

Profile of Canada's Dairy Industry

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Canadian Dairy Statistics

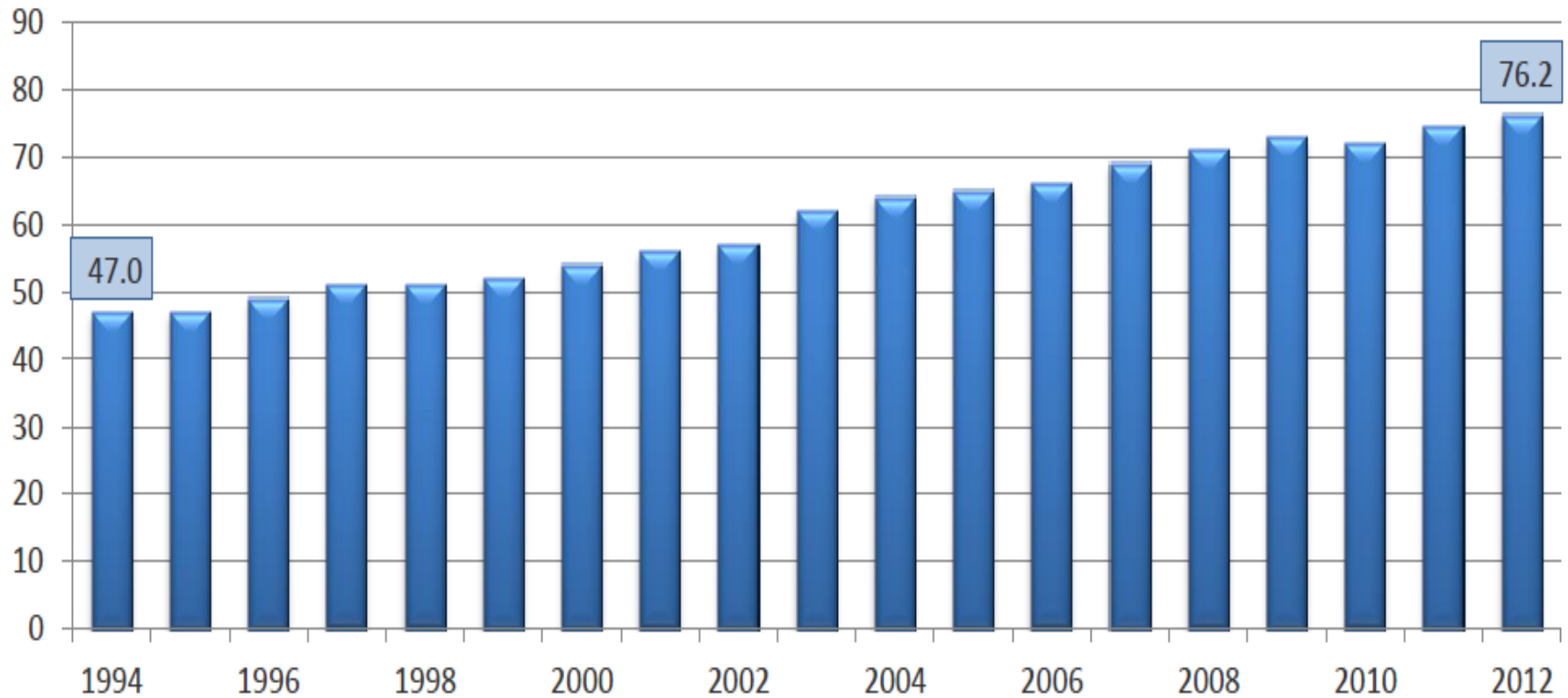


Dairy in Canada at the Farm 2013

Number of Farms with Milk Shipments: 12,529
Number of Dairy Cows: 960,600
Number of Dairy Heifers: 472,600



Average Herd Size in Canada



Source: Agriculture and Agri-Food Canada

Calculations done by AAFC-AID, Dairy Section

Dairy Industry Concentration

- Even very large dairy producers produce a small fraction of 1% of Canadian milk production
- The three largest processors in the country (Saputo, Agropur, Parmalat) process about 80% of the raw milk produced in Canada
- This disparity in industry concentration could give the processing companies a great deal of power over dairy farmers

