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Report Highlights:

Large carryover stocks and additional imports under recently implemented trade agreements should temper growth of Canadian milk, butter, cheese, and skim milk powder production in 2020. With butter stocks 15 percent above targeted levels in August 2019, FAS/Canada expects skim milk powder production to remain lower through 2020, driving skim milk powder export volumes down considerably from the 2017 record high.

Executive Summary:

FAS/Canada projects modest Canadian dairy expansion in 2020. Following the accumulation of sizeable stocks of butter and cheese, the industry scaled back production growth to better align total available supplies with relatively stable Canadian market demands.

Cheese imports are expected to expand further in 2020, as import tariff rate quotas (TRQs) under the Comprehensive Economic and Trade Agreement (CETA) with the European Union (EU) and import TRQs under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) with New Zealand and Australia, among others, grow to a combined volume of 19,000 metric tons (MT). In 2020, Canada will continue to import 20,412 MT of cheese – predominantly from EU origins – under a TRQ established at the World Trade Organization (WTO) in 1995.

Following years of sustained production increases, FAS/Canada expects butter stocks to remain high through 2020. In August 2019, stocks of butter were 40,600 MT, comfortably above the targeted volume of 35,000 MT. Slower milk production growth should limit butter production growth, helping to bring butter stocks down to the desired level.

FAS/Canada estimates Canadian exports of skim milk powder (SMP) will decline to 45,000 MT in 2019 before falling further to 40,000 MT in 2020, as Canadian butter production levels approach a new equilibrium following the period of rapid growth between 2015 and 2018. SMP exports reached nearly 72,000 MT in 2017, a 200 percent surge from the 2016 level, after the federal government stopped managing SMP stocks.

MILK:

Production, Supply and Distribution (PS&D):

Dairy, Milk, Fluid Canada	2018		2019		2020	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Cows In Milk	965	970	960	969	0	968
Cows Milk Production	9,940	9,944	10,115	9,995	0	10,095
Total Production	9,940	9,944	10,115	9,995	0	10,095
Total Imports	40	40	40	40	0	40
Total Supply	9,980	9,984	10,155	10,035	0	10,135
Total Exports	7	7	5	8	0	7
Fluid Use Dom. Consum.	2,820	2,832	2,800	2,800	0	2,780
Factory Use Consum.	6,665	6,657	6,850	6,735	0	6,850
Feed Use Dom. Consum.	488	488	500	492	0	498
Total Dom. Consumption	9,973	9,977	10,150	10,027	0	10,128
Total Distribution	9,980	9,984	10,155	10,035	0	10,135

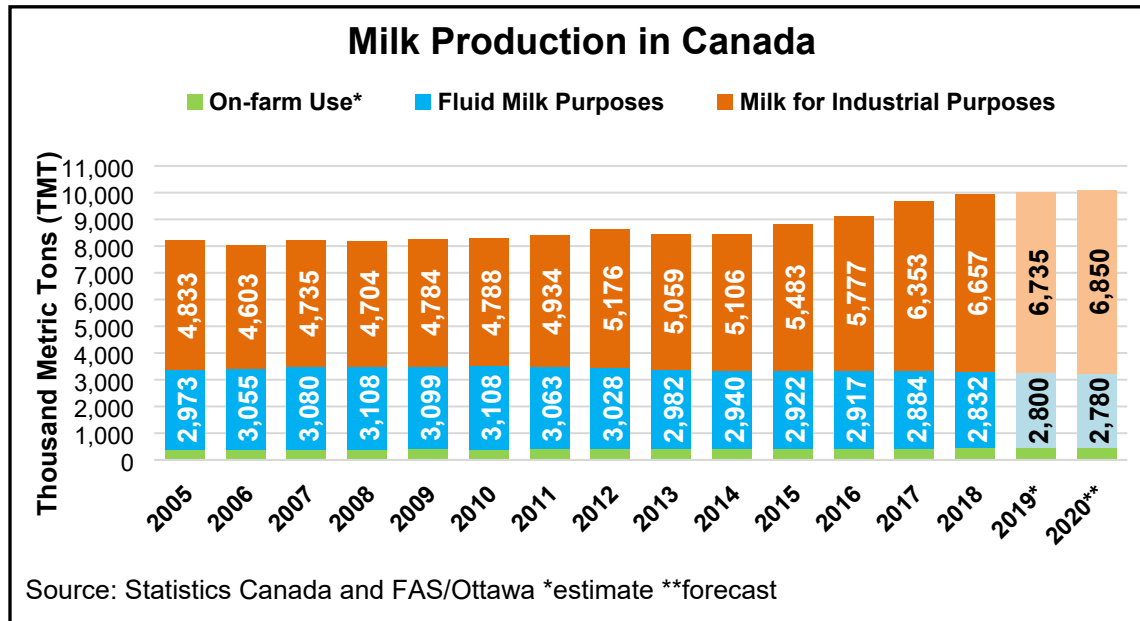
1,000 head (cows) and 1,000 metric tons (the rest)

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

Production:

Canada maintains a supply management system for milk, in which production quota is allocated on a butterfat basis such that one share of quota is equivalent to the production of 1 kilogram of butterfat per day. The national Canadian Milk Supply Management Committee (CMSMC) sets the total quota volume based on recommendations from the Canadian Dairy Commission (CDC). The CDC monitors the trends in Canadian dairy requirements and recommends milk production adjustments to reflect changes in Canadian domestic demand for milk and dairy products. The CMSMC applies the terms of the National Milk Marketing Plan (a federal-provincial agreement) to establish each province's share of the total production quota. Quota increases and decreases are shared among two regional pools: the Eastern Canadian Milk Pool (or P5), which includes Prince Edward Island, Nova Scotia, New Brunswick, Quebec, and Ontario; and the Western Milk Pool (WMP), which is made up of Manitoba, Saskatchewan, Alberta, and British Columbia. Each pool is then responsible for distributing shares of the quota to producers according to provincial policies and in accordance with pooling agreements.

Milk produced in Canada supplies two markets: the fluid milk market, which includes fluid milk for direct consumption, creams, and flavored milks; and the industrial milk market (or milk for factory use), which is used to make dairy products such as butter, cheese, yogurt, ice cream, and milk powders. In recent years, the fluid milk market has accounted for about 30 percent of total milk produced in Canada, and milk for factory use has constituted approximately two thirds. On-farm use is estimated to account for less than five percent of total milk produced.



FAS/Canada forecasts total milk production to reach 10.095 million metric tons (MMT) in 2020, 1 percent above the 2019 estimate of 9.995 MMT. In addition to current market requirements, milk production is expected to meet additional demand from several new Ontario processing facilities slated to come online in 2020, including an [infant formula plant](#), a [high protein milk plant](#), and a modernized [cream and milk ingredients plant](#). The modest increase in milk production projected for 2020 represents a more moderate growth rate, following the period between 2014 and 2018, in which butterfat production lagged significantly higher demand growth.

Total milk production grew by nearly 18 percent between 2014 and 2018, largely on growth in milk for factory use. Between 2014 and 2018, factory use milk production increased by over 30 percent, while milk for the fluid market declined by almost 4 percent. FAS/Canada expects this diverging growth pattern to continue into 2019 and 2020, although at a much slower pace. Factory use milk production is forecast to expand by 1.2 percent in 2019, rising by another 1.7 percent in 2020. Milk for the fluid market is expected to decline by an estimated 1.2 percent decline in 2019, before falling another 0.7 percent in 2020.

