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## **Canada**

### **Dairy and Products**

# **Canadian Dairy Commission Increases Support Prices for Butter and Skim Milk Powder 2001**

Approved by:

**Hugh J. Maginnis**

**U.S. Embassy**

Prepared by:

Matthew A. Cahoon

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#### **Report Highlights:**

The Canadian Dairy Commission (CDC) announced that effective February 1, 2002, the support price for skim milk powder will increase from C\$4.8394 to \$4.9858 per kilogram, and for butter, from \$5.7261 to \$5.9011 per kilogram. The decision was made after giving consideration to increased costs faced by dairy producers and input from major dairy industry members. The Canadian Restaurant and Foodservices Association urged the CDC not to further increase dairy prices, while Dairy Farmers of Canada are calling the price increase "insulting and inadequate."

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## **CDC Increases Support Prices for Butter and Skim Milk Powder**

All prices are assumed to be in Canadian currency unless specified otherwise .

According to a December 14 news release from the Canadian Dairy Commission (CDC), effective February 1, 2002, the support price for skim milk powder will increase from \$4.8394 to \$4.9858 per kilogram, and for butter, from \$5.7261 to \$5.9011 per kilogram. The decision was made after giving consideration to increased costs faced by dairy producers, consultations with major dairy industry stakeholder representatives from the farm, processing, further processing, restaurant and consumer sectors, as well as other economic indicators.

The CDC states that these higher support prices are expected to provide dairy producers with an increase of \$1.01 per hectolitre or 1.7 percent over last year's return. An additional \$0.85 per hectolitre was included for the purpose of continuing to allow for the recovery of the last portion of the consumer subsidy from the marketplace.

The assumed processor margin, which has remained unchanged at \$8.31 per hectolitre for the past four years, will increase by \$0.14 per hectolitre in response to major utility cost increases facing dairy processors. The assumed processor margin represents the estimated costs of processing butter and skim milk powder. Carrying charges associated with the costs of storage programs used to balance seasonal fluctuations in milk production will increase to \$0.08 from \$0.07 per hectolitre.

"Commissioners considered that increases in feed costs in the past year due to adverse weather conditions and the need to increase farm management fees as a result of growing farm management activity, partially offset by some reductions in fuel and oil, fertilizer and transportation costs, should be reflected through a support price adjustment ", explained CDC Chairman Michel Pagé.

This is the final portion of the consumer subsidy to be recovered from the marketplace, marking the end of the program on January 31, 2002. Since the subsidy moderated the price of industrial milk products sold to consumers, the Commission has maintained the practice of allowing for the recovery of the reduced federal payments from the marketplace.

## **Background**

The CDC buys butter and skim milk powder at prevailing support prices to balance seasonal supply and demand changes on the domestic market. Support prices are used as references by provincial boards to price milk sold to processors. The market impact of the total increase will be influenced by many factors such as the implementation of the increase in the provinces, as well as manufacturing, transportation, distribution and packaging costs throughout the supply chain.

The Canadian Dairy Commission, a federal Crown corporation created in 1966, is a key facilitator within the Canadian dairy sector. The CDC helps determine, initiate and administer policies and programs which meet dairy producer and processor needs, while ensuring that

Canadian consumers are provided with adequate supplies of quality dairy products.

### **Comments**

Industrial milk is used to make dairy products such as butter, cheese, yogurt, ice cream and skim milk powder. The Canadian Restaurant and Foodservices Association has been urging the CDC not to raise the support prices for butter and skim milk powder, citing that dairy prices have increased 24% over the last seven years, which is almost twice the rate of inflation over the same period. The CRFA press release is provided below. Meanwhile, the group representing dairy producers in the country, Dairy Farmers of Canada (DFC), stated that Canadian dairy producers are insulted with the CDC's pricing announcement, and that only 25% of producers are able to cover their costs of production with such support prices. DFC is requesting a review of the current pricing formula by the Government of Canada and the CDC in order to ensure that 50% of producers are able to cover their costs of production. A link to Canadian media coverage of DFC's reaction to the pricing announcement is provided below:

<http://www.newswire.ca/releases/December2001/17/c7721.html>

### **Restaurant Industry Burned by Rising Dairy Prices, Say CRFA**

The following is based on a December 12 release from the Canadian Restaurant and Foodservices Association (CRFA). Canada's restaurant industry, through the CRFA has been urging the Canadian Dairy Commission to hold the line on dairy prices in 2002. Over the last seven years, overheated dairy prices have increased by 24%, which is almost twice the rate of inflation.

Pizza restaurants buy most of the mozzarella cheese produced in Canada, and have been hardest hit by the price increases, which have cost the restaurant industry almost \$300 million since 1994. "Restaurant operators are tired of being burned by rising cheese prices," says Stephanie Jones, vice president of food supply for the Canadian Restaurant and Foodservices Association (CRFA). "The cost of producing milk has fallen over the past seven years, but none of the savings have been passed on to restaurateurs."

In a meeting with the CDC prior to the announcement, Jones said that it's a struggle for restaurateurs to absorb overheated prices, when the average Canadian restaurant operates on thin margins of just 6.6% income before taxes. At the same time, price-sensitive consumers are unwilling to foot the bill. Menu prices in quick-service restaurants, such as pizzerias, have increased by just 1.4% so far in 2001, which is below the overall inflation rate.

"We're one of the dairy industry's largest customers, and we want to grow the market for Canadian dairy products," she says. "But constant increases in prices are a huge roadblock that's actually limiting the consumption of dairy products in Canada."

Pizza operators also face stiff competition from high-quality frozen pizza products, which are made from lower-priced Canadian cheese or imported tariff-free from the U.S.

The CRFA is Canada's largest hospitality association with 15,900 members representing 47,500

foodservice outlets. Members include restaurants, bars, hotels, caterers, institutions, educators and foodservice suppliers. Canada's \$40-billion foodservice industry employs close to one million Canadians.

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Contact FAS/Ottawa by e-mail: [usagr@istar.ca](mailto:usagr@istar.ca)