

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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**Date:** 10/15/2012

**GAIN Report Number:** CA12039

## Canada

### Dairy and Products Annual

**2012**

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**Report Highlights:**

Milk production is forecast to increase in 2013 due to an increase in Canadian dairy requirements by the dairy processing industry. Butter production is forecast to ease in 2013 due to strong butter stocks. As a result of the forecasted decrease in butter production, skim milk powder production is also expected to decrease slightly. Cheese production in 2013 is expected to stay near year 2012 levels. Consumption of milk, butter and skim milk powder all grew only slightly in 2011. Greater competition for dairy substitutes (soy milk and dairy blends) and changing demographics have had a negative impact on dairy consumption patterns over the last 20 years. Trade in dairy products is tightly controlled through import controls, and most trade from the United States takes place under the Import for Re-Export Program (IREP).

**Executive Summary:**

- The estimate for total milk production for calendar year 2012 is 8.45 million metric tons (MMT), representing an increase from year 2011 levels of 8.40 MMT. An increase in dairy requirements from the dairy processing industry is forecast to increase fluid milk production to 8.50 MMT in 2013.
- The estimate for total cheese production in 2012 is 304 TMT, which represents a four percent increase from year 2011 levels of 292 TMT. In 2013, cheddar cheese production is expected to remain near 2012 levels due to sustained demand countered by strong stocks.
- Total butter production in 2012 is expected to increase to 93 TMT from 2011 levels of 87 TMT due to increased industrial use and a replenishing of stocks that were low during the two years previous when production was lagging behind the quota. Butter production in 2013 is forecast slightly lower than 2012 levels due to strong stocks.
- The estimate for skim milk powder production for 2012 is 86 TMT, up 13 percent from 2011, and is reflective of the strong increase in butter production in 2012. Non-fat dried milk production is forecast to ease to 82 TMT in 2013.
- In 2011, Canadian dairy exports were valued at approximately C\$252 million, while imports amounted to C\$669 million. The main products exported by Canada in 2011 were ice cream and edible ice products, cheese (mainly specialty), and whey. These represent 23 percent, 16 percent and 16 percent, respectively, share of total exports. Top dairy imports included various kinds of cheeses (39 percent) followed by milk protein substances (16 percent) and casein and casein products (11 percent) (value basis).
- Total cheese exports (excluding cream and fresh cheeses) are estimated to reach 9,000 MT in 2012 and are forecast to remain near the same level in 2013.

**The Canadian Dairy Industry at a Glance:**

The Canadian dairy sector functions under a supply management system, based on planned domestic production, administered pricing and dairy product import controls.

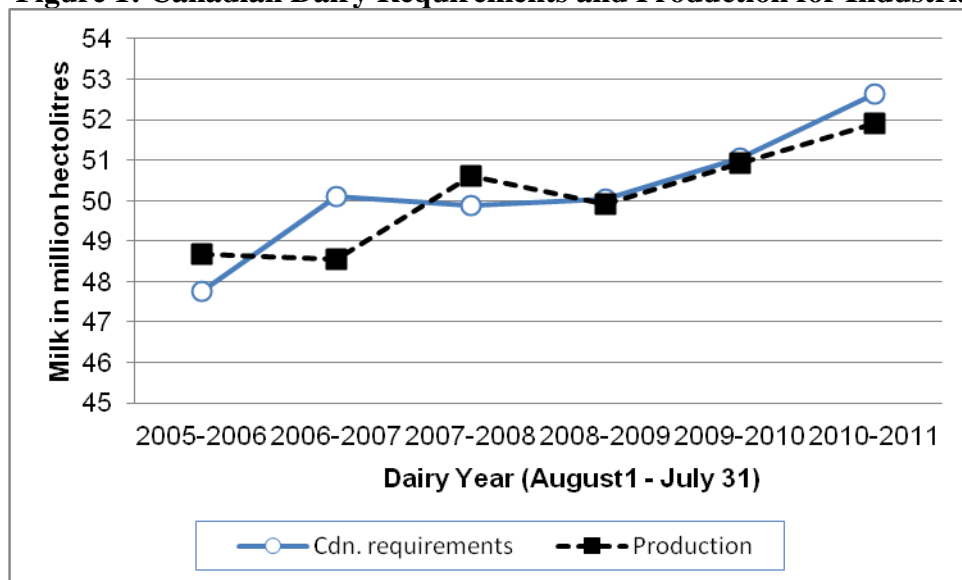
In 2011, dairy production in Canada generated total net farm receipts of \$5.8 billion, up \$0.3 billion from the previous year, and generated sales of \$13.7 billion, representing 16.4 percent of the Canadian food and beverage sector. The dairy industry ranks third in terms of value in the Canadian agricultural sector following grains and red meat ([http://www.dairyinfo.gc.ca/index\\_e.php?s1=cdi-ilc](http://www.dairyinfo.gc.ca/index_e.php?s1=cdi-ilc)).

