) recent month, the *weekly* average number of *quarts* of milk sold equalled 414,700. Sales are on the increase.
(Not including milk for cream sales.)

2. Cost of milk delivered *at receiving* stage of depot.

	Per Gallon	Per Gallon	Average	B.F. Test
Summer.....	12.47d			
(5½ months) Plus cartage.....	1.46d	=	13.93d	4.3%
<hr/>				
Autumn.....	15.60d			
(2½ months) Plus cartage.....	1.46d	=	17.06d	4.7%
<hr/>				
Winter.....	23.33d			
(4 months) Plus cartage.....	1.46d	=	24.79d	4.9%

Milk prices are fixed by the Government and the above prices are expected to be increased by .78d. per gallon very shortly.

Note:—

- (a) The foregoing producer prices includes a Government Subsidy of 2.409d. per gallon.
 - (b) Producer prices vary according to the butterfat content of milk.
 - (c) Milk is purchased on a butterfat basis together with a price per gallon termed added value.
 - (d) A gallon of milk weighs 10.31 lbs.
 - (e) Milk is not purchased in New Zealand at a price per cwt.
3. Cost of milk for manufacturing purposes, e.g., surplus to liquid milk requirements.
17.75d. per lb. butterfat.
plus 0.65d. per gallon of milk
plus 3.904d. per lb. butterfat Government subsidy.
Average butterfat test for year, 4.6%.

4. Wages:

- Dairy (plant) employees:—
General hands, £5 13s. 2d. + 5s. extra p.m. shift.
Leading hands, £5 18s. 2d. + 5s. extra p.m. shift.
Half time extra Saturday afternoon, double time on Sunday, treble time on Statutory holidays

Plus:—

- (a) Overalls and aprons provided free.
- (b) Gum boots supplied free.

(c) Subsidy provided by City Council to employees Insurance Scheme, also to Sick Benefit Scheme.

Under the terms of a new Award likely to be ratified by the Arbitration Court very soon, the above rates may be increased by an average of approximately 5s. 6d. weekly.

All employees work a 5 day week of 40 hours.

Wages:

Deliverymen:—

Wages vary considerably as many different classes are at work throughout the organization. Those engaged on distribution also vary according to whether he is a motor driver, a cart roundsman, a motor roundsman, or a relieving roundsman.

The gross *basic* rates are:—

	£	s.	d.
Motor Driver	6	15	3
Motor Roundsman	6	14	8
Cart Roundsman	6	8	11
Relieving Roundsman	6	17	0
Relieving Motor Roundsman	7	2	10

Under the terms of a new Award likely to be ratified by the Arbitration Court very soon, the above rates may be increased by an average of approximately 5s. 6d. weekly.

Overtime is paid at 1½ times first four hours and double time thereafter.

All employees work a 5 day week of 40 hours.

5 & 6. The Milk Department pays all general taxation in the same way as a private Company would, except Income and Social Security Taxes, local bodies being exempted from payments under the latter heading.

7 & 8. Depreciation:

Concrete buildings	2%
Wooden buildings	3%
Plant, depending on type of unit	2½% to 10%
Motor vehicles, depending on size	10% to 20%
Carts	5%
Harness	20%
Milk cans and crates	10%

9. Cost of fuel at plant: Coal, £1 19s. per ton; Gasoline (wholesale), 2/3½d. per gallon.

10. Cost of carts (wagons). None have been purchased for 10 years but the estimated cost per cart today is £140.

No ½ or 1 ton trucks are used.

This Department recently purchased a 1½ ton truck (K3 International) for £740 plus tray £60, total £800.

11. Re personal income tax. Under present day labour shortages a good deal of overtime is worked. Taking a large number of employees, the average income during the latest Income Tax year was £466.

	£	s.	d.
Income Tax on	466		
Less exemptions	400		
Balance 66 at 2/6 in £	=	8.	5. 0
+15% (reduced from 33⅓)	=	1.	4. 9
		9.	9. 9
Social Security Tax, £466 at 2s.	=	46.	12. 0
Income Tax and Social Security on £466 for married man and two children	=	56.	1. 9

12. (a) White bread: 5½d. for 2 lb. loaf.
- (b) Sugar: 4d. a lb.
- (c) Potatoes: old 2d.—2½d. lb.
new 3½d.—7d. lb.
- (d) Cheese: 1s. lb.
- (e) Butter: 1s. 6d. lb.
- (f) White flour: 4s. 4d. per 25 lb. bag.
- (g) Eggs: Grade A. 1s. 10½d.—3s. 4d. dozen.

- (h) Blade beef: 8d. 8½ lb.
 (i) Sirloin beef: plain 10d.—10½d. lb., rolled & boneless 1s. 1d.—1s. 1½d. lb.
 (j) Bacon: 1s. 6¼d. lb.
 (k) Mutton: leg. 10d. lb., shoulder 7d. lb.
 (l) Milk:

	Summer Selling Period Bottled Retail Supplied by Department for Tokens	Loose Retail Supplied by Milk-shops for cash only
Per quart	6½d	6½d
Per pint	3¼d	3½d
Per ½ pint . . . . .	. . . . .	2 d
<i>Bulk Retail per gallon</i>		
3 gallons and under 10 gallons		1/11d per gallon
10 gallons and over daily		1/10d per gallon
To dairy-shops for re-sale		1/10d per gallon
<i>Cream; (40% Butterfat Test)</i>		
Per Pint	2/-d	2/-d
Per ½ Pint	1/-d	1/-d
Per ¼ Pint	6d	6d
Per 4 Pints and over (per gallon)	15/-d	
To Dairy-shops for re-sale		14/-gallon

	Winter Selling Period Bottled retail Supplied by Department for Tokens	Loose retail Supplied by Milk-shops for cash only
<i>Milk</i>		
Per quart	7 d	7 d
Per pint	3½d	3½d
Per ½ pint . . . . .	. . . . .	2 d
<i>Bulk retail prices per gallon;</i>		
3 gallons and under 10 gallons daily		2/ 1d
10 gallons and over daily		2/-d
To Licensed Milk-shops for re-sale		1/11d

	Bottled retail Supplied by Department for coupons	Loose Retail Supplied by Milk-shops for cash
Per 4 pints and over	15s per gall.	15s per gall.
Per Pint	2s.2d	2s.2d.
Per ½ Pint	1s.1d.	1s.1d.
Per ¼ Pint	7d.	7d.

Although not requested, I give the following information:—

- (a) Pasteurising costs, 2d. per gallon.
 Bottling costs, 2d. per gallon.
 Distribution costs (retail), 7¾d. per gallon.
 Distribution costs (wholesale), 3½d. per gallon.
- (b) The City Council through its Milk Department has absolute control from farm to consumer of the city milk supply. The Government controls prices only.
- (c) The Revenue of the Department is now approaching £700,000 annually.
- (d) 30,000 customers are served daily.

(e) The token system of payment has been in use for 24 years. Under this system no debts are incurred. A clean sheet is shown in this respect.

I trust the foregoing will serve a useful purpose to the Association concerned.

Secretary of External Affairs.

Excerpt from New Zealand Royal Milk Commission—1943 in respect of the Wellington Area.

Present Circumstances of the Supply of Milk to the Metropolitan Area of Wellington.

The Wellington Metropolitan Area comprises Wellington City, Lower Hutt City, Petone Borough, Eastbourne Borough, Johnsonville Town District, and some adjoining and closely-related areas. The whole area is divided into two sub-areas, one comprising the City of Wellington and its immediate environs from Seatoun up to Johnsonville, and the other the flat land and surrounding hills in the Hutt Valley and the bays on the eastern shore of the harbour. Both sub-areas are fairly widely spread. That comprising Wellington City and its immediate environs is for the most part hilly and is not convenient for the purposes of distribution. The Hutt sub-area is for the most part flat and, apart from the limited population on the hills fringing the valley and the bays, presents conditions favourable to expeditious distribution.

*Demand
Population*

According to estimates published in the 1942 issue of the Year-Book the total population of the metropolitan area on 1st April, 1941, was 160,500, of which 36,020 persons were living in the Lower Hutt City and the Boroughs of Petone and Eastbourne. In addition to this population the liquid-milk industry in this centre has to supply the needs of shipping, of men of the Armed Forces, and of children in schools outside the area which draw milk from the area. The quantities required for shipping are considerable, but neither these quantities nor those for the Armed Forces can be exactly computed. The number of children in outside schools for whom provision is expected is 2,907 and half a pint of milk is required for each child on each school day.

The following figures for the whole metropolitan area taken from the Year-Book indicate the growth of the population:—

1911.....	82,800	1926.....	121,527
1916.....	95,235	1936.....	149,382
1921.....	107,488	1941.....	160,500

These figures show a fairly uniform increase of approximately 2,500 per annum over the thirty-year period. Some variation may be due to the irregular development during some periods of districts just outside the urban area and to the inclusion at other times of such districts in the area. In estimating future requirements the continuance of this growth, with a corresponding increase in attendance at outside schools and an increase in shipping requirements, must be taken into consideration. The requirements of the Forces will ultimately drop rapidly, but against this must be set the demand of a large body of our own Forces returning to civilian life. And, perhaps more important than these movements, may be the stimulus to increased consumption per head of the population imparted by the teachings of nutritionists and the appeals of health authorities.

Present Consumption

The milk Department of the Wellington City Council has supplied a return of milk sold by the Department year by year during the five years ending 31st March, 1943. This return is as follows:

Year ended 31st March	Milk, in Gallons	Cream, in Pints
1939	2,628,953	419,257
1940	2,917,437	474,664
1941	3,063,021	481,992
1942	3,107,306	530,872
1943	3,883,638	665,145

The nearby farmers have not kept accurate records of their sales, but they supplied an estimate of the daily gallonage sold during the month of August, 1942, at 2,986½ gallons. This is an estimate only. Probably a general statement that the sales average between 2,500 and 3,000 gallons per day or between 900,000 and 1,000,000 gallons per year is the only one that can be made with any justification. The Milk Department, however, supplied 74,190 gallons of milk and 91,981 pints of cream to nearby farmers during the twelve months ending 31st March, 1943, and as this is included in the total sales of the Department only the balance of the nearby farmers' sales is to be added to the Department's figures in arriving at the total sales. Computing the daily sales by the Department and adding those by the nearby farmers we have as the total average daily sales during the twelve months under review of something over 13,000 gallons of milk and about 2,000 pints of cream. The Hutt Valley and Bays' consumption is distributed by vendors, producer-vendors, and the Wellington Dairy Farmers' Association. The daily output, in gallons, by members of the Hutt Valley and Bays' Milk Vendors Association has been returned to the Commission as 3,371¾ gallons, or 1,230,688 gallons per annum. The greater part of this is supplied by the Wellington Dairy Farmers' Co-operative Association, Ltd., who, in addition, supply 800 gallons per day, or 292,000 gallons per year, to shops for resale and further quantities to camps and shipping. During the year ended 31st March, 1943, the association supplied to the last-named two groups a total of 223,173 gallons. Adding the quantities sold by the association to shops, shipping, and camps to the quantities sold by the vendor members of the association, we have the total of the sales during the year ended 31st March, 1943, of 1,745,861, or 4,783 gallons per day. The grand total for the metropolitan area—that is, of the Wellington and Hutt Valley sub-areas combined—when cream is computed as gallons of milk works out at over 7,500,000 gallons per annum, or over 20,548 gallons per day.

Prospective Expansion of Demand

Though complete figures showing the expansion of demand during recent years are not available the returns from the Milk Department of the Wellington City Council for five years and those from the Wellington Dairy Farmers' Association for three years give an indication of the expansion of consumption. The Department's figures are quoted above. The totals from the Wellington Dairy Farmers' Association for the three years ending 31st March, 1943, are as follows:—

Year ending 31st March, 1941	1,073,567
Year ending 31st March, 1942	1,171,019
Year ending 31st March, 1943	1,365,814

As these figures, as well as those of the City Council, include the very irregular supplies to camps the inference to be drawn from the figures must be guarded. But, so far as the Dairy Farmers' Association's figures are concerned, if the supply to shipping and camps were entirely eliminated, the increases between 1941 and 1942 would be 48,260 gallons and that between 1942 and 1943 would be 159,424. But even in this respect the special demands of milk-bars and institutions qualifies the result.

A better guide is probably to be found in the increase in population, both in towns and in schools, with its reaction on other matters such as shipping and visitors. In this connection three factors have to be noted. One is the dispersal of the Armed Forces at the end of the war; another is the return to civilian life of something like 10 per cent of the population; while the third is the stimulus to increased consumption per head of the population. If all these factors are taken into consideration any long-term policy must anticipate and provide for a considerable increase in the daily demand disturbed, perhaps somewhat violently, during the period of repatriation.

Organization

Features of Present Organization

The organization of the Milk-supply to Wellington is unique in several important features.

Municipal Milk Department and Wellington Dairy Farmers' Association.—The first feature is the co-existence of and co-operation between a Municipal Milk Department and a strong organization of suppliers. Among treating and vending houses in New Zealand the Milk Department of the Wellington City Council is conspicuous in respect of volume of business, the standard of production, and completeness of organization. Among organizations of suppliers the Wellington Dairy Farmers' Co-operative Association, Ltd., is conspicuous in its comprehensiveness of scope, its persistent and successful endeavour to maintain a high standard, and its capacity to conduct successfully the affairs of a large group of suppliers. In co-operation the Milk Department and the Farmers' Association have controlled the major part of the liquid-milk industry of the metropolitan area of Wellington for nearly a quarter of a century. Their ability to meet and negotiate has ensured the smooth and efficient working of the industry during that period. By processes of negotiation and arbitration a higher price per gallon has been secured for the producer than has been secured in any other area and a higher-quality milk has been delivered. The growth of the population and the increasing pressure on the sources of supply, is developing a new situation, but it is reasonable to hope that, with certain necessary modifications in organization and relationship, the co-operation hitherto displayed will continue to exercise a guiding and controlling influence over the developing industry to the advantage of all concerned.

Contracts for the supply of milk have been made from time to time between the Wellington City Council and the Wellington Dairy Farmers' Association, Ltd. Features of these contracts that have endured for some time are:

- (1) Subject to certain qualifications, the association has a right to supply 50,000 lb. of milk per day from the 30-mile area;
- (2) If during the summer and autumn periods the association cannot supply the specified quantity from the 30-mile area, the Council has the right to obtain the shortage from its Rahui Factory, but if it cannot do this the association has the right to supply it from outside the 30-mile area;
- (3) If during the winter period the Council requires more than 50,000 lb. of milk per day, it is to give the association the opportunity to supply from the area extending beyond the 30-mile limit up to Levin one-half of its requirements up to 1,700 gallons per day, and two-thirds of its requirements in excess of an additional 3,400 gallons per day.

The specified 50,000 lb. of milk per day has been included in successive contracts for a number of years, though it is understood that an increase to 60,000 lb. in the next contract is contemplated. The continuance of this fixed amount during a period of continuous growth in the population has meant that the contractual rights of the association has affected a decreasing proportion of the city's total consumption. This has not in practice greatly affected the Dairy Farmers' Association, since the orders have exceeded the prescribed amount and the increasing consumption in the Hutt Valley has absorbed a considerable portion of the production of the members of the association. Disputed matters, such as price, are settled by arbitration.

Relation of Vendors in Hutt Valley to Wellington Dairy Farmers' Association.—The second feature of the organization of the supply to the metropolitan area is the relation of the Dairy Farmers' Association to the vendors in the Hutt Valley and the cordial co-operation of these two bodies. This has had a double effect. It has given the Hutt Valley Vendors and their consumers a supply assured by a powerful producers' association, and it has given to the members of the association an assured and growing market for which they were able to organize their resources.

Limit of Contracts.—The policy of the Milk Department of the Wellington City Council appears to be to contract for quantities considerably less than its anticipated requirements and to arrange for additional supplies in the period of the year in which they are called for. It is not suggested that it does not estimate its requirements or that such estimates have been faulty. Nor is it suggested that it overlooks the question of the extent of

the resources on which it can rely. The feature is that provision by forward contract is made for part only of its needs and that for the remaining part reliance is placed on its ability to call upon other resources as the need arises. Complaints were made by farmers that the Council would not enter into contracts for a term sufficiently long to justify them in organizing their farm economy for the supply of liquid milk to the area. It certainly appears that many farmers who could undertake city supply have been unwilling to do so because of the uncertainty attaching to the continuance of the demand. It is understood that the Department on one occasion suffered by over-commitment and that it has been careful to avoid a repetition of that experience. It has been urged that a body such as a City Council cannot commit itself with the freedom of a proprietary concern. If this means that a municipality cannot fairly estimate its requirements in respect of so vital a commodity as liquid milk and make contractual agreements for ensuring adequate supplies for the community, then it would be at a serious disadvantage in competition with private enterprise. But the Commission is not satisfied that any such limitation necessarily attaches to a public service of this nature.

When the Milk Department of the City Council commenced its operations in 1919 the liquid-milk supply to Wellington had sunk to a very low level. The Department rapidly improved the position and after taking over retail delivery in 1922 it raised the service to a standard unexcelled in New Zealand and that challenges comparison by any other system in any part of the world. But it is impossible to contemplate with equanimity the introduction of large supplies from outside sources. And it was profoundly disturbing to hear resort to such supplies approved as a permanent feature of the supply policy of the Council. There does not seem to be any valid reason why the Council should not fairly estimate the whole of its requirements with a reasonable degree of accuracy. The present daily demand is known to be approximately 12,700 gallons. Yet the Milk Department has made forward contracts for next winter's supply amounting to 9,000 gallons per day only. To make contracts that would bind an organization or organizations of supply to have the estimated quantities with a surplus of, say, 10 per cent., available at all times is surely reasonable. With such contracts the supply organization or organizations could organize its or their resources and make its or their plans in such a way as to protect producer members and give reasonable stability to the industry and assurance to the consumers. Any treating and vending body that proceeded on these lines would be entitled to protection in respect of violent fluctuations occasioned by the prosecution of public policy, such as the movement of Armed Forces, and there seems no reason why that protection should not be afforded. In Parts II and III of this report the Commission has made recommendations that it hopes, if adopted, will assist in overcoming the difficulties and ensuring adequate supplies of milk of high standard at reasonable prices. These difficulties must be overcome or the risk of more severe shortage and more extensive reliance upon unsatisfactory supplies must sooner or later be the outcome.

Supply—Natural Conditions

The source of supply for the metropolitan area is unique. It is divisible into several supply areas. First, there is the area within two miles of the city's boundary. This is occupied by the farms of producer-vendor whose function and right is recognized by the Wellington City Milk Supply Act, 1919, and its amendments. This area is very broken and the soil is mostly of poor quality. It has the advantage of immediate proximity to the area of distribution, and this advantage is of importance to the small man who both produces and vends his own milk and is able to eliminate most of the cost incident to collection from a distance. This area produced something in the vicinity of 900,000 gallons of milk last year, or a daily average approaching 2,500 gallons. The next area is that outside the 2-mile area but within a radius of 30 miles of the city and comprises mainly the land in the Hutt Valley and adjacent valleys, the slopes surrounding these valleys and those adjoining the 2-mile area, and land extending up the west coast as far as Paraparaumu. The milk drawn from this area for the City of Wellington and its immediate environs is drawn through the Wellington Dairy Farmers' Co-operative Milk Supply Association, Ltd., while that supplied to the Hutt Valley and associated district is drawn from the

same association and from producer-vendors. Though the land in this area cannot be classed as high-class dairying country it includes pockets of good land and produced during the year ending 31st March, 1943, some 1,851,313 gallons, or an average of 5,072 gallons per day. The third area extends up the west coast as far north as Levin, which is 59 miles distant from Wellington, and includes, in addition to Levin, the districts of Packakariki, Paraparaumu, Waikanae, Te Horo, Manakau, Obau, and Otaki. The portion of this area that lies nearest to Wellington is hilly and generally of poor quality. As the area extends farther north it includes increasing quantities of flat land of good quality. Outside these normal areas of supply are other territories stretching to Bunnythorpe on the one hand and Pahiataua on the other, from which the metropolitan area has drawn emergency supplies.

Cows

Within the three areas described there were, when the 1940-41 statistics were compiled, 47,534 cows. But the number of dairies registered within the territory for town milk-supply in the five years from 1939 to 1943 inclusive, which includes the farm dairies from which the Hutt Valley supply is drawn, is given by the Department of Agriculture as follows:

Year	Registered Dairies.	Number of Cows Milked.
1939	459	16,956
1940	494	17,312
1941	500	18,445
1942	509	19,554
1943	502	19,086

A comment on the return conveys the information that not all the registered dairies supply milk to the Wellington City Council, but that fully 75 per cent. of the total are constant suppliers to the city. During the year ended 31st March, 1943, 13,922 gallons of milk were purchased from Shannon, and during the present winter season considerable quantities have been drawn from suppliers holding temporary licenses only. These licensees were scattered over a wide area. There were twenty-six at Levin, fifteen at Shannon, five at Tokomaru, seven at Linton, forty-eight at Bunnythorpe, and, as commented in the official return made to the Commission, in addition to these, Glaxo Laboratories have been receiving for transport to Wellington a considerable quantity of milk from unregistered suppliers.

It is not possible in the case of Wellington to show the monthly variations in the total supplies to the whole metropolitan area as, with the assistance of the returns kept by the Metropolitan Milk Council, it was possible in the case of Auckland. A reliable guide to the position may be obtained from the fact that in 1942, while in the summer supplies from the 30-mile area were sufficient, in the winter months of May, June, and July the Milk Department obtained from the 30-mile area a daily average of 3,278 gallons and from outside that area a daily average of 7,073 gallons per day. A further indication of the trend may be found in the very large quantities of milk that since 31st March last have been obtained from factories outside the three areas of supply.

Balancing-station

A third feature of the organization has been the control and operation by the City Council of a factory at Rahui as a balancing station. This is owned and operated in accordance with an agreement made between the City Council and the Rahui Suppliers Society, Incorporated. Agreements pursuant to this agreement are made with the individual suppliers. Under this agreement the Council augments its supplies and uses any excess for manufacturing purposes.

Seasonal or Level Supply

It is questionable whether an attempt to maintain an all-the-year-round level supply in any of the supply areas would at present be successful, or, if successful, would be economical. As already indicated, the greater part of the land in the 30-mile area is not of high fertility and winter feed is expensive. Much of the land running northward from the 30-mile limit up to Levin and Shannon is of greater productive capacity. But Levin is

59 miles from Wellington and it is doubtful whether a well-adjusted summer price would be an incentive to the farmers to send milk to the city in the summertime rather than deliver it to the factory. The winter price, however, may well prove an incentive to many farmers in that area to develop winter production and so meet a real need of the city with appreciable advantage to themselves. In this way summer production in the 30-mile area and winter production farther north by farmers with dairies that qualify them to hold permanent licenses for town milk-supply would together supply all-the-year-round wholesome milk that could be subject to the highest recognized degree of control designed to safeguard quality and standard. But such a supply requires organization and suitable contracts.