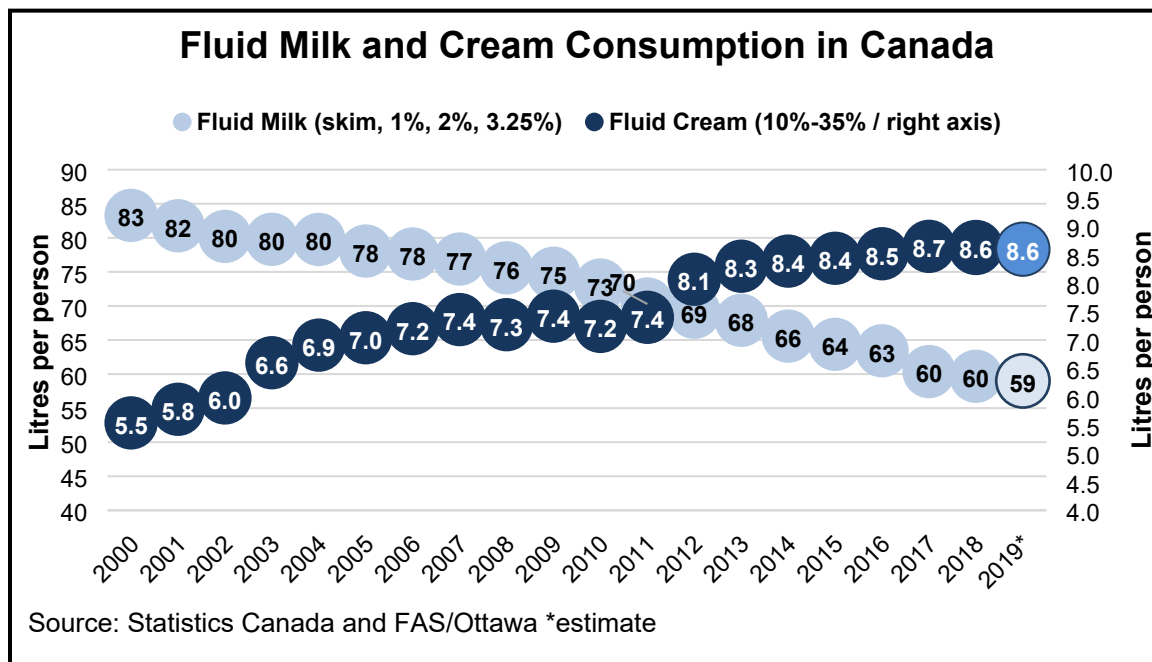
As cheese and butter stocks remained above target levels through the first half of 2019, the dairy sent signals to producers to slow down milk production to mitigate excess supply conditions. Consequently, total milk production from January to August 2019 was 1.1 percent lower than the same period in 2018.

There is no direct 1-to-1 relationship between announcements related to milk production quota increases (or cuts) and the actual volume of milk produced. Production quota announcements are essentially signals to dairy farmers to make adjustments in order to drive production in the desired direction. The actual milk production volume is the result of a numerous factors, including: the number of incentive days allowed, the number of production credit days claimed, the level of penalties applied to over-production volumes, and weather conditions.

Canadian dairy cow productivity has increased over the past decade, primarily due to improved genetics, but also as a result of improvements in management practices, feed quality, and greater use of robotic milking parlors that increase milkings per day. In 2008, the average volume of milk production per dairy cow was 8.0 MT annually. By 2018, this volume had grown 22 percent to 9.8 MT annually. FAS/Ottawa projects average dairy cow milk productivity to reach 9.9 MT annually.

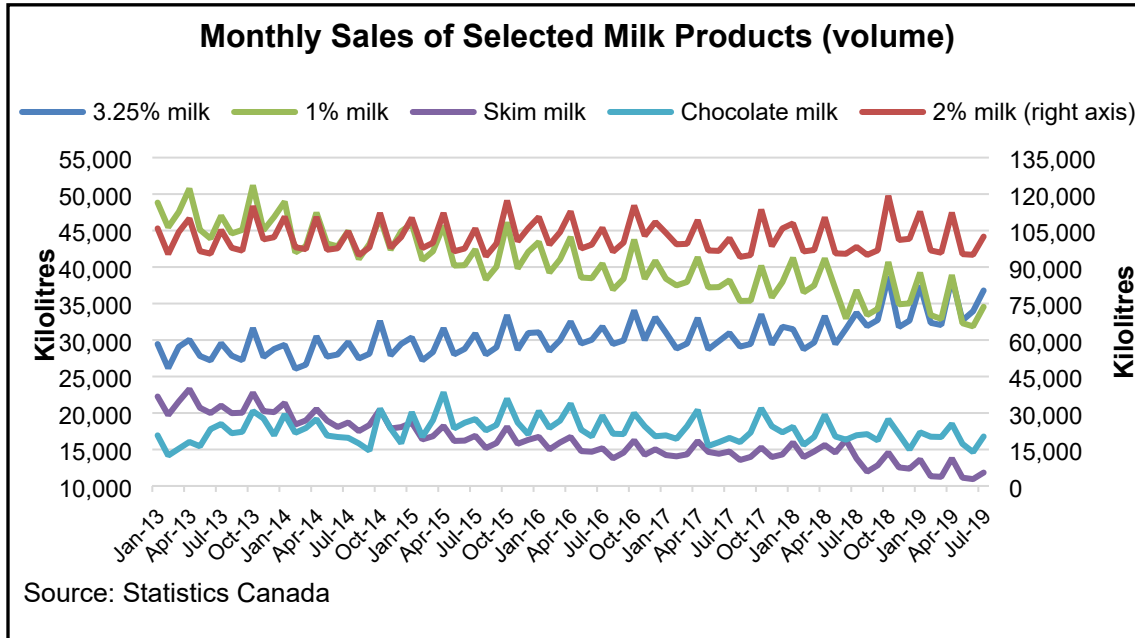
Consumption:

Per capita consumption of drinking milk continues to decline. However, sales data indicate that Canadians continue to buy more whole milk (3.25 percent butterfat) and less skim milk (zero percent butterfat) and reduced-fat milk (1 percent butterfat), following the overall trend of increased fat consumption in the Canadian diet.

