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## Canada

### Dairy and Products

### Semi-Annual

### 2004

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**Report Highlights:**

Canadian fluid milk and dairy product production in 2004 are forecast to decline slightly from year earlier levels. Dairy product export levels are forecast to be lower in 2004 reflecting, in part, production adjustments adopted by the supply management system to conform to the recent WTO appellate body ruling on Canada's subsidized dairy exports.

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Includes PSD Changes: No  
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## Section I. Dairy Outlook 2004

### Fluid Milk

Fluid milk production for calendar year 2004 is forecast at 7.77 MMT, a slight decline from production in 2003 due to the relatively stable number of cows in milk production and per-cow productivity remaining at near-trend levels. Canadian fluid milk exports are normally small, and are forecast to decline slightly to 5 TMT. The BSE crisis and the associated market disruption affecting older, slaughter-type animals are expected to lead to a slight increase in cows allocated to milk production.

### Cheese

Cheese production for 2004 is forecast to decrease slightly to 335,000 MT. Cheese imports are also expected to decline to 26,000 MT, based on trade data for the last 3 months. Canadian cheese exports are forecast to decline another 33 percent from 2003 levels to 8,000 MT, as the WTO appellate body ruling on Canada's subsidized dairy exports further squeezes Canada's ability to export cheese. Approximately half of all Canadian cheese exports will go to the United States. Total cheese consumption in Canada is expected to remain relatively stable at 360,000 MT, while ending stocks are expected to remain unchanged in 2004.

### Butter

Canadian butter production for 2004 is forecast to decline slightly to 70,000 MT. However, slightly larger butter imports forecast for 2004 should help stabilize total Canadian butter supplies at 108,000 MT. Butter exports are forecast to increase by 3,000 MT to 15,000 MT in total, spurred on by a likely decline in total butter consumption in Canada over the coming calendar year. Ending stocks of butter in Canada are forecast to remain stable at 13,000 MT.

### Nonfat Dry Milk (Skim Milk) Powder

Canadian SMP production for calendar year 2004 is forecast to decline slightly to 78,000 MT, in concert with the slight forecasted decrease in fluid milk production. Imports of SMP are minimal, and are expected to decline 50 percent from 2003 levels, to only 1,000 MT. Stocks will remain stable at 7,000 MT.

## Section II. Tables

## Fluid Milk

In the Canadian dairy industry, raw milk is divided into two categories: fluid milk and industrial milk. Fluid milk is processed to produce liquids such as pasteurized milk, skim milk, sterilized milk and cream. The second is used to manufacture products which are generally not liquid, such as yogourt, cheese, evaporated milk, butter, ice cream, etc. Canadian milk production has held steady for the past several years at slightly under 8.0 million metric tons. The amount of milk produced in each category has varied little. No substantial change is forecast for 2004. Contrary to the downward trend in recent years, there were slightly more cows in milk production in Canada on January 1, 2004 reflecting Canada's BSE crisis and the associated market disruption affecting older, slaughter-type dairy animals.

Country Commodity	Canada Dairy, Milk, Fluid					
	2002 Revised		2003	Estimate	2004	Forecast
Market Year Begin	USDA Official [	Estimate [A	USDA Official [	Estimate [A	USDA Official [	Estimate [A
	01/2002	01/2002	01/2003	01/2003	01/2004	01/2004
Cows In Milk	1084	1084	1065	1065	1050	1077
Cows Milk Production	7964	7964	7880	7880	7770	7770
Other Milk Production	0	0	0	0	0	0
TOTAL Production	7964	7964	7880	7880	7770	7770
Intra EC Imports	1	0	0	0	0	0
Total Imports	0	0	3	0	5	0
TOTAL Imports	1	0	3	0	5	0
TOTAL SUPPLY	7965	7964	7883	7880	7775	7770
Intra EC Exports	0	0	0	0	0	0
Total Exports	9	9	19	9	15	5
TOTAL Exports	9	9	19	9	15	5
Fluid Use Dom. Consum.	2885	2884	2850	2857	2800	2805
Factory Use Consum.	4709	4709	4690	4690	4640	4640
Feed Use Dom. Consum.	362	362	324	324	320	320
TOTAL Dom. Consumptic	7956	7955	7864	7871	7760	7765
TOTAL DISTRIBUTION	7965	7964	7883	7880	7775	7770

