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Canada

Dairy and Products Annual

Approved By:
Robin Gray

Prepared By:
Darlene Dessureault

Report Highlights:
Milk production is forecast to increase in 2012 due to an increase in Canadian dairy requirements by the dairy processing industry. Butter production is forecast to increase to 85 TMT in 2012 due to a need to rebuild butter stocks. As a result of the forecasted increase in butter production, skim milk powder production is also expected to increase slightly. Cheese production in 2012 is expected to stay at year 2011 levels. Consumption of milk, butter and skim milk powder all fell in 2010 and is reflective of a longer trend. 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). A strong Canadian dollar which slows exports has limited IREP growth for most dairy products.

Executive Summary:

- The estimate for total milk production for calendar year 2011 is 8.35 million metric tons (MMT), representing a slight increase from year 2010 levels of 8.29 MMT. An increase in dairy requirements from the dairy processing industry is forecast to increase fluid milk production to 8.375 MMT in 2012.

- The estimate for total cheese production in 2011 is 300 TMT, which represents a 1.6 percent increase from year 2010 levels of 295 TMT. In 2012, cheddar cheese production is expected to remain at 2011 levels due to strong cheese stocks.

- Total butter production in 2011 is expected to increase to 84 TMT from 2010 levels of 80 TMT due the need to rebuild stocks. Butter production in 2012 is forecast at 85 TMT.

- The estimate for skim milk powder production for 2011 is 76 TMT and is reflective of the increase in butter production expected in 2011. Non-fat dried milk production is forecast to increase to 78 TMT.

- In 2010, Canadian dairy exports were valued at approximately C$227 million, while imports amounted to C$610 million. The main products exported by Canada in 2010 were ice cream and edible ice products, cheese (mainly cheddar), and whey. These represent 25 percent, 21 percent and 16 percent, respectively, share of total exports. Top dairy imports included various kinds of cheeses (40 percent) followed by milk protein substances (16 percent) and casein products (12 percent) (value basis).

- Total cheese exports (excluding cream and fresh cheeses) are estimated to reach 9,000 MT in 2011 and are forecast to remain close to the same level in 2012.

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.

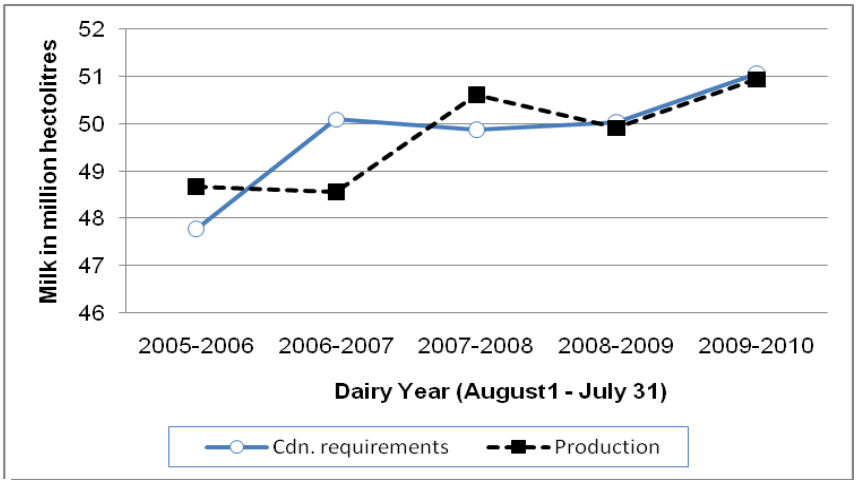
In 2010, dairy production in Canada generated total net farm receipts of $5.5 billion, up slightly from the previous year (http://www.statcan.gc.ca/daily-quotidien/110223/t110223c1-eng.htm), and generated sales of $13.7 billion, representing 15 percent of the Canadian food and beverage sector. The dairy 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).

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 40 percent of total producer shipments of milk.

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

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 6 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 2011 (including on farm feed use) is 8.350 million metric tons (MMT), representing a slight increase from year 2010 levels of 8.291 MMT. Increased manufacturing of yogurt, ice-cream, cheese, 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 2012 fluid milk production levels to increase only slightly to 8.375 MMT.

Since 1999, the national dairy herd has declined by 17 percent, while total milk production has increased by 2.4 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 10 years; however the production per cow has increased by over 10 percent. 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 over 60 percent of utilization.

Cheese

The estimate for total cheese production in 2011 is 300 TMT, an increase from year 2010 levels of 295 TMT. Cheese production has been adjusted to exclude fresh cheeses such as ricotta, cream cheese, and cottage cheese. Cheddar cheese production in 2011 is expected to increase 1 percent from year 2010 levels to 139 TMT. This increase is due to stronger retail sales resulting from a recovering economy, and an increased usage of cheddar cheese in processed products. Production of mozzarella cheese is

also expected to increase in 2011. Mozzarella production estimates for 2011 are 114 TMT, as increase over 2010 levels of 112 TMT. The production levels of cheese in 2012 are forecast to remain at 300 TMT due to strong stocks.