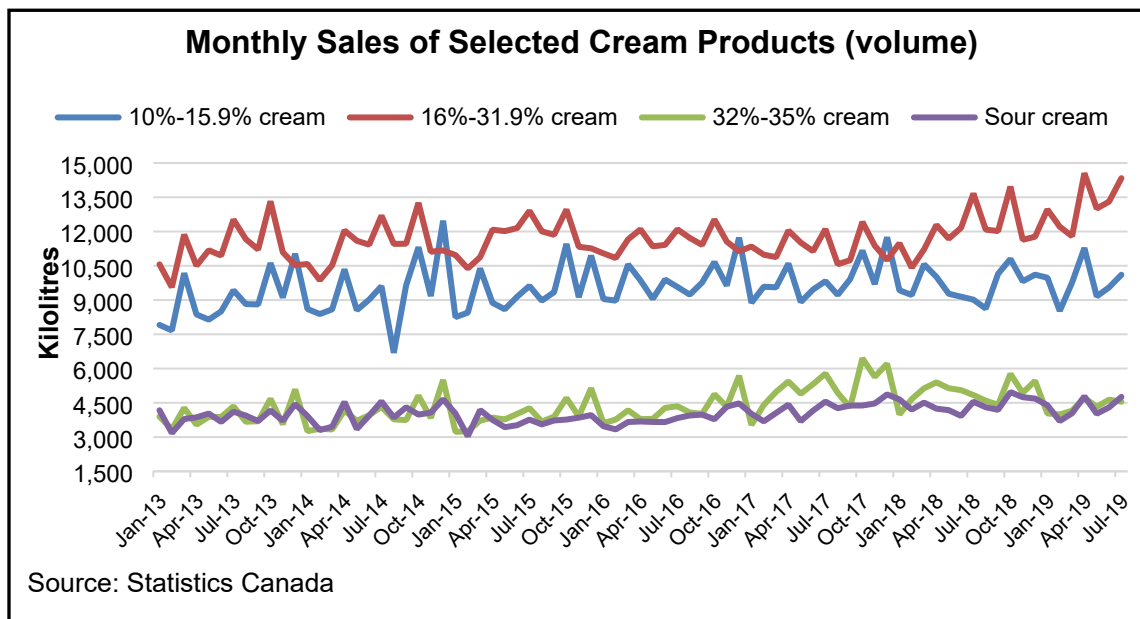


In June 2018, Coca-Cola Canada [announced](#) an \$85 million CAD investment to build a new production facility in Peterborough, Ontario to produce ultrafiltered, lactose-free milk. The new fluid milk plant is scheduled to open in early 2020 and will produce skim, 2 percent, 3.25 percent and 2 percent chocolate milk in 1.5-liter PET bottles as well as 2 percent white and chocolate milks in 240 ml PET bottles. According to the company, these ultrafiltered milk products contains 50 percent more protein and 50 percent less sugar than traditional milk.

To develop Canadian market awareness and build a customer base while the plant is under construction, Coca-Cola has been importing these ultrafiltered milk products from the United States duty free under special supplementary import permits since September 2018. When the Peterborough plant comes online in early 2020, all of these products sold in Canada will be made with 100 percent Canadian milk, eliminating this temporary U.S. dairy export sales channel.



Cream consumption has increased due to the popularity of coffee culture and the changing consumer preference for higher fat content products. Sales of liquid cream (10 to 35 percent butterfat content) grew by 2.6 percent between marketing year 2018 (August 2017 to July 2018) and marketing year 2019 (August 2018 to July 2019). Within this product category, sales of table cream (16 to 32 percent butterfat content) performed particularly well over the period, posting nearly 11 percent growth.



Trade:

Under WTO commitments, Canada maintains a 64,500 MT fluid milk TRQ and a 394 MT cream TRQ. Due to geographic proximity and the perishable nature of fluid milk, the United States is the primary source for Canadian imports of these products. Canadian consumers transporting fluid milk purchased in U.S. grocery stores crosses the border under personal use exemptions, and the fluid milk TRQ is considered 100 percent filled by these 'imports.'

The WTO cream TRQ is first [allocated](#) to historical importers with established distribution for sterilized cream (minimum 23 percent butterfat content) in cans not exceeding 200 ml. Any remaining volumes not allocated to the historical sterilized cream importers are subsequently allocated to new sterilized cream importers and to importers of other kinds of specialty creams (such as Devon cream, a type of clotted cream).

The [Comprehensive and Progressive Trans-Pacific Partnership](#) (CPTPP) entered into force on December 30, 2018. The CPTPP created a new import [TRQ](#) for milk, providing market access as follows:

Quota Year (August to July)	Milk (in MT)
2018/19 (year 1)	8,333
2019/20 (year 2)	16,667
2023/24 (year 6)	50,000
2036/37 and onward (year 19 and onward)	56,905

Up to 85 percent of this CPTPP milk TRQ can be allocated to bulk milk (not for retail sale) importation for processing into dairy products used as ingredients for further food processing.

Under CPTPP, Canada also agreed to a cream [TRQ](#) (minimum 6 percent butterfat content), providing market access as follows:

Quota Year (August to July)	Cream (in MT)
2018/19 (year 1)	500
2019/20 (year 2)	515
2023/24 (year 6)	580
2031/32 and onward (year 14 and onward)	734

Based on current market conditions and the limited economic attractiveness of shipping fluid milk and cream from CPTPP countries, FAS/Ottawa estimates the milk and cream CPTPP TRQs will remain unfilled for the current period.

Under the [United States-Mexico-Canada Agreement](#) (USMCA), Canada committed to create a milk [TRQ](#) which would provide the following market access:

Quota Year (August to July)	Milk (in MT)
Year 1	8,333
Year 6	50,000
Year 19 and onward	56,905

Up to 85 percent of this TRQ can be allocated to bulk milk (not for retail sale) importation for processing into dairy products used as ingredients for further food processing.

Canada also agreed to a USMCA fluid cream TRQ (minimum 6 percent butterfat content) which would provide the following market access:

Quota Year (August to July)	Cream (in MT)
Year 1	1,750
Year 6	10,500
Year 19 and onward	11,950

Of the entire USMCA cream TRQ volume, 85 percent is to be allocated to the importation of cream in bulk (not for retail sale) to be processed into dairy products used as ingredients for further food processing. The cream TRQ is opened to products originating in the United States.

Under the USMCA, the United States committed to an aggregated import [TRQ](#) for Canadian dairy products, including fluid cream (butterfat content between 6 and 45 percent), sour cream, ice cream and milk beverages. The combined volume under this TRQ would be 1.75 million liters in year one of implementation, steeply growing to 10.5 million liters in year six of implementation, and then gradually increasing to the full implementation volume of 11.95 million liters in year 19.

The USMCA was ratified by Mexico in June 2019 and has not yet been ratified by Canada or the United States.

Both fluid milk and cream are eligible under Global Affairs Canada's policy for [supplementary imports](#), which includes the [Imports for Re-Export Program](#) (IREP). A program similar to IREP, called the [Duties Relief Program](#) (DRP), is operated by the Canada Border Services Agency. Under both the IREP and DRP, Canadian food manufacturers may import milk or cream to use in processed food products, provided that such products do not enter the domestic market and are eventually exported.

Policy:

On August 16, 2019, the federal government [announced](#) a support package of \$1.75 billion CAD to be distributed across eight years to dairy farmers as compensation for projected negative impacts on the Canadian dairy industry from market access concessions in the CETA and CPTPP trade agreements.

Of the total amount announced, \$345 million CAD was paid out in 2019 (the first year) as direct payments under the [Dairy Direct Payment Program](#), benefitting all dairy producers in proportion to their quota shares. The Canadian Dairy Commission was mandated to make these payments. To be eligible, farmers would have to own a valid dairy license, own milk quota and be registered with a provincial milk marketing board.

CHEESE:**Production, Supply and Distribution (PS&D)**

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

Dairy, Cheese*	2018		2019		2020	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Canada						
Beginning Stocks	90	90	90	85	0	85
Production	510	510	515	519	0	525
Total Imports	31	31	30	35	0	40
Total Supply	631	631	635	639	0	650
Total Exports	10	10	10	11	0	15
Total Dom. Consumption	531	536	545	543	0	550
Ending Stocks	90	85	80	85	0	85
Total Distribution	631	631	635	639	0	650

*Please note that starting with the 2018 annual report cheese data includes "cottage cheese". Data in 1,000 metric tons. Imports include re-exports.