Shortage of Supply

The supply to schools was suspended for three weeks last winter. This year the Milk Department imported from factory suppliers outside the normal areas of supply quantities in excess of 2,700 gallons a day, and there was still a daily shortage of 2,500 gallons. As a result of this shortage milk-supplies to school-children were rationed in February and March and, except for a partial supply to children at kindergarten, have since been entirely cut off. Supplies to the Armed Forces and to milk-shops and milk-bars have also been rationed. The milk from outside suppliers has been brought from factories as far afield as Bunnythorpe and Pahiatua.

As in other areas, so in Wellington war conditions have created special difficulties. It has increased the demand, and the increase has been irregular and has fluctuated severely. It has added to the difficulties of production by causing a reduction in the fertilizer available and a serious shortage of labour. Wellington has not suffered as Auckland has suffered from a prolonged drought. The difficulties are real. But in the opinion of the Commission they are not due solely to war conditions. The population has been increasing steadily. A scheme to supply milk for school-children has been developed and put into operation. The value of milk as an article of diet has been urged and is likely to have appreciable effect. Even had there not been an outbreak of war a crisis in the milk industry seems to have been likely. In any case, these difficulties for the current year ought to have been foreseen. The increased demand and the greater difficulty in production have been growing for several years and are still present. Their continuance must be expected and provision made accordingly. In the opinion of the Commission the policy of the Milk Department of the City Council is responsible in no small degree for the shortage. The cows are in the fields and a source of supply more than sufficient to meet all the needs of the area is available within reasonable distance of Wellington. But it cannot be expected that it will be forthcoming unless the dairy-farmer has the assurance that can come only from contracts covering appropriate periods. The regular suppliers at Rahuī complain that the City Council persists in refusing to make contracts covering its real requirements.

The worst feature of the situation, in the opinion of the Commission, is not the shortage, though that is serious enough, but the resort to sources of supply beyond the areas in which standards for city milk-production have been established.

Methods of Production

In the Wellington supply areas Jersey and Jersey crossbreds predominate. This is due no doubt to the fact that milk is purchased on the basis of its butterfat content.

There is no systematic attention to the elimination of T.B. and other bovine diseases. A limited test was made when it was required that the raw milk supplied in a military camp should be drawn only from T.B. tested herds, and, as noted later, this showed a percentage of reaction of 5.4 per cent.

The problem of replacement of stock is as urgent in this as in other areas. As elsewhere, the mischief consequent upon purchase from sale-yards is recognized, but the urge to keep on the farm only cows that are in or about to come into profit checks the development of breeding one's own replacements, or of limiting purchases to those from well-known and high-standard herds.

The problem of winter feeding is more acute in this area than it is in Auckland and Christchurch, owing to the low fertility of much of the soil. Winter feed must be purchased at considerable expense, and this inevitably checks winter milking.

Farm Dairies

The Commission did not obtain adequate first-hand information of the condition of the farm dairies in the area. One difficulty mentioned in evidence that has to be faced is that of providing satisfactory cooling arrangements. In the summer period the water available is not of a low-enough temperature, and the provision of refrigerating-plant and cool storage must ultimately be insisted upon as a necessary part of the equipment of every dairy used for town milk-supply in this area.

Standard of Supply

In spite of difficulties that have had to be overcome, the milk supplied to the Milk Department of the Wellington City Council is of a uniformly high standard. Tests made by the Milk Department for the year ending 30th June, 1942, on samples taken day by day on all milk brought in from farm dairies show the following results:—

Percentage of non-compliance—

Reductase test	1.422 per cent.
Sediment	0.12 per cent.
Added water	0.002 per cent.
Tests for other abnormal conditions	0.011 per cent.
Plate count average	92,000

These results compare favourably with comparable tests made on samples of milk in all the other areas. The system of tests and grading and of payment according to standard adopted by the City Council and the full co-operation of the Wellington Dairy Farmers' Co-operative Association, Ltd., have contributed to this result.

The Commission has been informed that the emergency supplies brought from the factory suppliers in outside districts have proved to be reasonably good. In general this appears to be true; but it is also true that a bulk supply from Bunnythorpe comprising the produce of a considerable number of dairy-farms was subject to the reductase test and that it stood under the test for five hours only. This must be regarded as very far from satisfactory for a bulk supply in mid-winter.

Price to Producers

The price to be paid to the Wellington Dairy Farmers' Co-operative Association, Ltd., and the price to be paid to the Rahui suppliers is based mainly on the butterfat content of the milk, and the effect of the agreements entered into in each case is to adopt an adjusted average for the guaranteed price for butter and cheese and to increase that by an amount designated the "added value." This added value is obviously intended to compensate the producer for the extra cost incurred by him over that that he would incur in ordinary seasonal factory production. The prices paid to the producer are indicated in the following table supplied by the Milk Department of the Council. Butterfat rates are calculated at 17.25d. per pound butterfat for the summer and autumn periods, but at 17.25d. plus 85 per cent for the winter period:—

Period	Average Butterfat Test Per Cent.	Butterfat Value per Gallon d.	Added Value d.	Total d.
16th August to 31st January	4.32	7.67	2.87	10.54
1st February to 15th April	4.74	8.42	4.50	12.92
16th April to 15th August	4.89	16.06	3.25	19.31
Weighted averages	4.59	10.53	3.33	13.86

Collection

The milk sold by the nearby farmers is brought into town and vended by the farmers themselves. The milk drawn by the Milk Department from

the 30-mile area is brought in by the Department, which lets contracts for the purpose. The milk is picked up generally at the farm-gate, but in cases in which the dairy-farm is off the main road the milk is brought by the farmer to a point of collection. The milk is placed on stands at the farm-gate or roadside, and these stands are supposed to be covered, but this provision appears to be neglected in many, if not in most, cases. The collecting vehicles are required to have suitable covering from the 1st October to the 30th April in each annual period so as to protect the milk from injury by the sun's rays. When milk is required from outside the 30-mile area it is carted to the station by the suppliers and brought into the city by train. Under their contract either party—that is, the producer or the Milk Department—may call for double daily delivery for the period from 1st November to 30th April, but the producer's right to call for delivery twice a day is contingent on evidence being available that the standard of the milk is suffering by the delay.

In the Hutt Valley the producer-vendors convey the milk they vend into the zoned area and the quantities supplied by the Wellington Dairy Farmers' Co-operative Association, Ltd., are collected by the Association from the individual farmers and delivered at the vendor's premises. The quantities supplied to milk-shops and camps is also collected and delivered by the association. The milk is collected once daily after the evening's milking. This milk is delivered in cans, but the separation and identity of supplies from different farms is not maintained in all cases, and the Department of Health states that in many instances it is unable to trace the supply back to its source.

The cost of collection by the Municipal Milk Department is 1.46d. per gallon, and the comparable cost throughout the other areas varies from 0.75d. to 1.126d. The cost to vendors of raw milk and the relevant share of the cost of producer-vendors must vary considerably.

Treatment

The most distinctive feature of the supply of milk to the Metropolitan Area of Wellington is that approximately 80 per cent of the milk supplied to Wellington—that is, to that portion of the metropolitan area excluding the Hutt—is handled by the Milk Department of the City Council. Of this amount, a quantity comprising between 74,000 and 75,000 gallons of milk and between 11,000 and 12,000 gallons of cream are supplied by the Department to forty-eight nearby farmers in the period of shortage. Three of these nearby farmers received in the year ending 31st March, 1943, 6,487 gallons of raw milk and the other forty-five received 67,703 gallons of pasteurized milk. As all the milk that the Department vends is pasteurized, very little short of 80 per cent of the liquid milk and cream passing into use in the Wellington City area is pasteurized. All the milk that is retailed by the Department and all that that is supplied to the schools is bottled, while the wholesale supplies and the supplies to the Armed Forces are delivered loose. The testing, pasteurizing, and bottling at the milk depot is excellent, and the system adopted has undoubtedly attained the best results in New Zealand.

The Milk Department of the City Council maintains a laboratory that is under the control of an analyst whose appointment was approved by the Health Department. Each day every supplier's milk is weighed on arrival at the depot and a sample is taken for testing. Part of every sample is subject to the reductase test, and for the year ending 30th June, 1942, 27,444 such tests were made and non-compliance with the statutory standard was established in only 1.422 per cent of cases. Altogether, 9,914 tests were made for butterfat content in milk and 1,398 for butterfat content in cream and 97 for total solids, and each of these tests was made on a composite sample of separate samples taken each day for ten days. The average butterfat content for the year was 4.486 per cent and of solids not fat 8.84 per cent. In the same period 4,942 tests were made for sediment and 1,716 for added water. There were 66 micro examinations, 6,038 agar plate counts, and 1,507 for B. Coli, 2,105 for fermentations, 448 for pH. values, and 202 phosphatase tests. Sediment was found in 0.12 per cent of the tests and added water in 0.002 per cent. Other abnormal conditions were found to exist in 0.011 per cent. An important feature of the tests applied to the suppliers' milk is that a financial loss is immediately attached to any milk found to be below standard. If the

milk falls below the standard of four hours under the reductase test it is graded as second class. Once the milk of a supplier has been graded as second class succeeding supplies are not again bulked until after the result of the test has been ascertained. Then if it proves still to be second grade it is separated and the supplier is paid for it at 1d. below the rate allowed by the Council in respect of butterfat content. If the milk continues second grade until it has been separated on three days in succession, further supplies are condemned until the trouble is remedied, and the supplier receives no payment but is charged for cartage from the farm to the depot. If a supply does not stand up to the test for more than fifty minutes it is condemned at once and the supplier receives no payment but is charged for cartage until the standard of four hours is restored. This system of testing, grading, and payment has an immediate and direct effect on the quality of the supply.

Both pasteurizing and bottling are carried through under good conditions. After weighing, the milk is cooled to 38° F. It then flows into glass-lined insulated storage tanks. It is then pasteurized, filtered, and chilled in a unified milk-treatment machine. The bottles are machine cleansed, sterilized, filled, and capped. Every care is taken to avoid danger of contamination of the milk after pasteurizing and the bottles after sterilizing. There is no exposure to the air after the treatment of the milk or the sterilizing of the bottles until the point at which the milk enters the bottles; and filling and capping are carried out automatically by the same machine and as part of one process. All milk after pasteurizing and bottling is held in a refrigerated room until loaded for delivery. It should be stated that tests taken by the Health Department confirm the results found by the Milk Department and, further, that of the 2,215 samples taken in 1942 from all vendors only 75, or 3.5 per cent, failed to comply with the standards set by the Food and Drugs Act, while none of the samples taken from the Council's delivery carts were found to be at fault.

Milk distributed in the Hutt Valley is not pasteurized and none is bottled. This applies to the milk distributed to householders and to that sold in wholesale quantities and also to that supplied to the Armed Forces and to shipping. All the milk supplied to the Armed Forces is drawn from cows in T.B. tested herds. When the test was carried out it showed 5.4 per cent of reactors. This is very low compared with overseas experience, but it is still appreciable and gives emphasis to the recommendation that milk ought not to be distributed raw unless it is drawn from T.B. tested cows. Generally, the tests taken by the Health Department show that the butterfat content of the milk is satisfactory. Tests taken by the Wellington Dairy Farmers' Co-operative Association, Ltd., of their own milk shows 4.6 per cent butterfat. The standard in other respects is also high. The average tests of samples taken by the Health Department throughout the three central health districts other than Wellington showed failure to comply with statutory standards in 11.4 per cent of samples, while the percentage taken on the rounds in the Hutt Valley was 8.6 per cent only. The Wellington Dairy Farmers' Co-operative Association, Ltd., carry out daily tests on the milk collected by it, and this gives effective control over the standard of the milk. A recent communication from the Health Department directed attention to unsatisfactory features at the Wellington Dairy Farmers' Co-operative Association, Ltd.'s depot at the Lower Hutt and recommended that certain improvements in respect of sterilization and other matters be effected. The Commission was assured that the recommendations of the Department in respect of sterilization were receiving immediate attention.

It is necessary to refer again to the influence of the purchase of large quantities of milk from suppliers to butter and cheese factories outside the regular supply area. Under the administration of the Department of Agriculture and of the Department of Health control over the conditions under which town milk is produced has been effectively exercised and progressive improvement in these conditions has been secured. Use of emergency supplies as a common feature of town supply tends to break down that control and to lower the standard attained. It appears to be the case that the supplies purchased from outside sources in the winter of 1943 by the Wellington City Council was of a fairly good standard for milk so derived, but it was not up to the controlled standards, and the ultimate effect of dependence on such supplies must be such as to break down control and generally to lower the standard. In the opinion of the

Commission, such dependence must be regarded as a proof of failure to organize the city milk-supply effectively and ought not to be tolerated. The cost of the Municipal Milk Department for pasteurization is 2.16d. per gallon and for bottling 2.07d. per gallon. The comparable cost in other areas ranges from 0.99d. to 1.87d. per gallon for treatment and from 2.25d. to 3.32d. for bottling.

Distribution

Distributors

In Wellington milk and cream are distributed by the Milk Department of the Wellington City Council and by the nearby farmers. There are ninety-one shop dairies in the city. In the Hutt Valley and eastern bays it is distributed by vendors and producer-vendors and by shop dairies. In Wellington there are forty-five producer-vendors and in the Hutt Valley and bays district there are twelve producer-vendors and twenty vendors.

The quantities of milk delivered by these distributors is indicated by the following returns for the year ending 31st March, 1943:

Milk Department	3,883,638 gallons milk, 665,145 pints cream.
Nearby farmers	Total sales approximately 950,000 gallons, including 74,190 gallons milk and 91,981 pints cream purchased from the Wellington City Council.
Hutt Valley vendors and producer-vendors	1,230,688 gallons.
Wellington Dairy Farmers' Co-operative Association, Ltd.	To milk-shops, shipping, and Armed Forces, 515,173 gallons.

Classes of Purchasers

As is the case in other areas, the milk supplied in Wellington is divided up between various classes, including retail purchasers such as householders; wholesale purchasers, including restaurants, hotels, milk-bars, milk-shops, &c.; purchasers under special contract, including hospitals and other institutions, shipping companies, and Armed Forces. Sufficient information is not available to enable us to give particulars of the amounts distributed to each of the constituent groups, but the following return from the Milk Department of the City Council indicates the general grouping and the prices charged so far as their supplies are concerned:

	1940-41	1941-42	1942-43
Bottled milk (retail)	1,994,141	2,068,475	2,277,369
Bulk milk	808,908	788,025	1,345,788
School milk	259,972	250,806	186,291
Pints of cream	481,992	530,872	665,145
Ice-cream mix (1 gallon milk for 3 gallons mixture)	90,456	99,969	108,452

Prices

The prices charged were as follows:

Retail (bottled), average for 1943	27.796d. per gallon
Wholesale	5d. per gallon below retail

To regular purchasers of 250 gallons or more per month a rebate of 1½d per gallon is allowed

Hospitals) Special contract prices.
School milk	
Armed Forces	

Zoning

Owing to the fact that so large a proportion of the milk is distributed by the one large vendor the Wellington area was fairly effectively zoned before the system of zoning was officially adopted. The nearby farmers were zoned in 1942 and the Hutt Valley vendors in 1940. A certain amount of duplication of travel between the Milk Department and individual vendors

is allowed so as to ensure to purchasers an opportunity to purchase either raw or pasteurized milk. As in other areas, considerable economies have been effected by the adoption of zoning.

Methods of Delivery

The Wellington City Council employs forty-three horsedrawn and eleven motor-driven vehicles on retail delivery rounds. It has four motor-vans employed on wholesale delivery and twenty-one other motor-vehicles used for feeder services, delivery to schools, and for collection from trains, &c. Of the forty-eight producer-vendors some use light vans on delivery. A number of them use private cars adapted for the purpose. In the Hutt Valley delivery motor-vehicles are used by twenty-two distributors, horse and cart transport by four, and other methods by six. It may be said that generally the vehicles and method are well up to the standard of delivery established in New Zealand, but no person watching the delivery in very hot and dusty or in very wet weather and noticing the uncovered condition of the vehicles would be inclined to approve it as ideal.

The roundsmen employed by the Wellington City Council now work 46½ hours per week; they start at 3 a.m. in summer and at 6 a.m. in winter; they travel on their rounds an average of twelve miles; they occupy seven hours on a round; and they deliver on an average 120 gallons per day per round. This high gallonage per day may be contrasted with the delivery at Auckland where the roundsmen deliver milk for 4½ hours per day only and where each roundsman has to handle both bottled and loose milk. The computed cost of distribution by the Milk Department is 6.43d. per gallon, as compared with from 7.65d. to 10.42d. by companies in other areas.

The forty-eight nearby farmers live close to the city and transport the milk they produce straight on to the round. As their average daily delivery is over 60 gallons it is doubtful whether any appreciable economy could be effected by any further rationalization.

In the Hutt Valley there are twelve producer-vendors. Some of them travel considerable distances to and from their rounds. The following examples illustrate the position:

One producer-vendor travels 40 miles to deliver 62 gallons. A second producer-vendor travels 30 miles to deliver 69½ gallons. A third producer-vendor travels 20 miles to deliver 54 gallons.

These producer-vendors do not produce all the milk they deliver, but purchase portion of their milk from the Wellington Dairy Farmers' Co-operative Association, Ltd.

The twenty-raw-milk vendors—that is, vendors other than producer-vendors—in the Hutt Valley purchase the milk they distribute from the Wellington Dairy Farmers' Co-operative Association, Ltd., and as it is delivered to their premises there is no wastage in collection. Some of the premises however, are situated at considerable distances from the rounds. One vendor travels 15 miles to deliver 36½ gallons, while another travels 43 miles to deliver 150 gallons.

Two features of the Wellington system of distribution are unique. Consumers are required to pay for their own bottles and payment for bottled milk is made by tokens. The wastage of bottles is still heavy, but the liability on the consumer acts as an incentive to the exercise of care and saves the vendor considerable expense. It has the merit that the careless bear the whole loss consequent on their carelessness and the careful consumer is not called upon to share that loss. Payment by tokens saves the time of the roundsman, both on his rounds and when making his returns. It also saves a considerable amount of labour in the office, enabling the staff to be much smaller than is customary in businesses of a comparable size, and it eliminates bad debts. The tokens are sold by retail agencies, to whom the generous allowance of 2½ per cent. on all tokens sold is allowed.

APPENDIX 23

ROYAL COMMISSION ON MILK INDEX TO ACCOUNTANTS' REPORT SURVEY OF CREAMERY OPERATIONS LOCATED IN THE PROVINCE OF ONTARIO

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INDEX TO EXHIBITS

- A Recapitulation by areas of data extracted from financial statements submitted by 142 creameries
- B Tabulation by areas of sales groupings of 142 creameries
(The above exhibits relate to the fiscal year next preceding October 1st, 1946)

The Honourable Justice Dalton Wells,
Commissioner,
Royal Commission on Milk.

*Accountants' Report
Survey of creamery operations
Located in the Province of Ontario*

Sir:

We have completed our survey on the above subject and now have the pleasure to submit our report thereon.

During the time this survey was in progress certain price control measures were relaxed, certain subsidies terminated and appreciable price increases authorized, all affecting the relative positions of the producers and process-

ors as well as the profit margins of various products, particularly creamery butter, cheese and evaporated milk.

The effect of these measures on the operating results of the creamery industry should be favourable but it cannot be accurately determined until a sufficient period of time has elapsed to permit of reliable data being assembled.

Assignment, approach and procedure

Having regard to the provisions of the Order-in-Council dated October 1st, 1946, and in accordance with your subsequent instructions, we were required to investigate and report on the operations of creameries located in the Province of Ontario with particular regard to costs, prices, price spreads, methods of financing, and methods of management.

Such a comprehensive survey required preliminary planning, and it is thought that reference to a few of the more important points, which came to our notice, relating to the creamery industry as a whole, might be of assistance in arriving at a proper assessment of this report, and facilitate your final conclusions.

Industry background:

According to information furnished us by the Ontario Creamery Association, there are approximately 279 licensed creameries operating in the Province of Ontario of which 220 are members of the trade organization known as the Ontario Creamery Association. Of these, only 47 concentrate on the production of creamery butter, the remaining 232 concerns engaging in the processing and distribution of fluid milk and cream, cheese, ice cream, powdered milk and other milk products. Some also trade in poultry, eggs, and other produce.

A number of creameries are operated as cooperative businesses, while others are controlled or owned by ice cream and chocolate manufacturers, distributors of fluid milk and dairy products, packing houses, and processors of canned foods but the majority are operated either as proprietary businesses or partnerships, primarily for the processing and sale of creamery butter to meet domestic consumer requirements.

The peak in creamery butter production was reached in 1939 when 88 million pounds were produced in Ontario. Since then there has been a progressive decline, 1946 production representing but 79% of that for 1939.

Production of creamery butter in the year 1946 totalled 68,785,800 pounds, a reduction of 11.2% from 1945, and accounted for 36.92% of the total estimated whole milk production of the Province, aggregating 4,361,584,600 pounds. In this regard, the particulars shown in table 1, which follows, may be of interest:

TABLE I
Summary of allocation of estimated whole milk
Production in the province of Ontario
for the year 1946

	Production	1946 Estimated pounds of whole milk	% of total	1945 % of total
Creamery Butter	68,785,800 lbs.	1,610,275,600	36.92	38.47
Factory Cheese	91,978,000 lbs.	1,030,153,600	23.62	26.94
Fluid Milk	467,736,000 qts.	1,206,758,900	27.67	23.69
Fluid Cream	13,519,000 qts.	148,709,000	3.41	2.89
Condensed Whole Milk	14,765,700 lbs.	33,665,800	.77	.77
Evaporated Milk	98,063,700 lbs.	215,740,100	4.95	4.83
Powdered Whole Milk	14,535,200 lbs.	116,281,600	2.66	2.41
		4,361,584,600	100.00	100.00

Taking an average wholesale price of 39c per pound, a total dollar volume for 1946 of approximately twenty-seven million dollars is arrived at for creamery butter alone. Statistics show that for the year 1946, 4,500,400 pounds of butter were exported from Canada at an average price of 44.51

cents per pound for a total of \$2,003,302 as against 5,497,900 pounds in 1945 but there are no official statistics maintained by either the Dominion or Provincial authorities which show the proportion of such exports produced in the Province of Ontario. The figures shown in this report therefore relate to both domestic and export sales.

