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# Canada

# Dairy and Products

# Semi-Annual Report

# 2005

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**Report Highlights:**
Canadian fluid milk production for calendar year 2005 is forecast to decline to 7.78 million metric tons. Butter and nonfat dry milk (skim milk powder) production are forecast to decline from 2004 levels. Canadian cheese production is forecast to increase slightly in 2005. The development of alternative markets and adjustments in the composition of milk on the farm level are helping to reduce the surplus of skim milk powder.

Includes PSD Changes: No
Includes Trade Matrix: No
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## DAIRY OUTLOOK 2005

### Fluid Milk

Canadian fluid milk production for calendar year 2005 is forecast to decline to 7.78 million metric tons (MMT) from 7.89 MMT in 2004, despite the increase in the number of dairy cows in milk production. Fluid milk imports are forecast to increase for 2005, as imports of milk and cream through the Import for Re-Export Program (IREP) are forecast to increase. Consumption of fluid milk increased slightly in 2004. The trend towards the intake of lower fat milk products resulted in an increase in skim milk and 1% milk consumption, while consumption of standard milk (3.25%) and 2% milk declined in 2004. Despite its decline in consumption, 2% milk constituted nearly half of all milk consumed. Increased chocolate milk consumption continued in 2004. An increase in consumption of fluid milk, especially in the lower fat milks, is forecast to continue in 2005, as the benefits of including low-fat milk products in consumers' diets continues to be promoted. Despite the trends towards the consumption of lower fat products, the overall consumption of cream increased in 2004. Coffee consumption in Canada continues to increase, which is one of the reasons for the increase in cream consumption. Cream consumption is forecast to continue to increase in 2005. Fluid milk exports are forecast to remain stable in 2005.

### Cheese

Canadian cheese production is forecast to increase to 347,000 MT in 2005, from 345,000 MT in 2004. Based on eight months of available data for dairy year 2004/2005, total production of variety and cheddar cheese increased 6.1% from the 2003/2004 dairy year. Imports of cheese are forecast to remain stable at 24,000 MT. Imports of cheese through IREP are forecast to remain consistent with 2004 and 2003 levels, which were between 3,000 and 4,000 MT. Canadian cheese exports are forecast to decline to 9,000 MT, as Canadian exports become limited by the WTO appellate body ruling in 2002. Slightly more than half of Canadian cheese exports are destined for the United States. Consumption of cheese in Canada is forecast to increase from 2004, as consumption and demand for variety cheeses remains strong. The increase in consumption of variety cheeses more than offset the slight decline in cheddar consumption in 2004. In addition, the consumption of processed cheese in 2004 increased, again helping to offset the slight decline in cheddar consumption. As the consumption of cheese continues to remain strong, there is the expectation that cheddar consumption should rebound.

### Butter

Canadian butter production for calendar year 2005 is forecast to decline slightly to 85,000 metric tons (MT) on lower forecast milk production. In addition, based on eight months of data for dairy year 2004/2005, butter production has declined 5.6 percent from the same period in the 2003/2004 dairy year. Butter imports for 2005 are forecast to remain stable as IREP imports of butter are forecast to remain strong. New Zealand will continue to be the primary source of Canadian butter imports for 2005, but Uruguay is increasing its exports of butter to Canada. With the decline in production and stable imports, Canadian butter supplies are forecast to decline to 121,000 MT in 2005 from 127,000 MT in 2004. Total butter exports are made up of three HS codes: 0405.10.00 for butter, 0405.90.00 for fats and oils from milk, and 0405.20.00 for dairy spreads, which contain butter. Total butter exports for 2005 are forecast to increase slightly from 2004, as exports of dairy spreads, and fats and oils derived from milk are forecast to continue to increase in 2005. The increase in exports of dairy spreads, and fats and oils derived from milk will more than offset the forecast continued decline in butter exports. The United States will continue to be the primary export market for total butter exports in 2005. Butter consumption will continue to increase in 2005, as it did in 2004, as consumers continue to switch from margarine to butter.

### Nonfat Dry Milk (Skim Milk Powder)

Nonfat dry milk (skim milk powder) production for 2005 is forecast to decline to 85,000 MT as result of a decline in fluid milk production. In addition, changes in milk composition are being made at the farm level, producing milk with more fat and less of other solids in order to reduce the inventory of skim milk powder (SMP). Imports of SMP are forecast to increase slightly in 2005 from 2004. As with other dairy

products, there is an increasing trend in the IREP imports of SMP and this is forecast to continue to increase and contribute to the slight increase in SMP imports for 2005. High carry-in stocks in 2005 are contributing to the increase in the total supply of SMP in 2005 and will offset the decline in SMP production. The loss of the export market for SMP as a result of the WTO ruling in 2002 is forcing readjustments to the dairy system. In order to help reduce the structural surplus of skim milk powder, which is purchased and stored by the Canadian Dairy Commission (CDC), alternative markets for SMP are being sought. According to the CDC, new markets are being developed to replace the traditional export markets and this includes maximizing export categories such as blends and exploring the possibility of making different ingredients such as milk protein concentrates. Large quantities of SMP are also being sold to the livestock industry to be used in animal feed, especially for use in the veal calf industry. Carry-out stocks are forecast to decline in 2005 to 32,000 MT as the structural surplus moderately declines.