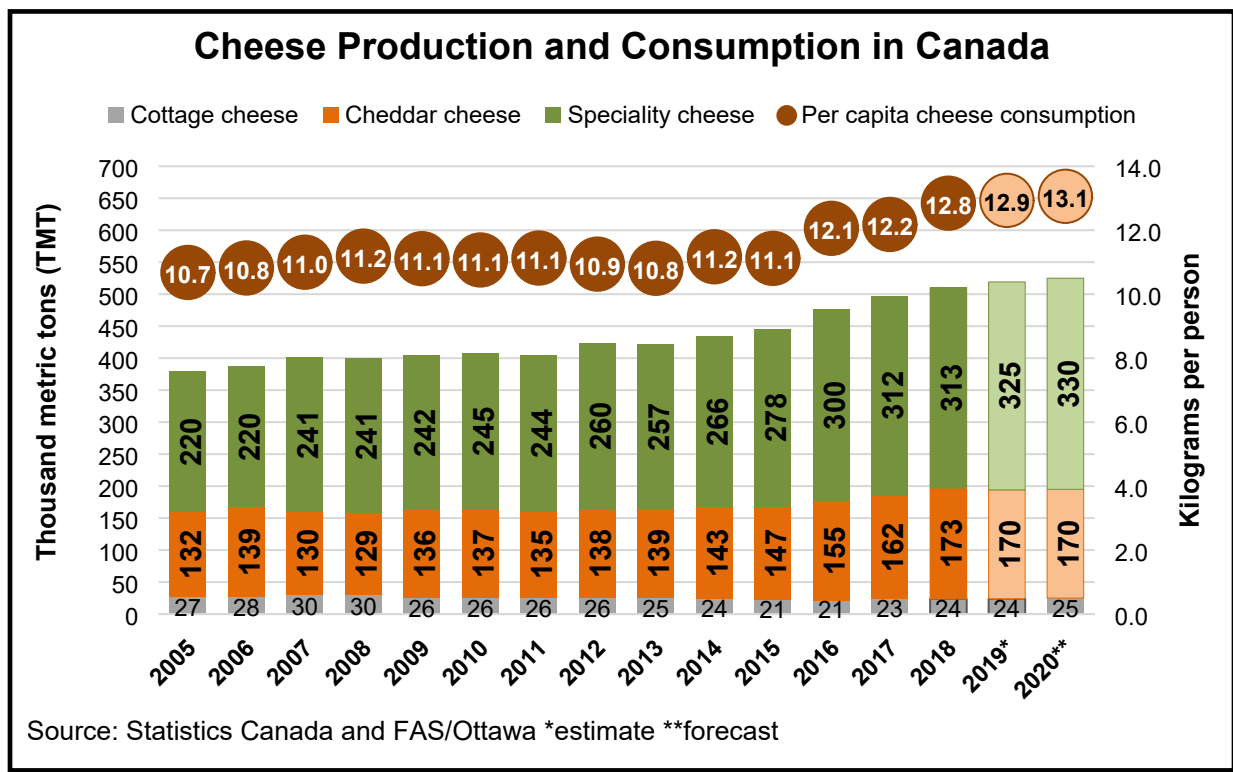
Production:

Cheese production has been one of the driving forces behind the recent expansion in milk production in Canada. Between 2014 and 2018, cheese production increased by 18 percent, and is expected to grow by an additional 1.8 percent in 2019. FAS/Ottawa forecasts 2019 cheese production at 519,000 MT, rising one percent to 525,000 MT in 2020. Slower cheese production growth in 2020 is anticipated as processors respond to stable domestic demand and large carryover stocks. In addition, larger volumes of cheese imported from European Union and CPTPP countries are expected to compete with Canadian cheese for modest consumption demand growth.

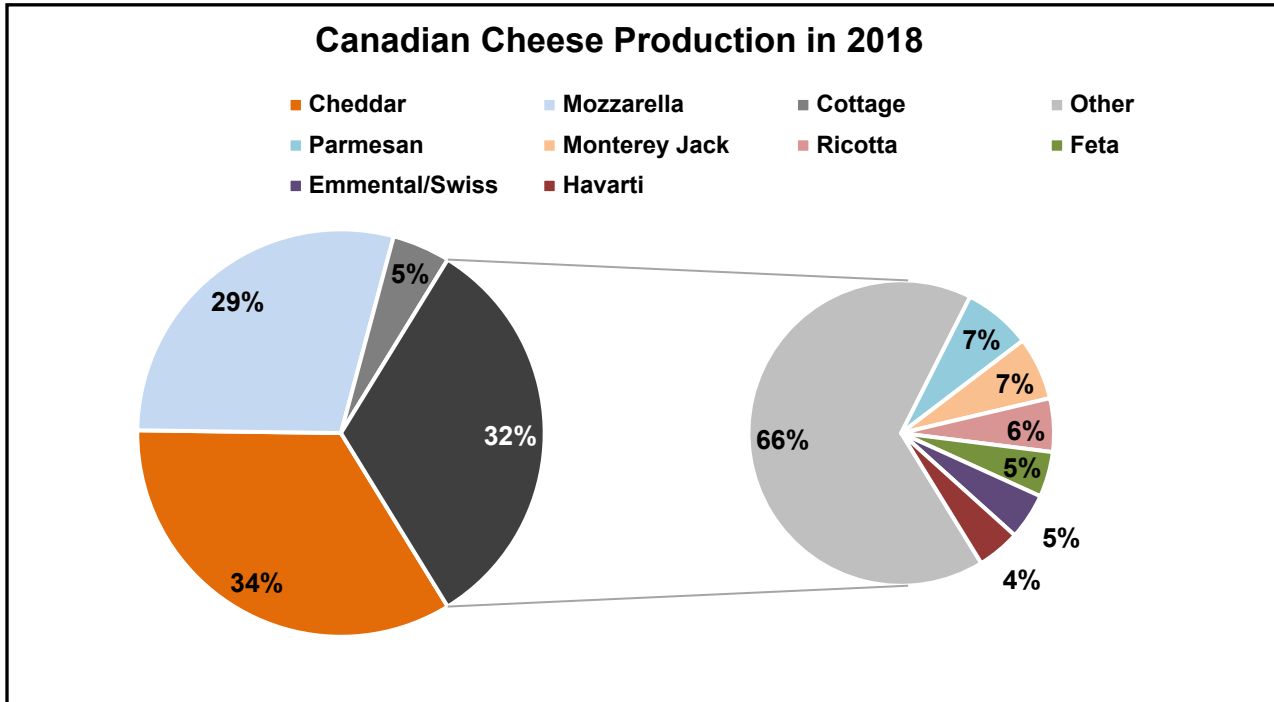
FAS/Ottawa estimates that cheese stocks fell to 86,000 MT in August 2019, down from an estimated level of 89,500 MT in August 2018.

Consumption:

The recent positive change in consumer perception of consuming foods rich in butterfat has also had an impact on cheese consumption. After a flat or declining trend for a long period, Canadians started to increase their consumption of cheese in 2014 and FAS/Ottawa forecasts per capita consumption at over 13 kilograms in 2020, up from 11 kilograms six years ago. In overall volume, cheese consumption is forecast to reach 550,000 MT in 2020, up from an estimated level of 543,000 MT in 2019.



Consumption of various types of cheese in Canada largely mirrors the domestic production pattern. After cheddar, which represents one third of cheese consumed in Canada, the second largest type of cheese consumed is mozzarella at about 30 percent of the total. Mozzarella is widely used in fresh and frozen pizza, but also as an ingredient in a variety of further processed food products such as lasagna and other pasta-based dishes.



Source: Statistics Canada

Cottage cheese represents about 5 percent of total cheese consumed in Canada, while the remaining one third of total cheese consumed is composed of various types of specialty cheeses. Many of these specialty cheeses are used industrially as ingredients in further processed foods, while others are typically used on hamburgers, sandwiches and subs (like Swiss, Monterey Jack, Havarti, or Provolone).

