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Canada

Dairy and Products

Dairy Farmers Propose Fluid Milk Price Increase 2002

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Report Highlights:

The Canadian dairy industry is developing a philosophy of pricing milk off the retail value rather than just cost of production. Dairy farmers could get nearly a five percent raise on their fluid milk price under a proposal now being discussed by Eastern Canada's dairy pool. While the new pooling proposal is still being negotiated by the P6 pool members (Manitoba, Ontario, Quebec, P.E.I., New Brunswick and Nova Scotia), if approved as it currently stands, Ontario's dairy farmers could see an increase of C\$2.75 per hectoliter on fluid milk, effective February 1, 2003.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1], CA

EASTERN POOLS FLUID MILK PRICE INCREASE PROPOSED

According to an October 21, 2002 article from the *Ontario Farmer*, the Canadian dairy industry is developing a philosophy of pricing milk off the retail value rather than just cost of production. Dairy farmers could get nearly a five percent raise on their fluid milk come February under a proposal now being discussed by Eastern Canada's dairy pool. While the new pooling proposal is still being negotiated by the P6 pool members (Manitoba, Ontario, Quebec, P.E.I., New Brunswick and Nova Scotia), if approved as it currently stands, Ontario's dairy farmers could see an increase of C\$2.75 per hectoliter on fluid milk, effective February 1, 2003. The immediate increase is designed "to catch up to what's been happening at the retail level, plus to meet producer income needs," said a senior policy advisor with Dairy Farmers of Ontario (DFO).

According to the article, prices at the retail level have been increasing, but the farmer's share has been decreasing, from 54% in February 1999 to 50% February 2001. The percentage of farmers covering their costs, as determined by the cost of production formula, has been shrinking. Only a third of the Canadian milk producers were covering their costs of production as of February 1, 2002, according to the federal price adjustment formula. However, milk prices would have had to increase by C\$9/hL to get 50% of producers covered, so the Canadian Dairy Commission (CDC), which determines industrial milk prices, has committed to increasing returns gradually over the next four years.

Beyond the immediate fluid price increase, the P6 pricing proposal suggests a radical shift in strategy from pricing milk based on costs of production, to pricing based on what the market will bear, cost of production formula and the CDC's industrial milk pricing adjustments. History suggests that a one percent increase in the real milk prices will result in only a 0.1 to 0.2 percent decline in consumption. So, milk producers will have to look increasingly to fluid milk to improve their returns.

The DFO spokesperson said the fluid milk pricing formula envisioned would be based on general economic indicators, like the Consumer Price Index, wage rates, farmer's expenses and inflation rates which reflect consumers' ability to pay. Provinces would be required to pool revenue up to the target fluid price, effectively setting the minimum price to processors. However under the proposed agreement, provinces could keep any revenue they negotiate above the target level. The new pooling proposal would also pave the way for a single common target price for the three Class 1 milk products: fluid milk, fluid cream, and chocolate, and flavored milks and milk beverages.

There is a small difference of 90 cents in favor of specialty milk uses over fluid milk in the four provinces outside Ontario and Quebec, so equalizing that price class is expected to be relatively easy. However, the target price for fluid cream (Class 1b) is now about C\$10/hL less than for fluid milk (Class 1a). Bringing fluid cream up to the fluid milk price won't be so easy.

Ontario processors have already told the DFO that such a large increase could kill the cream market which has been a growth area. DFO milk committee members will discuss the pricing proposal at the fall policy conference. Each province has committed to have a position on the proposal for the next P6 Supervisory Body Meeting on October 30, 2002.

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