For the year 1946 creamery butter production for Ontario approximated 25% of the total for the entire Dominion.

Geographically, the bulk of the creamery industry is located in that section of the Province west of Toronto. A number are located in the eastern portion of the Province, in the Ottawa Valley and St. Lawrence River sectors, and a few in the central and northern parts of the Province.

The exact number of personnel employed by, or connected with, the industry may approximate 2,500.

Unlike the fluid milk distributing trade, there does not appear to exist any establishments of sufficient magnitude, in relation to others, to occupy a dominant position or have a leading influence within the industry.

In considering the operations of creameries regard should be given to the relatively low proportion of controllable expenses entering into the total cost, and the high proportion of material cost.

Approach and procedure:

Under date of December 7, 1946, a circular letter was mailed to 197 selected creameries throughout the Province, requesting them to submit a copy of their auditor's unabridged report, with certified financial statement, including assets and liabilities, trading or operating and profit and loss statement, for the fiscal year next preceding October 1, 1946. In the event that auditors were not engaged, the operators were asked to submit their own statements. In addition, they were asked to forward an estimate of net profit for their current fiscal year, before provision for income and excess profits taxes, the information to be lodged with the Commission not later than December 17, 1946.

Unfortunately, some concerns were under the impression that the Commission's enquiry did not embrace creamery operations. The Ontario Creamery Association was contacted, and it undertook to circularize the industry so that finally, by February, 1947, a sufficiently satisfactory response was recorded enabling us to proceed with our tabulations. In registering the submissions code numbers were employed to ensure privacy and facilitate handling.

The financial statements were first sorted into three geographical areas, viz., the western and southern section of the Province, the central and northern area, and then the eastern. The returns were then tabulated as to type of business, i.e., proprietary or incorporated company, sales volume, net profits (before provision for income and excess profits taxes), capital employed, fixed assets, investments, etc. A further listing was made according to sales ranges of the individual concerns. The estimates of net profits for the current fiscal year were also tabulated.

It was following a review of these financial statements and our analyses and tabulations that a decision was made to send a form of questionnaire to a representative cross-section of the industry with a view to obtaining more detailed accounting and statistical data for the purposes of this report. The questionnaire was the same as was used for the survey of fluid milk distributors, since the time element was important and it was considered the various schedules were conveniently adaptable to the creamery trade.

Following are our observations and findings on both the financial statements and questionnaires submitted to us.

Review and tabulation of financial statements showing overall operating results:

Of the 197 concerns from whom financial data was requested, 142 submitted statements which we were able to include in our tabulations. The remaining 55 were excluded for various reasons, chiefly on account of insufficient detail.

Of the 142 recorded, 41 are incorporated companies. Geographically 71 relate to the western and southern portion of the Province, 50 to the central and northern area, and 21 to the eastern area, 44 counties and districts being represented.

Our review of the financial statements, relating to proprietary concerns in particular, disclosed wide variance between individual businesses in the matter of proprietors' and partners' salaries. In order to properly determine the earnings of individual concerns and establish a comparable basis in this regard, it was necessary for us to adjust the reported profits in many instances, and apply a salary charge in accordance with a pre-determined scale developed by us. Thus, so far as this item of expense is concerned, all proprietary and partnership businesses were placed on a uniform basis. No other adjustments were made by us to the reported net profits, which were after charging interest on borrowed monies.

We have not included in our tabulations the operating results of creameries owned or controlled by chocolate and ice cream manufacturers, packers and canned food processors, it being considered that the Royal Commission was primarily interested in the operations of independents. The majority show earnings ranging from less than 1% of sales to more than 6% while some show operating losses.

Observations regarding financial statements and questionnaires:

The financial statements submitted disclosed a lack of uniformity in accounting practice, and suggested a tendency on the part of the smaller businesses to be satisfied with statements which gave little consideration as to their being informative from an operating or administrative viewpoint or not. In only a few instances were comparative figures or percentages shown. The great majority of statements dealt only with the overall position, profit margins by products being given in only a few instances.

The response to the form of questionnaire was helpful although a number were incomplete in one particular or another, indicating that the accounting and statistical records in general were not as comprehensive as they should be. As mentioned, we did not prepare a separate questionnaire for the creameries, but used the same form as for the fluid milk distributors and this may have some bearing on the matter.

The foregoing broadly covers the approach to the problem and the procedures followed, although reference might be made to the considerable volume of correspondence, both inward and outward, and the consultation which became necessary in order to obtain as complete and reliable data as possible with the minimum delay. It will be appreciated that our survey occurred at a most inopportune time when most businesses were pre-occupied with the closing of their books of account for the fiscal year and later the preparation of income tax returns. Thus, a certain amount of correspondence and delay was inevitable.

Overall operating results for the fiscal year next preceding October 1, 1946

Exhibit (a), attached, summarizes the overall operating results of the 142 establishments included in our tabulations, 41 of which are incorporated companies and 101 proprietary or partnership businesses.

It will be noted that the net profits (before taxes) from the sale of all products totalled \$460,919 and equalled 1.43% of sales and 13.29% of capital employed, the latter being calculated substantially in accordance with the provisions of the Dominion excess profits tax act.

The rate of earnings of the creameries located in the central and northern sections of the Province are higher than elsewhere. The western section, where most of the creameries are located, being second, and the eastern, lowest. This earnings comparison by areas is substantiated by the questionnaires returned to us.

The profit figures shown are as reported by the concerns themselves, or their auditors, except where adjustment in respect of proprietors' or partners' salaries was found necessary.

For all practical purposes the earnings rates given may be accepted for the industry as a whole as other tabulations and computations made by us show only a fractional variance. Furthermore, a recapitulation of the questionnaires received from a representative cross-section of the industry shows net profits (before taxes) of 1.36% of sales, a difference of only .07 of one per cent.

If the rate of 1.43% is applied on the creamery butter sales of the industry for the calendar year 1946, which have been estimated at \$27,000,000, the net profit would amount to \$386,100 which, compared with the amount of

\$460,919 shown as the overall profits of 142 concerns, clearly indicates that the creamery industry produces large quantities of products other than creamery butter. Without more information than is presently available to us, it is not possible to give authentic figures regarding overall sales of all products of the industry, but from such data as we have developed, it would appear that total sales, including both domestic and export, for the fiscal year immediately preceding October 1, 1946, might approximate fifty million dollars for the entire Province. Predicated on such figure, creamery butter would represent about 54% of the total dollar sales.

On the assumption that the foregoing estimate of total dollar sales is reasonably correct, and based on the unit costs of butter as given later in this report, we have developed the following summary:

TABLE 2
Summary of estimated operating results
of creameries located in Ontario for the
fiscal year next preceding October 1, 1946

	Sales	Net profits (before taxes)	% of sales
Creamery butter.....	\$27,000,000	\$340,200	1.26
Other products.....	23,000,000	374 800	1.63
Totals.....	\$50,000,000	\$715,000	1.43

Having regard to the amount of capital employed as shown in exhibit (a) it may well be that the capital employed for the industry as a whole, as calculated substantially in accordance with the provisions of the Dominion excess profits tax act, might approximate \$4,500,000.

Although the ratio of net profits to sales may seem low in comparison with certain other processing or distributive trades, the return on capital employed is, we believe, eminently satisfactory at 13%. We might also mention that since the raw material cost represents approximately 85% of selling price, the return in relation to the processors' efforts and expenditures would not seem inadequate.

Classification of businesses by sales volume:

As regards exhibit (b) (tabulation of sales groupings), it will be noted that the percentages of net profits to sales vary considerably.

We would direct attention to the downward trend of group 3 in relation to group 2, also the relative uniformity in the rate of earnings of the concerns enjoying annual sales in excess of \$100,000 per annum, both of which conform with our findings in regard to distributors of fluid milk.

Regarding individual operations, only 75% to 80% of the independent creameries in the Province appear to have operated at a profit during the fiscal year next preceding October 1st, 1946.

Operating losses of individual businesses:

Of the 142 businesses included in our tabulations, 33 or 23% incurred losses. This proportion is applicable to each of the three areas indicating that perhaps one out of every four or five creameries throughout the Province operated at a loss during the fiscal year next preceding October 1st, 1946.

Individual losses ranged from \$59 to \$7,781, the 33 concerns incurring and aggregate loss of \$59,302 as shown hereunder.

TABLE 3
Summary of 33 concerns showing operating losses for the fiscal year next
preceding October 1st, 1946

Area	Sales	Loss	% of sales	Number of concerns
Western	\$2,760,941	\$36,363	1.32	16
Central	1,731,936	14,404	.89	12
Eastern	1,055,725	8,535	.81	5
Combined	\$5,548,602	\$59,302	1.07	33

Only twelve concerns relate to the three sales groupings up to \$100,000 per annum. Ten concerns, each with sales volumes of between \$100,000 and \$200,000 per annum, incurred losses and eleven in the next group, ranging from \$200,000 to \$500,000 per annum.

These twenty-one concerns in the two highest categories show an aggregate loss of \$42,636 accounting for 72% of the total. This suggests that the adverse results may not be wholly attributable to inefficient operation but perhaps a basic condition which has existed within the industry in recent years, particularly during the period that wartime controls were in effect.

Were the losses and related sales of the 33 concerns eliminated from exhibit (b), net profits for the remaining 109 businesses (before taxes) would aggregate \$520,221, which calculated on the related sales total of \$26,795,981 would show earnings of 1.94% of sales for the 109 profitable operations.

Breakdown of sales revenue:

Since 1939 there has been a definite movement to develop sales of products other than creamery butter, although wartime controls may be partly responsible for this development. In any event the overall dollar sales have almost doubled, yet the production of creamery butter at the close of 1946 showed a reduction of 21% from the 1939 level.

The output of condensed and powdered whole milk has increased two-fold since 1939 and it may be that these two products are mainly responsible for the increase in dollar sales of the creamery industry.

From the tabulation of questionnaires indicating an average overall net profit margin of 1.36% of sales, we have prepared the following summary. The figures shown have been developed from returns which provide a representative cross-section of creameries located in Ontario and which engage in combined operations, processing fluid milk, cream, and other products in addition to creamery butter.

TABLE 4

Breakdown of overall sales revenue from all products fiscal year next preceding October 1st, 1946

	% of sales	% of total cost
Sales	100.00	
Cost of:		
Materials and ingredients (including haulage)....	87.63	88.84
Processing	7.63	7.74
Selling and delivery .....	.71	.72
Administrative and general expense	2.67	2.70
<i>Total cost</i>	98.64	100.00
Net profit (before taxes)	1.36	
	100.00	

The above shows that 88.84% of the total cost of all products is represented by materials and ingredients. Of the remaining 11.16% only part can be said to be controllable from the processors viewpoint, as there are certain fixed or semi-fixed charges, such as, depreciation, insurance, light, heat, business and property taxes, etc., over which the processor has little effectual control.

Under such conditions the essentiality of volume production and a high standard of operating efficiency is evident, if a reasonable profit is to be assured. A breakdown in the flow of production or a major repair cost is sufficient to seriously reduce profits, if not to eliminate them.

An alternative breakdown by the various elements of cost in relation to overall sales revenue is given in table 5 which follows:

TABLE 5

Breakdown of total sales revenue by elements of cost—Fiscal year next preceding October 1st, 1946

	% of sales
Sales	100.00
Materials—Raw materials, ingredients....	85.98
Haulage to creamery	1.65
	87.63
Containers and packages .....	.65
	88.28
Material cost	88.28
Wages—Production	4.48
Selling and delivery .....	.03
Administrative and general	1.77
	6.28
Labour cost	6.28
Facilities—Repairs .....	.70
Depreciation .....	.84
Services, etc.	2.54
	4.08
Facilities cost	4.08
Total cost	98.64
Net profit (before taxes)	1.36
	100.00

Labour is the most important item of controllable expense. The charges for repairs and provision for depreciation are not considered unreasonable, the latter representing but 6% (approximately) of original cost of plant and machinery. Of the services cost shown at 2.54% of sales revenue, the most important items included therein are light, heat, and power, municipal and property taxes, telephone and general expenses.

*Costs and profit margins
creamery butter*

for the fiscal year next preceding October 1, 1946.

We give below a breakdown of the costs of manufacturing creamery butter as disclosed by a representative group of creameries selling through both wholesale and retail outlets. Being average figures they should be regarded as a standard of measurement or comparison for general application only, as the selling prices and proportions of the different grades of butter and the various elements of cost show appreciable differences as between the different localities and individual creameries.

TABLE 6

Manufacturing cost of creamery butter
for the fiscal year next preceding October 1, 1946.

	%	Cents Per Pound
Sales	100.00	35.25
Cost of:		
Churning cream and ingredients	82.51	29.09
Hauling	1.80	.63
Containers and packages	1.38	.49
Material cost	85.69	30.21

Cost of:		
Processing, labour	6.05	2.13
Selling, administrative and general salaries	1.85	.65
Labour cost	7.90	2.78
Cost of:		
Repairs .....	.85	.30
Depreciation .....	.90	.32
Facilities	3.40	1.20
Services cost	5.15	1.82
Total cost	98.74	34.81
Net profit (before taxes)	1.26	.44

The costs and selling prices of the three largest distributors of fluid milk, who also produce large quantities of butter, are very different to the above. The selling prices of the three concerns ranged from 32 cents to 41½ cents per pound in 1945 and 1946. Two of the concerns reported losses ranging from 2.67% of sales or .84 of one cent per pound to 4.13% of sales or 1.63 cents per pound. The third, which sold at the highest price of the three, realized a profit.

The combined butter sales of these three concerns alone exceed \$3,500,000 per annum, or 15% of total creamery butter sales, the great proportion of which is sold in the metropolitan and urban centres. The extent to which such sales may affect the operating results of producers of creamery butter is difficult to determine. However, the butter production of the larger fluid milk distributors, packing houses and others is in direct competition with the creamery industry.

Since 1939 the purchase prices of sweet cream, churning cream, and whey cream, have advanced substantially, the first two mentioned increasing more than 50%, and whey cream in excess of 60%. When it is considered that the raw material cost to the creamery operator approximates 85% of his selling price, the essential nature of the various types of produce demanded that some relief be extended the industry by way of increased selling prices or subsidies.

Financial Position

The questionnaires indicate that, in terms of dollars, the overall sales volume of creameries, including all products, has almost doubled since 1939, while net profits (before taxes) for the fiscal year next preceding October 1, 1946, are slightly less than in 1939. Substantial sums have been expended on improvements and additions to plant machinery and equipment, yet the working capital position has not deteriorated.

The following summary provides an accounting of funds over the six years 1940 to 1945 inclusive, in respect of a representative group of creamery operations. It provides an indication of the financial policy followed by the creamery industry in recent years.

Net profits 1940 to 1945, inclusive	\$222,695	
Reserved for depreciation	139,707	
Total to be accounted for	\$362,402	
<i>Disbursed as follows:</i>		% of total
Expended on improvements and additions to plant machinery and equipment	\$164,369	45.36
Increases in accounts receivable, inventories and investments	191,958	52.97
Withdrawn for income and excess profits taxes	77,943	21.51
Withdrawn for drawings, dividends and surplus adjustments	91,710	25.30
<i>Deduct</i>	\$525,980	145.14
Increase in bank loans and current liabilities	163,578	45.14
Total as above	\$362,402	100.00

To meet the increased demand for creamery produce in recent years, improvements and additions to manufacturing facilities were necessarily involved. The expenditures since 1939 represent about 50% of the gross value of fixed assets for the group as at the close of the 1939 fiscal year, and exceed the total amount reserved for depreciation during the six year period 1940 to 1945. Our calculations show that the present net book value of plant, machinery and equipment for the group is less than 50% of original cost which is, of course, substantially less than replacement.

The rate of inventory turnover varies considerably between seasons. As a whole it is thought that the industry may average a rate of 15 to 20 times per annum. Accounts receivable are an important item in the financial position, and in total, may approximate the value of inventories. They are, however, in low ratio to the industries' dollar sales.

The foregoing indicates that the investment in fixed assets and the working capital requirements of the industry are not large in relation to its sales volume and, at the rate of earnings maintained in recent years, it would appear that the industry is capable of earning sufficient profits to equal the entire amount of its invested capital in a period of ten years or less. Information extracted by us from financial statements indicates that the industry may have one million dollars of outside investments, principally in Dominion of Canada bonds, and that mortgages, notes, and other long term indebtedness may approach two million dollars.

Having regard to the essential character of the industry's production, the element of risk is not a serious factor and this should not be overlooked in considering the rate of earnings.

A review of the foregoing leads to the conclusion that the plant, equipment, and manufacturing facilities of the industry have been well maintained and that financially the industry, as a whole, is in a reasonably sound position, showing little evidence of impairment over recent years.

Selling prices—creamery butter

In 1939 the average wholesale price at Toronto approximated 24 cents per pound. By the close of 1941 the price had advanced to 34½ cents and this price level was largely maintained until April, 1946, when the price was increased to 40 cents.

On April 30, 1947, the Dominion government subsidy of 10 cents per pound of butterfat (equal to 8½ cents per pound of butter) was terminated and the following day an increase of 10 cents per pound was authorized, bringing the Toronto price up to 48½ cents. At the time of this report ceiling prices have been removed and the prevailing market price is 51½ cents per pound.

Although, as we have shown, wholesale prices increased approximately 70% from 1939 to the close of 1946 and by 114% up to the time of this report, it must be remembered that the costs of raw materials, labour and operating supplies have also advanced very considerably. Of the 10 cents increase in May, 1947, 8½ cents went to replace the producer subsidy, the industry benefiting by only 1½ cents per pound or 15% of total.

Other price increases authorized on May 1, 1947, which should benefit the creamery industry, include 2 cents per pound on dairy and whey butter, 3 cents per pound on cheddar cheese (at manufacturers level) and 30 cents per case of evaporated milk, although it should be mentioned that the greater part of such increases reverted to the producer to compensate for loss of subsidy.

From the information before us, we are of the opinion that during the years 1940 to 1945 inclusive, the adjustments in selling prices of creamery butter, also the subsidies, did not permit the recovery of increased costs of production in their entirety, as and when they were incurred. The selling price increases in 1946 and of May, 1947, combined with the termination of butter rationing and price controls should, however, be of considerable benefit to the creamery operators.

Sufficient time has not elapsed to accurately gauge the effect on earnings of the last price increase referred to, but we believe the present price is adequate under existing conditions and that profit margins on creamery butter may now be reasonably attractive.

Diversification of Products:

We have found that those concerns engaged in combined operations enjoy an improved margin of profit. An analysis of financial statements and questionnaires relating to 26 such concerns shows that the combined net profit (before taxes) for the fiscal year next preceding October 1, 1946, represented 1.97% of overall sales or 50% more than the overall rate for butter producers only. Of the 26 establishments, 17 were located in Western Ontario, 2 in the north, 4 in the central sector and 3 in the east, so that the group may be considered as being representative geographically.

We believe that in the assembly of any statistical or financial data such concerns should be segregated and reported on separately since their influence as regards both sales and profits on the overall position of the creamery industry is considerable.

Price spreads—creamery butter

Unfortunately, only a very limited amount of data is available on this subject, due to the questionnaires not being satisfactorily completed in many instances. It is evident that the statistical records of the creameries fall short of what is desirable.

Many concerns do not maintain any quantity of records for either purchases or sales, others maintain one, but not the other. Where quantities are available the dollar value is occasionally missing, which renders the submission useless for the purpose of determining price spreads. Very few concerns appear to record separately the quantities and value of the various grades of butter sold through retail outlets as distinct from brokers and wholesalers. If accurate costing and proper management control is to be exercised, such data is essential.

We can, therefore, only provide a general indication such as shown in table 6, wherein the average cost of butterfat, salt and other ingredients for the fiscal year next preceding October 1, 1946, is shown at 29.09 cents per pound against a selling price of 35.25 cents resulting in a spread of 6.16 cents per pound equal to a gross margin of 21.24% on cost.

Having regard to the increase in selling price authorized in May last, it is considered that this spread may have increased by about one cent per pound after allowing for such increased costs as may have occurred since the latter part of 1946, so that creameries may presently be operating on a spread of 7½ cents per pound.

As a matter of interest and as a general indication we might mention that the usual brokerage commission is ¼ of one cent per pound plus storage and other charges and that the retail trade may average a gross spread of 2½ cents per pound the year round.

Sales outlets

The overall average price spread is influenced by several factors including the proportion of each grade to total and the quantities sold through brokers, wholesalers, direct retail and consumer outlets. Some creameries do little, if any, direct retail and consumer sales (or "print" trade as it is sometimes called), others do substantial volume. Some deal exclusively through brokers and others through wholesalers. There is no general marketing policy followed by the industry, each creamery pursues its own course, having regard to local conditions and other considerations.

We understand that a fair proportion of the creamery butter production is marketed through brokers, each of whom has his own clientele amongst both the butter producers and buyers. As agents they operate on a commission basis, selling principally to the wholesale trade. We are advised that departmental and chain stores are sold on the same basis as the wholesalers.

From the foregoing it would appear that once the butter leaves the creamery the producers have no control and little, if any, information as to the proportions sold through the different merchandising outlets.

Such marketing methods may be the most practical and efficient, but it must be admitted that it places a great responsibility on the broker and wholesaler as they can influence the price and production of both the cream producer and the butter manufacturer through the effectiveness

of their merchandising policy in obtaining the maximum distribution on the most favourable terms at peak production periods and throughout the year.

Wage rates and labour costs

From the information available to us it would appear that few creameries have labour agreements with any trades union organization. The majority are operating on a 48 hour week, granting statutory holidays with pay, also one week's vacation. The present working hours are substantially less than in 1939 when 55 or more hours per week was not unusual. This, combined with the enlarged operations, leads to the conclusion that the total number of employees may have increased since 1939.

Concessions have also been made in wage rates, but the advances vary considerably between different areas and localities. Based on the questionnaires it is considered that overall, a fair indication of the average wage rate increase to creamery employees is afforded by taking a weekly rate of \$20.00 for 1939 and \$26.00 for 1946, indicating an increase of 30%.

The substantial increased production in powdered, evaporated and condensed milk products particularly, was of much assistance in absorbing such advance in wage rates, but with greatly increased costs of raw materials in addition, relief by way of subsidies and selling price increases became essential in order to sustain the industry.

Production capacity

According to the answers received from the questionnaires, some creameries are operating at full capacity on a single shift basis of a 48 hour week the year round, while others are producing at 50% of capacity and upward on the same basis. Although there is an appreciable seasonal element in cream and butter production, it would appear that there exists considerable surplus capacity overall, with this condition being more acute in some areas than in others.