Butter

Butter production in 2010 was 80 TMT. Higher butter stocks at the beginning of 2010 due to strong milk and cream sales decreased butter production from 2009 levels. Total butter production in 2011 is expected rise to 84 TMT due to the need to rebuild stocks and continuing strong demand for industrial use. Butter production is forecast to stay at 2011 levels in 2012. Butter is a very price sensitive dairy product for consumers, and while the economy is in recovery, butter is still considered by many to be a luxury good. 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 2009, butter production rebounded due to the increasing demand for butter for pastries and other baked products.

Non-Fat Dry Milk (Skim Milk Powder)

Non-fat dry milk production (skim milk powder (SMP)) production for 2010 decreased to 72 TMT from 2009 levels of 83 TMT. The estimate for skim milk powder production for 2011 is 76 TMT and production levels are forecast to increase slightly to 78 TMT in 2012 to due a forecasted increase in 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 1% percent of total dairy output, organic milk production is steadily increasing in Canada, reaching close to 87 million liters in the 2009/2010 dairy year, up 19 percent from the previous year. The number of farms producing organic milk increased from 65 in 2000-2001 to 206 in 2009-2010. The most popular finished organic dairy products remain yogurt, ice-cream and cheese.

Prices

In November, 2010, the Canadian Dairy Commission announced its decision to increase the support prices for butter and skim milk powder, effective February 1, 2011. The support price for skim milk powder increased from $6.1783 per kilogram to $6.2721 per kilogram and the support price for butter increased from $7.1024 per kilogram to $7.1922 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, 2%, 1%, skim and chocolate milk by the Canadian population, decreased by 4 percent in 2010 compared to 2009 levels. Per capita consumption in 2010 was at 77.65 liters per person compared to 80.90 liters per person in 2009, and is the lowest level of per capita milk consumption that Canada has ever experienced. Only chocolate milk showed a per capita consumption increase in 2010. Chocolate milk consumption increased to 5.77 liters in 2010 from 2009 levels of 5.73 liters. Consumption of standard, 2 percent, 1 percent, and skim milk decreased by 5 percent, 5 percent, 4 percent and 3 percent, respectively. 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 had 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 decrease in consumption is a reflection of a long term trend. 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, per-capita total cheese consumption (including fresh cheese) in 2010 was 12.66 kilograms, an increase from 2009 consumption of 12.50 kilograms per person. Consumption of cheddar cheese increased from 4.04 kilograms in 2009 to 4.12 kilograms in 2010, while specialty cheeses increased from 7.69 in 2009 to 7.77 kilograms in 2010.

Data compiled by Agriculture Canada's Dairy Section for 2010 reveals that per-capita butter consumption decreased nearly 12 percent from year 2009 levels. Butter consumption decreased to 2.44 kilograms per person in 2010 from 2.79 kilograms per person in 2009. This dramatic decrease is in part due to a dramatic drop in 2010 (nearly 60 percent) of butter imported under the import for re-export (IREP) trade, which is included in the per capita consumption calculation. The demand for butter under the Import for Re-Export Program (IREP) for use in further processing decreased due to a number of factors. A world-wide economic slowdown, a strong Canadian dollar and high world butter prices all contributed to a decreased demand for IREP butter. Butter is also very price sensitive and is considered a luxury good. A slowing economy has likely also contributed to a decrease in consumer demand for butter. Butter sales and consumption have been steadily declining due high cost and increasing competition from liquid oils due to consumers demanding lower-fat alternatives to traditional products.

Domestic consumption of skim milk powder decreased in 2010 to 2.13 kilograms per capita, from 2.53 kilograms per capita in 2009. 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 5 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. The consumption of skim milk powder is expected to stay high. Competition from imports will be limited 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, August1 – 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_en.asp?caId=812&pgId=2182

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=dff-fcil&s2=msp-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[1]	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
Food prep. With milk solids	70	1901.90
Food prep. with >= 25% ms; not for retail sale	0	1901.20
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
Milk Protein Substances[2]	6,188	3504.11

[1] 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.
[2]The TRQ is not applicable to countries that have a free trade agreement with Canada.

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. Details of this program are available at the following website: http://www.dfait-maeci.gc.ca/eicb//notices/ser663-en.asp. 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 on the following website: www.cdc-ccl.gc.ca/cdc/index_en.asp?caId=124&pgId=1530. Other programs 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 Fund.

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.

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 is 64,500 MT, a figure that is considered filled through cross-border purchases by Canadian consumers. 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.

Based on six months of trade data, total milk imports in 2011, including IREP, supplemental permits, and imports under the Duty Deferral Program, 2011 are estimated to reach 31 TMT, a slight decrease from 2010 levels of 32 TMT. 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 2012 to be marginally lower than 2011 levels again due to the possibility of slower growing North American economies. Post forecasts 2012 milk imports at 31 TMT.

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

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 2010 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 2011 and 2012. 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). 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 2010, the United States had the largest share of butter imports (51 percent) due to proximity to the Canadian market and higher U.S. supplies. U.S. imports rose to 8 TMT in 2010. Six months of trade data suggests that imports of total butter imports in 2011 are estimated to reach 8,300 MT, which represents a slight increase above 2010 levels. Butter imports in 2012 are forecast to remain close to 8 TMT.