Canadian Dairy Commission

- Federal crown corporation chartered in 1966, with a mandate that dairy farmers receive a fair return on their labour and investment
- Operates a control system for milk production which helps stabilize producer revenues, stabilize consumer prices, and avoid costly product surpluses
- Establishes support prices (price floors) at which it will buy butter and skim milk powder, which the CDC later resells

Supply Management

- First established in the early 1970s as a subsidy program for dairy farmers, but this was costly for the federal government
- Slowly evolved into a quota based production, import, and export management system, while direct subsidies were slowly phased out

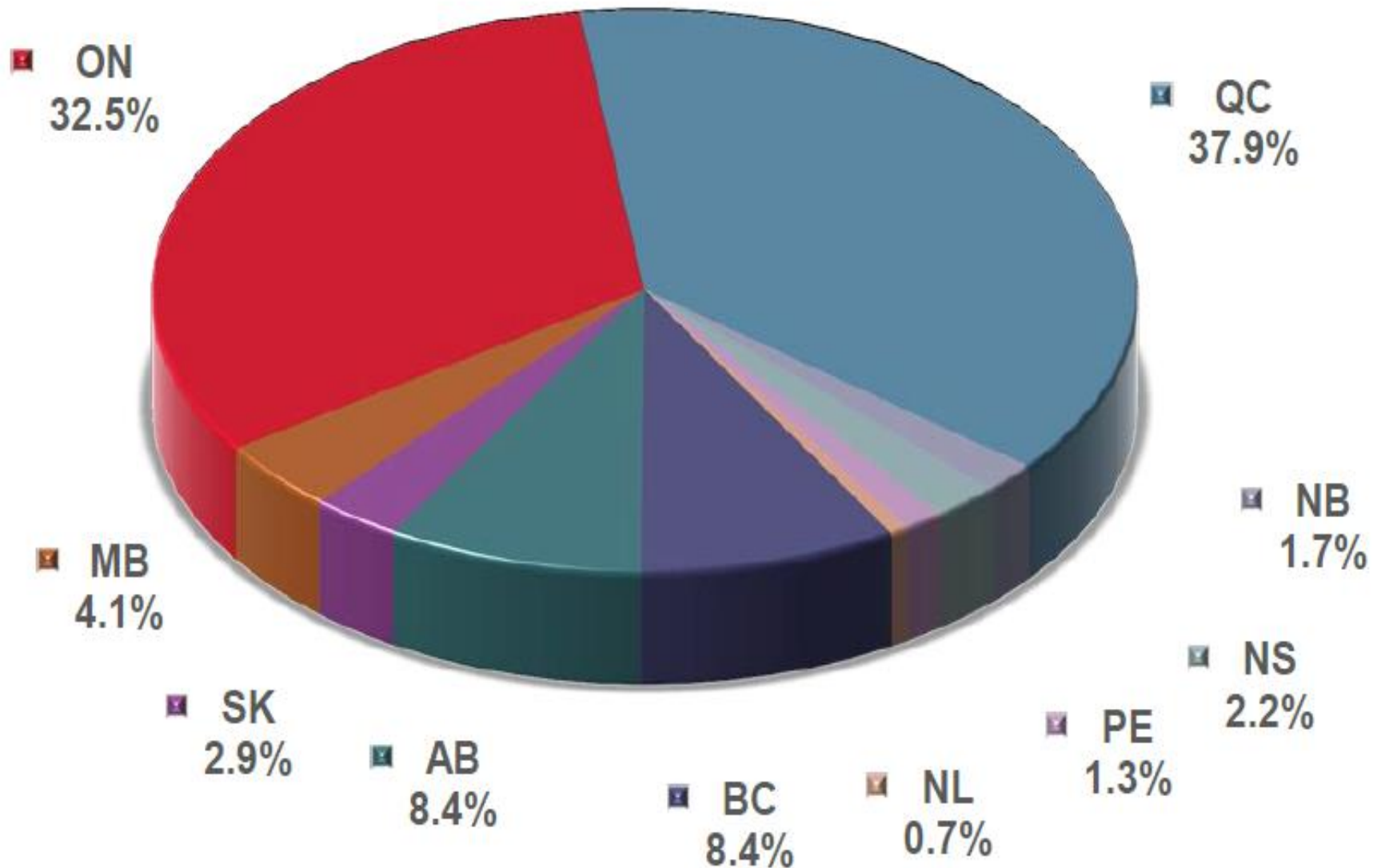
Supply Management