**Milk**

Milk production in Canada supplies two markets. The fluid milk market includes creams and flavored milks. The industrial milk market is milk used to make products such as butter, cheese, yogurt, ice cream and milk powders. The fluid milk market accounts for close to 39 percent of total producer shipments of milk, or 119 MT of butterfat.

In Canada, provincial milk marketing boards maintain responsibility for setting production limits of its own fluid milk, pricing formulas, quota policies and other regulations. Industrial milk production levels are allocated using a national management tool called the Market Sharing Quota (MSQ). Quota is allocated on a butterfat basis. It is set by the Canadian Milk Supply Management Committee (CMSMC), which applies the terms of the National Milk Marketing Plan (a federal-provincial agreement) to establish each province’s share of the MSQ. The provinces are then responsible for distributing shares of the quota to producers according to provincial policies and in accordance with pooling agreements.

**Figure 1: Canadian Dairy Requirements and Production for Industrial Milk Market**



Source: Canadian Dairy Commission;  
[www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3807](http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3807)

The CMSMC sets the MSQ based on the recommendations of the Canadian Dairy Commission (CDC). The CDC monitors the trends in Canadian dairy requirements (demand) and makes recommendations on the necessary adjustments to reflect changes in demand for milk for industrial dairy products. Figure 1, on page 3 illustrates the increase in Canadian dairy requirements and milk production for industrial purposes over time by dairy year.

Based on 7 months of production data of milk produced for the fluid milk market and for the industrial milk market, the estimate for total milk production for calendar year 2012 (including on farm feed use) is 8.45 million metric tons (MMT), representing a slight increase from year 2011 levels. Increased manufacturing of yogurt, specialty cheeses and butter are the leading reasons for this increase. Due to the supply management system in Canada which matches supply and demand, significant changes in dairy requirements do not occur. For this reason, Post predicts year 2013 fluid milk production levels to increase only slightly to 8.50 MMT.

Since 1999, the national dairy herd has declined by 17 percent, while total milk production has increased by two percent. These adjustments reflect ongoing restructuring at the farm level. There are fewer farms but more cows on each farm. Since 1999, the number of cows per farm has risen by over 30 percent and the average Canadian dairy farm now has 72 cows. Better feeding, disease control and genetic advancements have increased the amount of milk produced per cow. The overall number of cows has decreased over the past ten years; however the production per cow has increased by over ten percent. In the year 2010-11 marketing year, the average production of a dairy cow increased four percent over the previous year. The Canadian dairy cattle population totals approximately 1.4 million and will likely remain constant.

The typical Canadian dairy farm is quite specialized, with most of its revenue coming from milk production and the sale of dairy cattle. It is a family-owned operation. The farm owners are in their mid-forties and have built up considerable equity in their operation. The typical family farm is accustomed to using advanced technology in practices such as artificial insemination, breed selection and labor-saving milking systems. Computerization of feeding and herd management systems, and equipment innovations are also rapidly changing the way things are done on the farm. The industry has experienced a 36 percent decline in the number of dairy farms over the past decade. However, individual farming units have grown in size and have become more effective in operation.