A smaller percentage of the specialty cheese consumed in Canada is the fine cheese category, which would include cheeses like Parmesan, blue cheese, and a variety of fine hard cheeses (such as Asiago) and fine soft cheeses (like Camembert). However, industry sources indicate that the market for these fine cheeses is growing, as Canadian consumers are exposed to an increasingly wider choice, including via additional imports of fine cheese from the European Union. In addition, recent immigration patterns have also expanded the market for specialty cheeses from the Middle East and Latin America.

Trade:

FAS/Ottawa forecasts cheese imports to reach 35,000 MT in 2019, before climbing to 40,000 MT in 2020, based on expanded imports from the European Union (as CETA TRQs enter the fourth year of implementation) and from CPTPP countries (as those cheese TRQs enter the third year of implementation).

Canadian Cheese Imports: Year-to-Date Data (January-July)

Canada Import Statistics

Commodity: 0406, Cheese And Curd

Year To Date: January - July

Partner Country	Unit	Quantity			% Share			% Change 2019/2018
		2017	2018	2019	2017	2018	2019	
World	T	15,889	16,353	17,140	100.00	100.00	100.00	4.81
EU28	T	8,876	10,078	10,762	55.86	61.63	62.79	6.79
United States	T	4,999	4,153	4,677	31.46	25.40	27.29	12.59
Switzerland	T	1,042	1,143	1,117	6.56	6.99	6.51	- 2.27
Norway	T	868	860	308	5.46	5.26	1.80	- 64.21
Australia	T	7	5	103	0.04	0.03	0.60	1793.76
New Zealand	T	25	41	93	0.16	0.25	0.54	126.16
Other countries	T	72	73	80	0.45	0.45	0.47	9.59

Source: Trade Data Monitor

Under its WTO commitments, Canada maintains an annual all-cheeses [TRQ](#) of 20,412 MT. Of this total TRQ volume, 14,272 MT (70 percent) are allocated to EU members (per Canada's WTO commitment) and the balance is made available to imports from all countries. The volumes are allocated to historical [importers](#) of cheese (83 companies) and the TRQ fill rate typically reaches 100 percent.

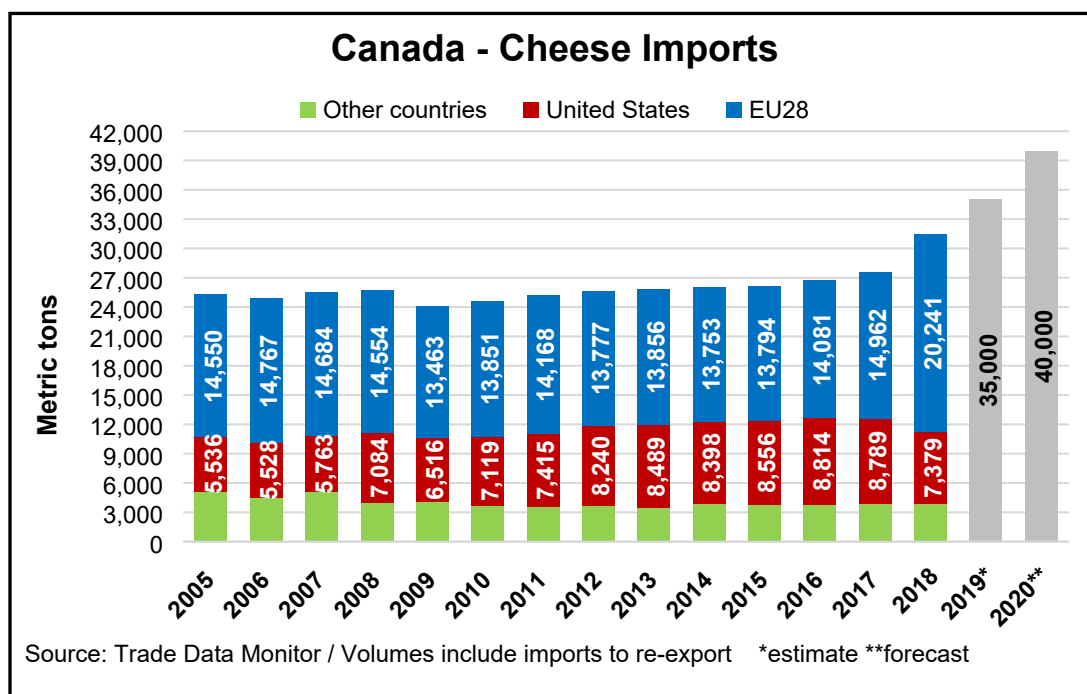
Canada provides additional access to EU members under two [CETA](#) TRQs: an industrial cheese TRQ, and an all-cheese TRQ. Both TRQs are being phased in over a six-year period.

Quota Year (January-December)	Industrial Cheese (in MT)	All Cheeses (in MT)
2017	79	745
2018	567	5,333
2019	850	8,000
2020	1,133	10,667
2021	1,417	13,333
2022 and onward	1,700	16,000

The CETA [all-cheeses TRQ](#) is allocated to two categories of [importers](#); dairy processors (about 60 companies) and distributors/retailers (about 200 companies) each receive 50 percent of the total TRQ volume. In each category, 30 percent of the total TRQ volume is allocated to small and medium-sized companies (equaling 60 percent of the total all-cheeses TRQ volume) and 20 percent of the total TRQ volume is allocated to large companies (constituting 40 percent of the total all-cheeses TRQ volume).

The CETA [industrial cheese TRQ](#) is entirely allocated to [further processors](#) (15 companies), defined as companies that use cheese as an ingredient in the production of further processed food products, other than cheese, in their own provincially-licensed or federally-registered processing facilities.

In 2018, the CETA all-cheeses TRQ fill rate reached 99 percent, while the CETA industrial cheese TRQ was 71 percent filled. Compared to the WTO cheese TRQ, both CETA cheese TRQs were chronically underfilled throughout 2018, with significant volumes imported towards the end of the year. According to various industry sources, the CETA TRQ fill pattern was the result of a high number of new quota holders (including companies with little or no experience in importing cheese) and low import allocation volumes (quantities under 10 MT which were not commercially viable). In 2019, the CETA cheese TRQ fill rates have continued to lag behind the WTO TRQ fill rate, and FAS/Ottawa estimates that large volumes will once again be imported during the last quarter of the TRQ year, bringing the fill rates close to 100 percent.