- Canadian Milk Supply Management Committee (CMSMC), chaired by the Canadian Dairy Commission, with input from the provincial milk producer organizations (like Alberta Milk), operates the supply management system
- CMSMC considers supply and demand dynamics for milk products, and sets the national industrial milk production target

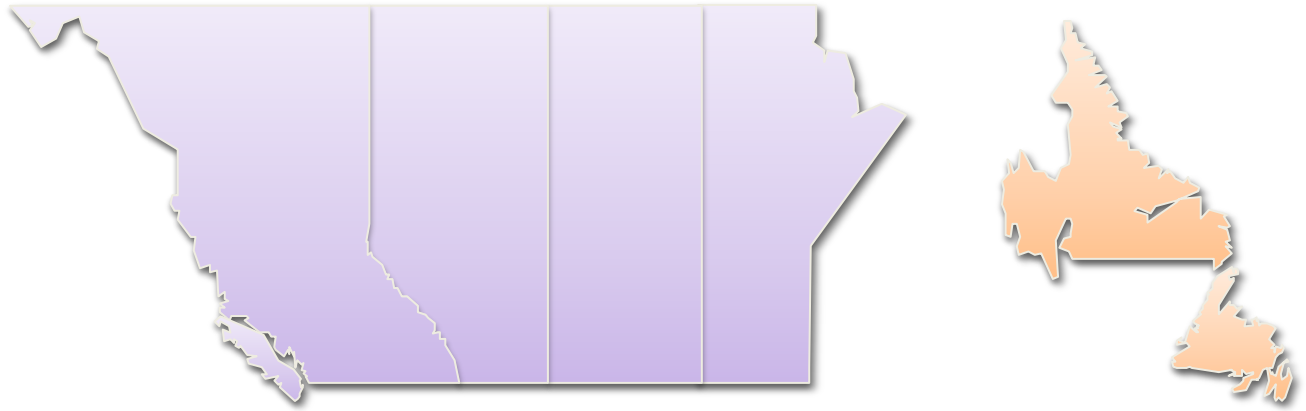
Market Sharing Quota (MSQ)

- Amount of provincial industrial milk quota (MSQ) determined by CMSMC, which is then issued to dairy producers by provinces
- Each province gets a share of industrial milk quota (MSQ) as a proportion of the national target
- Fluid milk quota based on provincial fluid milk sales, as it has a much shorter storage life

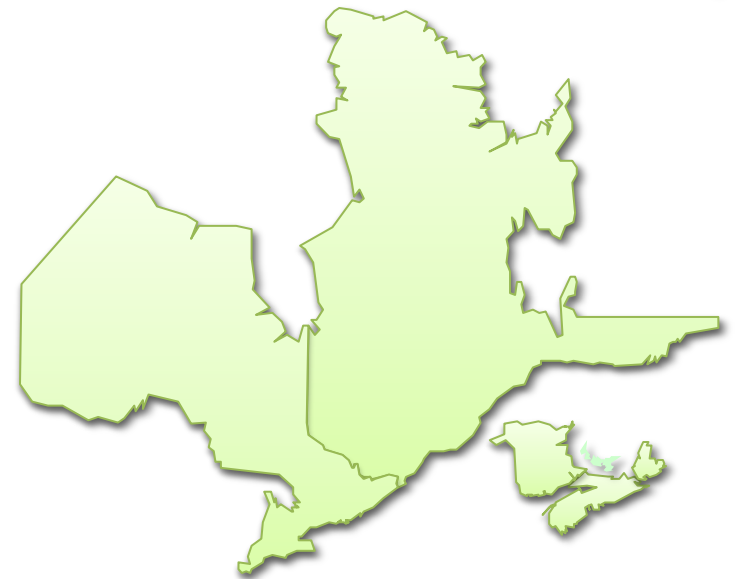
Distribution of the Industrial and Fluid Milk Quota on August 1st 2012



Milk Pools



- Western Milk Pool
- P5
- NFLD & Labrador



What is Milk Pooling?

