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Report Highlights:

FAS/Canada projects milk production flat into 2024, based on declining fluid milk consumption, and steady requirements for industrial milk. Production of cheese and butter is forecast to increase modestly in 2024, as stocks have been recovering, and demand remains constant. Growth in cheese imports is expected to slow down, as market access commitments under CETA have been fully implemented, while imports of butter continue to increase, supported by duty-free market access under CPTPP and USMCA. Production of skim milk powder is forecast to decline in 2024, with exports flat, within the limits set by USMCA provisions, as the industry continues to focus on producing high protein dairy ingredients, like milk protein isolates.

Executive Summary:

As consumers reverted to pre-pandemic purchasing patterns, fluid milk consumption resumed its long-term downward trend, expected to extend into 2024¹. With demand for industrial milk steady, FAS/Canada forecasts a flat overall milk production (fluid and industrial markets combined) in 2024 (0.5 percent growth), following a modest production increase in 2023, estimated at 1 percent.

Growth in cheese imports is expected to slow down in 2024, as import tariff rate quotas (TRQs) under the Comprehensive Economic and Trade Agreement (CETA) with the European Union (EU) already reaching their maximum volume of 17,700 metric tons (MT). In 2024, TRQs under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the United States-Mexico-Canada Agreement (USMCA) will grow to a combined volume of just over 25,000 MT. In addition, Canada will continue to import over 20,400 MT of cheese – predominantly from EU countries – under a TRQ established at the World Trade Organization (WTO) in 1995.

Butter stocks gradually recovered over the past year, reaching 29,000 MT in August 2023, from 24,000 MT 12 months earlier, moving closer to the industry target volume of 35,000 MT. Facing steady demand, FAS/Canada expects a modest 1 percent increase in butter production in 2024, while imports will continue to be fueled by TRQ volumes under CPTPP and USMCA, which combined will reach just over 9,000 MT in 2024.

USMCA provisions impose export surcharges on Canadian exports of skim milk powder (SMP) and milk protein concentrates (MPC)² in excess of 36,275 MT. FAS/Canada forecasts SMP exports steady in 2024 at 30,000 MT, the same level estimated for 2023. SMP production continues to decline, with the 2024 level forecast at 80,000 MT, down from an estimated 82,000 MT in 2023. While the overall milk protein structural surplus is expected to remain relatively constant into 2024, the dairy industry is expected to continue its production and export focus away from SMP and MPC into higher-protein powders, like milk protein isolates³ (this last category of protein powders being excluded from USMCA export surcharges).

¹ All years in this report are calendar years, unless otherwise noted. Canadian milk marketing year (MY) 2023/24 commenced on August 1, 2023, and will end on July 31, 2024.

² SMP exports are classified under the Harmonized System (HS) code 0402.10, and MPC under HS code 0404.90.

³ Milk protein isolate (MPI) exports are classified under HS code 3504.00.

MILK:

Table 1.
Production, Supply and Distribution (PS&D):

Dairy, Milk, Fluid Canada	2022		2023		2024	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Cows In Milk	972	975	975	970	0	970
Cows Milk Production	10,230	10,178	10,330	10,265	0	10,310
Total Production	10,230	10,178	10,330	10,265	0	10,310
Total Imports	65	65	65	70	0	75
Total Supply	10,295	10,243	10,395	10,335	0	10,385
Total Exports	19	19	15	15	0	20
Fluid Use Dom. Consum.	2,730	2,721	2,705	2,705	0	2,685
Factory Use Consum.	7,086	7,043	7,210	7,150	0	7,215
Feed Use Dom. Consum.	460	460	465	465	0	465
Total Dom. Consumption	10,276	10,224	10,380	10,320	0	10,365
Total Distribution	10,295	10,243	10,395	10,335	0	10,385

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

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

Production:

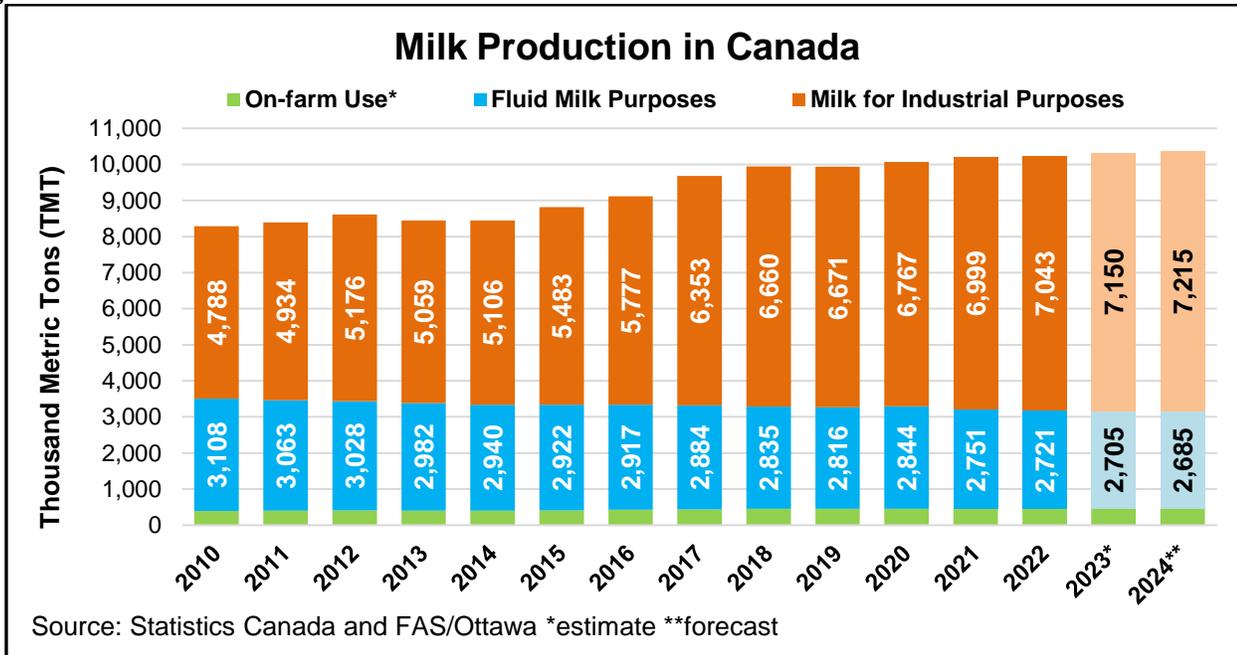
Canada maintains a supply management system for milk, in which production quota is allocated on a butterfat basis such that one share of quota is equivalent to the production of 1 kilogram of butterfat per day. The national Canadian Milk Supply Management Committee (CMSMC) sets the total quota volume based on recommendations from the Canadian Dairy Commission (CDC). The CDC monitors the trends in Canadian market requirements for butterfat and recommends milk production adjustments to reflect changes in Canadian domestic demand for milk and various dairy products. The CMSMC applies the terms of the National Milk Marketing Plan (a federal-provincial agreement) to establish each province's share of the total production quota.

Quota increases and decreases are shared among two regional pools: the Eastern Canadian Milk Pool (or P5), which includes Prince Edward Island, Nova Scotia, New Brunswick, Quebec, and Ontario; and the Western Milk Pool (WMP), which is made up of Manitoba, Saskatchewan, Alberta, and British Columbia. Each pool is then responsible for distributing shares of the quota to producers according to provincial policies and in accordance with pooling agreements. In 2020, for revenue sharing purposes, the dairy industry decided to gradually merge, over a three-year period, the two milk pools, and to add Newfoundland and Labrador to the milk pooling system. Starting in 2023, there is only one single national milk pool that covers all ten provinces. Milk in Canada is priced based on the end use of its major components: butterfat, protein, and other solids non-fat. Milk component prices are published on the [Canadian Dairy Information Centre](#) website and on the [Canadian Dairy Commission](#) website.

Milk produced in Canada supplies two markets: the fluid milk market, which includes fluid milk for direct consumption, creams, and flavored milks; and the industrial milk market (or milk for factory use), which is used to make dairy products such as butter, cheese, yogurt, ice cream, and milk powders. The

fluid milk market accounts for less than 30 percent of total milk produced in Canada, and milk for factory use constitutes just over two thirds of the total. On-farm use is estimated to account for less than five percent of total milk produced.

Figure 1.



FAS/Canada forecasts total milk production to reach 10.310 million metric tons (MMT) in 2024, a modest increase from the 2023 estimate of 10.265 MMT. Demand for industrial milk remains steady, and the consumption of fluid milk has returned to the pre-pandemic, long-term declining trend. The overall dairy market in Canada is mature and stable, with certain products (like cheese and butter) increasingly supplied via imports under various trade agreements. Going forward, overall milk production is expected to increase modestly, largely in tandem with the growth in Canada’s population, at an annual rate of about 1 percent.

Between 2014 and 2018, Canada experienced a significant growth in the dairy sector, with total milk production rising by 18 percent, most of which was driven by growth in industrial milk production. Between 2014 and 2018, industrial milk production increased by over 30 percent, while milk for the fluid market declined by almost 4 percent. The driving factor behind the overall sector growth was a renewed positive consumer perception of the health attributes of butterfat. By 2019, butterfat supply caught up with demand, and when the sector saw the first signs of oversupply, provincial milk boards sent signals to farmers to level off production. As a result, factory use milk production in 2019 remained virtually unchanged from 2018, while milk for the fluid market declined another 1 percent. Going forward, FAS/Canada expects this new pattern of stagnant or modest growth to continue into the foreseeable future. Industrial milk production is estimated to increase 1 percent in 2024, while milk production for the fluid market is expected to show a 1 percent decline.