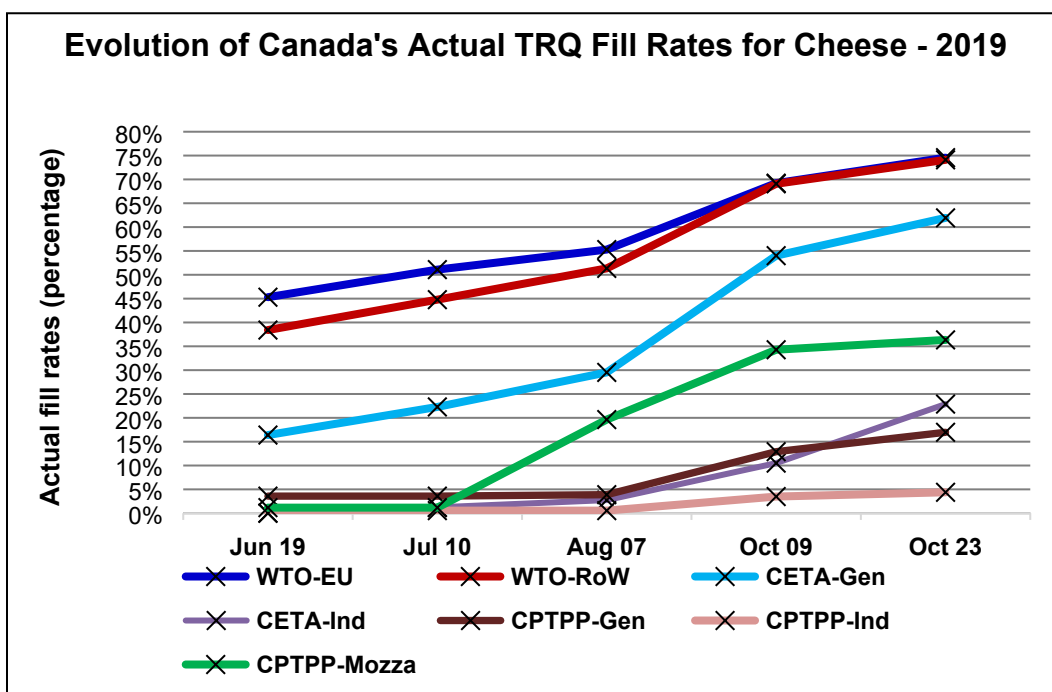


The [CPTPP](#) entered into force on December 30, 2018. Under this agreement, Canada agreed to three [TRQs](#) for cheese, which would provide the following levels of market access:

Quota Year (January-December)	Industrial Cheese (in MT)	Mozzarella and Prepared Cheese (in MT)	All Cheeses
2018 (year 1)	1,329	483	604
2019 (year 2)	2,658	967	1,208
2020 (year 3)	3,988	1,450	1,813
2023 (year 6)	7,975	2,900	3,625
2036 and onward (year 19 and onward)	9,076	3,300	4,126

Similar to CETA cheese TRQs trends, the fill rates for the CPTPP cheese TRQs observed throughout 2019 lagged behind the fill rate for the WTO cheese TRQ. FAS/Ottawa estimates improvement in these fill rates as the year nears its end.

The table below presents the evolution of the fill rate for various cheese TRQs, as observed at several points during 2019. Global Affairs Canada publishes regular reports on cheese TRQ [utilization](#) rates.



Source: Global Affairs Canada

Under the [USMCA](#), Canada committed to two [TRQs](#) for cheese, which would provide the following levels of market access:

Quota Year (January-December)	Industrial Cheese (in MT)	All Cheeses (in MT)
Year 1	1,042	1,042
Year 6	6,250	6,250
Year 19 and onward	7,113	7,113

The USMCA cheese TRQ would be available exclusively to imports from the United States. The USMCA also includes provisions to ensure the cheese TRQs volumes would be allocated in commercially viable shipping quantities.

Under the USMCA, the United States also committed to open a [TRQ](#) for Canada to cover cheeses of all types. The market access available under this TRQ would cover an initial 2,083 MT of cheese in year

one of implementation, rapidly increasing to 12,500 MT in year six of implementation, then gradually increasing to 14,226 MT by year 19 of implementation. After that, the volume would remain constant at 14,226 MT per year.

The USMCA was ratified by Mexico in June 2019 and has not yet been ratified by Canada or the United States.

Cheese is a product eligible under Global Affairs Canada’s policy for [supplementary imports](#), which includes the [Imports for Re-Export Program](#) (IREP). A program similar to IREP, called the [Duties Relief Program](#) (DRP), is operated by the Canada Border Services Agency. Under both the IREP and DRP, Canadian food manufacturers may import cheese to use in processed food products, provided that such products do not enter the domestic market and are eventually exported.

BUTTER:

Production, Supply and Distribution (PS&D):

Dairy, Butter Canada	2018		2019		2020	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	21	21	35	33	0	35
Production	123	116	125	112	0	115
Total Imports	22	21	23	23	0	25
Total Supply	166	158	183	138	0	175
Total Exports	2	2	3	2	0	2
Domestic Consumption	129	123	140	131	0	138
Ending Stocks	35	33	40	35	0	35
Total Distribution	166	158	183	168	0	175

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

Data in 1,000 metric tons. Imports include re-exports.

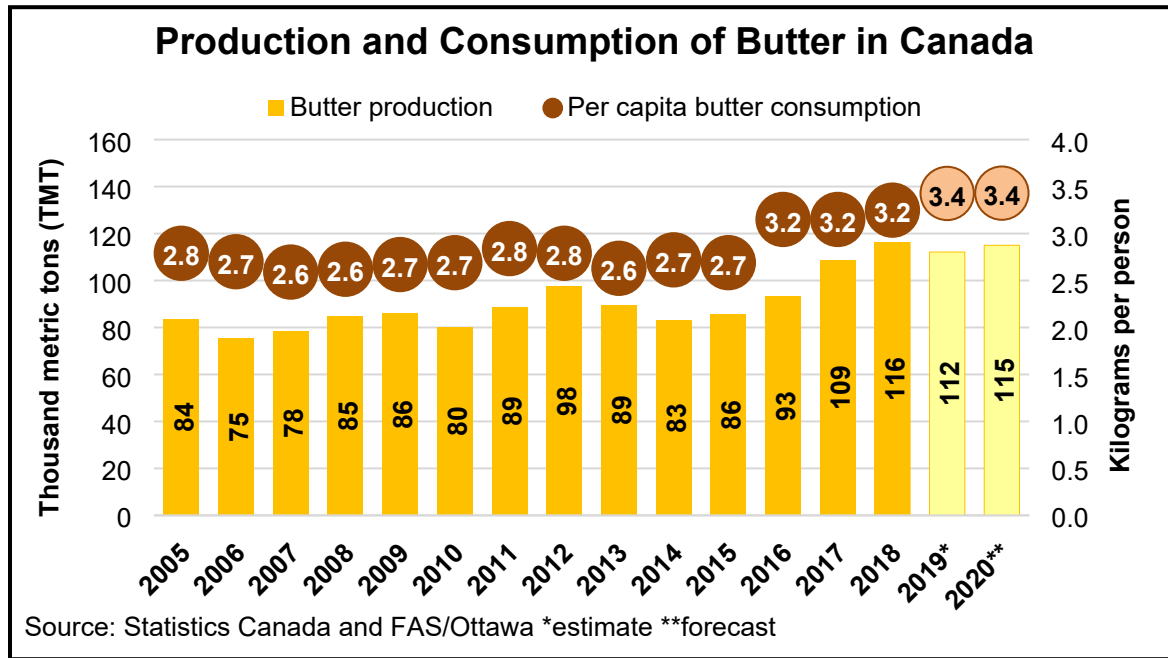
Production:

FAS/Ottawa forecasts butter production in 2019 will fall to 112,000 MT before climbing to 115,000 MT in 2020. The successful rebuilding of butter stocks, the balancing of domestic butter supplies with Canadian market requirements, and the expectation of increased imports under the CPTPP butter TRQ support FAS/Ottawa projections of relatively flat growth in Canadian butter production.

Between 2014 and 2018, butter production increased by nearly 40 percent, reflecting Canadian consumers’ sudden, strong increase in demand for butterfat. Even with the unprecedented growth in production, Canada required supplemental imports in 2016 and 2017 to satisfy market demand. In August 2019, butter stocks were 40,600 MT, slightly above the August 2018 level of 40,100 MT, and still exceeding the industry target of 35,000 MT.

Consumption:

Butter consumption expanded rapidly over the past six years, and is forecast to rise to 3.4 kilograms per capita in 2020, up from about 2.6 kilograms per capita in 2013. After highly publicized media reports on academic research, Canadian consumers’ perception of the health attributes of foods rich in butterfat changed dramatically during that period, driving butter consumption up sharply.