Trends of sales and net profits 1940 to 1945 inclusive

The questionnaires returned to us disclose that profits have fluctuated considerably since 1939, in terms of dollars, although from 1940 to 1944, inclusive, there has been a progressive deterioration in the ratio of earnings to sales, the results for 1945 and 1946 showing an improvement over 1944.

It would appear that the creamery industry had its most profitable year for a considerable time in 1940 when overall net profits before taxes showed an increase of 32% over 1939 and equalled 3.14% of sales.

Overall earnings 1946

At the time of requesting financial statements relating to the fiscal year next preceding October 1, 1946, we requested that an estimate of net profits be submitted in respect of the current fiscal year, before provision for income and excess profits taxes. In some instances the actual financial statements were obtained but in the majority of cases only estimates were available, most of which related to the year ended December 31, 1946.

Some of these estimates showed marked differences as between individual businesses even where they were located in the same area, and bore no relationship to past performance. Inasmuch as only one month of the 1946 calendar year remained, we drew the inference that there are a number of the smaller creamery establishments, at least, which do not maintain up to date books of account, but operate the year round without the benefit of such guidance and are perhaps wholly dependent on their auditor for the determination of profit or loss, which may not be made until two or three months after the close of the fiscal year.

Our review of the financial statements relating to the year 1946 in conjunction with the estimates submitted and other data made available to us indicate that the overall net earnings of the creamery industry in 1946 approximate those for the fiscal year next preceding October 1, 1946.

Outlook for 1947

As regards the year 1947, official statistics show that for the quarter ended March 31, 1947, creamery butter production exceeds that for the corresponding period in 1946 by 13.71% while cheddar cheese production has declined by 4.25%.

Within recent months price controls have been relaxed on butter, cheese, and evaporated milk as well as certain other products and selling prices to brokers, wholesalers and retailers have been increased although the bulk of such advances was to compensate the producers for withdrawal of subsidies. Nevertheless, appreciable benefit should accrue to the creamery operators. We, therefore, are of the opinion that provided satisfactory sales volume is maintained at the consumer level and there seems no present indication to the contrary, also that labour costs and costs of materials and supplies do not advance unduly, the year 1947 should see a fairly substantial improvement in the overall earnings of the industry as compared with 1945 and 1946. In other words, we share the view that largely as a result of subsidies, the industry, in the Province of Ontario, has survived a trying experience, with its resources unimpaired and should now be able to consolidate and develop its position.

The industry should also benefit from the reduction of income and excess profits taxes applicable to 1947, including Provincial taxes, the net saving being approximately 23% of the rates for the fiscal year next preceding October 1, 1946.

Observations and Conclusions

It is well to emphasize the range of products manufactured and the produce traded in as well as the heterogeneous composition of the creamery industry in the Province of Ontario. Of the 279 licensed, processing and distributing establishments, the great majority are relatively small independent enterprises of a proprietary, partnership, or co-operative character, only a few incorporated companies being within the industry.

With the recent withdrawal of subsidies by the Dominion Government and the consequent increase in broker and wholesale prices of butter, cheese and evaporated milk, etc., the industry is facing a period which is vital to its own well being and that of the consuming public, as well as the producers of fluid milk and cream. Our observations are, therefore, directed at the future as well as at the past.

We believe that, despite the difficulties of dealing with a multiplicity of independent establishments, the industry is capable of maintaining itself on a sound basis in the interests of the consumer and producer alike, provided those responsible are properly and regularly informed, not only on past performance, but future trends; the latter perhaps more than the former as in recent years the industry has functioned under emergency controls so that operating conditions and results do not provide the same degree of guidance that would be afforded normally. The time, therefore, is most opportune for the industry to plan for the future.

Possible increases in sales revenue:

The recent increases in the selling prices to brokers and wholesalers on butter, cheese and evaporated milk particularly, should result in an appreciable increase in the revenues of the industry.

If the desired effect is not obtained from the present price structure, the industry is virtually at liberty to make such other price adjustments as may be necessary to achieve the desired result.

In an industry such as the creamery where profit margins are narrow and volume of production essential to profitable operation, the importance of a sound selling price structure cannot be over emphasized.

Possible savings and economies:

As about 87% of the total cost of creamery butter is represented by material cost the margin on which economies might be effected is limited especially when fixed charges, such as property taxes and depreciation, are eliminated.

The actual conversion process from cream to butter is the largest cost factor of the processor and to properly explore the possibilities of any

savings in this phase of operations would first entail the assembly of detailed data far in excess of that which is available to us.

Selling and delivery expenses as well as administrative and general expenses are not important elements of cost and appear to be kept at a minimum.

In the consideration of all cost factors the seasonal element of butter production must not be overlooked.

If a determined effort is to be made to hold processors costs within certain limits the assembly of sufficient, detailed, statistical data is a prerequisite.

Statistical data:

Based on our examination of financial statements, questionnaires, and other data, we are of the opinion that a contribution to individual earnings and the profits of the industry as a whole would result from the introduction of—

- (a) Standard form of accounting;
- (b) Standard statistical records;
- (c) Budgetary control or forecasts;
- (d) The submission at regular intervals of certain financial, statistical, and forecast data, to the appropriate Provincial authority.

The adoption of the foregoing would be both reassuring and beneficial to the public, as well as the creamery operators and producers, inasmuch as it would ensure up to date information on past performance and future trends, and bring to light possible savings in costs and inefficiencies in operation which otherwise might go undetected.

On account of the large volume of production the smallest economy in costs can be significant in the overall operations.

We find that apparently only a few concerns maintain satisfactory records as to the quantities of each product sold and the selling price realized in respect of each type of sales outlet and believe that such records are vital to the industry as well as the individual operator.

We should also make reference to the desirability of allocation of raw materials according to end use. We are not aware that any system of allocation is presently employed and, while individual operators may be able to obtain their requirements, there seems the risk that overall a "short" or "long" position on butter or cheese could arise which might be to the detriment of the consuming public, the distributor, and the producer.

Whether such forecasting of available supplies is practicable or not, we are unable to say, but we suggest that the point might be worth considering as it has a definite relationship to price and supply, not only as regards butter and cheese, but other milk products. In studying the matter, allowance would have to be made for the substantial butter shipments from other provinces also the competitive production of fluid milk distributors, packing houses and other butter producers.

At the present time there are no official statistics which would indicate the quantity and value of creamery butter produced in Ontario and exported.

In general we are of the opinion that the statistical information presently available to the Provincial authorities on creamery operations should be carefully reviewed and enlarged upon. The quickest and best results would be obtained through personal visitation to a limited number of operations, followed by consultations with all interested parties, so that the desired objective can be reached with the least delay and the minimum of effort and expense.

Statistical information on the productive capacities of creamery butter plants in the various areas and principal localities might be of assistance in disclosing the balance between producers, processors and consumers.

Classification as creameries:

As with the so called fluid milk distributors we have found that certain businesses classified as creameries might better be regarded as condensaries, or fluid milk distributors, due to the volume of certain products handled. If accurate and informative statistics or reports are to be compiled, some clarification is essential. Unless this is done, inaccurate data leading to incorrect conclusions can result.

Changes in ownership:

Although we have not discovered the same activity in the creamery industry as in the fluid milk in the matter of amalgamations and absorptions, it is suggested that the regulations which may relate to the sale or acquisition of creameries be reviewed so that the provincial authorities are fully informed on all such transactions before they are actually consummated. It is known that several of the larger fluid milk distributors own or control some important creamery operations.

Marketing and merchandising:

On the principle that the producer, processor and consumer are each concerned with the welfare of the creamery industry, the operations of brokers and wholesalers responsible for the distribution of the production are of interest. We believe they are rendering a service commensurate with the margin or mark up they enjoy, but we have not made any specific investigations.

It may be that a separate study of this subject should be undertaken, for there are many complexities even though the export element is negligible and butter production almost wholly a domestic problem.

General:

Improved co-ordination between all butter producers may perhaps be to advantage. At present substantial quantities are being produced by each of the four divisions of the milk industry, viz., fluid milk distributors, condensaries, cheese manufacturers and creameries. In addition packing houses process large quantities.

Cost and selling price data is most conflicting, not only as between the four divisions but also within them, while overall there is no established marketing policy, and a decided lack of statistical data, as to sales outlets and related prices.

Such conditions require considerable clarification before any more definite recommendations could be made in the interests of the cream producers, the consuming public, and the creamery industry as a whole.

Respectfully submitted,

JOHN S. ENTWISTLE,

Accountant, Royal Commission on Milk,

Province of Ontario.

July 26th, 1947.

EXHIBIT A

ROYAL COMMISSION ON MILK
 RECAPITULATION BY AREAS OF DATA EXTRACTED FROM FINANCIAL STATEMENTS
 SUBMITTED BY 142 CREAMERIES

Area	Concerns Tabulated	Overall Net Profit (Before Taxes)	Total Sales Amount	% Profit	Capital Employed Amount	% Profit
Western.....	71	\$253,856	\$18,611,272	1.36	\$1,839,471	13.80
Central.....	50	167,108	9,216,687	1.81	1,115,283	14.98
Eastern.....	21	39,955	4,516,624	0.88	513,204	7.78
	142	\$460,919	\$32,344,583	1.43	\$3,467,958	13.29

EXHIBIT B

ROYAL COMMISSION ON MILK
 TABULATION BY AREAS OF SALES GROUPINGS OF 142 CREAMERIES

Area	Group 1. Up to \$20,000	Group 2. \$20,000 to \$50,000	Group 3. \$50,000 to \$100,000	Group 4. \$100,000 to \$200,000	Group 5. \$200,000 to \$500,000	Group 6. Over \$500,000	Total
Western.....	\$ (1,961)	\$ 7,408	\$ 8,503	\$ 133,083	\$ 194,820	\$ 119,066	\$ 460,919
Central.....	(9.69)	2.08	.40	1.70	1.48	1.35	1.43
Eastern.....	(.42)	1.61	1.84	28.87	42.27	25.83	100.00
Total.....	\$ 20,241	\$ 356,924	\$2,133,869	\$ 7,814,081	\$13,179,559	\$8,839,909	\$32,344,583
Average Sales per Group.....	\$ 10,120	\$ 39,656	\$ 79,032	\$ 147,435	\$ 313,799	\$ 982,212	\$ 227,779
Net Profits.....	\$ (1,961)	\$ 7,408	\$ 8,503	\$ 133,083	\$ 194,820	\$ 119,066	\$ 460,919
% of Sales.....	(.01)	.02	.04	.37	.54	.43	1.43
% of Total.....	(.01)	.23	.10	24.15	40.74	27.87	100.00

APPENDIX 24

ROYAL COMMISSION ON MILK INDEX TO ACCOUNTANTS' REPORT SURVEY OF CONDENSARIES LOCATED IN THE PROVINCE OF ONTARIO

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3-4	Overall operating results for the fiscal year next preceding	
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The Honourable Justice Dalton Wells,
Commissioner,
Royal Commission on Milk.

*Accountants' Report
Survey of condensaries
Located in the Province of Ontario*

Sir:

In submitting this report reference should be made to the decisions of the Dominion government to terminate certain subsidies at April 30, 1947, and to remove evaporated milk from the application of ceiling prices on June 9 followed by that of the condensary operators to increase prices to jobbers or wholesalers on July 1, 1947.

These steps were taken as our investigation was approaching completion. Their affect is far reaching inasmuch as the industry has now resumed control of its operations thereby reverting to more normal trading conditions. We believe that such measures should result in improved earnings.

Assignment, approach and procedure

Assignment:

We were required to investigate and report on the operations of the condensary industry located in the Province of Ontario with particular reference to costs, prices, price spreads, methods of financing and management.

These matters are referred to in the report which follows preliminary to which we would submit a few of the more important matters relating to the industry as a whole and which it is thought might facilitate your conclusions.

Industry background:

The condensary industry in the Province of Ontario produces a wide range of goods including baby and invalid foods, pharmaceuticals, in addition to various concentrated milk products such as evaporated and condensed milk, powdered and skimmilk. Including the condensaries of the three largest fluid milk distributors it comprises some thirty separate concerns with branch establishments throughout the Province. Five of them are subsidiaries or affiliates of parent companies located in Great Britain, the United States and Canada and these five concerns are amongst the largest in the industry accounting for the greater part of its sales volume and overall profits.

A trade association, known as the Evaporated Milk Association, is active in the formation of industry policy, trade practice, and other matters. The larger condensaries are members and one or more of them are represented on the Milk Control Board as well as on other trade organizations connected with the milk industry.

The larger concerns sell throughout the Dominion and in addition engage in export trade on an appreciable scale. Domestic sales are made almost exclusively through wholesale and jobber outlets.

It has been submitted by the larger concerns that as a result of "ceiling" prices substantial losses have been incurred on domestic business, and that export sales are in the main responsible for sustaining earnings over recent years. This point is referred to later in this report.

According to the statistics of the Ontario Department of Agriculture, 8.01% of the estimated total of whole milk production of the Province of Ontario for 1945 was used in the manufacture of condensed whole milk, evaporated milk and powdered whole milk, the three principal products of condensaries. In 1946 the proportion was 8.38% comprised as follows:

TABLE 1
Whole Milk Production

	1945		1946	
	Estimated pounds of whole milk	% of total	Estimated pounds of whole milk	% of total
Condensed whole milk.....	36,591,000	.77	33,665,800	.77
Evaporated Milk.....	227,856,900	4.83	215,740,100	4.95
Powdered whole milk.....	113,692,000	2.41	116,281,600	2.66
	378,139,900	8.01	365,687,500	8.38

As regards evaporated milk, one case consisting of 48 16-oz. cans requires approximately 103 pounds of whole milk, so that the total of 227,856,900 pounds mentioned above is the equivalent of 2,212,203 cases. Of this total approximately 50% is produced by two concerns.

We are advised by the Dominion Bureau of Statistics that the production of concentrated milk products by manufacturers located in the Province of Ontario for the years 1945 and 1946 was as follows:

TABLE 2
Finished Goods Production

	1946		1945	
	Pounds	Amount	Pounds	Amount
Evaporated Milk.....	98,103,000	\$ 7,515,000	103,543,000	\$ 7,962,000
Condensed Milk.....	14,766,000	1,772,000	15,708,000	1,898,000
Powdered Whole Milk.....	14,813,000	5,110,000	14,552,000	4,891,000
	127,682,000	\$14,397,000	133,803,000	\$14,751,000
Malted Milk.....	1,036,000	186,000	660,000	116,000
Cream Powder.....	16,000	7,000	8,000	4,000
	128,734,000	\$14,590,000	134,471,000	\$14,871,000

Approach and procedure:

Our examination of the condensary section of the industry covered a review of the financial statements for the fiscal year immediately preceding October 1, 1946, in respect of eleven concerns located throughout the Province of Ontario.

The individual sales volumes of these concerns ranged from approximately \$100,000 per annum to over \$2,500,000 per annum. The group comprised seven incorporated companies and four proprietary or partnership businesses with an aggregate sales volume in excess of nine million dollars including export sales of more than one million dollars.

The principal products of the group are evaporated milk, condensed milk and powdered whole milk, in addition to skimmilk, ice cream, butter, casein, as well as a quantity of fluid milk and cream.

Following our analysis and tabulation of financial statements, correspondence and discussions ensued with certain of the more important concerns, as the result of which supplementary data was obtained. With the exception of one company, the parent corporation of which is located in the United States, the utmost cooperation was received and our enquiries fully answered.

Having regard to the foregoing, it is submitted that our findings provide a fair indication of the earnings potential of the condensary section of the milk products industry of the Province of Ontario as represented by those establishments generally considered as belonging to that category. This report does not have any reference to the milk products processed and sold by the larger fluid milk distributing concerns or creameries, although it is known that they enjoy substantial volume both in the domestic as well as in the export markets.

We should mention that some delay occurred in the preparation of this report due to officials of certain Canadian subsidiary companies being unable to furnish all of the requested data without reference to the parent organization in the United States. The response of these officials was not in all cases as prompt as the circumstances warranted and necessitated considerable consultation and correspondence.

To ensure privacy, each submission was processed under code numbers so that its identity was not disclosed.

*Overall Operating Results for the Fiscal Year Next
Preceding October 1, 1946*

The financial statements and questionnaires submitted to us do not provide a breakdown between export and domestic sales, or detailed costs by type of product, except in one or two instances. Where an overall division was made, sharp contrasts occurred in the costs, chiefly as the result of using different bases of apportionment of indirect expenses.

With regard to evaporated and condensed milk, the two main products, the submissions by the largest manufacturers indicate a loss on domestic sales of evaporated milk and a small amount of profit on condensed milk, supporting their contention that, due to relatively low ceiling prices in the domestic market on these particular products during the years 1942 to 1946 inclusive, export sales were chiefly responsible for the profits realized.

A comparison of the financial statements of two of the larger manufacturers of evaporated milk in Ontario shows that while the selling prices are comparable, the costs per case are entirely different resulting in the larger company, which enjoys a volume three times that of the other, showing a loss of less than two cents per case on domestic sales against more than 35 cents per case for the smaller of the two.

Part of the difference of 33 cents or more per case is accounted for by the disparity in volume, and certain specific items of expense. A difference in the average laid down cost of raw milk also enters into the reconciliation. The points we wish to emphasize however are firstly, the difficulty these two large concerns would have in reaching agreement as to the prices each could afford to pay the producers for whole milk and secondly, the risk of arriving at erroneous conclusions regarding product costs and profit margins without careful study and detailed analysis.

Another point we should mention occurs when dealing with companies operating plants in one or more provinces including Ontario.

To arrive at the operating results applicable to Ontario operations apportionment of certain expenses becomes necessary. These require to be carefully enquired into and then considered in relation to the whole, having regard to the plant capacity, sales volume, and other factors. Aside from this however, company policy must not be overlooked, since it has been found that the bulk of western shipments, with their high freight rates, are made from Ontario plants, Quebec operations benefiting from the lower freight rates in the Maritimes area. In addition the Quebec

plants enjoy the bulk, if not the entire benefit, of export trade.

The foregoing are important matters from the viewpoint of the producers of whole milk as well as that of the Province of Ontario and in this regard we should mention that we have been unable to obtain from either the Dominion Bureau of Statistics at Ottawa, or the Provincial authorities, any indication of the quantities of evaporated, condensed, or powdered milk, produced in Ontario and which may have been exported. We are advised that no official statistics are presently available in this regard.

Having regard to the foregoing, the overall earnings of eleven condensary plants located in the Province of Ontario are submitted as follows:

TABLE 3

Summary of operating results of eleven condensary establishments located in the Province of Ontario for the fiscal year next preceding October 1, 1946.

Sales—both export and domestic in all provinces	\$10,427,379
Net Profits (before taxes)	417,446
% of net profit to sales	4.00%
Capital employed	1,191,007
% of net profit to capital employed	35.05%

Note: The amount of capital employed of \$1,191,007 has been computed substantially in accordance with the provisions of the Dominion excess profits tax act.

The records of past earnings show that the profits of the group were purely nominal in 1939 whereas for the fiscal year next preceding October 1, 1946, the combined overall earnings (before taxes) exceeded four hundred thousand dollars. The net profits for that year were about double those of 1944.

The above figures are, in the main, indicative of the rate of the industry's earnings in the year 1945, which was a record year for condensary establishments.

The elimination of the combined sales and net profits of the two largest operators from the above tabulation would result in the sales total being reduced to \$6,081,342 and the net profits to \$210,746, representing 3.47% of sales or 22.65% of capital employed. Thus the net profits before taxes for the two large operators combined represents 4.75% of sales and 79.06% of capital employed.

Raw material costs are of course a most important cost element. Depending on the type and volume of each product to total, this element of cost may range from 20% of sales to more than 90% based on 1945 net selling prices.

Cost of containers, cartons and labels is also a major item. Varying with the product the cost may account for from two cents to more than twenty cents of every sales dollar.

Labour again is a variable factor the content per product showing considerable contrast. As a broad indication the total labour cost might range from 3% to more than 9% of sales.

Another element of cost to which we direct your attention are the charges made by the parent companies for management and technical services. Without careful study and assessment of the services rendered their propriety cannot be passed upon.

For your information we give below a condensed statement of operations for the fiscal year next preceding October 1, 1946, relating to domestic sales of evaporated milk. The figures shown are as submitted by the companies included in the tabulation.

TABLE 4

*Evaporated milk (Domestic Sales only)
Condensed statement of operations
for the fiscal year next preceding October 1, 1946*

Number of Cases		1,062,656	
	Amount	% of sales	Cost per case
Sales value (at plant).....	\$3,970,860	100.00	\$3.74
Cost of raw milk.....	\$2,366,174	59.60	\$2.23
Cans, cartons, and labels.....	901,702	22.70	.85
<i>Material cost</i>	\$3,267,876	82.30	\$3.08

<i>Cost of:</i>			
Processing	390,682	9.83	.37
Selling, advertising	296,510	7.47	.28
General overhead	123,959	3.13	.11
<i>Total cost</i>	<i>\$4,079,027</i>	<i>102.73</i>	<i>3.84</i>
<i>Net loss</i>	<i>(\$108,167)</i>	<i>(2.73)</i>	<i>(.10)</i>

The labour content per case has been estimated at approximately 20 cents per case which represents 5.35% of sales, thus the above may be broken down as follows:

	Amount	% of sales	Cost per case
Material cost	\$3,267,876	82.30	\$3.08
Labour cost	212,531	5.35	.20
All other expense	598,620	15.08	.56
<i>Total cost as above</i>	<i>\$4,079,027</i>	<i>102.73</i>	<i>\$3.84</i>

Included in table 4 are the returns of one company which show a loss on Ontario operations equal to .41% of sales, whereas the financial statements for the company as a whole show a substantial profit, indicating that operations outside the Province are by far the most profitable. This we have been unable to verify as our authority is limited to Ontario operations and the Company has not proffered any data on operations elsewhere.

As regards condensed milk, the data submitted to us indicates that in 1945 the net profit per case on domestic sales approximated \$1.00 and on export sales only 66c, equivalent to 16% of selling price "at plant" for the former and 12½% for the latter. Even with these substantial profit margins overall earnings, as we have indicated, approximated only 4½% so that, according to the calculations of the companies concerned, substantial losses must have been incurred on evaporated milk sales, and appreciable profit margins made on other products, such as casein, ice cream, powdered milk and other products.

Purchase prices of materials:

Milk to be used for manufacturing purposes came under the jurisdiction of the Milk Control Board in 1934.