- Revenue from processors is pooled between provinces and then distributed to each province based on its level of in quota production
- Used to manage financial risks associated with domestic market evolution, and to facilitate more uniform policies across provinces
- Allows more effective management of quota at the national level than in the absence of pooling

Global Perspective

- Canada has a tiered system of tariffs on imports:
 - Low tariffs on an allocation of dairy imports for each trading partner country
 - High tariffs in excess of each trading partner's allocation of imports
- Canada's dairy industry complies with our international trade commitments, though it has undergone significant changes as a result of changes to international trade agreements

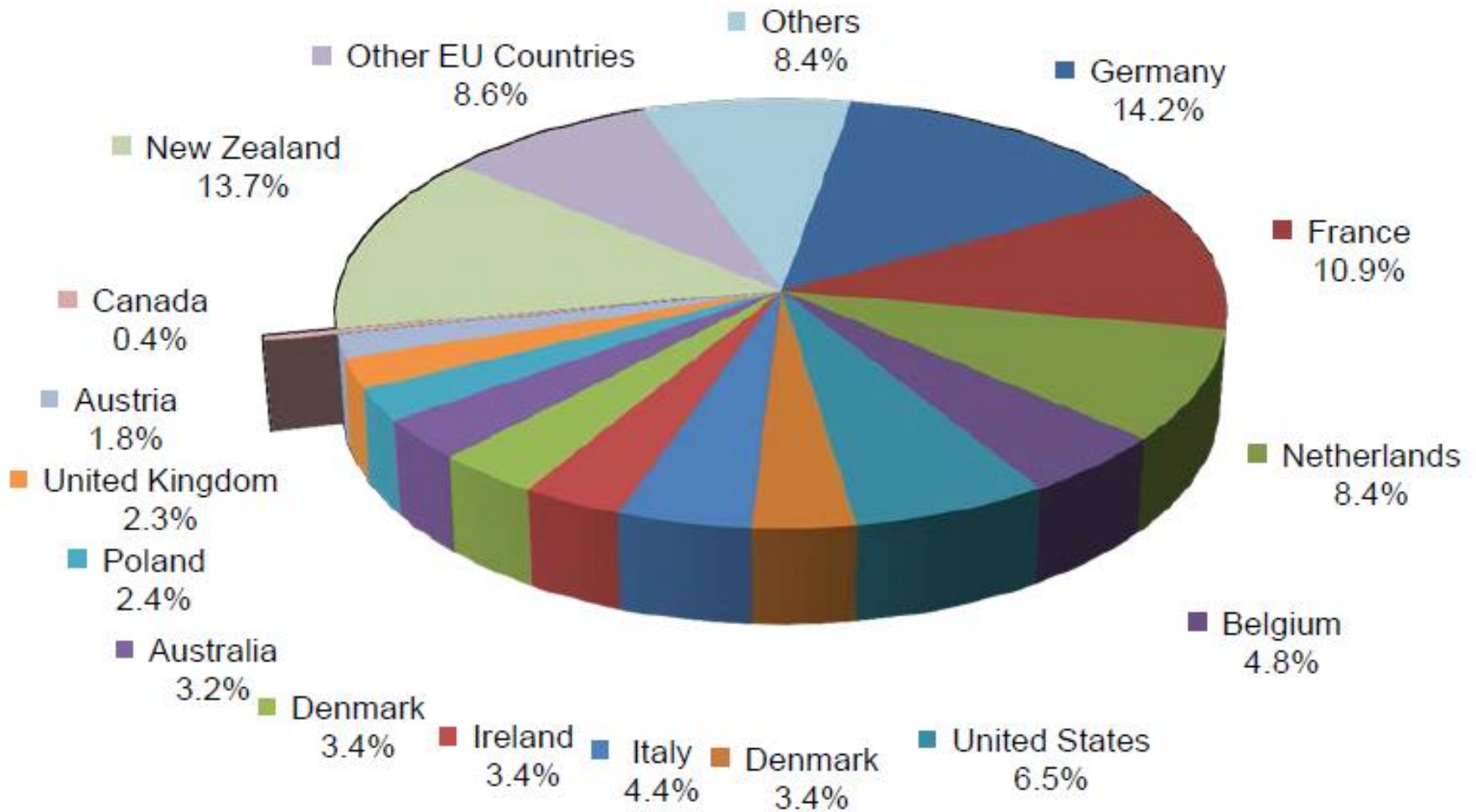
Why The Need For Tariffs?