**STATISTICAL TABLES**

**Table 1: Fluid Milk PSD**

# PSD Table

**Country** **Canada**

**Commodity** **Dairy, Milk, Fluid** (1000 HEAD)(1000 MT)

| | 2003 | Revised | 2004 | Estimate | 2005 | Forecast | UOM |
|---|---|---|---|---|---|---|---|
| | USDA Official | Estimate [ | USDA Official | Estimate [ | USDA Official | Estimate [New] | |
| **Market Year Begin** | | 01/2003 | | 01/2004 | | 01/2005 | MM/YYYY |
| Cows In Milk | 1065 | 1065 | 1081 | 1057 | 1095 | 1065 | (1000 HEAD) |
| Cows Milk Production | 7778 | 7734 | 8000 | 7885 | 8100 | 7775 | (1000 MT) |
| Other Milk Production | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL Production | 7778 | 7734 | 8000 | 7885 | 8100 | 7775 | (1000 MT) |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Imports | 0 | 3 | 2 | 10 | 2 | 11 | (1000 MT) |
| TOTAL Imports | 0 | 3 | 2 | 10 | 2 | 11 | (1000 MT) |
| TOTAL SUPPLY | 7778 | 7737 | 8002 | 7895 | 8102 | 7786 | (1000 MT) |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Exports | 9 | 9 | 7 | 7 | 5 | 7 | (1000 MT) |
| TOTAL Exports | 9 | 9 | 7 | 7 | 5 | 7 | (1000 MT) |
| Fluid Use Dom. Consum. | 2830 | 2810 | 2850 | 2825 | 2887 | 2835 | (1000 MT) |
| Factory Use Consum. | 4483 | 4468 | 4651 | 4580 | 4710 | 4477 | (1000 MT) |
| Feed Use Dom. Consum. | 456 | 450 | 494 | 483 | 500 | 467 | (1000 MT) |
| TOTAL Dom. Consumpti | 7769 | 7728 | 7995 | 7888 | 8097 | 7779 | (1000 MT) |
| TOTAL DISTRIBUTION | 7778 | 7737 | 8002 | 7895 | 8102 | 7786 | (1000 MT) |
| Calendar Yr. Imp. from U | 0 | 0 | 0 | 9 | 0 | 10 | (1000 MT) |
| Calendar Yr. Exp. to U.S. | 5 | 5 | 3 | 3 | 3 | 3 | (1000 MT) |

**Table 2: Cheese PSD**

# PSD Table

**Country** Canada
**Commodity** Dairy, Cheese

(1000 MT)

| | 2003 Revised | 2004 Estimate | 2005 Forecast | UOM |
|---|---|---|---|---|
| | USDA Official [ Estimate [ | DA Official [ Estimate [ | DA Official [ Estimate [New] | |
| **Market Year Begin** | 01/2003 | 01/2004 | 01/2005 | MM/YYYY |
| Beginning Stocks | 52 52 | 57 59 | 48 59 | (1000 MT) |
| Production | 342 342 | 326 345 | 330 347 | (1000 MT) |
| Intra EC Imports | 0 0 | 0 0 | 0 0 | (1000 MT) |
| Total Imports | 27 24 | 22 24 | 22 24 | (1000 MT) |
| TOTAL Imports | 27 24 | 22 24 | 22 24 | (1000 MT) |
| TOTAL SUPPLY | 421 418 | 405 428 | 400 430 | (1000 MT) |
| Intra EC Exports | 0 0 | 0 0 | 0 0 | (1000 MT) |
| Total Exports | 11 11 | 10 10 | 8 9 | (1000 MT) |
| TOTAL Exports | 11 11 | 10 10 | 8 9 | (1000 MT) |
| Human Dom. Consumpti | 353 348 | 347 359 | 344 364 | (1000 MT) |
| Other Use, Losses | 0 0 | 0 0 | 0 0 | (1000 MT) |
| Total Dom. Consumption | 353 348 | 347 359 | 344 364 | (1000 MT) |
| TOTAL Use | 364 359 | 357 369 | 352 373 | (1000 MT) |
| Ending Stocks | 57 59 | 48 59 | 48 57 | (1000 MT) |
| TOTAL DISTRIBUTION | 421 418 | 405 428 | 400 430 | (1000 MT) |
| Calendar Yr. Imp. from U | 6 5 | 4 4 | 3 5 | (1000 MT) |
| Calendar Yr. Exp. to U.S. | 5 5 | 4 4 | 4 3 | (1000 MT) |