The dairy processing sector is relatively concentrated. Today, 14 percent of Canadian plants are owned by the three largest processors in the country (Saputo, Agropur and Parmalat), processing approximately 75 percent of the milk produced in Canada. The fluid milk market represents almost 40 percent of milk utilization, while the market for manufactured dairy products such as butter, cheese, yogurt and ice cream accounts for more than 60 percent of utilization.

## **Cheese**

The estimate for total cheese production in 2012 is 304 TMT, a four percent increase over 2011 levels. Cheese production has been adjusted to exclude fresh cheeses such as ricotta, cream cheese, and cottage cheese. Cheddar cheese production in 2012 is expected to increase slightly from year 2011 levels of 133 TMT to 135 TMT. The general upward trend since 2009 is due to stronger retail sales resulting from a recovering economy, and an increased usage of cheddar cheese in processed products. Mozzarella cheese production in 2012 is expected to decrease one percent from 2011 levels to 111

TMT. The production levels of total cheese in 2013 are forecast to remain near 304 TMT due to sustained demand countered by strong stocks.

### **Butter**

Total butter production in 2012 has been well above the five-year average every month of the year, and if the year's trends continue, we expect to see annual production of about 93 MT. The production levels of 2011 (85 TMT) and 2012 are partly reflective of the replenishing of stocks that were low during the two previous years when production was lagging behind the quota. Increased production is also reflective of the fact that consumption of butter for industrial use is strong and on an upward trend. Butter production has declined from a high of 99,426 MT in 1990 to a low of 75,832 MT in 2002 to a new low of 75,406 MT in 2006. Between 2002 and 2012, butter production rebounded due to the increasing demand for butter for pastries and other baked products. Butter production in 2013 is forecast to be lower than 2012 levels due to strong stocks.

### **Non-Fat Dry Milk (Skim Milk Powder)**

Non-fat dry milk production (skim milk powder (SMP)) production for 2011 increased to 76 TMT from 2010 levels of 72 TMT. The estimate for skim milk powder production for 2012 is 86 TMT and production levels are forecast to ease to 82 TMT in 2013 due to a forecasted easing of butter production.

### **Product Line Trends**

Faced with increased competition and rapid advances in technology, the dairy industry has had to adapt to remain competitive and find new opportunities. The Canadian dairy industry has responded with the development of a robust line of dairy products, including probiotic yogurts, ultra filtered milk, and dairy products containing Omega-3 fatty acids. There are also over 665 varieties of cheese made in Canada.

While representing about one percent of total dairy output, organic milk production is steadily increasing in Canada, reaching close to 90 million liters in the 2009/2010 dairy year, up three percent from the previous year. The number of farms producing organic milk increased from 65 in 2000-2001 to 205 in 2010-2011. The most popular finished organic dairy products remain yogurt, ice-cream and cheese.

### **Prices**

In December 2011, the Canadian Dairy Commission announced its decision to increase the support prices for butter and skim milk powder, effective February 1, 2012. The support price for skim milk powder increased 1.5 percent to \$6.3673 per kilogram and the support price for butter increased 1.2 percent to \$7.281 per kilogram. The Canadian Dairy Commission made this decision to help increase farmers' revenues, as the determination had been made that farm revenues were lagging behind cost increases.

## **Consumption:**

### **Per Capita Consumption of Dairy Products**

Per-capita milk consumption (calculated by dividing annual fluid milk sales of standard, two percent, one percent, skim and chocolate milk by the Canadian population) increased slightly in 2011 compared to 2010 levels. Per capita consumption in 2011 was at 78.34 liters per person compared to 77.57 liters per person in 2010 when it was at the lowest level of per capita milk consumption that Canada has ever experienced. Chocolate milk showed the greatest per capita consumption increase at five percent. Consumption of standard and skim milk decreased marginally. Consumption of one percent milk held steady, and consumption of two percent milk grew by 1.74 percent. Increases in dairy prices, especially for fluid milk, and people reducing their consumption of specialty coffees and coffee products due to a slower growing Canadian economy, are likely the main factors contributing to the drop in consumption for fluid milk. Chocolate milk has been showing a steady increase in per capita consumption over the past several years, likely due to strong marketing efforts to increase its consumption.