- Direct and indirect subsidies on agricultural products common around the world (US, EU, NZ, AU, etc)
- Allows Canadians to benefit from trade, while ensuring trade takes place on a level playing field
- Prevents “dumping” of excess dairy products on Canada, which would provide short term benefits for Canadian consumers, but would do long term harm to Canadian producers and consumers

Impacts of Trade Negotiations

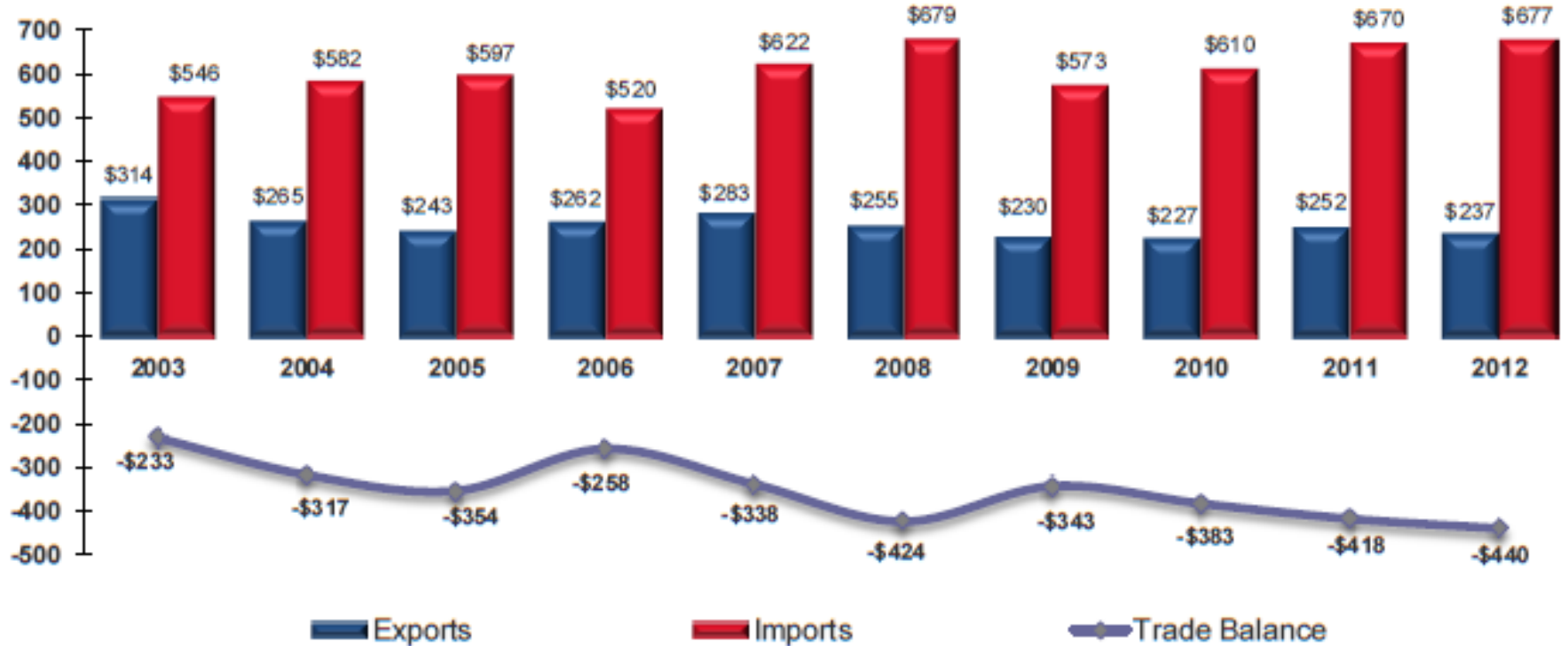
- Current trade negotiations, including the TPP and EU Free Trade discussions, relate to the dairy industry in terms of the quantity of low tariff imports allowed
- Increases in low tariff imports reduce the market size for Canadian dairy farmers, unless there is a corresponding increase in allowable exports to other countries