**Table 3: Butter PSD**

# PSD Table

**Country** **Canada**

**Commodity** **Dairy, Butter**

(1000 MT)

| | 2003 Revised | 2004 Estimate | 2005 Forecast | UOM |
|---|---|---|---|---|
| | USDA Official [ Estimate [USDA Official [ Estimate [USDA Official [ Estimate [New] | | | |
| **Market Year Begin** | 01/2003 | 01/2004 | 01/2005 | MM/YYYY |
| Beginning Stocks | 13 13 | 13 13 | 14 14 | (1000 MT) |
| Production | 84 84 | 88 86 | 90 85 | (1000 MT) |
| Intra EC Imports | 0 0 | 0 0 | 0 0 | (1000 MT) |
| Total Imports | 20 20 | 25 28 | 21 28 | (1000 MT) |
| TOTAL Imports | 20 20 | 25 28 | 21 28 | (1000 MT) |
| TOTAL SUPPLY | 117 117 | 126 127 | 125 127 | (1000 MT) |
| Intra EC Exports | 0 0 | 0 0 | 0 0 | (1000 MT) |
| Total Exports | 12 12 | 19 17 | 18 19 | (1000 MT) |
| TOTAL Exports | 12 12 | 19 17 | 18 19 | (1000 MT) |
| Domestic Consumption | 92 92 | 93 96 | 94 98 | (1000 MT) |
| TOTAL Use | 104 104 | 112 113 | 112 117 | (1000 MT) |
| Ending Stocks | 13 13 | 14 14 | 13 10 | (1000 MT) |
| TOTAL DISTRIBUTION | 117 117 | 126 127 | 125 127 | (1000 MT) |
| Calendar Yr. Imp. from U | 0 0 | 4 3 | 3 2 | (1000 MT) |
| Calendar Yr. Exp. to U.S. | 11 12 | 18 17 | 17 19 | (1000 MT) |

**Table 4: Nonfat Dry Milk (Skim Milk Powder) PSD**

# PSD Table

**Country** Canada

**Commodity** Dairy, Milk, Nonfat Dry (1000 MT)

| | 2003 Revised | | 2004 Estimate | | 2005 Forecast | | UOM |
|---|---|---|---|---|---|---|---|
| | USDA Official | [ Estimate [ | )A Official | [ Estimate [ | )A Official | [ Estimate [New] | |
| **Market Year Begin** | | 01/2003 | | 01/2004 | | 01/2005 | MM/YYYY |
| Beginning Stocks | 8 | 8 | 21 | 23 | 27 | 41 | (1000 MT) |
| Production | 94 | 91 | 98 | 88 | 100 | 85 | (1000 MT) |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Imports | 2 | 2 | 3 | 2 | 1 | 3 | (1000 MT) |
| TOTAL Imports | 2 | 2 | 3 | 2 | 1 | 3 | (1000 MT) |
| TOTAL SUPPLY | 104 | 101 | 122 | 113 | 128 | 129 | (1000 MT) |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Exports | 35 | 36 | 45 | 17 | 45 | 15 | (1000 MT) |
| TOTAL Exports | 35 | 36 | 45 | 17 | 45 | 15 | (1000 MT) |
| Human Dom. Consumpti | 45 | 39 | 47 | 50 | 48 | 48 | (1000 MT) |
| Other Use, Losses | 3 | 3 | 3 | 5 | 3 | 34 | (1000 MT) |
| Total Dom. Consumption | 48 | 42 | 50 | 55 | 51 | 82 | (1000 MT) |
| TOTAL Use | 83 | 78 | 95 | 72 | 96 | 97 | (1000 MT) |
| Ending Stocks | 21 | 23 | 27 | 41 | 32 | 32 | (1000 MT) |
| TOTAL DISTRIBUTION | 104 | 101 | 122 | 113 | 128 | 129 | (1000 MT) |
| Calendar Yr. Imp. from U | 0 | 0 | 3 | 3 | 1 | 1 | (1000 MT) |
| Calendar Yr. Exp. to U.S. | 2 | 2 | 0 | 0 | 0 | 0 | (1000 MT) |