The chief problem has been the producer price. From 1935 to 1942 the industry operated on a price agreement between producers and processors. In 1942 no agreement could be reached and the Milk Control Board set a minimum producer price of \$1.95 for 3.5% B.F.M. In 1945 the producers asked for a 10c increase to \$2.05 but this was rejected by the Board as \$1.95 was the prevailing price in other Provinces and it was thought that any increase at that time might lead to the processors establishing the plants elsewhere. In any event some producers were getting more than the \$1.95 minimum.

According to the questionnaires the purchase price of manufactured milk has more than doubled since 1939. Depending on the locality the price in 1939 ranged from \$1.13 per 100 pounds to \$1.16, whereas by 1945 the average price paid by condensaries varied between \$1.99 and \$2.05 per 100 pounds. On October 1, 1946, the established producer price was increased to \$2.35 per 100 pounds and in July 1947 a minimum price of \$2.50 was authorized.

Based on information furnished in the questionnaires, concentrated skim-milk between 1939 and 1945 advanced approximately 50% from \$2.00 per 100 pounds to \$3.04 while churning cream advanced almost 100% per pound of butter fat. Substantial advances also occurred in the costs of containers, cartons, and labels, an important factor in condensary costs. The price of corrugated boxes advanced about 50% during the years 1939 to 1945 inclusive. Prices of cans and wrappers were more closely controlled, the increases ranging from about 10% to 25%. Barrel costs and the prices of jute bags were more than doubled while coal prices advanced appreciably.

Increased volume, combined with wartime economy measures and perhaps improved efficiency in operation were of course of assistance in countering to a considerable extent the full impact of the increased costs referred to.

Labour costs:

Taking the estimated labour cost of 20c per case of evaporated milk which from the data before us seems a reasonable figure, and applying it on the 2,212,203 cases produced in 1945, it appears that the total labour cost for evaporated milk production aggregated \$442,441.

The labour cost of condensed milk is slightly more than 10% higher but the production volume is very much less, so that on an estimated output of 200,000 cases in 1945 the total labour cost for this product would approximate \$45,000.

Overall it is estimated that the total payroll for all direct employees approximates eight hundred thousand dollars for the year 1945.

Since 1939 wage rates of plant employees have advanced by 50% and office salaries by about 30%. However, the effect of such rate increases in labour costs has been largely countered by the greatly increased production and improved efficiency of both employees and manufacturing processes which has evidently occurred since 1939.

Selling and advertising expenses:

These expenses in relation to sales vary considerably between different concerns. The costs range from about 1% to over 6% in some cases. Most products are sold under brand names so that a certain amount of advertising expense is necessary to maintain goodwill and ensure satisfactory sales volume.

Financial position

A comparison of individual balance sheet positions relating to the years 1939 and 1945 indicates that the condensary section of the milk products industry improved its financial position very considerably during the intervening years.

In line with the greatly increased sales volume which has occurred since 1939 in both the domestic and export markets, working capital requirements have become much larger and it would appear that a fair proportion of this additional demand has been provided for out of accumulated earnings and reserves.

Substantial monies from the same sources have also been expended on improvements and extensions to plant machinery and equipment. These additions approximate the total depreciation provision for the years 1940 to 1945 inclusive. Two instances are known where the expenditure on fixed assets during the six years is equal to approximately 70% of the total book value of plant and machinery as at the close of 1939 and about 50% of total earnings over the six year period referred to.

Funded debt, mortgages, and other long term liabilities, are not an important item in the financial structure of the industry.

*Selling prices**Domestic sales:*

As regards evaporated milk the net selling price at plant averaged \$3.71 per case during the fiscal year next preceding October 1, 1946, for the two largest manufacturers. At that time and until just lately ceiling prices were in effect. These have now been removed and selling prices to wholesalers advanced by 28 cents per case effective July 1, 1947. Of this increase 8 to 10 cents has been passed to the producer, the latter now receiving about \$2.43 per 100 lbs. of whole milk which, with an average haulage charge of 12 cents per 100 lbs., gives a laid down cost to the condensary of approximately \$2.55 per cwt.

Whether the largest manufacturers will serve the same markets in direct competition with each other remains to be seen, but in this connection certain of the larger fluid milk distributors engaged in the manufacture of milk products will no doubt have to be considered.

The average domestic selling price of evaporated milk, at plant, approximated \$2.96 per case in 1939. By the close of 1946 prices had advanced 78c, the equivalent of 26% for an average price of \$3.74 per case. This was sufficient to take care of the increase in the cost of raw milk which advanced from approximately \$1.46 per hundred pounds in 1939 to \$2.20 in 1946. On the basis of 103 pounds of raw milk per case of evaporated milk, this is the equivalent of 77c per case, so that little margin was left to offset the increased costs of cans, cartons, and labels, labour and other costs.

Export sales:

The price structure on exports is different to domestic sales. To conform with the standards of the different importing countries varying butterfat contents are required, furthermore, the packing cost is more expensive than for domestic trade. These factors account for the price variations in both evaporated and condensed milk, the average export price for the former usually being higher and that for condensed milk averaging less.

Price Spreads

Evaporated milk:

Following removal of price ceilings and controls just recently, there seems no useful purpose in submitting data relating to the years that such measures were in force.

We are informed that, currently a minimum price has been set for the month of July, 1947, by the Ontario Minister of Agriculture of \$2.50 per 100 pounds of manufacturing milk and that it is the intention to review and set a price for each succeeding month until the situation becomes more clarified and stable.

On July 1, 1947, the selling price to wholesalers was advanced by 28 cents per case to give an average price at plant of \$4.02. On the basis of 103 pounds of whole milk per case of evaporated milk a price spread of \$1.40 per case is arrived at. This appears to be slightly less than the 1939 average spread.

Condensed Milk:

We are informed that no increase in selling price is presently contemplated by the manufacturers of condensed milk although they too are subject to the increase in the cost of whole milk referred to above, their laid down cost also approximating \$2.55 per 100 pounds.

We understand that the manufacturers of condensed milk believe that present consumer prices are quite high enough and that any further advance might be detrimental to volume of sales.

Export sales of condensed milk are a very appreciable factor in the overall profit position of the industry and some apprehension has been expressed concerning the costs of Canadian manufacturers increasing to the point that the volume of foreign trade might suffer. The cost data in our possession however indicates that the profit margin on export sales of condensed milk would permit of some increase in costs without the necessity of advancing export prices. Following are the percentage of profit or loss on selling prices at plant:

	<i>Domestic</i>	<i>Export</i>
Evaporated milk	9% loss	5 % profit
Condensed milk	16% profit	12½% profit

Currently the laid down cost of raw milk converted into a cost per case of condensed milk approximates \$2.20 on domestic business which, based on an average selling price of \$6.36 per case at plant, shows a spread of \$4.16. The cost of processing condensed milk is more than double that of evaporated milk, but as we have shown the profit margin on both export and domestic sales is also substantially higher.

Marketing methods

The established practice on evaporated and condensed milk sales, so far as domestic business is concerned, is to sell on a delivered price basis through wholesalers. A 2% cash discount is allowed and invariably taken, so that in considering the net selling price at plant, allowance should be made for both freight and discount.

Due to the substantial volume of shipments to the western provinces by condensaries located in the Province of Ontario freight is an important factor. On evaporated milk the average freight charge approximates 46 cents per case so that combined with the 2% discount, representing eight cents per case, the net return at plant shows approximately 54 cents per case less than the delivered price.

Earnings for 1946:

The financial statements relating to the year 1946 show a substantial increase in the net profits of all companies over those of the fiscal year next preceding October 1, 1946.

The year 1946 saw a reduction of 10% in the dollar value of exports from Canada of whole milk powder, condensed milk and evaporated milk as compared with 1945. How much of this reduction related to Ontario is not known, as statistical records are not presently available.

Outlook for 1947:

The dollar value of Canadian exports of evaporated, condensed, and powdered milk for the first quarter of 1947 shows a reduction of 24% from the corresponding period in 1946. If this unfavourable condition is maintained throughout the current year, the total value of exports from Canada of the three products mentioned for 1947 will show a reduction of one-third from the 1945 levels. As previously stated the amount which might be applicable to Ontario cannot be estimated in the absence of statistical data.

Some improvement in the earnings of the industry may be looked for as the result of the termination of subsidies, the lifting of price controls and the increase in the price of evaporated milk to wholesalers in July, 1947, the industry having now virtually resumed control of its own affairs. The reduced scale of taxation of profits, as announced in the 1946 and 1947 budgets of the Dominion government, should also benefit the industry. Provision for profits taxes in 1947 should indicate a reduction of approximately 9.4% as compared with 1946.

With ample financial resources at its disposal we see no reason for anticipating any serious reduction in the earnings of the industry for 1947.

Trend in sales and net profits

The questionnaires reveal that both sales and net profits of the industry have, in terms of dollars, increased substantially since 1939. Sales have doubled while net profits, before taxes, have advanced on an even greater scale. The extent to which export business may have influenced earnings is difficult to determine. Its contribution in supplementing production, thereby improving the ratio of output to capacity, also its absorption of part of the overhead expenses bringing about a reduction in overall unit costs must have important bearing on profits. We have enquired into these matters but have to report that the data made available to us is not sufficient to permit any reasonably accurate assessment.

Observations and conclusions

The survey indicates that the condensary industry has expanded and strengthened its financial position very considerably since 1939. Production has increased appreciably while, in terms of dollars, sales have doubled and net profits (before taxes) have increased even more. For the year 1946 the return on both sales and capital can only be regarded as being eminently satisfactory from the industry viewpoint.

As regards operating results of the current year, even though a contraction has occurred in the export sales volume during the first few months of the current year, the adverse effect on overall earnings may be largely offset by the benefits resulting from the removal of price controls on certain of the main products, the recent price increase in evaporated milk and the reduced scale of profits taxation.

The industry is presently assuming command of its own affairs after several years of government control so that it is now at liberty to exercise its initiative in meeting the problems as they are anticipated. If the desired objectives may not seem attainable, corrective measures can be taken.

Possible increases in revenue:

The effect on operating results of the recent increase in the domestic wholesale price of evaporated milk cannot yet be measured. It appears unlikely that it will adversely affect volume so that, provided export sales can be maintained, sales revenues should exceed those of 1946.

We understand that no increase in the price of condensed milk is presently contemplated by the manufacturers. It remains to be seen whether present prices will continue for the remaining months of the year.

Possible savings and economies:

Without considerably more operating data than has been made available to us we feel unable to make any concrete proposals.

Most of the companies in the condensary division of the milk industry are substantial and successful businesses enjoying a high standard of managerial control and operating efficiency. The record of progress over recent years bears testimony to this. They have demonstrated their ability to overcome the problems of the past and may be depended upon to successfully cope with those of the future.

Product costs and profit margins:

Until such time as a greater degree of uniformity in accounting and costing procedures is brought about we consider that the utmost caution should be exercised in the acceptance of any product cost figures. As with other divisions of the milk industry we have found that seemingly wide disparities between different concerns can frequently be fully accounted for, or considerably narrowed or reduced by the application of the same principles of apportionment of overhead expense to each.

Statistical data:

We are of the opinion that the information presently available to the Provincial authorities regarding condensary operations is not sufficiently complete, having regard to (1) the essential character of the finished products to the public welfare; (2) the influence of the industry on producer prices and supply of whole milk for fluid and other purposes; (3) the structure of the industry, which is virtually dominated by three or four large concerns with parent companies located abroad.

It is suggested that if in the interests of the consumer public it is considered that Provincial authorities should be fully informed on past, current, and future affairs relating particularly to the fluid milk industry, the statistical data should be sufficiently comprehensive to embrace all phases of the milk industry as each section has an important bearing on fluid milk prices and supply. Such data might cover export as well as domestic business, both within the Province of Ontario and outside.

On account of the large volume of concentrated milk products manufactured by certain large processors listed as fluid milk distributors, it would seem that some reclassification is desirable to ensure complete and accurate data. This might be undertaken by the Milk Control Board and the Evaporated Milk Association in conjunction with the Ontario Milk Distributors' Association.

Omission to file brief:

The decision of the manufacturers of concentrated milk products not to submit any brief or make any direct representations to the Commission may not be of any significance. Had representations been made, however, we feel sure that our work would have been considerably facilitated.

Change in ownership:

As with other divisions of the milk industry it is suggested that full particulars of any absorptions or amalgamations both within and without the industry be furnished the appropriate Provincial authorities before consummation.

Allocation of profits between Provinces:

Where concerns have operations in other provinces or elsewhere, consideration might be given to the submission of appropriate data concerning such other operations. Such measures would seem to be in the interests of the producers and other divisions of the milk industry in Ontario as well as the consuming public.

This observation results from the reference on page 171 of this report to operations outside the Province of Ontario. The company referred to has burdened its Ontario operations with all its costly western business retaining the benefits of export trade and the domestic business carrying relatively low freight charges for its Quebec operations. Such a policy seems hardly fair to the Ontario producer if manufacturers margins are used as an argument for holding down producer prices as they may well be.

Respectfully submitted,

JOHN S. ENTWISTLE,

Accountant, Royal Commission on Milk,

Province of Ontario.

July 26th, 1947.

APPENDIX 25

The Honourable Justice Dalton Wells,
Commissioner,
Royal Commission on Milk.

Report on Cost of Whole Milk Production

General nature of enquiry:

Sir:

We have investigated the evidence and many statements and estimates of various sorts relating to cost of production submitted by a large number of individual producers as well as that supplied by Provincial and regional producers' organizations. In addition we have taken into account the independent survey of representative producers in different sections of the Province made with the assistance of five graduates of the Ontario Agricultural College. The period under review was substantially the 1946 calendar year.

Other surveys:

We have studied the results of many other investigations on this subject including:

The "Hare" Report published by the Dominion Department of Agriculture.

Cornell University Studies of Costs and Reports from Farm Enterprises, including Misner Report prepared in conjunction with the New York State College, Cornell University Agricultural Experimental Station, Department of Agriculture of Economics, Ithaca, New York.

University of Illinois Report on Cost of Producing Milk in Northern Illinois.

An Economic Study of Dairy Farms in the Province of Alberta by Howard Patterson.

The above mentioned surveys and reports included elaborate studies of costs of producing each of the dairy farm feeds, pasture costs, time and labour elements, depreciation, maintenance, replacements, bedding, inventory variations, and miscellaneous expenses. Credits, such as milk consumed on farm, manure, profits and losses on purchase and disposal of cattle were also reviewed.

Survey method:

There are a variety of methods which may be used to obtain cost information and among these are:

Estimation Method.

Farmers' Record Plan.

Detailed Accounting or Route Method.

Survey Method.

The latter method was adopted in this case as the one most likely to secure, within a reasonable degree of accuracy, the required information, and within the relatively limited period available. Other methods were found to be unsuited for the particular task of the Royal Commission.

Feeds, etc.:

There are tremendous variations in feeding methods, and in the amount, kind and value of buildings and equipment employed and the manner in which the necessary labour is performed. For example, some farmers tend to combine a relatively large amount of home grown roughage with a small quantity of cheap concentrates. Other farmers are in the position where they are obliged to reverse this practice and make substantial cash purchases of feeds, particularly concentrates, and in

many instances expensive concentrates. The quality and prices of concentrates vary within a wide range.

It must be borne in mind that cost figures, which appear later in this report, relate to conditions as they existed in the year 1946 and that past experience has made it abundantly clear that special climatic and other conditions may exercise a pronounced influence on costs in any specific year. These climatic conditions virtually determine the cost of home grown feeds which normally constitute a very large part of the total net costs.

Hay:

Hay costs vary throughout the Province depending on location, yield, whether bought or home grown, costs of transporting bought hay, and also on whether the hay is of high or low protein content, etc.

Silage:

Silage costs vary from farm to farm due mainly to yield variation of corn and other silage crops. Other factors responsible are different valuations of land and silos and operations used in the technical methods employed in harvesting. While corn silage is the kind most commonly used throughout the Province, recent years have seen increasing use of other types of silage with consequent variations in silage costs. It is recognized also that irrespective of the kind of silage, its actual feeding value varies very considerably.

Pasture:

We have consulted with recognized experts on the subject of pasture costs. These vary substantially depending on whether the pasture land is improved or unimproved and whether it is natural or rough pasture. Other factors include variations in location, fencing expenses, taxes and value of land used.

Labour:

Many producers are able to rely upon their own labour and that of members of their family, whereas others are compelled to use hired help almost exclusively. In this connection it is a noteworthy fact that labour efficiency shows a pronounced variation. Labour costs vary depending upon whether hand or machine methods are used in milking, feeding, cleaning, etc., and also vary according to season of year, quantity produced, weather conditions, and many other circumstances, such as proximity to urban centres, relative scarcity of labour, proper training or lack of it, degree of efficiency, number of hours worked, different rates of wages paid and also the value of perquisites.

Depreciation on Equipment and Buildings:

Different rates of depreciation have been claimed by producers throughout the Province. After having made a study of this subject, and after having consulted recognized authorities, average annual depreciation rates of 8% have been provided for on dairy machinery and equipment and 3 1-3% on buildings.

Inventory values:

Wherever possible the variation in inventory value of cattle has been taken into consideration but in no instance, to our knowledge, has the valuation been shown in excess of cost.

Hauling:

The main cause of difference in hauling costs is the variation in the distance from market. Since nearly all milk is transported in trucks, and since all farmers within the same trucking zone pay the same trucking rate per 100 lbs., the chief reason for differences in transportation cost, as between farms, is the fact that different farmers live in different zones. Actually the major variations in transportation costs relate chiefly to producers who supply the Toronto market. Producers shipping to Toronto may live in any one of at least six zones and, therefore, pay any one of six

rates per 100 lbs. of milk. However, some producers haul their own milk and consequently have somewhat different costs for that reason.

Miscellaneous expenses:—cover the many other items not enumerated in the table of costs. Included in these numerous items of costs are such items as breeding, taxes, bedding, repairs, maintenance, veterinary fees, etc.

Bedding costs:

The extent of these costs depend on whether bedding material is purchased or is obtained by using home grown straw, which cannot be effectively used for other purposes. As combine threshers are being used to an increasing extent the cost of producing straw for bedding is substantially the labour cost of collecting and hauling the straw from the fields following combining.

Milk used on farm:

The value of this varies mainly because of the different quantities retained for farm use. This in turn varies with the size of the family. The kind of calves raised is another factor and whether calves are from high class expensive cows. The tendency is to feed such calves more whole milk and for longer periods than where calves are of ordinary or grade stock. In some cases calves are sold almost immediately after birth and hence consume less milk. In other cases they are kept and sold as veal, which entails feeding whole milk for about six weeks. Again the amount of milk fed to calves depends on whether the calves are male or female. Female calves are very apt to be raised and, therefore, fed milk. Male calves are usually sold when very young.

Manure:

The value of manure varies depending on the kind or quality of feed used, the kind of crop grown after the manure is applied, the type of soil and the state of the soil at the time the manure is applied. In certain regions, e.g., in Norfolk and Haldimand Counties, considerable manure is actually sold. In such cases the value varies with the price received and this in turn depends on the intensity of demand.

Depreciation and appreciation of cattle:

This factor in cost varies with the age of the cows and whether they are still in the appreciation stage or have passed their highest producing point. It also depends on the presence or absence of the various cattle diseases. Serious disease infestation may cause even 100% depreciation. Where no disease or serious accidents occur the average herd may show appreciation rather than depreciation.

Increase and decrease in inventory:

This item varies particularly because of changes in price levels or cow values between the beginning and end of the year; because cattle may be sold or purchased during the year, and particularly because older cows may decline in value and younger cows increase in value during the year.

Cattle sales:

Costs would have been much higher during the period under review if it were not for the large number of cattle sales at the relatively high prices prevailing. This credit alone amounted to 44c per 100 lbs. of milk. In other words, had these sales not taken place, the average cost of producing milk would have been \$3.63 and not \$3.19, exclusive of administration allowance, as shown by the table of costs.

Production and test:

The average production of cows included in the herds covered by the survey was approximately 7,300 lbs. per annum, which is above the average for the Province. The average test was estimated at 3.45% of butterfat.

Administration allowance:

The producer is quite entitled to a return on his investment and an equitable allowance for performing his function of management, as

distinct from the labour actually required to operate his farm. In our opinion a reasonable return would be approximately 15% of the average net cost over the Province or 48c per 100 lbs. of milk produced.

Costs:

Following is a table showing various elements of cost summarized from reports obtained through the limited survey made, and after taking into consideration evidence of producers appearing before the Royal Commission:

<i>Average costs for the Province of producing milk for the fluid milk market</i>	
Concentrates .....	.94
Hay .....	.50
Silage .....	.31
Pasture .....	.28
	<hr/>
Total Feed Costs	\$2.03
Dairy Herd Labour	1.17
Depreciation .....	.14
Hauling .....	.22
Miscellaneous .....	.48
	<hr/>
Gross Cost	\$4.04
Credits:	
Milk used on farm .....	.16
Manure .....	.25
Cattle Sales Less Cattle Purchases and Inventory Adjustments .....	.44
	<hr/>
Total Credits .....	.85
	<hr/>
Average Net Cost	\$3.19
Administration Allowance .....	.48
	<hr/>
Total Cost including Administration Allowance	\$3.67

Costs by districts:

Costs in the Kenora, Dryden and North Western Ontario districts are estimated to be as follows:

Net Cost per 100 lbs.....	\$3.97
Administration Allowance.....	.48
	<hr/>
Total cost	\$4.45
Hamilton and Niagara Peninsula districts:	
Net cost per 100 lbs.....	\$3.47
Administration Allowance.....	.48
	<hr/>
Total cost	\$3.95

Costs in the Toronto area and in other parts of Ontario do not seem to vary to any great extent and are approximately as follows:

Net Cost per 100 lbs.....	\$3.09
Administration Allowance.....	.48
	<hr/>
Total cost	\$3.57

Surplus milk:

It is quite obvious that whole milk sold at prevailing surplus prices results in a loss to the producers. The price received rarely covers the bare net cost, and does not allow anything for administration or return on investment.

Concentrated milk producers and cheese milk producers:

The forgoing remarks, which apply to the production of milk for the fluid market, are generally applicable to the production of milk used for

manufacturing purposes. Costs of the latter, however, are not so high for several reasons and mainly because there is not the necessity for maintaining all year round production.

Following are tables showing various elements of cost summarized from reports obtained through the limited survey made and after taking into consideration evidence of producers appearing before the Royal Commission.