2012 Global Dairy Trade by Exporting Countries



TOTAL: \$73.7 billion

Canadian Dairy Trade Balance 2003 - 2012 millions \$



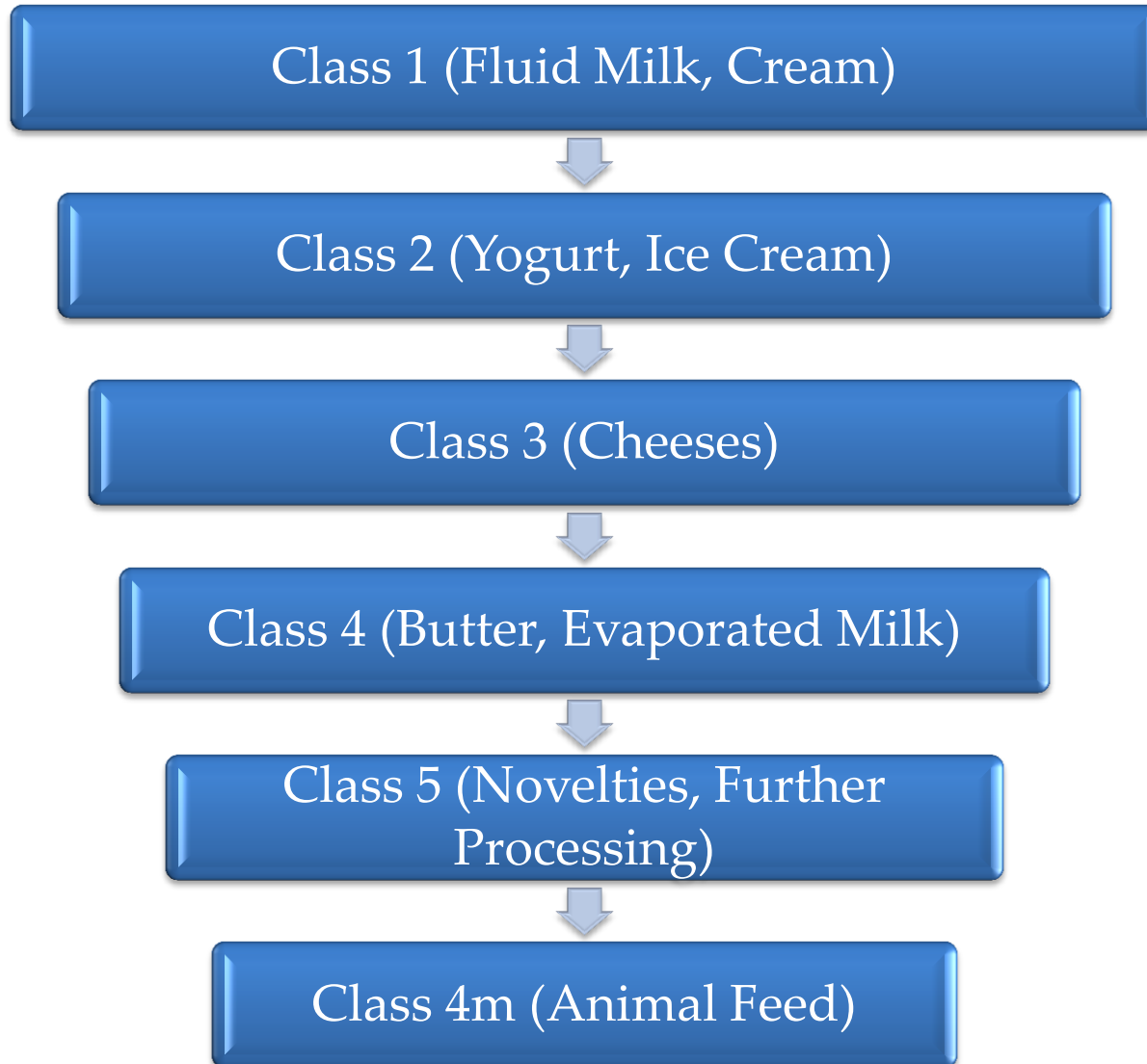
Source: Statistics Canada
Calculations done by AAFC-AID, Dairy Section