## POLICY DEVELOPMENT AND INDUSTRY NEWS

### Dairy Farmers of Canada Get Price Increase

On December 9, 2004, the Canadian Dairy Commission (CDC) announced that effective February 1, 2005, the price of industrial milk would increase by 5.2 percent. Included in the new support prices was an add-on of 1.66 cents/liter for a total effective increase of 7.8 percent. The CDC stated that the price increase was necessary to cover the cost of production and to assist producers in dealing with the financial consequences of the BSE crisis. The Canadian Restaurant and Foodservices Association (CRFA) immediately denounced the price increase, disagreeing with the CDC's justification for increasing the price to offset the financial hardships caused by BSE. In addition, the CRFA deemed the price increases as unnecessary, given that dairy prices have risen by 38% since 1 994, while the cost of production has decreased by 5.1%. Dairy farmers are eligible for the various BSE programs announced by the federal government and the price increase to offset their losses was seen by the CRFA as double-billing the taxpayers for BSE compensation. The Dairy Farmers of Canada (DFC) was pleased with the announcement, stating that the increase in price would help the average farmer with the mounting losses as a result of the closed border and the lower cull cow prices.

### CITT Ruling Favors Les Produits Laitiers Advidia Inc.

In a recent ruling, the Canadian International Trade Tribunal (CITT) found in favour of the Les Produits Laitiers Advidia Inc. (Advidia) and against the Dairy Farmers of Canada (DFC) and the Commissioner of the Canada Customs and Revenue Agency (CCRA). The CITT was ruling on an appeal by Advidia of a decision of the CCRA regarding the tariff classification of PROMILK 872 B, a dairy ingredient with low lactose content, which is used to make sugar free confectionary products and products for those who

are lactose intolerant, thereby replacing the need for traditional dairy ingredients. PROMILK 872 B is manufactured in Switzerland and was imported into Canada by Advidia in June of 2003. The issue of the appeal was whether PROMILK should be classified in Chapter 4, as it had been by the CCRA, and thereby face a TRQ with "over access commitment" high tariff duties or in Chapter 35, as argued by Advidia, and face a low tariff duty upon entry to Canada. During the appeal, Advidia argued that PROMILK should be classified under Chapter 35, rather than Chapter 4 for several reasons. First, Advidia claimed that the CCRA's handling of the importation of their product was unfair and that onus should not be on them to prove that the classification of their product was correct, but rather on the CCRA to prove it was not. In addition, Advidia argued that the classification depended on whether the product at issue was a milk protein isolate (MPI) or a milk protein concentrate (MPC) and that the CCRA had an administrative policy to classify MPIs in Chapter 35 and MPCs in Chapter 4. Advidia also contended that PROMILK 872 B was covered by both Chapters 4 and 35, but that the headings of Chapter 35 provided a more specific description and hence the product at issue should be classified there. The DFC and CCRA both disagreed with the arguments put forward by Advidia. The CITT rejected the argument by the DFC that PROMILK is not specifically covered by Chapter 35 and Chapter 4 was the most appropriate classification. The Tribunal also found that is was not necessary to enter into the debate on whether PROMILK was a MPI or MPC and that Advidia had proven PROMILK was within the meaning of Chapter 35. Based on all the evidence and arguments of all the groups involved in the case, the CITT determined that PROMILK 872 B should be classified under Chapter 35. The findings of the case means that PROMILK can be imported into Canada with a minimal tariff applied to it.

**Dairy Farmers of Canada Push GATT Article XXVIII**

In response to the increasing imports of dairy ingredients that are replacing Canadian milk and cream in Canadian cheese, yogurt and ice cream, the Dairy Farmers of Canada (DFC) have been relentlessly lobbying the Government of Canada to formally request Article XXVIII negotiations under the World Trade Organization (WTO). One of the three pillars of supply management is predictability of imports and according the DFC, it is essential that the pillar be maintained in order for the supply management system to function properly. According to the DCF, the unpredictable level of dairy replacement ingredients that enter the Canadian market at low to zero tariffs act to displace Canadian dairy products which compromises the import pillar of supply management. Therefore, the DFC is advocating that the Government of Canada pursue an Article XXVIII case to introduce tariff-rate quotas (TRQ) on those products which are coming in at low to zero tariffs. The DFC is claiming that the absence of effective import controls have cost Canadian dairy farmers $175 million in 2004 and this amount is growing by $2 million a month. The Government of Canada has indicated that it will not pursue an Article XXVIII, but the powerful DFC lobby will continue its pressure to force the government's hand. This, in addition to the current ruling by the CITT, has strengthened the resolve of the DFC to pursue its Article XXVIII initiative to restrict dairy imports with higher tariffs or new TRQs.

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