<i>Average costs for the Province of producing milk for the manufacture of concentrated milk products</i>	
Concentrates .....	.73
Hay .....	.46
Silage .....	.20
Pasture .....	.24
<hr/>	
Total Feed Costs	\$1.63
Dairy Herd Labour .....	.92
Depreciation .....	.17
Hauling .....	.12
Miscellaneous .....	.29
<hr/>	
Gross Cost	\$3.13
Credits:	
Milk used on farm .....	.09
Manure .....	.20
Cattle Sales Less Cattle Purchases and Inventory Adjustments .....	.29
<hr/>	
Total Credits .....	.58
<hr/>	
Average Net Cost	\$2.55
Administration Allowance .....	.38
<hr/>	
Total Cost including Administration Allowance	\$2.93

<i>Average costs for the Province of producing milk for the manufacture of cheese</i>	
Concentrates .....	.65
Hay .....	.46
Silage .....	.23
Pasture .....	.28
<hr/>	
Total Feed Costs	\$1.62
Dairy Herd Labour	1.00
Depreciation .....	.11
Hauling .....	.10
Miscellaneous .....	.35
<hr/>	
Gross Cost	\$3.18
Credits:	
Milk used on farm .....	.21
Manure .....	.24
Cattle Sales Less Cattle Purchases and Inventory Adjustments .....	.39
<hr/>	
Total Credits .....	.84
<hr/>	
Average Net Cost	\$2.34
Administration Allowance .....	.35
<hr/>	
Total Cost including Administration Allowance	\$2.69

Observations and Conclusions

Every effort was put forth to secure costs of producing milk for cream production. A number of producers co-operated to the best of their ability but the estimated costs obtained through the survey showed such tremendous variations that no useful purpose could have been served by tabulating them. Little or no evidence as to costs was submitted at the hearings

by individual producers, however, a brief was filed by the Ontario Cream Producers' League which was helpful.

Due to the limited information on costs presently available to us we are unable to say, with any confidence, what the average costs are for the Province. The following table is simply an estimate and nothing more:

*Estimated average costs for the Province of producing milk
for cream production*

	(cents)	
Concentrates	55	
Hay	66	
Silage	31	
Pasture	28	
Total Feed Costs		\$1.80
Labour		1.13
Depreciation .....		.13
Hauling .....		.10
Miscellaneous .....		.28
		\$3.44
Credits:		
Milk used on farm, manure, cattle sales, Inventory adjustments, etc.		1.70
		\$1.74
Average net cost .....		.30
		\$2.04
Total Cost 100 lbs. of milk		\$ 2.04
Cost per pound of butterfat		\$.60

Necessity of Keeping Accounts

Dairy farming is a very important business. Costs and sales values have mounted. It has become too complicated and risky to carry accounting details in mind.

We are quite aware that the average farmer has little spare time and bookkeeping is difficult for him but good farm management is almost always associated with the keeping and using of a set of farm accounts and records.

It is very much in the interests of the individual producers that they keep proper cost and accounting records and a few minutes spent each day on the books approved by the Ontario Agricultural College will provide a permanent record of the transactions and operations of the entire year.

Respectfully submitted,

JOHN S. ENTWISTLE,

Accountant, Royal Commission on Milk,

Province of Ontario.

July 26th, 1947.

APPENDIX 26

ILLUSTRATION OF METHODS WHICH MAY BE USED IN CALCULATING CERTAIN MILK PRODUCTION COST ITEMS RELATING TO DEPRECIATION ON COWS, BUILDINGS, EQUIPMENT AND DIFFERENT METHODS OF LISTING MILK COST ITEMS IN GENERAL.

Methods of Calculating Depreciation on Cows

A variety of methods have been used to arrive at an annual depreciation charge for dairy cows. Among the more common of these methods are the following:

1. "The annual depreciation is computed by finding the probable difference between the cost or value of the cow when she first freshens or is purchased and the price she will bring for beef when she is discarded.

For example, if a cow is worth \$125 when she first freshens, then has a useful life of 5 years, and finally brings \$60 when sold for beef, the annual depreciation will be one-fifth of \$65 or \$13". (From Morrison Feeds and Feeding.)

2. First calculate the present-day value of the cow. Then assume that the average life of a milk cow is 5 years. Divide the value as calculated by 5 and the result is the annual depreciation. (This was the method used by J. W. Hansen in the brief submitted on behalf of the Ontario Whole Milk Producers' League.)

3. The Misner formula for depreciation:

Value of cows at beginning of year	plus	Value of) cows pur-) chased and) heifers) freshening) for first) time)	minus	(Value of (cows sold, (eaten or (killed for (which (indemnity (was col- (lected (including (value of (hides	plus	Value of cows on hand at end of year
--	------	---	-------	---	------	--

4. The value of cows and heifers at the end of the year, and cows sold during the year, is deducted from the value of the cows and heifers on hand at the beginning of the year or purchased during the year. Any net decrease in the value of cows and heifers represents depreciation. (This was the method employed by the Royal Commission on Milk in its independent investigation of costs.)

5. Use the cow rather than the herd as the unit when finding costs. This method assumes that the production of milk and the growing of young stock are two separate enterprises. Only the cost of keeping the cows actually in the milking herd is included. In other words the cost of growing young stock to maintain the dairy herd is provided for by valuing freshening heifers at the current market price when they enter the herd.

Some Possible Methods of Calculating Depreciation on Buildings & Equipment

Method 1—Depreciation is found by dividing the present value of each piece of equipment by its probable years of usefulness. All estimates to be made by the farmers.

Method 2—Calculate depreciation at a rate of 2½ per cent of the original cost of stone, cement, or brick buildings or 5 per cent in the case of frame structures. This is the method followed by the Dominion Income Tax authorities.

In addition to the above plans, one suggestion is that the rate of depreciation permitted should be raised so as to include an allowance for *obsolescence* as well as *depreciation* proper.

FACTORS OR ITEMS IN COST

1. Feed and bedding.
2. Man labour.
3. Building charge (includes interest, taxes and depreciation on the part of the farm occupied by the cows and by the feed for the dairy herd.)
Repairs should also be included under this item or under "miscellaneous".
4. Equipment charge (covers interest, insurance, depreciation and any taxes on milk utensils or machinery, tools, etc.)
5. Cow charge (covers depreciation, interest, taxes and mortality risk on the cows themselves.)
6. Cost of keeping the sire or bull service.
7. Miscellaneous (hauling costs, horse labour, vet. service, cow testing, association fees, etc.)

Credits to be deducted

1. value of manure
2. value of calves
3. milk consumed on farm.

(from Morrison's book "FEEDS AND FEEDING", p. 577 & 8)

*COST ITEMS OR FACTORS USED IN OHIO EXPERIMENT STATION
Bulletin 424*

Concentrates:

Corn
Oats
Cottonseed meal or oilmeal
Bran and Middlings
Other concentrates
Total concentrates

Succulent feed (silage, roots, etc.)

Hay

Stover

Pasture

Total feed and Pasture

Straw bedding

Man labour

Building charge

Equipment charge

Interest on cows

Taxes and insurance

Depreciation on cows

Bull service

Overhead

Miscellaneous

TOTAL COST

Credits:

Manure

Calf

Total Credits

NET COST

COST ITEMS INCLUDED IN OHIO EXPERIMENT STATION BUL. 424

Feed and pasture

Straw bedding

Man labour

Building charge¹

Equipment charge

Interest on cows

Taxes and insurance

Depreciation on cows

Bull service

Other²

From total of above which gives gross cost, credits³ are subtracted to obtain net cost.

- ¹ Equipment charges include all charges in connection with dairy equipment such as cans, pails, strainers, stable equipment and milking machines, a share of the total operating costs of water supply equipment, lighting systems and feed grinders, and a share of the total cost of operating farm automobiles and trucks used for hauling feed or trucking cows. Milk hauling costs are not included.
- ² Other costs include overhead charges, cow-testing expenses, horse work, medicines, disinfectants, veterinary services and advertising.
- ³ Credits include value of milk used on farm, value of manure, value of calves and feed bags.

APPENDIX 27

WHOLE MILK PRODUCTION COSTS IN HAMILTON-NIAGARA DISTRICT

INTRODUCTION

In making this analysis of whole milk production costs in the Hamilton-Niagara district I have been prompted, and in a general way, guided by my own experience during the past fifteen years. Beginning in 1932 with a holding of 100 acres in the Waterdown area, since increased to 463 acres, with provision for a herd of 140 Ayrshires including some 70 milking cows, I have continuously maintained farm and dairy accounts on a much more detailed basis than I believe is common in the farm community in general. I have also consistently employed the best type of farm help available and have constantly sought and applied the advice of our field and animal husbandry experts at Guelph and Ottawa. In short, I have left little undone that I could reasonably do to operate my dairy farm in an efficient, up-to-date manner. There may be some who contend that farming in Ontario is not economically practicable on a modern, mechanized basis but this appears to me to be a policy of despair. I strongly suggest that this viewpoint, if given any official cognizance, can only result in our agricultural community becoming progressively a discounted and under-privileged section of the national economy.

The inescapable evidence of my accounts is that the production of fluid milk, at current prices to the producer and by any conventional standards of judgment, is a highly unprofitable business. I hasten to point out, however, that in the present study I have not relied on my own actual experience as to costs, except insofar as, in their more favourable aspects, they are confirmed by accepted authorities. To the extent that they are more unfavourable than accepted or published standards, and might thus reflect purely individual conditions, I have not referred to them or permitted them to influence the following analysis.

In other words, I have attempted to make an impartial, impersonal examination of the subject, based on self-evident or authoritative information, admitting my own personal experience only as general background knowledge and not as substantiating data.

THE FARM

FARM PRODUCTION

In the study of milk production in Ontario made by H. R. Hare, results of which were published in March, 1942, by the Dominion Department of Agriculture, the typical Hamilton-Niagara district dairy farm of the survey was computed to be of 136 acres paying taxes of \$188 per annum. I have indicated on an attached sketch an allocation of this typical acreage designed to provide a balanced operation in any particular year for milk production purposes. This hypothetical farm constitutes the basis or background of the following analysis.

According to the Hare Report, based on the average of the years 1936-39, yields per acre and total production of the typical farm can be reasonably computed as:—

	Tons per acre	"The Farm" acreage	Tons farm product
Oats (35.34 bus. per acre).....	6185	42	26
Silage.....	9 33	10	93.3
Alfalfa.....	1 8	15	27
Timothy and Clover.....	1.54	15	23

*FARM EXPENSE**Hired Labour*

On the basis of a Man Work Unit (M.W.U.) of 1 man working 10 hours the farm labour required to secure the above farm production will be:—

Type Work	M.W.U's. per Acre	No. acres	Total
Grain.....	2	42	82
Silage.....	5	10	50
Alfalfa.....	2	15	30
Mixed Hay.....	1	15	15
Pasture.....	.2	39	8
Fences, etc.....	...	..	10
			195 M.W.U's.

Allowing 250 M.W.U.'s per man per annum this will require .78 or, for convenience, .8 man per year.

Presuming the man to be married and living in a farm cottage the hired labour expense chargeable to Farm Account can then be tabulated as:—

Wage per month.....	\$105.00
House rental per month.....	12.00
Light and power.....	4.00
Fuel (3 tons coal and wood).....	6.00
Milk (2 qts. per day at 7c).....	4.20
	131.20
	12 months
	\$1,574.40 or 63c.
80% to Farm Account.....	\$1,259.50 per hr.
Workmen's Compensation.....	26.00
	\$1,285.50

Labour Note

Some further evidence substantiating the foregoing farm hired labour expense of \$1,285.50 may be appropriate.

Assuming that a single instead of a married man is employed:—

Wage per month.....	\$65.00
Board.....	32.50
Perquisites (room, milk, add'l. heat, power, light).....	7.50
	\$105.00
Per month.....	12 months
	\$1,260.00
Per year.....	2500 hours
At 250 M.W.U.'s. per year.....	50½¢
Rate per hour.....	

Most farmers, and certainly Hamilton-Niagara district farmers, are in competition with the cities for labour. The current rate for the lowest category plant labour (sweepers, etc.) is 65 cents per hour and this is now in course of increase to 75 cents-80 cents as a result of strike settlements. Farm trained help can invariably secure employment in higher labour grades commanding still higher rates of pay. Furthermore, city employment offers the powerful inducements of paid vacations and holidays, a legal 48 hour week, unemployment insurance and other advantages so far denied to farm labour.

In the matter of farm working hours, I recently allowed 300 M.W.U.'s per annum per man in an analysis of milk production costs submitted to a leading economist of the Dominion Department of Agriculture. He considered this to be high and indicated 250 M.W.U.'s to be reasonable and proper. H. R. Hare ("Farm Business Management") states, however, that

the normal labour allowances of M.W.U.'s per acre are for Direct Labour only and do not provide for such Indirect Labour as care of horses, maintenance of buildings, implements, and machinery, upkeep of drains, bridges, and fences, manure haulage, snow removal and the many other miscellaneous operations essential to good farm practice.

On my own dairy farm, which I have no reason to believe exceptional in this respect, the men start work at 5.15 a.m. and hope to quit at 6 p.m.:—

Working Day (2 hours for meals)	10 hrs. 45 min.
6 days	64 hrs. 30 min.
Sunday	3 hrs. 30 min.
<hr/>	
Week	68 hrs.
Year	3536 hrs.
or	353.6 M.W.U.'s

On the basis of this actual experience:—

Calculated single man rate of 50½ cents reduces to 36 cents per hour actual.

Calculated married man rate of 63 cents reduces to 44½ cents per hour actual.

In face of city competition offering approximately double these rates, the difficulty and, in the case of single men, the virtual impossibility of retaining competent farm help is not far to seek. If the bare living requirements, to say nothing of the wellbeing of the farm worker are to be given any consideration whatever in the determination of farm production costs and consumer prices I submit that a single man base rate of 60 cents per hour or \$85.00 per month is minimal and necessary to secure and hold his services. As to the married man, the working year of 250 M.W.U.'s and hourly wage rate of 63 cents used in determining the foregoing typical farm labour expense are equally minimal and essential.

It is a reasonable assumption that the present pattern of 13c per hour increase for industrial workers will shortly have to be reflected in farm labour rates to preserve some semblance of balance between urban and rural workers. Our married man rate of 63c per hour in that event would have to be increased to 76c per hour for 2500 hours per annum.

In view of such hourly rates what is to be said of farm rates of the order of "17.4c per hour", "20c per hour", "30c per hour", "\$3.00 per day", etc., invariably appearing in official analyses of farm costs? (e.g. H. R. Hare: "The Dairy Farm Business in Ontario"; Department of Agriculture; 1940; W. Kalbfleisch; "Cost of Operating Farm Machinery in Eastern Canada"; Publication 750, Department of Agriculture; 1944.) The answer obviously is that these rates, so far as they have any basis in reality, represent unfair and depressed farm labour conditions relative to city labour, and for general farm cost analysis purposes propagate misleading conclusions by obscuring the *real* costs of farm labour.

FERTILIZER AND MANURE

Disregarding the recommended requirements for improvement or maintenance of permanent pasture (400 lbs., per acre every 3 years), the costs of commercial and natural fertilizer to new seeding only for the 136 acre farm may be stated as follows:

Grain 42 acres at 200 lbs.	4.2 tons
Corn 10 acres at 200 lbs.	1 ton
	<hr/>
	5.2 tons at
	\$35.00—\$187.20
Stable excretion per cow—8 tons per annum (Reinforced with stable phosphate)—\$2.00 per ton.	
Assuming 25 cow units 25 x 8 x \$2.	400.00
	<hr/>
Total	587.20

(Note: Natural fertilizer cost of \$400.00 later credited to Dairy Account).

IMPLEMENTS AND MACHINERY TO FARM ACCOUNT

Using team and tractor the estimated costs of machinery operation reasonably necessary to work the 136 acre farm with the indicated crop acreages, are tabulated below. These are derived from Publication No. 750,

Department of Agriculture; "Costs of Operating Farm Machinery in Eastern Canada"; W. Kalbfleisch; 1944, and subsequent correspondence with the same source:—

	Approx. Cost New	Years to Obsolescence or Dis- card	Tons or Acres Days per Year	Est. Cost per Acre	Cost per Year
<i>Tillage</i>					
Horses (2) (see tabulation below).....	250	10			\$373.76
Tractor (2 plow).....	900	15	60	3.29	197.90
Disc Harrow.....	172	15	60	.26	15.60
Cultivator.....	160	15	60	.30	18.00
Tractor Plow (2 furrow).....	130	15	40	.44	17.60
Walking Plow.....	25	22	20	.24	4.80
Roller.....	120	25	40	.20	8.00
Harrow.....	29	25	50	.05	2.50
<i>Seeding</i>					
Grain Drill.....	210	20	40	.49	19.60
<i>Harvesting</i>					
Mower (horse).....	126	20	40	.31	12.40
Rake (side).....	172	20	40	.33	13.20
Hay Loader.....	218	20	100	.21	21.00
Corn Binder (power & loader).....	400	15	10	4.14	41.40
Combine.....	500	15	40	1.52	60.80
<i>General</i>					
Manure Spreader.....	200	18	200	.10	20.00
Wagon (two).....	220	25	80	.12	9.60
Racks (two).....	75	25	40	.10	4.00
Sleigh.....	85	25	20	.20	4.00
Fanning Mill.....	55	25	2	1.85	3.70
Misc. & Spare Parts.....	100				10.00
	\$4147				853.86
Fire & Liability Ins.....					46.14
					\$900.00
Operating cost per acre (farm operation only) 136 acres \$6.60					
Investment per acre (farm operation only) 136 acres 30.50					
<i>Note:</i>					
<i>Horses</i> (Basis: Publication No. 750, Department of Agriculture; (W. Kalbfleisch; 1944 and incremented prices.)					
<i>Feed Cost</i>					
Grain 2500 lbs. at 2c per lb.....				\$50.00	
Hay 3 tons at \$18 per ton.....				54.00	
Pasture and Fencing 3 acres at \$10.....				30.00	
Bedding ½ ton at \$6.00.....				3.00	
					\$137.00
<i>Man Labour</i> 75 man hours at 50c.....					\$37.50
<i>Fixed Costs</i>					
Depreciation 10% on \$125 valuation.....				12.50	
Interest 4% on one half the value.....				2.50	
Buildings.....				6.00	
Shoeing.....				2.75	
Veterinarian.....				.63	
					\$24.38
<i>Harness</i> —Cost per year.....					5.00
Total Costs					\$203.88
<i>Credits</i> —Manure 8 tons at \$2.00.....					16.00
					\$186.88
Net cost per horse per year.....					\$373.76
Net cost per team per year.....					

OTHER FARM EXPENSES

Gas and Oil

One tractor in use 60 days at \$3.83 per day (Dept. Agric. Publication No. 750)..... \$229.80

Seed

Grass and legume..... 70.00
 Corn, hybrid..... 12.00
 Grain, 42 acres at 2 bus.—84 bus. at .80c..... 67.00

Threshing

Combine—no charge.....

Ensiling

Equipment only with operator..... 50.00

Fences, Bridges, Lrains, etc..... 52.40

Automobile (farm business only) 1500 miles at 6c..... 90.00

Miscellaneous and General..... 50.00

Taxes (land only)..... 90.00

Interest

Land \$50.00 per acre—\$6800. at 4%..... 272.00

Implement shed and shop—\$800. at 4%..... 32.00

Insurance

Implement shed (replacement value \$2000) (at 50c per \$100)..... 10.00

SUMMARY OF FARM EXPENSE

Labour.....	\$1,285.50
Fertilizer and Manure.....	587.40
Implements and Machinery.....	900.00
Gas and Oil (tractor).....	229.80
Seed.....	149.00
Ensiling.....	50.00
Fences, etc.....	52.40
Automobile use.....	90.00
Miscellaneous and General.....	50.00
Taxes.....	90.00
Interest.....	304.00
Implement Shed Insurance.....	10.00

Total Farm Expense..... \$3,798.10

ALLOCATION OF TOTAL FARM EXPENSE TO FARM PRODUCT

Having arrived at the above total farm expense in respect of 136 acres, it will be of interest to determine a proper allocation of this expense to the previously indicated farm production.

Some of the items of farm production are generally marketable and consequently have established market values or alternatively have accepted conventional values which may reasonably be used. Other farm products, not being generally marketable and hence having no established market price are usually, for milk cost analysis purposes, included at "farm prices". Just how these "farm prices" for products without established commercial value are arrived at has never been clear to me. I can see no other way of arriving at the real costs of these products than by treating them as residual to the known or conventionally accepted costs or values of the other products. In other words, the total farm expense being known and a proportion of the expense being allocated to certain products on the basis of their commercial or accepted values, the remainder of the expense *must necessarily* be attributed to the remaining products if it is to be comprised in ultimate milk costs or recovered in eventual milk receipts.

Thus, segregating the actual or conventionally marketable products of our farm yield we may justifiably assign to them due proportions of total farm expense as follows:

	Qty.	Value	Total
Oats.....	26 tons	\$38.00	\$988.00 (L.C.L. Oct. 15th, 1946)
Straw.....	42 tons	6.00	252.00 (Conventional)
Pasture.....	39 acres	10.00	390.00 (Conventional)
			<hr/> \$1,630.00
Residual farm expense			\$2,168.00
	(\$3798—\$1630)		

This residual farm expense can only be attributed to the remaining farm product, namely silage and hay. A commonly accepted ratio of value of silage to hay is 1 to 2, or as a generalization silage is of half the value of hay. Allotting the residual farm expense of \$2,168.00 to these products in this proportion we get:—

	Qty.	Farm Expense	Cost
Silage.....	93.3 tons	\$1,044.00	\$11.20 per ton
Hay.....	50 tons	1,125.00	22.50 per ton

These indicated costs per ton of silage and hay are far in excess of any "farm prices" used in any whole milk cost analysis of which I am aware. The highest costs previously computed for silage and hay, to my knowledge, are \$4.57 and \$10.22 per ton respectively as against \$11.20 and \$22.50 per ton in the present instance. In the Hare preliminary report on dairy farm business in Ontario 1940, the average prices charged in the Hamilton-Niagara district in determining milk production costs were, silage \$4.57 per ton and hay \$8.50 per ton. These prices were explained as being "at local market prices less the cost of hauling to that market" or in other words they were the prices at which silage and hay could presumably be sold at the barn. In point of fact there is no "market" for silage in the commonly accepted sense that definite commercial prices are established. Silage feeds by their bulk and nature are, for all practical purposes, non-marketable or marketable only to a negligible degree. The practical necessities of dairy farming require that silage and hay be home-grown and for this reason they must be regarded as an integral part of the dairy farm operation and not as marketable by-products. As such, they must in any analysis of milk production costs be charged with the whole actual expense incurred in delivering them to the barn for dairy use, regardless of any presumptive sales or market values.