In general, there is no direct relationship between milk board announcements related to milk production quota increases (or cuts) and the actual volume of milk produced. Production quota announcements are

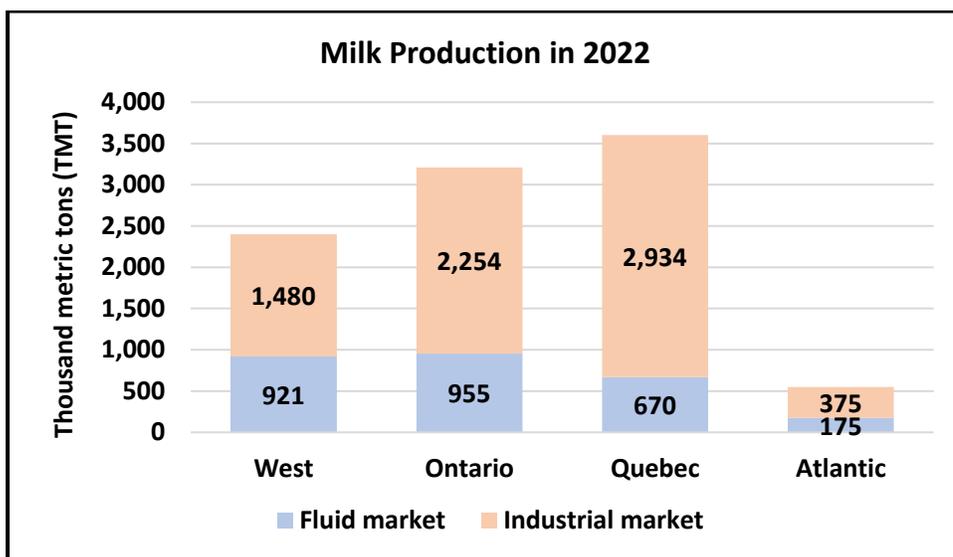
essentially signals sent to dairy farmers to make farm-level adjustments in order to influence production in the desired direction. The actual milk production volume is the result of numerous factors, including: production quota, the number of incentive days allowed, the number of production credit days claimed, the level of penalties applied to over-production volumes, weather conditions, feed quality, and farm management practices.

Canadian dairy cow productivity has steadily increased over the past two decades, primarily due to improved genetics, but also as a result of improvements in farm management practices, feed quality, and greater use of robotic milking systems that typically result in increased milkings per day. In 2008, the average volume of milk production per dairy cow was 8.0 MT annually. By 2018, this volume had grown 22 percent to 9.8 MT annually. FAS/Canada projects average dairy cow milk productivity to reach 10.2 MT in 2024, 27 percent over the 2008 level.

Trends⁴ in Dairy Farming⁵:

Nearly 70 percent of Canada’s milk production is concentrated in Quebec and Ontario, with just about 25 percent in the West and 5 percent in the Atlantic region. As early Canadian settlers lived primarily in Quebec and Ontario, these provinces are home to a multitude of relatively small dairy farms, often run by fifth or sixth-generation producers. By contrast, dairy farming is relatively new to the Western agricultural sector, with large, modern farms still managed by first or second-generation producers.

Figure 2.

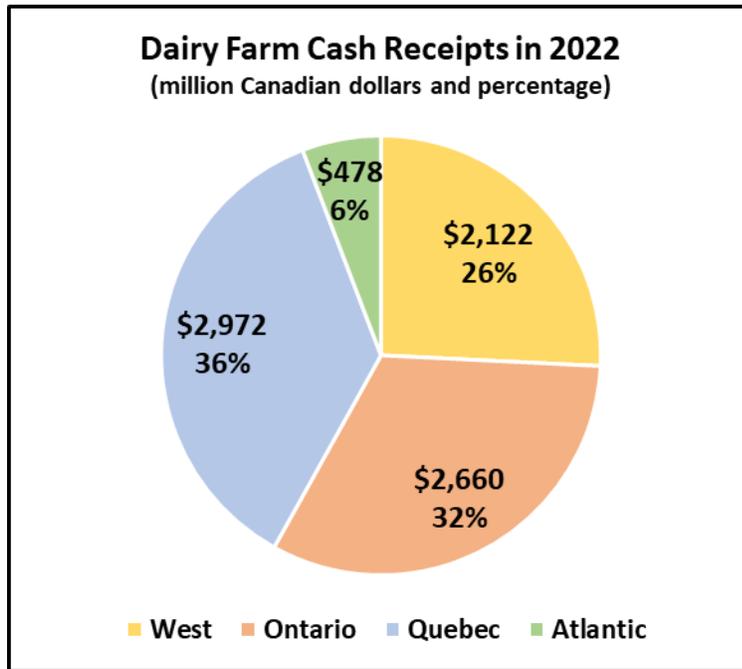


The long tradition of dairy farming in Ontario and Quebec also explains, in part, the concentration of dairy processing facilities in these two provinces. The combined share of milk for industrial use in Ontario and Quebec exceeds 75 percent of total milk production in these two provinces, compared to about 62 percent in the West.