Non-fat Dry Milk (Skim Milk Powder)

Almost all trade on skim milk powder takes place under the IREP. Imports in 2010 were 3 TMT and are forecast to fall to 2 TMT for 2011 and 2012. The reason for this decrease is attractive domestic programs that decrease 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 increases, the amount that Canada can export within the WTO limits decreases.

In 2010, Canadian dairy exports were valued at approximately C$227 million, while imports amounted to C$610 million. The main products exported by Canada in 2010 were ice cream and edible ice products, cheese (mainly cheddar), and whey. These represent 25 percent, 21 percent and 16 percent, respectively, share of total exports. Top dairy imports included various kinds of cheeses (40 percent) followed by milk protein substances (16 percent) and casein products (12 percent) (value basis).

Fluid milk and cream exports in 2010 are reported to be 4,329 MT. In 2011, based on year-to-date trade data through June, fluid milk and cream exports are expected increase to 4,500 MT. Relatively the same level of supply in 2012 is forecast to keep fluid milk and cream exports at expected year 2011 levels of 4,500 MT.

Total cheese exports (excluding cream and fresh cheeses) in 2010 reached a little over 9 TMT and are forecast to remain close to these levels in 2011 and 2012. In 2010, the United States and the 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 4,000 MT in the U.K. markets and has three specific quotas for U.S. cheese markets: cheddar, Swiss and Emmenthal-type cheeses, and non-specific 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 2010 are 6,892 MT, which is a 40 percent increase over year 2009 levels, but still significantly lower than year 2007 levels of 12,977 MT. 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. Based on seven months of trade, 2011 exports are expected to plummet to 1,000 MT due to decreased demand in the U.S. for dairy spreads. Post forecasts butter exports in 2012 to rebound somewhat to 3,000 MT.

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. Total non-fat dry milk (skim milk powder (SMP)) exports in 2010 reached 6 TMT. In 2010, Cuba and Egypt were the main destinations for Canadian exports of skim milk powder receiving 25 percent and 10 percent, respectively. In 2011, it is estimated that exports will increase to 10 TMT, due to increased demand from Mexico compared to 2010 levels. A forecasted increase in butter production in 2012 is expected to keep export levels of skim milk powder at similar levels to those in 2011.

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 deal with the European Union. 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.

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 diary 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 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.

Statistics:

Dairy, Milk, Fluid Canada	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	981	981	987	985	993	985
Cows Milk Production	8,350	8,291	8,400	8,350	8,450	8,375
Other Milk Production	0	0	0	0	0	0
Total Production	8,350	8,291	8,400	8,350	8,450	8,375
Other Imports	35	32	38	31	40	31
Total Imports	35	32	38	31	40	31
Total Supply	8,385	8,323	8,438	8,381	8,490	8,406
Other Exports	6	4	7	5	8	5
Total Exports	6	4	7	5	8	5
Fluid Use Dom. Consum.	3,184	3,136	3,195	3,106	3,200	4,780
Factory Use Consum.	4,805	4,788	4,846	4,875	4,887	3,226
Feed Use Dom. Consum.	390	395	390	395	395	395
Total Dom. Consumption	8,379	8,319	8,431	8,376	8,482	8,401
Total Distribution	8,385	8,323	8,438	8,381	8,490	8,406
1000 HEAD, 1000 MT						

Dairy, Cheese Canada	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	47	47	42	42	45	45
Production	297	295	305	300	311	300
Other Imports	25	25	27	25	28	25
Total Imports	25	25	27	25	28	25
Total Supply	369	367	374	367	384	370
Other Exports	9	9	9	9	9	9
Total Exports	9	9	9	9	9	9
Human Dom. Consumption	318	316	320	313	330	316
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	318	316	320	313	330	316
Total Use	327	325	329	322	339	325
Ending Stocks	42	42	45	45	45	45
Total Distribution	369	367	374	367	384	370
1000 MT						

Dairy, Butter Canada	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	13	15	10	10	9	13
Production	80	80	84	84	85	85
Other Imports	8	8	8	8	10	8
Total Imports	8	8	8	8	10	8
Total Supply	101	103	102	102	104	106
Other Exports	1	7	1	1	1	3
Total Exports	1	7	1	1	1	3
Domestic Consumption	90	86	92	88	93	89
Total Use	91	93	93	89	94	92
Ending Stocks	10	10	9	13	10	14
Total Distribution	101	103	102	102	104	106
1000 MT						

Dairy, Milk, Nonfat Dry Canada	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	31	31	27	27	18	19
Production	72	72	73	76	75	78
Other Imports	3	3	2	2	2	2
Total Imports	3	3	2	2	2	2
Total Supply	106	106	102	105	95	99
Other Exports	6	6	10	10	10	10
Total Exports	6	6	10	10	10	10
Human Dom. Consumption	72	72	73	75	74	75
Other Use, Losses	1	1	1	1	1	1
Total Dom. Consumption	73	73	74	76	75	76
Total Use	79	79	84	86	85	86
Ending Stocks	27	27	18	19	10	13
Total Distribution	106	106	102	105	95	99
1000 MT						