As a further example of this, Department of Agriculture Publication No. 750, W. Kalbfleisch, 1944 in calculating horse labour costs estimates hay at \$6.50 per ton, bedding at \$4.00 per ton and pasture and fencing at \$2.50 per acre. By comparison with these figures my "conventions" of \$6.00 per ton for straw and \$10.00 per acre for pasture appear inordinately high. But it must be noted that if these values are to be reduced the residual farm expense attributable to silage and hay becomes proportionately greater and the discovered cost per ton of \$11.20 and \$22.50 respectively for these products must be placed still higher. To reduce the stated values of straw and pasture without correspondingly increasing the costs of silage and hay would be merely to evade or ignore the real costs incurred.

This same official and comparatively recent Publication costs grain at 1c per lb. and labour at 20c per hour. Using various costs or values set forth in this brochure I have calculated that the gross value of the estimated production of the typical 136 acre farm would be \$1,413.50. But it has already been demonstrated that a total expense of \$3,798.10 will be incurred, under present-day conditions, in securing that production. The total farm income then, on the basis of official costs or values such as 1c per lb. for grain, \$6.50 per ton for hay, \$4 per ton for bedding and \$2.50 per acre for pasture is little more than one-third the estimated total farm expense. Since I can find no justification for any reduction in any of the items comprising this expense, I can only conclude that the foregoing costs or values of the official Publication represent, in fact approximately one-third the real costs or values of these farm products, at least in the Hamilton-Niagara district. That they are not even approximately representative of real costs is, I believe, self-evident to any farmer who has the most rudimentary sense of his farm expense. Such wide disparities between official information and the grim realities of farm costs seem to call for explanation and certainly engender misconceptions in the minds of many farmers as well as in the comprehension of the public.

Virtually all whole milk cost studies, after failing to deduce or discover any adequate net return or "living" for the average dairy farmer, inevitably reach the conclusion that he can and does continue to exist only by "taking it out of his own hide" or by "living off his depreciation and interest". Undoubtedly this conclusion is right. The regrettable fact is

that these very studies, while sincerely intended to advantage the farmer, are actually tending to perpetuate this condition. They do this in general "by analyzing the dairy farmers circumstances in light of the prevailing rather than the required price of milk to the consumer, and in particular by failure to recognize and include the real costs of home-grown dairy feed at the barn.

If milk cost analyses show, as they do, that the average dairy farmer's receipts at current milk prices do not exceed his production costs to the extent of an adequate "living" then some elements of his production cost are obviously being priced at too low levels. I submit that this is evidently the case with regard to home-grown roughages and succulent feeds.

For present purposes, the foregoing does not in any event, affect the main issue of determining final milk costs to the farmer. It does serve to point up what I believe to be a vital underlying fallacy in all milk cost studies, official or otherwise, of which I am aware. However, the total farm expense of \$3,798.10 having been demonstrably incurred for feed, bedding and pasture it must necessarily be carried forward in whole to Dairy Account, regardless of its allocation to farm product.

Balance of Farm Product and Farm Stock

Before proceeding to an analysis of dairy costs it would be appropriate to conclude the farm analysis with a determination of the balance of the overall operation, that is, to ensure that the farm plan and product previously indicated provide an adequate but not excessive source of supply for the dairy operation.

To determine the total of home-grown feed available for the dairy herd:

	Total Tons	Horses Tons	Bull Tons	Available Tons for Herd	
Oats.....	26	2	1.5	22.5 (add 10% oil cake)	24.7
Silage.....	93.3			93.3	
Hay.....	50	3	2	45	

On the basis of various authorities and experience I believe the following to be a reasonable statement of feed consumption per animal:—

Cows	Assume milk production 7600 lbs. per annum 4% b.f.	
	Housed 7 months or 210 days Hay—12½ lbs. per day—	
	210 + 30 summer feed.....	3,000 lbs.
	Silage—30 lbs. per day 210 + 30 summer feed.....	7,200 lbs.
	Concentrate—at 4 lbs. milk to 1 lb. concentrate.....	2,000 lbs.
Heifers	Over one year. Barn feed 7 months.	
	Hay—10 lbs. per day 210 days.....	2,100 lbs.
	Silage—15 lbs. per day 210 days.....	3,150 lbs.
	Concentrate—3 lbs. per day 210 days.....	630 lbs.
Heifer Calves 6—12 months.		
	Hay—3 lbs. per day 240 days.....	720 lbs.
	Concentrate.....	500 lbs.

Assuming for the moment a reasonably differentiated herd (the bull being already provided for) of:—

Cows	20
Heifers (12-30 months)	12
Calves (6-12 months)	4
Calves (1-6 months)	4

then on the basis of the previous estimate of consumption per animal the total feed requirements will be:—

Animals	No.	Lbs.		Lbs.		Lbs.		
		Hay	Tons	Silage	Tons	Ration	Tons	
Cows.....	20	3,000	30	7,200	72	2,000	20	
Heifers....	12	2,100	12.6	3,150	18.9	630	3.7	
Calves.....	8	720	3			500	2	
Hay.....		45.6		Silage....		90.9		Ration... 25.7

Balancing these feed requirements for the above herd against the previously determined available feed we get:—

	Available	Required	Residue
Hay.....	45 tons	45.6 tons	— .6 tons
Silage.....	93.3 tons	90.9 tons	2.4 tons
Concentrate.....	24.7 tons	25.7 tons	—1 tons

It is thus evident that, within very narrow margins of tolerance, the farm plan and product indicated and the aforesaid dairy herd constitute a properly balanced and practical dairy farm operation.

THE DAIRY

It has been established that the typical dairy farm of 136 acres will support a herd of:—

Cows	20
Heifers (12 to 30 months)	12
Calves (6 to 12 months)	4
Calves (1 to 6 months)	4

Value of Herd

For the purpose of certain subsequent determinations it is necessary to arrive at a proper valuation of the above herd. This is a further respect (the real cost of growing dairy animals through various stages to milking age) in which I believe most farmers and many authorities rely heavily upon inspired or instinctive guesses. In the present instance, therefore, I have evaluated the typical herd "from the ground up" in the following way:—

(Basis)—Cost to raise dairy heifer to milking age, av. 2 years, 6 months. Assume calf to be born in May, calving in November.

Period 1—12 months	
Calf value.....	\$5.00
Milk 300 lbs. at \$4.91.....	14.73
Calf startena.....	17.60
Hay, 240 days at 3 lbs—720 lbs. at \$22.50.....	8.10
Ration 500 lbs. at \$40 per ton.....	10.00
	<hr/>
	\$55.43
Labour, 2 M.W.U's.—20 hrs. at 63c.....	12.60
Bedding 2 lbs. per day 365 days at \$6 Ton.....	2.20
Housing.....	2.00
Miscellaneous.....	3.00
	<hr/>
Cost to 12 months.....	\$74.23
Period 12—30 months	
Pasture yearling, 5 mos. at \$2.....	10.00
Winter 210 days—	
Hay 2100 lbs. at \$22.50.....	23.60
Silage 3150 lbs. at \$11.25.....	17.45
Ration 630 lbs. at \$40.00.....	12.60
Pasture 2 yr. old 5 mos. at \$2.....	10.00
Ration 300 lbs. at \$40.00.....	6.00
	<hr/>
	\$79.65
Labour 3 M.W.U's. for 1½ yrs. at 63c.....	18.90
Housing.....	2.00
Miscellaneous.....	5.00
Bedding, 240 days at 8 lbs.—1920 lbs. at \$6.....	5.75
	<hr/>
Cost 12 to 30 months.....	\$111.30
	<hr/>
Cost 1—12 months.....	\$74.23
Cost 12—30 months.....	111.30
	<hr/>
Cost to raise to average milking age.....	\$185.53

(Summary) 8 calves in Herd (1 to 12 months)

Base Price of calf	\$5.	
Cost to raise to 12 months (\$74.24—\$5.00)	\$69.08.	
Average (6 month) value	\$69.08 + \$5. = \$39.54 x 8	\$316.32

2

12 Heifers in Herd (12 to 30 months)

Base cost of heifer at 12 months,	\$74.23	
Cost to raise 12—30 months	111.30	
Average (21 month) value	\$111.30 + \$74.23 = \$219.88 x 12	\$1,538.56

2

20 Cows in Herd

Average cost to raise = \$185.53 x 20	3,710.60
---------------------------------------	----------

	\$5,569.16
Bull.....	200.00
Herd Value.....	\$5,769.16

Depletion of Herd

Since milk production and receipts must be constantly maintained if the business is to continue and our analysis to be valid, the first costs to be considered in the dairy operation are those incurred in offsetting natural depletion. This, in effect, is a question of the disposition of the young stock.

In agricultural circles there is a wide acceptance of 5 years as the average productive life of a dairy cow. However, Bulletin 341 of the U.S. Department of Agriculture finds that this average life ranges from 3.6 to 4.5 years in widely separated areas of the Eastern and Middle Western States. Furthermore, recent average annual milk production for more than 22 million cows in the United States was no more than 4,510 lbs. This is far short of the average of 7,600 lbs. of 4% milk presumed for the purposes of this analysis. The additional production can be secured only by stringent herd culling and high feeding. Excessive feeding notoriously accelerates herd mortality. Both these factors then operate to reduce the average productive life in a dairy herd. I am confident that the 3 year estimate of some authorities as the average productive life in a herd bred, culled and fed for high production is closer to the mark and I am very certain that my own record over a fifteen year period is still less favourable. When we consider the cumulative possibilities of herd depletion arising from Bang's storms, mastitis and non-breeding I believe and my own experience more than confirms that an estimate of 4 years maximum average productive life is entirely warranted and conservative.

It follows from this that our herd of 20 cows will be naturally depleted by 5 animals during a year of operation. Disposal of these to butcher or bone-yard at an average of \$80 each will be later credited against dairy expense.

The disposition of young stock is complicated, in theory as in practice, by the necessities of maintaining milk quotas. However, if we assume for simplicity that the 8 calves of the herd are retained until grown, a further 3 animals are available for disposal. These also will be later credited against dairy expense at \$200 each.

An estimated natural increment of 12 calves available for sale at \$5 each will also be later credited to the dairy operation.

Having thus provided for herd maintenance with due credits accruing to dairy account it remains to provide for the costs of bought feeds before proceeding to consider other dairy costs.

Concentrate—2 tons, oil cake	\$100.00
Calf feed—Startena, 8 calves, \$17.60	140.80

Bought feeds expense (dairy account) \$240.80

Labour Expense

According to Cornell University Bulletin No. 539 total manpower requirements for 136 acres supporting 20 cows, 12 heifers and 8 calves will be:—

	M.W.U's. per Head	Total
20 cows, majority purebred.....	20	400 M.W.U's.
20 heifers and calves.....	2	40 M.W.U's.
		<hr/>
Dairy.....		440 M.W.U's.
Farm.....		195 M.W.U's.
		<hr/>
Total.....		635 M.W.U's.
That is—		
2 men at.....		317.5 M.W.U's. each.
or 2.5 men at.....		250 M.W.U's. each.

In practical terms this indicates that 3 men will be required in the 6 summer months and 2 men in the other six months. Eliminating for present purposes the labour contribution of the owner, the total hired labour requirement is 1.5 men averaged over the year. Of this labour .8 man per annum has been found necessary for farm operations, leaving .7 man per annum as the hired labour requirement for dairy operation.

Hired labour expense to dairy account may therefore be expressed as:—

.7 man x 250 M.W.U's. x 10 hrs. x 63c per hour	\$1,102.50
Workmen's Compensation	23.00
	<hr/>
Total hired labour expense (dairy account)	\$1,125.50

Buildings and Equipment

It is believed that the following represent very conservative estimates of dairy farm building and equipment values as a basis for calculation of interest and depreciation. No costs in respect of a farm house are included and building values are taken at depreciated levels representing a mere fraction of their current replacement values:—

Barn, Calf Barn, Silo.....	\$5,000.00		
Interest (\$5,000 at 4%).....		\$200.00	
Depreciation (\$5,000 at 3%).....		150.00	
Insurance (on 90% of estimated replacement value of \$12,000).....		54.00	
Taxes.....		60.00	
Maintenance.....		100.00	\$564.00
		<hr/>	
Well pump and water system.....	\$350.00		
Refrig. unit with tank.....	300.00		
Milking units and piping.....	500.00		
Grain roller and motor.....	150.00		
Cooler and circulating pump.....	110.00		
Litter carrier and tracks.....	100.00		
Feed truck.....	60.00		
	<hr/>		
	1,570.00		
Interest (half value at 4%).....		\$31.40	
Depreciation (\$1,570 at 10 %).....		157.00	
Insurance.....		7.50	
Maintenance.....		80.00	\$276.00
		<hr/>	
<i>Veterinary Service and Medicine</i>			\$100.00
<i>Automobile</i> (3,000 miles at 6c).....			\$180.00
<i>Miscellaneous</i>			
Telephone (dairy use).....		\$20.00	
Power and light.....		96.00	
Disinfectant, spray, etc.....		30.00	
Stable phos. (2 tons).....		60.00	
Registrations, transfers, R.O.P. costs.....		60.00	\$266.00
		<hr/>	
<i>Interest and Insurance on Herd</i>			
Value of Herd.....	\$5,764.00		
Interest at 4%.....		\$230.00	
Insurance (at 50c per \$100).....		\$28.80	

RECAPITULATION OF TOTAL FARM AND DAIRY EXPENSE

	Farm	Dairy	Total
Labour (Hired).....	\$1,285.50	\$1,125.50	\$2,411.00
Fertilizer and manure.....	587.40		587.40
Implements and machinery.....	900.00	276.00	1,176.00
Gas and oil.....	229.80		229.80
Seed.....	149.00		149.00
Ensiling.....	50.00		50.00
Fences, bridges, drains, etc.....	52.40		52.40
Automobile use.....	90.00	180.00	270.00
Miscellaneous.....	50.00	266.00	316.00
Taxes.....	90.00	60.00	150.00
Feed (bought).....		240.80	240.80
Barns.....		564.00	564.00
Vet. and medicine.....		100.00	100.00
Interest at 4%.....	304.00 (farm)	230.00 (herd)	534.00
Insurance.....	10.00 (imp. shed)	28.80 (herd)	38.80
Total Farm Expense.....	\$3,798.10	\$3,071.10	\$6,869.20

Credits:

5 cows at \$80.....	\$400.00	
3 animals at \$200.....	600.00	
12 calves at \$5.....	60.00	
Manure.....	400.20	
730 qts. milk at 7c (owner).....	50.40	\$1,510.60
Total farm and dairy expense.....		\$5,358.60

MILK PRODUCTION

20 cows—average 7600 lbs.....		152,000 lbs.
Deduct for farm use:—		
Calves (8 x 300 lbs.).....	2,400 lbs.	
Owner and help (4 qts. x 365 days).....	3,650 lbs.	6,050 lbs.
Net saleable milk production.....		145,950 lbs.

MILK COST

Milk Production	Total Expense
1,460 cwt.....	\$5,358.60
Net cost per cwt.....	\$3.67
Haulage.....	.25
	\$3.92

It will be recalled that in arriving at the total dairy farm expense nothing has been included as return for the labour of the owner, who has been estimated as contributing a full year's work. Similarly, nothing has been provided for his housing or managerial effort. His only return from milk at \$3.92 per cwt. is two quarts of milk per day.

If we assume, for lack of any other criterion and because it represents a very conservative not to say grudging premise, that he is entitled to the same return for his labour as his hired help we may then state the resulting cost of his saleable milk production as:

Milk Production	Total Expense
1,460 cwt. Farm and dairy expense	\$5,358.60
Owner's labour (250 M.W.U's. at 63c).....	1,574.40
	\$6,933.00
Cost per cwt.....	\$4.75
Haulage.....	.25
	\$5.00

As a check on the general accuracy of this finding we may apply the widely accepted Misner formula for determination of cost of 100 lbs. of milk, using the labour rate and home grown feed costs previously established:—

<i>Hamilton-Niagara Milk Cost</i> <i>Formula of Professor E. G. Misner</i>	
30 lbs. of dairy feed and concentrate at \$2.15 per cwt. ....	.65
100 lbs. of silage at \$11.20 per ton. ....	.56
60 lbs. of hay at \$22.50 per ton. ....	.67
Total feed cost.	\$1.88
3 hours of labour at 63c per hour.	1.89
Total feed and labour cost.	\$3.77
Cost per cwt. at farm, including interest and depreciation (3.77 x 100).	4.71
<hr style="width: 20%; margin: 0 auto;"/>	
	80
Haulage. ....	.25
Actual cost production and delivery.	\$4.96

This close coincidence of results, obtained in one case by application of an accepted general formula and in the present case by a detailed analysis "from the ground up", constitutes strong support of the validity of the analysis. In particular it supports the determinations of 63c per hour for labour and \$22.50 and \$11.20 per ton respectively for home-grown hay and silage, these being the factors which, in this or any farm analysis, are most open to variable estimation.

It must be noted that the discovered cost of \$5.00 per cwt. for milk in the Hamilton-Niagara district still does not make any allowance for the owner's management effort. It provides him and his family only with a living on the level of wellbeing of his own hired help or of the lowest paid category of industrial workers. Not to pursue the matter further, the evidence of this analysis is, that to the extent that the Hamilton-Niagara district dairy farmer receives less than \$5.00 per cwt. for whole milk he is living at a relatively sub-standard level of existence or alternatively he is living off his temporarily "escapable" costs such as interest, depreciation, maintenance, etc., or in other words, off the depletion of his physical and capital resources.

Anyone familiar with farm life throughout Ontario knows that this is no mere theoretical deduction but an evident matter of fact. Soil erosion and depletion, neglected pastures, dilapidated buildings, inferior living conditions and many other evidences of insufficient capital recovery and reinstatement, to say nothing of deserted farms, are the rule rather than the exception.

This is a condition which, in the nature of things, can not continue indefinitely. Some readjustment or reaction is inevitable. Already there are signs of this in the fact that many larger scale dairy farmers, more immediately alive to unfavourable cost though not necessarily having a detailed knowledge of their nature, are "getting out of the business" in whole or part. I sincerely regret to say that I am to be numbered among these.

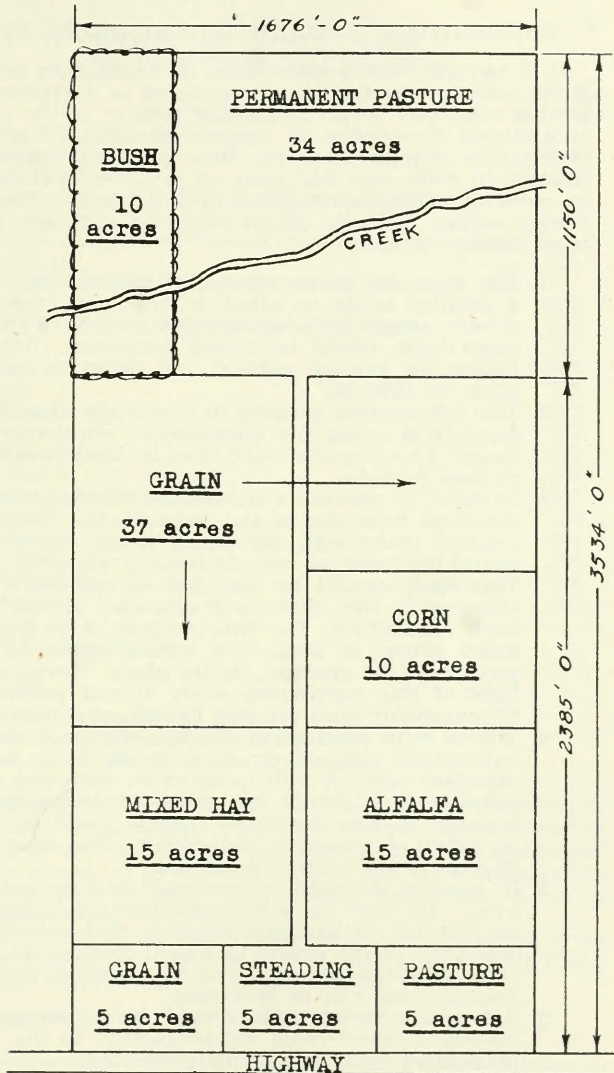
It might be contended that the elimination of the larger more specialized dairy farmer is a desirable readjustment in the present circumstances, permitting an easement of the price situation by a reduction of supply and by a reliance upon "low-pay", "no-profit" sources of production. As I have said before I believe this to be a policy of despair, which can only result in the segregation of the dairy farm community as a low-standard, underprivileged and depressed economic group. I believe that any consideration of whole milk costs or prices based on such a conception is, in effect, discriminating against the farmer by setting up unique and unprecedented standards of economic judgment for his case and will, furthermore, constitute a positive disservice not only to the farmer but to the country at large.

CONCLUSION

I am fully alive to the fact that some of the data set forth here may be open to other estimation in detail, but I do not know of any respect in which they can be so substantially modified as to materially impair the conclusion reached. In this connection it should be pointed out that no consideration has been given to the matter of maintaining milk quotas, a factor variable in accordance with prevailing individual circumstances, or to housing of the farmer and his family or to his management effort or to the miscellaneous labour not included in the normal labour allowances. These, if given any consideration, would still further confirm the finding of this analysis that the true cost of producing 100 lbs. of whole milk in the Hamilton - Niagara district, under present conditions, is \$5.00—or more.

"THE FARM"

Approx. Scale:- 1 inch = 400 ft.