Trade:

FAS/Ottawa forecasts butter imports to grow to 23,000 MT in 2019 and to rise further in 2020, reaching 25,000 MT.

Canadian Butter Imports: Year-to-Date Data (January-July)

Canada Import Statistics								
Commodity: 0405, Butter And Other Fats And Oils Derived From Milk								
Year To Date: January - July								
Partner Country	Unit	Quantity			% Share			% Change 2019/2018
		2017	2018	2019	2017	2018	2019	
World	T	14,000	11,480	12,725	100.00	100.00	100.00	10.84
New Zealand	T	4,940	3,526	7,386	35.28	30.72	58.04	109.44
United States	T	6,957	7,820	4,849	49.70	68.12	38.11	- 37.99
Ireland	T	410	0	226	2.93	0.00	1.78	0.00
United Kingdom	T	1,523	0	0	10.88	0.00	0.00	0.00
Other countries	T	170	134	264	1.21	1.17	2.07	97.01

Source: Trade Data Monitor

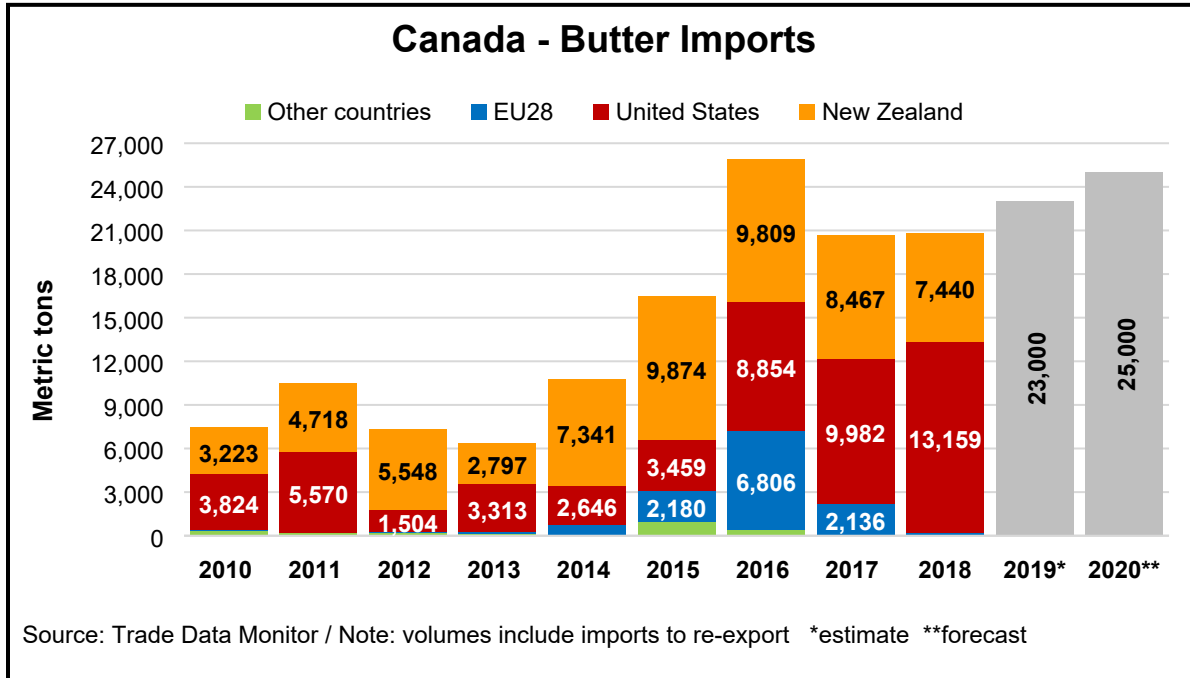
Under WTO commitments, Canada maintains a [TRQ](#) for butter, dairy spreads and fats and oils derived from milk. The total TRQ volume is 3,274 MT, of which 2,000 MT is a country-specific allocation to New Zealand. The entire TRQ volume is allocated to the Canadian Dairy Commission which imports the butter and re-sells it on the domestic market for use in food processing.

Under the [CPTPP](#) (which entered into force on December 30, 2018), Canada agreed to a [TRQ](#) for butter which would provide the following market access:

Quota Year (August to July)	Butter (in MT)
2018/19 (year 1)	750
2019/20 (year 2)	1,500
2020/21 (year 3)	2,250
2023/24 (year 6)	4,500
2031/32 and onward (year 14 and onward)	5,121

Up to 85 percent of this TRQ is to be allocated to bulk imports of butter (not for retail sale) to be used in further food processing. For the TRQ allocation year August 2019 – July 2020 (year two of implementation), the access volume is 1,500 MT.

In any given year, actual imports of butter into Canada typically exceed the TRQ volumes. This is due to the fact that butter is a product eligible under Global Affairs Canada’s policy for [supplementary imports](#), which includes the [Imports for Re-Export Program](#) (IREP). A program similar to IREP, called the [Duties Relief Program](#) (DRP), is operated by the Canada Border Services Agency. Under both the IREP and DRP, Canadian food manufacturers may import butter to use in processed food products, provided that such products do not enter the domestic market and are eventually exported. Of butter imported in excess of the WTO and CPTPP TRQs, the vast majority is imported under the IREP and DRP.



Under the [USMCA](#), Canada committed to a [TRQ](#) for butter and cream powder, which would provide market access as follows:

Quota Year (August to July)	Butter and Cream Powder (in MT)
Year 1	750
Year 6	4,500
Year 19 and onward	5,121

In the first quota year, up to 85 percent of the USMCA butter and cream powder TRQ volume is to be allocated for further processing. This percentage is to decline every year in equal installments, so that in year five of implementation only 50 percent of the TRQ would be allocated for further processing, with the remaining volumes being made available for any use. This butter and cream powder TRQ would be opened exclusively to imports from the United States.

Under the USMCA, the United States also committed to open an aggregated [TRQ](#) for Canada to cover butter, fluid cream (of minimum 45 percent butterfat content) and cream powder. The combined volume under this TRQ would be 750 MT in year one of implementation, after which the volume would steeply increase to 4,500 MT in year six of implementation, then would gradually increase to 5,121 MT by year 19 of implementation. After that, the volume would remain constant at 5,121 MT annually.

The USMCA was ratified by Mexico in June 2019 and has not yet been ratified by Canada or the United States.

SKIM MILK POWDER:

Production, Supply and Distribution (PS&D):

Dairy, Milk, Nonfat Dry	2018		2019		2020	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Canada						
Beginning Stocks	54	47	40	29	0	30
Production	115	108	120	100	0	100
Total Imports	4	4	4	3	0	5
Total Supply	173	159	164	132	0	135
Total Exports	66	66	50	45	0	40
Total Dom. Consumption	67	64	70	57	0	65
Ending Stocks	40	29	44	30	0	30
Total Distribution	173	159	164	132	0	135