This long term trend points to a decreased consumption per capita. In addition to higher prices, Canada's changing demographics and the availability of other calcium-fortified beverages such as soy beverages, has reduced consumer demand for milk over the past ten years. Immigration is responsible for the population growth in Canada and milk drinking often is not part of new Canadians' cultural eating patterns. This has a negative impact on total milk consumption in Canada. Conflicting health messages regarding the consumption of milk has also led to the increased popularity of new beverage such as soy beverages that compete with milk. The dairy industry has tried to counter this with the promotion of milk as an alternative to sugary fruit and soft drinks and as a way of combating obesity-related issues.

According to the data compiled by Agriculture Canada's Dairy Section, from 2005 to 2010, average cheese consumption per capita has grown from 12.04 kg to 12.66 kg, with most of the growth in the cheddar and fine cheese categories, and a decline in the cottage and processed cheese categories. This is consistent with consumer trends which favor more flavorful and less processed foods.

Data compiled by Agriculture Canada's Dairy Section for 2011, reveals that per-capita butter consumption increased nearly four percent from 2010 levels. Butter consumption increased to 2.79 kilograms per person in 2011 from 2.69 kilograms per person in 2010. A general downward trend since 2005 is reflective of high cost and increasing competition from liquid oils due to consumers demanding lower-fat alternatives to traditional products. The 2011 increase in domestic butter consumption levels is reflective of increased use of butter as an industrial input for products that are consumed in Canada, and an increase in demand for butter under the Import for Re-Export Program (IREP) for use in further processing.

Domestic consumption of skim milk powder increased only slightly in 2011, to 74 TMT. The Canadian Dairy Commission has been working hard to develop new uses and markets for the surplus powder. The Dairy Marketing Program was expanded in 2004-2005 into the area of innovation. The program's main objectives are to promote awareness and increase utilization of dairy products and components by food product manufacturers, this includes finding new and innovative uses for skim milk powder in dairy and food products. The milk produced in Canada is sold to processors through a [Harmonized Milk Classification System](#) for the manufacture of products. The products are broken into five classes.

The creation of a new milk class that encourages the use of skim milk powder approximately priced at the international price level has also aided in the utilization and reduction of the surplus skim milk powder. The utilization of skim milk powder in animal feed is an additional outlet that is aggressively being pursued. Although the general trend is upwards, domestic consumption of skim milk powder is expected to fall four percent in 2012. Skim milk powder faces limited competition from imports, due to a tariff rate quota on milk protein concentrates that has capped imports. The tariff rate quota (TRQ) for milk protein concentrate is not applicable to countries with which Canada has a free trade agreement.

## Utilization of Milk

The Canadian Dairy Commission publishes the milk utilization by class (on a dairy year basis, August 1 – July 31). The price paid for milk by processors varies according to the milk class 1- 5. For dairy year 2010-2011, on the standard basis of butterfat content (3.6 kg/hectolitre), 29.9 percent of all the milk produced in Canada was transformed into fluid milk, cream, and milk beverages, 7.8 percent into ice cream, sour cream, and other frozen dairy products, 34.1 percent into cheese, 18.4 percent into butter, milk components and concentrated milks, and 8.7 percent into further processed products destined for the domestic and export markets. More information on the Harmonized Milk classification System is available at the following website: <http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3811>

Table 1: Milk Utilization by Class (Dairy Year)

Milk Class	Milk Utilization in Million HL		Percent of Total Milk		Percent Change
	2009-2010	2010-2011	2009-2010	2010-2011	
1	24.7	25.3	29.6	29.9	2.4
2	6.3	6.6	7.6	7.8	4.8
3(a) and 3(b)	28.7	28.9	34.4	34.1	0.7
4(a) and 4(a)1	15.3	15.5	18.4	18.4	1.3
4(b), 4(c), 4(d), 4(m)	1	0.9	1.2	1.1	-10.0
5(a), 5(b), and 5(c)	6.7	7.1	8.0	8.4	6.0
5(d)	0.7	0.3	0.8	0.3	-57.4
Total	83.4	84.6	100.00	100.00	1.4