## Cheese

Country Commodity	Canada Dairy, Cheese					
	(1000 MT)					
Market Year Begin	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official	Estimate	DA Official	Estimate	DA Official	Estimate
	01/2002		01/2003		01/2004	
Beginning Stocks	49	49	52	52	50	57
Production	350	350	340	345	335	335
Intra EC Imports	16	0	14	0	15	0
Total Imports	12	28	12	28	15	26
TOTAL Imports	28	28	26	28	30	26
TOTAL SUPPLY	427	427	418	425	415	418
Intra EC Exports	4	0	4	0	5	0
Total Exports	12	17	7	12	5	8
TOTAL Exports	16	17	11	12	10	8
Human Dom. Consumpti	359	358	357	363	355	360
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	359	358	357	363	355	360
TOTAL Use	375	375	368	375	365	368
Ending Stocks	52	52	50	50	57	50
TOTAL DISTRIBUTION	427	427	418	425	422	418

## Butter

Country Commodity	Canada Dairy, Butter					
	(1000 MT)					
Market Year Begin	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official   Estimate [1	Estimate [1	DA Official   Estimate [1	DA Official   Estimate [1	DA Official   Estimate [1	Estimate [1
	01/2002		01/2003		01/2004	
Beginning Stocks	20	20	13	13	13	13
Production	77	77	75	75	70	70
Intra EC Imports	1	0	3	0	5	0
Total Imports	18	19	15	20	20	25
TOTAL Imports	19	19	18	20	25	25
TOTAL SUPPLY	116	116	106	108	108	108
Intra EC Exports	0	0	0	0	0	0
Total Exports	17	17	12	12	15	15
TOTAL Exports	17	17	12	12	15	15
Domestic Consumption	86	86	81	83	80	80
TOTAL Use	103	103	93	95	95	95
Ending Stocks	13	13	13	13	13	13
TOTAL DISTRIBUTION	116	116	106	108	108	108

## Nonfat Dry Milk

Country Commodity	Canada Dairy, Milk, Nonfat Dry (1000 MT)					
	2002 USDA Official [	Revised Estimate [)	2003 USDA Official [	Estimate Estimate (]	2004 USDA Official [	Forecast Estimate [)
Market Year Begin	01/2002		01/2003		01/2004	
Beginning Stocks	19	19	7	7	7	7
Production	83	83	80	80	78	78
Intra EC Imports	0	0	0	0	0	0
Total Imports	1	1	3	2	5	1
TOTAL Imports	1	1	3	2	5	1
TOTAL SUPPLY	103	103	90	89	90	86
Intra EC Exports	0	0	0	0	0	0
Total Exports	49	49	45	36	40	32
TOTAL Exports	49	49	45	36	40	32
Human Dom. Consumptic	44	44	35	43	40	44
Other Use, Losses	3	3	3	3	3	3
Total Dom. Consumption	47	47	38	46	43	47
TOTAL Use	96	96	83	82	83	79
Ending Stocks	7	7	7	7	7	7
TOTAL DISTRIBUTION	103	103	90	89	90	86

### Section III. Policy

#### WTO Dairy Case Update

The final agreement to settle the WTO dairy dispute was reached in May 2003 between Canada, the United States and New Zealand. It required Canada to end all exports of subsidized dairy products to the U.S., and to bring all third country dairy exports within WTO export subsidy limits by August 1, 2003. To accomplish this, all Canadian provinces were to impose regulations on all dairy production, including production by producers who do not hold domestic marketing quotas. Regulation of non-quota holders has been a controversial issue in Canada. Because they are generally smaller entities that only produce for export, non-quota holders could be easily put out of business through the regulatory changes.

In May 2003, a group of about 30 dairy producers in Ontario, many of whom had sold their quota, defied the new Ontario regulations and continued, through the Georgian Bay Milk Company (GBMC), to export milk to the United States under contract. As non-quota holders, they insisted they were not subject to the WTO ruling. (The WTO decision was not explicit as to whether or not it applied to non-quota producers).

In June 2003, the Ontario Agriculture, Food and Rural Affairs Appeal Tribunal ordered the Georgian Bay's program for unsubsidized export milk be submitted to the federal Department of Foreign Affairs and International Trade (DFAIT) so that DFAIT officials could advise whether the program complies with Canada's international trade obligations. (That decision, in effect, left the program running.)