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

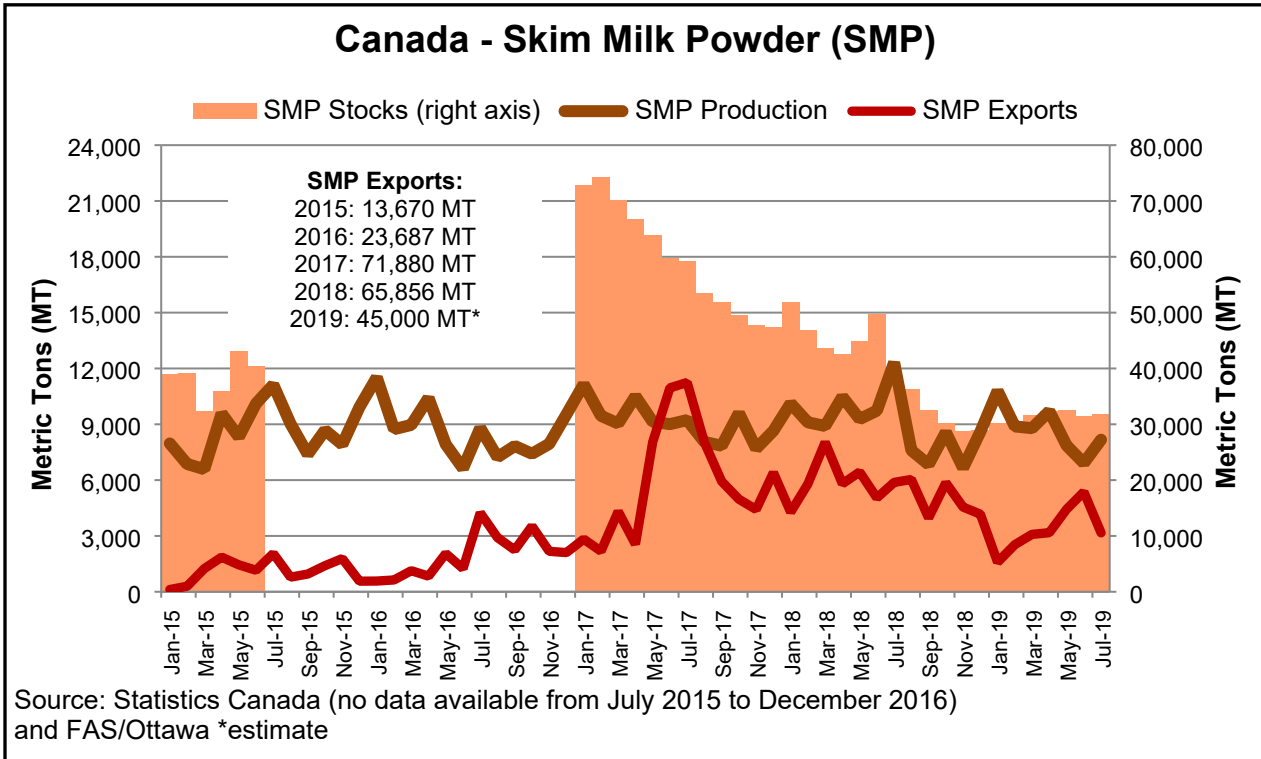
Data in '1,000 MT

Production:

FAS/Ottawa forecasts skim milk powder (SMP) production to remain at 100,000 MT in 2020, at the same level with the estimated production for 2019, as butter production levels off. Typically, SMP production follows the trends in butter production, as skim milk is largely a by-product of processing milk into butter. Between 2014 and 2018, SMP production in Canada increased by 32 percent, reflecting sharply higher butter production.

Over the past three years, SMP production in Canada has also been supported by milk price class 7. As part of Canada's "National Ingredient Strategy," milk price class 7 became effective on February 1, 2017. Class 7, also called the National Ingredient Class, includes milk processed for specific ingredients, including SMP. For a further discussion of the introduction of class 7 and its effects, please see the July 2017 issue of [Dairy: World Markets and Trade](#), published by the Foreign Agricultural Service.

Following the introduction of class 7, the Canadian Dairy Commission (CDC) stopped purchasing and storing SMP under its Surplus Removal and Domestic Seasonality Programs. The CDC also stopped exporting SMP. In turn, Canadian dairy processors became responsible for managing SMP stocks. Prior to February 2017, the largest disposal market for surplus SMP was the domestic animal feed market. As SMP export prices are typically higher than domestic animal feed prices, Canadian processors began exporting increasingly large amounts of SMP to draw down SMP stocks. SMP stocks fell to nearly 32,000 MT in August 2019, declining from their February 2017 peak of 73,000 MT.



Consumption:

Following the introduction of class 7, Canadian processors have been able to access domestically produced non-fat milk solids at lower prices. These non-fat milk solids are used as ingredients in manufacturing various dairy products such as cheese, yogurt and ice cream. As the use of Canadian SMP in processed dairy products increased, the use of SMP as animal feed declined. FAS/Ottawa forecasts Canadian utilization of SMP at 65,000 MT in 2020, up from an estimated level of 57,000 MT in 2019.

Trade:

Following the introduction of Class 7, Canadian SMP exports grew to record high levels, reaching nearly 72,000 MT in 2017. As production has leveled off and stocks have declined, FAS/Ottawa forecasts SMP exports to fall to 45,000 MT in 2019, and declining further to 40,000 MT in 2020.

Canadian Exports of Skim Milk powder: Year-to-Date Data (January-July)

Canada Export Statistics

Commodity: 040210, Skim Milk Powder

Year To Date: January - July

Partner Country	Unit	Quantity			% Share			% Change
		2017	2018	2019	2017	2018	2019	2019/2018
World	T	42,129	41,270	23,348	100.00	100.00	100.00	- 43.43
Algeria	T	6,546	9,123	5,353	15.54	22.10	22.93	- 41.32
Egypt	T	5,574	7,079	4,958	13.23	17.15	21.24	- 29.96
Indonesia	T	1,465	800	2,259	3.48	1.94	9.67	182.36
Mexico	T	5,288	1,867	1,610	12.55	4.52	6.90	- 13.77
Philippines	T	2,958	3,939	1,548	7.02	9.54	6.63	- 60.70
Malaysia	T	4,415	1,725	1,250	10.48	4.18	5.35	- 27.54
United Arab Emirates	T	300	1,845	550	0.71	4.47	2.36	- 70.19
Syria	T	2,026	3,049	475	4.81	7.39	2.03	- 84.42
Pakistan	T	723	1,836	318	1.72	4.45	1.36	- 82.65
Vietnam	T	2,050	200	250	4.87	0.48	1.07	24.96
Japan	T	220	3,025	225	0.52	7.33	0.96	- 92.56
Cuba	T	2,400	225	60	5.70	0.54	0.26	- 73.17
Other countries	T	8,164	6,557	4,492	19.38	15.89	19.24	-31.49

Source: Trade Data Monitor

Under the [CPTPP](#) (which entered into force on December 30, 2018), Canada agreed to a [TRQ](#) for SMP which would provide market access as follows:

Quota Year (August to July)	Skim Milk Powder (in MT)
2018/19 (year 1)	1,250
2019/20 (year 2)	2,500
2020/21 (year 3)	3,750
2023/24 (year 6)	7,500
2031/32 and onward (year 14 and onward)	11,014

Given the domestic availability of protein ingredients at competitive prices under Class 7, FAS/Ottawa does not estimate that the CPTPP SMP TRQ will be filled.

Under the [USMCA](#), Canada committed to a [TRQ](#) for SMP, which would provide market access as follows:

Quota Year (August to July)	Butter and Cream Powder (in MT)
Year 1	1,250
Year 6	7,500
Year 19 and onward	8,536

This SMP TRQ would be exclusively opened to imports from the United States.

Under the USMCA, the United States also committed to open an SMP [TRQ](#) for Canada. The market access provided under this TRQ would start at 1,250 MT in year one of implementation, after which the volume would steeply increase to 7,500 MT in year six of implementation, then would gradually increase to 8,536 MT by year 19 of implementation. After that, the volume would remain constant at 8,536 MT annually.

The USMCA was ratified by Mexico in June 2019 and has not yet been ratified by Canada or the United States.

Attachments:

No Attachments