Source: Canadian Dairy Information Center ([http://www.dairyinfo.gc.ca/index\\_e.php?s1=df-fcil&s2=m-sp-lpl&s3=volume&page=volumes](http://www.dairyinfo.gc.ca/index_e.php?s1=df-fcil&s2=m-sp-lpl&s3=volume&page=volumes)); calculations by the Canadian Dairy Commission

### Summary of Harmonized Milk Classification System:

- 1: Milk or milk beverages, cream and other fluid products
- 2: Ice cream, sour cream, other frozen dairy products
- 3: Cheese
- 4: Butter, milk components, concentrated milks
- 5: Cheese and other dairy products used as ingredients.

Full descriptions available: [Canadian Dairy Information Center](#)

**Trade:****Export and Import Controls for Dairy Products**

Quantitative restrictions in ten categories of dairy products were converted to TRQs to support supply management of industrial milk under the Canadian Dairy Commission Act and as a result of the agreement at the World Trade Organization (WTO) in 1994.

**Regulations for Imports and Exports of Dairy Products**

Tariff Rate Utilization Tables and Quota holders for various dairy products in Canada:

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

Export and Import Permits Act:

<http://laws.justice.gc.ca/en/E-19/index.html>

Table 2: Tariff-Rate Quotas for Dairy Imports into Canada

Dairy Product Description	Access in tons	Tariff Item Number (to 6-digit)
Milk Protein Substitutes	10,000	0350.40
Fluid Milk <sup>1</sup>	0	0401.10, 0401.20
Cream, not concentrated, no sugar, (heavy cream)	394	401.30
Skim Milk Powder	0	0402.10.10
Whole Milk Powder, whether or not Sweetened	0	0402.21, 0402.29
Concentrated and Evaporated milk	12	0402.91, 0402.99
Yogurt	332	0403.10
Powdered Buttermilk	908	0403.90
Liquid Buttermilk, Sour Cream	0	0403.90
Dry Whey	3,198	0404.10
Products consisting of natural milk Constituents	4,345	0404.90
Butter, fats and oil from milk	3,274	0405.10, 0405.90
Dairy Spreads	0	0405.20
Cheese	20,412	0406
Ice cream mixes	0	1806.20, 1806.90
Ice Cream and other edible ice	484	2105
Milk cream and butter subs.	0	2106.90
Non-alcoholic beverages containing milk	0	2202.90
Complete feeds and feed supplements	0	2309.90

<sup>1</sup> There is no commercial TRQ for fluid milk. However access of 64,500 tons of fluid milk is allowed and considered filled by cross-border shopping.



## **Import for Re-export Program (IREP)**

Imports of dairy products/ingredients to be sold on the Canadian market are limited through import quotas and prohibitively high over-access tariffs. Canadian processors can, however, import certain dairy products/ingredients for use in the manufacturing of goods destined for export (for example pastries and confectionary items, cheeses, butter) through a program administered by International Trade Canada called the Import for Re-Export Program (IREP). Due to the fact that these goods are exported, they do not compete with domestic dairy ingredients. The advantage to Canadian exporters is that they do not suffer a competitive disadvantage as they have access to dairy products/ingredients at world price. The Import for Re-export Program has grown in popularity since its creation in 2003 and is expected to continue growing in popularity due the accessibility afforded to food processors under the program.

The popularity of this program highlights the growing importance of the dairy ingredient market in further processing. It is the key to growing the dairy industry in developed markets where dairy consumption has reached maturity. The Canadian dairy industry has in place a number of programs that compete with the IREP program in an attempt to capture this dairy ingredients market. One such program is the Special Milk Class Permit Program (class 5 of the classified dairy pricing system). The Special Milk Class Permit Program (SMCPP) was created by the Canadian Milk Supply Management Committee (CMSMC) in 1995 and is run by the Canadian Dairy Commission (CDC). The program objective is to provide eligible further processors, distributors, and animal feed manufacturers with the means to access Canadian manufactured dairy ingredients, at prices that will allow them to remain competitive in the marketplace. The prices in this class are based on U.S. prices. Therefore, when U.S. prices get closer to world prices, the incentive to use IREP should decrease. More details on the special class program can be found at the following web address: <http://www.milkingredients.ca/index-eng.php?id=119>.