H.R. HARE:-

Average Farm
Hamilton-Niagara District 136 acres

Assume Bush	10 acres
" Permanent Pasture	34 "
Adjusted acreage	103 "
Steading	5 "
Crop acreage	82 "

APPENDIX 28

SUGGESTIONS TOWARD ASCERTAINING PRODUCTION COSTS

It is obvious that a knowledge of production costs provides a valuable guide when prices are being negotiated or determined. One of the reasons for the relatively weak bargaining powers of the producers has been lack of accurate knowledge in respect of this. If producers are to receive satisfactory remuneration for their product, prices paid must bear some relation to costs, and the fixing of prices is obviously also very important in ensuring sufficient supplies of fluid milk. The following suggestions briefly outline methods which might be sufficient for the purposes of the Milk Control Board:

1. The first step in securing cost information should be to undertake a detailed study in which a large and representative body of producers would keep actual cost records under whatever amount of supervision might be found necessary. Such a study might well follow the general pattern laid down in connection with the Hare study of 1936-39.
2. The information secured in this study should be used to calculate a formula showing the quantitative requirements of the several cost items. This formula could then be used to calculate the costs existing at later periods.
3. In order to provide a continuous check on the accuracy of the costs resulting from use of the formula, the Board should follow up the original study with one which would become continuous but which would be based on records from a relatively small number of farms. This study would be designed to provide a running record of the changes in the kinds and amounts of the various items used in milk production. For this purpose it is felt that the records of a small group of producers would suffice to give a representative picture of the changes taking place. Revision of the formula in the light of this continuous study should provide a continuous supply of reasonably accurate cost figures, at a relatively small expenditure.
4. Where milk production is only one in a considerable list of farm enterprises and where, as a result, it is practically impossible to calculate costs of milk production with any semblance of accuracy, consideration should be given to calculating the total net farm income. In such cases net income could be substituted for costs as an index of economic well-being. This situation prevails in respect of most of the creamery patrons.
5. In making the detailed cost studies here indicated the Board make every attempt to select producer-co-operators who are already accustomed to keeping accounts and convinced of the wisdom of doing so. To the extent that such producers can be found the amount of supervision required can be reduced while the accuracy of the data secured can be increased.
6. All producers of milk should be encouraged to keep continuous records of their costs independently, to the end that more efficient production may be gradually effected.

APPENDIX 29

ROYAL COMMISSION ON MILK INDEX TO ACCOUNTANTS' REPORT SURVEY OF CHEESE MANUFACTURERS LOCATED IN THE PROVINCE OF ONTARIO

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The Honourable Justice Dalton Wells,
Commissioner,
Royal Commission on Milk.

Accountants' Report Survey of Cheese Manufacturers Located in the Province of Ontario

Sir:—

In submitting this report, reference should be made to the decision of the Dominion government to terminate subsidies to the cheese industry on April 30 last and to permit an increase in price at the manufacturers' level of three cents per pound of cheddar cheese (equal to 4 cents at the consumer level), as from May 1, 1947. The announcement was made as our assignment was approaching completion.

Such measures were of much importance following several years of price control regulations and it is expected that they will have a favourable effect on the earnings of cheese manufacturers for the current year.

Assignment, approach and procedure

Assignment:

Having regard to the provisions of the Order-in-Council dated October 1, 1946, we were required to investigate and report on the operations of cheese manufacturers located in the Province of Ontario with particular reference to costs, prices, price spreads, methods of financing and methods of management.

In connection therewith it is thought that a brief reference to a few of the more important features of the industry might facilitate your conclusions.

Industry background:

The industry is actively represented by a trade organization known as The Ontario Cheese Producers' Association with a membership approaching 25,000 producers.

Since 1939 the production of cheddar cheese has increased very substantially, the peak being reached in 1942 when the output for Ontario approached 128 million pounds. In the years prior to the war, production approximated 85 million pounds per annum.

About 60 million pounds or two-thirds of the cheddar cheese produced in the Province was exported in 1946 principally to Great Britain. This represented about 60% of the total cheese exports of the Dominion.

During 1946 approximately 92 million pounds of cheese were produced in Ontario having a value in excess of 20 million dollars at the wholesale level.

Factory cheese accounted for 24% of the total whole milk production of the Province or about 15% less than fluid milk requirements, as shown hereunder.

*Allocation of estimated pounds of whole milk
produced in Ontario for 1946*

	1946	pounds of whole milk	% of total whole milk	% of total whole milk
Factory cheese.....	91,978,000 lbs.	1,030,153,600	23.62	26.94
Creamery butter.....	68,785,800 lbs.	1,610,275,600	36.92	38.47
Fluid milk.....	467,736,000 qts.	1,206,758,900	27.67	23.09
Fluid cream.....	13,519,000 qts.	148,709,000	3.41	2.89
Condensed whole milk....	14,765,700 lbs.	33,665,800	.77	.77
Evaporated milk.....	98,063,700 lbs.	215,740,100	4.95	4.83
Powdered whole milk....	14,535,200 lbs.	116,281,600	2.66	2.41
Totals.....		4,361,584,600	100.00	100.00

Of the 600 cheese factories located in the Province only about 30 are operated independently of the cheese milk producers to the extent that they actually buy the cheese milk, process it, and dispose of the finished product entirely as they see fit. The remaining 570 factories are operated on a cooperative basis and may be divided into two classes, viz., those owned by cheesemakers who contract with the cheese milk producers to process on a fee basis, and those which are owned by the cheese milk producers themselves who share in the excess of revenues over expenditures, on a pro rata basis, at the close of each season.

The industry is of a seasonal nature, most cheese factories concentrating on production during the summer months when supplies of whole milk are at a peak.

Approach and procedure:

Of the 600 cheese factories located in the Province a fair representative proportion were asked to submit financial statements relating to the fiscal year next preceding October 1, 1946, also estimates of net profits for the current fiscal year, before provision for income and excess profits taxes. Those selected included the two types of cooperatives as well as independent cheese factories.

Generally speaking the standard of the financial statements was not as satisfactory as was anticipated, particularly those relating to the cooperatives, many of which merely comprised a list of expenditures in chronological order with little, if any, indication as to the nature of the expense, the payee's name and date of payment providing the only reference.

Following a review of the financial statements, a representative group was selected for the purpose of completing a form of questionnaire. Here again, however, the response was not as comprehensive as was hoped for, a number of concerns being unable to furnish certain of the data even though consideration had been given to the ability to complete in making our selection, as well as other factors.

As with other sections of the milk industry, code numbers were employed throughout the survey to ensure privacy and facilitate handling. A considerable amount of correspondence and personal consultation was involved in obtaining a sufficiently satisfactory coverage for the purposes of this report.

*Overall operating results
for the fiscal year next preceding October 1, 1946*

Ontario cheese sales for the twelve month period totalled 116,093,000 pounds comprised as follows:

	Quantity	Value	Cents per pound
Cheddar	115,201,000	\$24,960,000	21.67
Other.....	736,000	199,000	27.04
Farm made.....	156,000	33,000	21.15
	116,093,000	\$25,192,000	21.70

It will be noted that cheddar cheese sales represent more than 99% of total.

The values and unit prices shown are at the wholesale level as reported by the Dominion Bureau of Statistics. The average price received by the cheese manufacturers during the year, combining all grades, was 20 cents per pound F.O.B. factory shipping point, the difference between it and the wholesale price of 21.70 cents representing freight, storage, commission and other handling charges.

Operating results — cooperatives owned independently of cheese milk producers:

The fees, salaries, or other charges for services made by the independent cooperative factories for the conversion of cheese milk into cheddar cheese, during the year under review, ranged from 2 cents per pound of finished product to almost 3 cents per pound. In addition to this the processors, in some cases, participated in the revenues from whey, butter, and cream sales, depending, of course, on the terms agreed upon with the local cheese milk producers.

This revenue, combined with the Dominion and Provincial subsidies, appears to have been sufficient in most instances to cover all processing costs including cheesemakers' salary and bonus, operating supplies and expenses, including depreciation, and still leave a reasonable surplus to compensate the factory owner for his supervisory services and provide some return on the capital invested in the factory building and equipment.

There were, of course, a number of instances where expenditures exceeded revenues, but in most cases this was attributable to some special repair or replacement cost for which no past provision had apparently been made.

In considering the amount of the excess of revenues over expenditures of the independent cooperative factories, allowance should be made for the seasonal nature of the operations, as the production of cheese is largely concentrated in the summer months when whole milk production is at its peak.

*Operating Results—Cooperative Factories Owned
by Cheese Milk Producers*

With this type of non profit operation a secretary, and in some cases an auditor, appointed by the shareholders (or cheese milk producers) is charged with the responsibility of maintaining the books of account and presenting a statement to the shareholders at the close of the season.

While the financial statements of these cooperative plants were generally more detailed than those of the independent cooperative factories, there still exists considerable room for improvement. With some exceptions the statements merely comprised particulars of cash receipts, including subsidies, and a chronological listing of disbursements showing the name of the payee, followed by the amount of monies distributed amongst the shareholders as dividends, such odd sum as might remain being carried over to the next season.

The processing costs of this type of operation bore reasonably close comparison with the charge of from 2 cents to 3 cents per pound of finished product made by the independent cooperative factories operating on a fee basis, although it was noted that there were fairly wide fluctuations as to costs between different factories as well as from year to year amongst the smaller plants particularly, due in some instances to lack of provision for replacement of the more costly pieces of equipment in prior years.

Operating results—entire cheese manufacturing industry:

From the financial statements, questionnaires and other information submitted to us, we have developed certain data indicating on an overall basis the costs and profit margins of the 600 cheese factories located in the Province including the independent manufacturers and both types of cooperatives.

The quantity and cost of cheese produced by the 30 independents as distinct from the 570 cooperatives is not presently available to us, neither are the costs by type of cheese. The table which follows is therefore based on cheddar cheese which accounts for 99% of total production, the figures being submitted for the purpose of providing a general indication on a Province wide basis of the operating results of cheese manufacturers.

TABLE 1
*Condensed operating results of cheese manufacturers
located in the Province of Ontario
for the fiscal year next preceding October 1, 1946.
(Based on production of 115,201,000 pounds)*

	Amount	Cents per pound	% of Sales
Sales (excluding subsidies).....	\$23,040,200	20.00	100.00
Material cost (including haulage).....	\$20,086,446	17.44	87.18
Processing, administrative and distributing cost.	2,608,151	2.26	11.32
<i>Total cost.....</i>	<i>\$22,694,597</i>	<i>19.70</i>	<i>98.50</i>
<i>Net profit (before taxes).....</i>	<i>\$ 345,603</i>	<i>.30</i>	<i>1.50</i>

Operating results of individual independent concerns varied considerably, some showing much wider profit margins than others. The fees and processing costs of the cooperative establishments varied by 20% and more in some instances.

The amount of capital employed for the industry as a whole could not be determined, as many factories do not prepare annual balance sheets on a cost basis. It is estimated, however, that the amount might approximate \$4,500,000 which would indicate an earnings return of 8% before provision for income and excess profits taxes.

As we have mentioned, the termination of subsidies by the Dominion government and the price increase authorized in May last have no doubt created some important changes within the industry so that figures relating to the years during which price control and subsidies were in effect afford little indication regarding current operations.

Financial Position

Having regard to the fact that the majority of cheese plants are privately owned by cheesemakers, or owned through shareholdings of cheese milk producers, the amount of capital employed has little direct relationship to sales volume or profits derived from the manufacture of factory cheese. This perhaps explains in part why only a limited number of cheese plants have properly prepared balance sheets setting forth the assets and liabilities of the business in the customary manner.

Selling prices of factory cheese

In the early part of 1941 the average price, combining all grades, was 15c per pound, but this advanced until a peak of 26.3 cents per pound was reached in March, 1942.

Following the introduction of subsidies at the close of that year, the wholesale price f.o.b. factory was reduced to 20c until the close of 1945 when the price rose 2 cents to 22 cents per pound. The summer months of 1946 saw a reversion to the 20 cent price, with an increase of 2 cents per pound again in the winter months of 1946 and 1947. This price prevailed until April 30, 1947, when a price increase of 3 cents per pound of cheddar cheese was authorized at the manufacturers level (equivalent to about 4 cents to the consumer). Thus, from 1939 up to the time of this report, the

average selling price of the manufacturers of cheddar cheese has advanced from 15 cents to 25 cents per pound or 66%.

Cheese is by far the most important milk product exported by the Dominion from the point of volume as well as dollar value. In 1946 over 106 million pounds was exported at an average price of 20.61 cents per pound for a value of \$21,947,738.

The contribution by the Province of Ontario to this total is not recorded by the Dominion Bureau of Statistics or the Provincial authorities concerned, but we understand through the trade, that approximately two thirds of the cheddar cheese production of Ontario is shipped abroad, so that export prices and volume are normally potent factors in the determination of domestic prices. Sales of processed and other cheeses which are produced in volume by the independent cheese manufacturers as well as the larger fluid milk distributors also have some bearing on cheddar cheese prices within the Province of Ontario.

Marketing methods

The cheese manufacturers have their own marketing agency known as the "Ontario Cheese Producers' Association Limited." The constitution, objects, and certain of the by-laws together with an outline of the procedures followed are clearly set forth in the brief submitted by them.

Export sales are handled through the medium of Montreal brokers, prices and terms being largely governed by trade agreements executed by the Dominion government and that of Great Britain or other importing country.

Domestic sales of cheddar cheese representing about 33% of total production are handled by brokers and wholesalers but the proportions sold through each channel are not available. The brokerage rate is $\frac{1}{8}$ of one cent per pound plus storage and other charges.

With the lifting of price controls the Ontario Cheese Producers' Association Limited will resume its functions as in normal times.

Earnings of cheese factories 1946

The estimates received combined with financial statements relating to the 1946 operations indicate that the earnings of the cheese manufacturing industry for 1946 may be less than those of the fiscal year next preceding October 1, 1946, due to a 19% reduction in output.

Outlook for 1947

A serious contraction in exports of cheddar cheese occurred during the first quarter of 1947, shipments from Canada totalling only 2,845,200 pounds against 15,132,100 pounds for the corresponding period in 1946. This might mean a substantial loss in revenues to Ontario cheese manufacturers and producers.

Related figures for the second quarter of the current year are not yet available but it is thought that the reduction from 1946 might not be as marked as in the first quarter.

Countering the foregoing are the price adjustments to producers and manufacturers of May, 1947. Although the producers received the greater portion of such price increase, it is considered that the profits of the manufacturers should at least equal those of 1946, provided satisfactory markets are found to absorb sufficient cheddar cheese to compensate for the reduced exports to the United Kingdom indicated in the first quarter of the current year.

With ceiling prices removed manufacturers are at liberty to take any steps which may be deemed necessary to ensure satisfactory profit margins, so that should the present price structure fail to achieve the desired results corrective measures can be taken through negotiation.

Observations and conclusions

The factory cheese industry of Ontario requires about 86% of the quantity of whole milk used in the fluid milk industry, yet the producer price is substantially less. Its influence on the overall position of the fluid milk and milk products industry is therefore very considerable.

It is apparent that reasonable profit margins for the cheese factory operators and the cheese milk producers must be assured if they are to maintain volume production and thereby play their full part in the overall progress of the industry.

Our survey of the manufacturing and producer phases of the industry provides no indication that the profit margins up to the close of 1946 were more than reasonable having regard to the seasonal nature of their operations and the importance of their contribution to the overall position of the industry.

Possible increase in sales revenue:

Domestic prices of cheddar cheese are influenced by the export prices also the selling prices of processed cheese. A selling price increase, largely to replace Dominion subsidies which were terminated, was authorized in May last and it would seem premature to consider any further upward adjustment in selling prices until sufficient time has elapsed to permit a reasonably accurate assessment of its effect on earnings.

There has been a serious contraction in export sales of cheddar cheese in the first three months of 1947 as compared with the corresponding months in 1946. Production has also declined by 4.3% up to March 31st, 1947, as compared with the first three months of 1946, and these factors are bound to have an effect on revenues and profits. They may in fact offset the benefits which may be expected from the domestic price increase of 1947.

At the time of writing this report, therefore, we see little prospect of any substantial increase in revenues unless production of butter and other products of cheese manufacturers are developed on an appreciable scale.

Possible savings and economies:

As about 87% of the total sales revenue is accounted for in the material cost of cheese, the margin on which economies might be applied is limited, especially when fixed charges such as business and property taxes and depreciation are eliminated. However, on account of the large volume, the smallest saving in the unit cost of any product reaches considerable significance in the overall earnings.

The processing and labour costs are the two most important factors in the overall cost apart from raw materials and to properly explore the possibilities of any savings under these two headings would require the assembly of much more data than is presently available. If a determined effort is to be made to hold processors' costs within certain limits the assembly of sufficient detailed statistical data is a pre-requisite.

Statistical data:

It is suggested that those authorities responsible for the safeguarding of the public interest and the advancement of the factory cheese industry in conjunction with the overall progress of the entire milk industry, should immediately formulate plans which will ensure all concerned being fully informed on the developments and trends which are bound to reveal themselves now that the industry is in the transitional stage from emergency controls to free enterprise and perhaps more keen competition in both the home and foreign markets.

To achieve this, it is important that more detailed information be obtained concerning the operations of the two types of cooperative factories referred to as distinct from the independent factories, than has been possible for us to procure in the time at our disposal.

We also consider that the statistical data presently available to the Provincial authorities, in respect of both export and domestic sales, should be enlarged upon particularly as regards type of outlet and related prices and quantities.

Due to the other divisions of the milk industry producing cheese as well as other products, it is important that there exist the utmost co-ordination between them, and to permit of this, adequate information should be readily available on each product and classification of business.

Accounting records:

As regards both the independent operators of cheese factories and the cooperative plants the standard of accounting, with a few exceptions, leaves much to be desired.

In both types of operation the only particulars of revenue and expenses available in many instances, consisted of a statement of cash receipts and disbursements, or receipts and expenditures, with the items listed chronologically and little, if any, description as to the nature of the expense.

No systematic provisions to meet emergency replacements of equipment are made as a general rule, so that the costs of conversion or processing sometimes vary considerably from year to year especially amongst the smaller factories where the volume is not sufficiently large to permit the absorption of any extraneous expense or special repair or replacement cost without seriously affecting the profit position.

As with other sections of the milk industry, we would recommend the introduction of a standard accounting system of a simplified nature which would ensure the satisfactory and prompt completion of informative returns of an administrative or statistical character and at the same time serve to improve the standard of managerial and accounting control in an industry which is of vital concern to milk producers and the consuming public.

Finally we would direct your attention to possible economies in the manufacturing phase which might be disclosed by careful study of a selected representative group of operators, both cooperative and independent.

Productive capacity:

From our review of the questionnaires we formed the impression that the productive capacity of cheese factories is appreciably in excess of actual requirements even allowing for the seasonal nature of the industry, the peak periods and the usual surplus margins to meet emergency conditions. The output in 1946 represented but 75% of 1942 production so that further contraction might cause hardship amongst factory owners. The desirability of having statistical data on productive capacities by areas might therefore be considered.

Changes in ownership:

It would appear that cheese factories have not changed hands with the same frequency as fluid milk distributive businesses. On enquiring into one of the more recent important transactions it was found that the factory had been acquired by a condensary at a consideration which seemed attractive to both buyer and seller. It has since been converted into a receiving station.

As with other divisions of the milk industry we incline to the view that such transactions should be brought to the notice of some designated Provincial authority and approval in every particular obtained before the deal is consummated.

Marketing methods:

With the resumption of normal trading the greatest responsibilities rest with the marketing agency, the brokers and wholesalers. The profit margins of the manufacturers and the cheese milk producers largely depend on the efficiency and merchandizing ability of the distributive bodies.

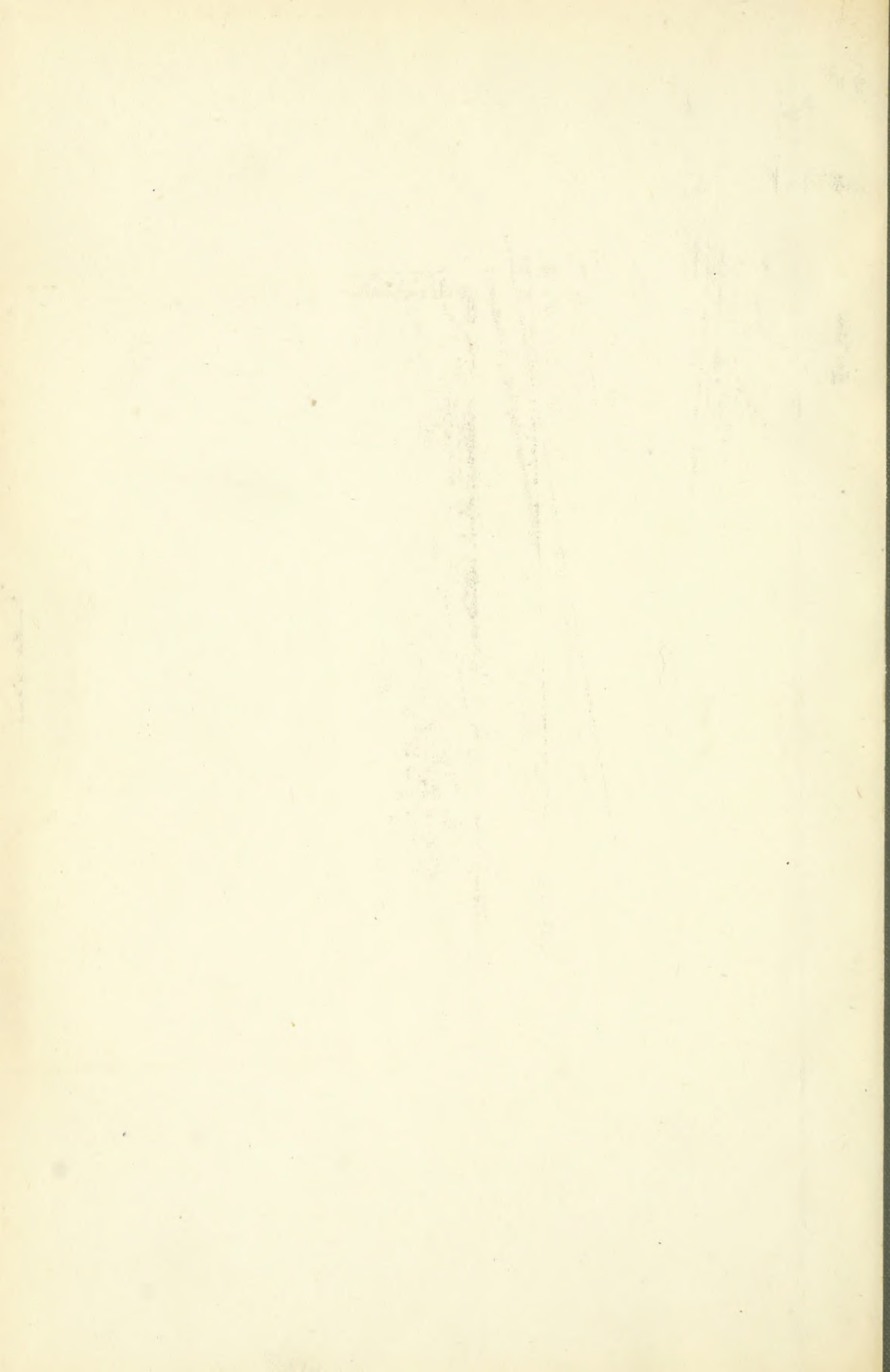
Respectfully submitted,

Accountant, Royal Commission on Milk.

JOHN S. ENTWISTLE.

Province of Ontario.

July 26th, 1947.



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