However, in July 2003, Helen Jones, Ontario's then Minister of Agriculture, rescinded the Tribunal's decision of June 2003, and indicated that her preference would be to have a national dairy supply managed system, including an export program, that will conform to Canada's trade obligations. There have been discussions between Deputy Ministers of agriculture at the provincial level to try to flesh out a proposal. To date, nothing has yet been provided to DFAIT for comment. USTR believes it would be very difficult for Canada to develop an additional export program that is not subsidized because of the nature of Canada's supply management system for dairy.

#### The National Dairy Policy

There are two markets for milk in Canada. The fluid market, table milk and cream, accounts for about 40 percent of the milk produced, and the remaining 60 percent is manufactured into products such as butter, cheese, ice cream and yogurt. Each province is responsible for the production of its own fluid milk and sets its own pricing formulas, quota policies and other regulations. The federal government has jurisdiction over the industrial milk market, which is administered through a federal-provincial agreement known as the National Milk Marketing Plan. Canada adopted a system of supply management for industrial milk in the early seventies. The domestic market is primarily supplied by Canadian milk production, except for a fixed volume of cheese imports and small amounts of other products imported under a tariff rate quota system. The Canadian Milk Supply Management Committee (CMSMC) oversees the application of the National Plan. This committee is chaired by the Canadian Dairy Commission, and has representatives from producers and governments from all provinces. Newfoundland, who had previously not participated in the Plan due to its low industrial milk production, entered into an agreement with the CMSMC in August 2001 which would allow the province to fully participate in the national system.

The National dairy policy contains following key elements; milk supply management through Market Sharing Quotas (MSQ), import controls on dairy products, establishment of a target price for industrial milk based on a cost of production formula, federal government support for the target price through a direct payment to milk producers, (eliminated on February 1st, 2002), and support prices for butter and skim milk powder.

### **Tariff Rate Quotas**

Under Canada's system of supply management, imports of dairy products are allowed duty free from NAFTA countries up to levels (under a tariff rate quota system) agreed upon at the WTO Agreement on Agriculture as part of the last Uruguay Round of trade negotiations. Once these ("within access commitment") quota levels are reached, prohibitively high tariff rates go into effect.

For information on the levels of Canada's TRQs for dairy products, go to:  
<http://www.dfait-maeci.gc.ca/trade/eicb/notices/SER509-en.asp>

For additional information on Canada's supply management system for dairy, please visit the "Notices to Importers" links listed on the following web site:

<http://www.dfait-maeci.gc.ca/trade/eicb/agric/milk-en.asp>

## **Section IV. Consumption**

According to recent data from Statistics Canada, milk consumption in Canada in 2003 slumped for the third consecutive year, as each Canadian drank 63.1 liters, down from 66.5 liters 10 years ago. Consumption of 1% milk, which hit the market place only in 1990, has surpassed standard (3.25%) milk. Canadians consumed 9.9 liters of standard milk per person last year, compared with 12.9 liters of 1%. However, Canadians have not abandoned higher-fat products entirely. Table cream continues to show a surge in popularity, as consumption in 2003 reached 1.8 liters per person, up more than 1 liter per person from a decade ago. The growth is in line with the increasing consumption of coffee, especially from (specialty) food-service establishments in recent years.

## **Section V. Industry Developments**

### **Size of Industry**

The Canadian dairy industry has seen significant rationalization in the last ten years. Some companies have shut down and others have merged to become more competitive and productive. This downward trend has been continuing for many years now but accelerated since 1990. In 1965, there were 1,413 plants in Canada. In 2002, the number of processing plants registered with the Canadian Food Inspection Agency (CFIA) was 292, including 236 industrial milk plants and 56 fluid milk plants (some plants processing both fluid and industrial milk). Dairy processing plants exist in every region of Canada and are generally located in areas where farm milk production is concentrated. Fluid milk plants tend to be located on the fringe of urban centers to serve the consumer market. Dairy plants manufacturing items with longer shelf life, such as butter, milk powders, cheese, and

whey powders, are located in rural areas closer to the raw milk supply. In 2001-2002, approximately 76 million hectoliters of milk at 3.6 kilograms of butterfat was produced for sale in Canada for these two markets. From a regional perspective, the industry is heavily concentrated in central Canada. Ontario and Quebec account for more than 60% of all plants and about 75% of all industry output. Ontario is the leading producer of packaged fluid milk products and ice cream, while Quebec leads in production of butter, cheese and yogurt.

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