Other programs that have been used to foster the use of dairy ingredients by food processors include the CDC's Matching Investment Fund (MIF) which in mid-2009 replaced the Innovation Support Fund and the Direction Access Fund, and the Domestic Dairy Product Innovation Program.

Import for re-export trade is also highly influenced by what percentage of the total ingredients the imported good makes up in the product that must eventually be exported, as well as the strength of the Canadian dollar which effects Canada's export opportunities. As a result, while IREP popularity has been shown to grow over time, demand for IREP products can fluctuate from year to year.

According to Agriculture and Agri-Food Canada, in 2011, imports of dairy products under IREP increased one percent to 54,347 tons, representing a 14 percent value increase to \$88 million. Volumes imported under the IREP account for more than one third of total imports.

## **Imports of Fluid Milk, Cheese, Butter, Skim Milk Powder**

There are two available sources of Canadian import data for dairy products. Post has chosen to use data supplied by the Department of Foreign Affairs and International Trade (DFAIT) over the data supplied by Statistics Canada in order to minimize the risk of double counting. DFAIT is responsible for maintaining Canada's imports controls for the supply managed products.

### **Fluid Milk**

The fluid milk access level for 2010 was 64,500 MT. There is no commercial quota available for fluid milk. Fluid milk is imported under [General Import Permit No. 1 - Dairy Products for Personal Use](#). Small amounts of fluid milk are also imported under supplemental permits issued by International Canada (IT), and through the IREP which accounts for nearly 100 percent of milk imports. Cream, unlike fluid milk, has a small commercial quota, which is determined on a dairy year (August-July) basis rather than an annual calendar year (CY) basis. The cream access level is 394 MT. Cream imports continue to increase due to the increased usage of the Import for Re-Export Program.

Total milk imports in 2011, including IREP, supplemental permits, and imports under the Duty Deferral Program, reached 32 TMT, a slight decrease from 2011 levels. This marginal decrease may be the result of slower growing North American markets. The popularity of IREP milk is likely to continue to drive milk imports and Post forecasts total milk imports in 2013 to be marginally lower than 2012 levels again due to the possibility of slower growing North American economies.

Due to market proximity and the perishable nature of fluid milk and cream, the United States is the primary source for imports of milk and cream into Canada.

### **Cheese**

In 2011, cheese represented 39 percent of all dairy imports. The commercial quota on cheese is 20,411,866 kilograms, and 66 percent of that cheese quota is specifically allocated to the European Union. Cheese imports for 2011, were 25 TMT. Since import levels tend to stay stable due to the TRQ in place, Post predicts a similar level of cheese imports for 2012 and 2013. Due to the country specific access, the EU-27 remains the largest cheese (excluding fresh cheeses) supplier to Canada.

### **Butter**

Total butter imports are comprised of three HS codes: 0405.10.00 for butter, 0405.90.00 for fats and oils from milk, and HS 0405.20.00 (zero TRQ access) for dairy spreads, which contain butter. Similar to cream imports, the butter import access level is determined based on the dairy year, rather than the calendar year. The access quota is set at 3,274 MT and applies only to the butter and fats and oils from milk. Nearly the entire TRQ is allocated to New Zealand (2,000 MT). In 2011, imports of butter, fats and oils from New Zealand increased 59 percent to \$13 million. In terms of volume, imports increased 46 percent. Butter imports are significantly influenced by what happens in the IREP trade, which typically can account for 50 to 80 percent of butter imports. In 2011, the United States was the largest source of butter imports (53 percent) due to proximity to the Canadian market and higher U.S. supplies. U.S. imports rose to 5,569 MT in 2011. Total imports of butter increased by 36 percent to 9,964 MT due to higher demand for butterfat. Seven months of trade data suggests that total butter imports in 2012 are estimated to reach 7,400 MT. Butter imports in 2013 are forecast to remain near 2012 levels.