Cost of Production in Alberta

- 2012 Dairy Cost Study participants:
 - Gross Income per Litre: \$0.8314
 - Production Costs per Litre: \$0.7430*
- Small farms (40-86 cows) have much higher costs than mid-size or large farms (87-132 or 133-716 cows)

*does not include the price of dairy quota

Harmonized Milk Classification System



Milk Price Adjustments

- Fluid milk prices in Alberta adjusted using a formula:
 - 50% CPI, 50% Cost of Production (from the National COP Study)
- Industrial milk prices adjusted by the Canadian Dairy Commission based on multiple considerations (largely CPI and COP), provinces use these prices as a reference when setting prices for different classes of milk
- Farm revenue depends on what products processors make from the raw milk delivered to their plants

Farm Revenue

- All producers in Alberta receive the same prices for the components of their milk
- Producers are paid for their in quota butterfat, protein and other solids content (lactose, minerals, etc)
- Producers are paid a bonus for milk that meets the highest quality standard (low somatic cell counts, no inhibitor violations, low bacteria counts, no freezing point violations)

What is Alberta Milk?

Vision

Growing a vital, sustainable, and prosperous dairy industry

Mission

Alberta Milk leads Alberta's dairy industry. We support the effective operation and advocacy of the supply management system in a vibrant, sustainable and market-focused industry

What Does Alberta Milk Do?

- Alberta Milk performs several functions including:
 - Processor Invoicing
 - Producer Payment
 - Hauler Payment
 - Quota Administration
 - Processor Price Determination
 - Marketing
 - Transportation Dispatch and Coordination
 - Milk Quality Assurance, On Farm HACCP Programs, and Biosecurity Programs
 - Research Funding

Quota Management

- Producer/Provincial quota managed on a continuous basis, producer quota set by provincial boards of directors to manage provincial/pool production requirements
- Quota managed based on butterfat production, not volume
- Producers, provinces, and pools are all allowed some flexibility to temporarily over or under produce

Producer Quota Management

- Alberta producers are provided with a “+10 day/-30 day” flexibility band
- Financial consequences for producers who over/under produce outside this band
- SNF/BF Ratio Limits tie production of SNF (protein + other solids) to butterfat production, as demand for butterfat is higher than for the other components

Alberta Milk Quota Exchange

- Dairy quota auction facilitated once per month by Alberta Milk (a two-way, hybrid auction)
- Buyers pay according to the price they have bid, sellers receive according to the price they have offered
- The difference between accepted bids and offers results in a pool of money that refunded evenly between buyers and sellers each month
- Quota exchange facilitates the determination of market quota prices, access to quota for producers, and transparency

Canadian Dairy Industry Outlook

- The future is bright:
 - Provincial dairy marketing boards across Canada are working together to harmonize policies
- However, risks still remain:
 - Canada has entered into trade discussions (Trans-Pacific Partnership, EU Free Trade) with major dairy producing countries, who want unrestricted or greater access to Canadian dairy markets
 - Supply management is a contentious issue for these countries because of its tariff/quota system

Sources of Information

- Canadian Dairy Information Centre (CDIC)
- Canadian Dairy Commission (CDC)
- Alberta Milk (and other provincial milk boards)
- Canwest DHI
- Dairy Farmers of Canada (DFC)
- National Cost of Production Study
- Alberta Dairy Cost Study



Questions?