### **Non-fat Dry Milk (Skim Milk Powder)**

Almost all trade on skim milk powder takes place under the IREP. In 2011, imports were 3 TMT and are forecast to remain steady in 2012 and 2013. These import levels are reflective of the attractive domestic programs that lead to low demand for non-fat dry milk under the IREP.

### **Exports of Fluid Milk, Cheese, Butter, Skim Milk Powder**

The 2002 ruling by the World Trade Organization (WTO) capped subsidized exports of dairy products from Canada. As a result, Canadian dairy producers are limited in the quantity of dairy products that can be exported from Canada and this has resulted in a negative trade balance in dairy products. As the difference between Canada's domestic support prices and world prices increase, the amount that Canada can export within the WTO limits decreases.

In 2011, Canadian dairy exports showed an 11 percent annual increase to C\$252 million, while imports increased 9.7 percent to C\$669 million. The main products exported by Canada in 2011 were ice cream, cheese and whey. These represent 23 percent, 16 percent and 16 percent, respectively, share of total exports. Top dairy imports included various kinds of cheeses (39 percent) followed by milk protein isolates (16 percent) and casein and casein products (11 percent) (value basis).

Fluid milk and cream exports in 2011 are reported to be 5,472 MT. In 2012, based on year-to-date trade data through July, fluid milk and cream exports are expected to decrease to 5,100 MT. Relatively the same level of supply in 2013 is forecast to keep fluid milk and cream exports at expected year 2012 levels.

The volume of total cheese exports fell 1.4 percent from 2010 levels to 8.8 TMT in 2011. Exports are forecast to remain close to this level in 2012 and 2013. Cheese exports to the EU have dropped almost completely. Once Canada's primary dairy export to the EU, cheese exports have dropped from \$29 million in 2008 to just \$0.1 million in 2011. In 2011, the United States and Saudi Arabia were the two primary markets for Canadian cheese, accounting for 45 percent and 23 percent of cheese (excluding cream and fresh cheeses) exports, respectively. Canada has specific market access for 1,211 MT in the U.K. markets and has specific quotas for U.S. cheese markets for cheeses: swiss and emmental-type cheeses, and non-specified cheeses.

Total butter exports are comprised 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 (all three lines) for 2011 are 298 MT which is a 96 percent decrease over year 2010 levels. In 2010, dairy spreads accounted for 85 percent of total butter exports, and virtually all of the dairy spreads are exported to the United States. 2011 exports of dairy spreads plummeted due to decreased demand in the U.S. for dairy spreads. Post forecasts butter exports in 2012 to rebound to 3,000 MT.

In 2011, Skim Milk Powder (SMP) showed the strongest increase in exports of any dairy product. The 2002 WTO ruling capped Canada's exports of SMP at 44,953 MT, limiting the ability of the industry to reduce the structural surplus of SMP that is inherent in an industry where the quota system is based on butterfat. In 2011, strong demand from Mexico, Cuba, Egypt, South Korea and Indonesia led to exports of SMP increasing in value by 147 percent to \$34 million. SMP exports increased to 10 TMT in 2011, from 6 TMT in 2010. Exports are expected to fall 20 percent in 2012. An easing of butter production, coupled with strong demand from Southeast Asia, is expected to lead to strong but falling growth in exports of skim milk powder in 2013.

### **Stocks:**

In order to ensure that supply management operates as it is designed, and the Canadian market has a constant supply of product, the Canadian Dairy Commission (CDC) holds stocks of butter in storage throughout the year. This is referred to as the normal butter inventories of 12,000 MT.

### **Dairy Policy Developments:**

#### **Geographical Indications**

Canada is currently negotiating an ambitious free trade agreement with the European Union. The Prime Minister is on record saying that he would like an agreement signed by the end of the year 2012. The European Union is adamant that Canada recognize geographical indications and has provided a list of products that are covered by geographical indications in Europe. The list includes a number of cheeses, which is a matter of significant concern to the Canadian dairy industry. The concern is that the geographic indications provisions will diminish export opportunities, and set a precedent for other FTAs.

#### **Ice Cream Promotion Program**

In March 2009, Canada instituted a new program for ice cream manufacturers that provides a discount on the price of milk/cream purchased to make ice cream. This discounted milk/cream is only available for ice cream that is to be manufactured using 100 percent Canadian dairy ingredients. This is part of a broader promotional program that grants dairy product manufacturers who use only Canadian dairy ingredients to enter into a licensing agreement for use of the "little blue cow" logo. The discounted milk/cream for use in qualifying ice cream program is designed to render imports of butter/oil/sugar blends and domestically produced vegetable oils less competitive for use in ice cream and ice cream products.

The "little blue cow" logo is also finding increasing popularity with cheese dairy processors. Many of the smaller cheese manufacturers are using the little blue cow logo. Loblaw's, one of the three largest supermarket chains in Canada, is also using the logo on its "store brand" cheese.

However, the program is not without opposition. At a regular Agriculture Committee meeting of WTO members on June 23, 2011, New Zealand questioned the pooled returns and shared promotion costs of the Ice Cream Promotion Program. Canada responded by saying that this is a private confidential contractual agreement between an NGO (the Dairy Farmers of Canada) and individual ice cream processors, without any support from the government's Canadian Dairy Commission.

#### **Supply Management**

In the last year, continued use of Canada's supply management system has come under debate. Factors influencing the debate include pressure from trade partners, a positive market environment, and the general movement towards freer markets (as most recently demonstrated by the forced dissolution of the Canadian Wheat Board's monopsony). Particularly since Canada recently joined the Trans-Pacific Partnership (TPP), there has been significant discussion in Canadian media over whether Canada will need to show flexibility with regard to the supply management system.



**Statistics:**

Dairy, Milk, Fluid Canada	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	987	983	993	993		985
Cows Milk Production	8,400	8,400	8,450	8,450		8,500
Other Milk Production	0	0	0	0		0
Total Production	8,400	8,400	8,450	8,450		8,500
Other Imports	38	39	40	40		40
Total Imports	38	39	40	40		40
Total Supply	8,438	8,439	8,490	8,490		8,540
Other Exports	7	5	8	3		3
Total Exports	7	5	8	3		3
Fluid Use Dom. Consum.	3,195	3,164	3,200	3,200		3,250
Factory Use Consum.	4,846	4,875	4,887	4,892		4,892
Feed Use Dom. Consum.	390	395	395	395		395
Total Dom. Consumption	8,431	8,434	8,482	8,487		8,537
Total Distribution	8,438	8,439	8,490	8,490		8,540
1000 HEAD, 1000 MT						

Dairy, Cheese Canada	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	42	42	45	45		45
Production	305	300	311	304		304
Other Imports	27	25	28	25		25
Total Imports	27	25	28	25		25
Total Supply	374	367	384	374		375
Other Exports	9	9	9	9		9
Total Exports	9	9	9	9		9
Human Dom. Consumption	320	313	330	320		320
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	320	313	330	320		320
Total Use	329	322	339	329		329
Ending Stocks	45	45	45	45		45
Total Distribution	374	367	384	374		374
1000 MT						

Dairy, Milk, Nonfat Dry Canada	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	27	27	18	22		27
Production	73	76	75	86		82
Other Imports	2	3	2	3		2
Total Imports	2	3	2	3		2
Total Supply	102	106	95	111		111
Other Exports	10	10	10	10		10
Total Exports	10	10	10	10		10
Human Dom. Consumption	73	73	74	73		71
Other Use, Losses	1	1	1	1		1
Total Dom. Consumption	74	74	75	74		72
Total Use	84	84	85	84		82
Ending Stocks	18	22	10	27		29
Total Distribution	102	106	95	111		111
1000 MT						

Dairy, Butter Canada	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	10	10	9	12		16
Production	84	85	85	93		88
Other Imports	8	10	10	7		7
Total Imports	8	10	10	7		7
Total Supply	102	105	104	112		111
Other Exports	1	0	1	0		1
Total Exports	1	0	1	0		1
Domestic Consumption	92	93	93	96		97
Total Use	93	93	94	96		98
Ending Stocks	9	12	10	16		13
Total Distribution	102	105	104	112		111
1000 MT						