⁴ This section covers longer term characteristics of the Canadian dairy sector. Although actual data is slightly different from year to year, the underlying trends are consistent.

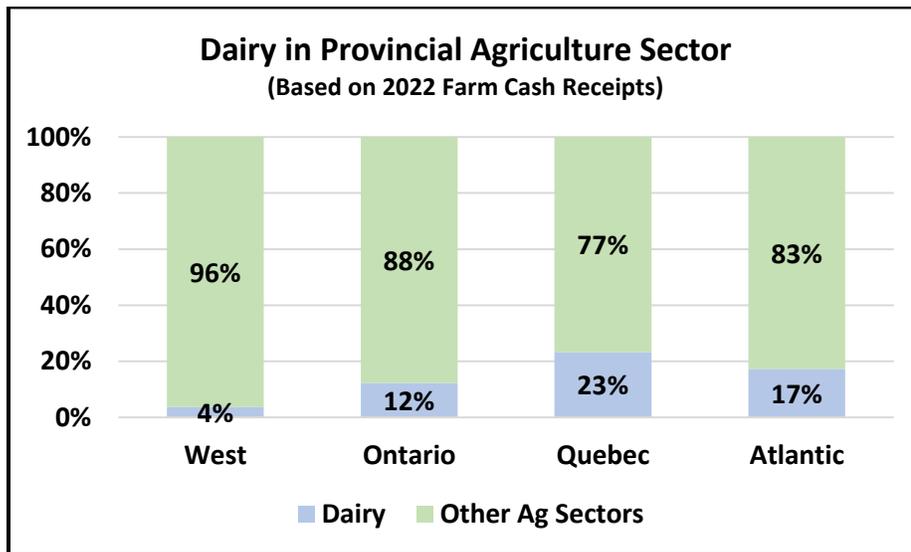
⁵ In this section, “West” includes the provinces of British Columbia, Alberta, Saskatchewan, and Manitoba, while “Atlantic” includes New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador.

Figure 3.



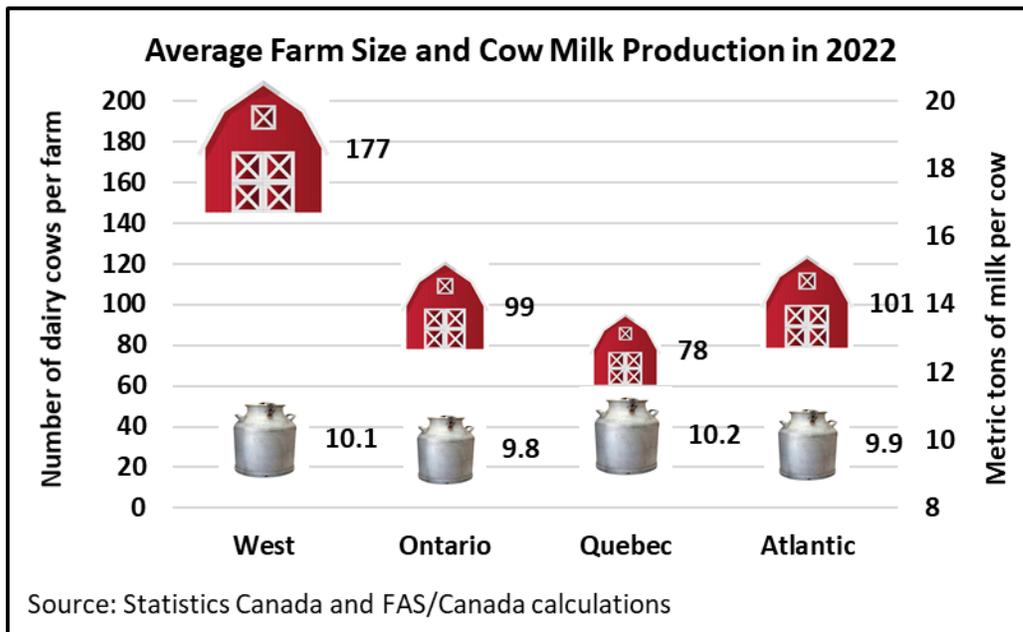
Farm cash receipts generated by farmers in various regions largely mirror the share of milk production taking place in those regions. Ontario and Quebec generate a combined 70 percent in milk revenues, while the West captures about 25 percent of dairy farm cash receipts.

Figure 4.



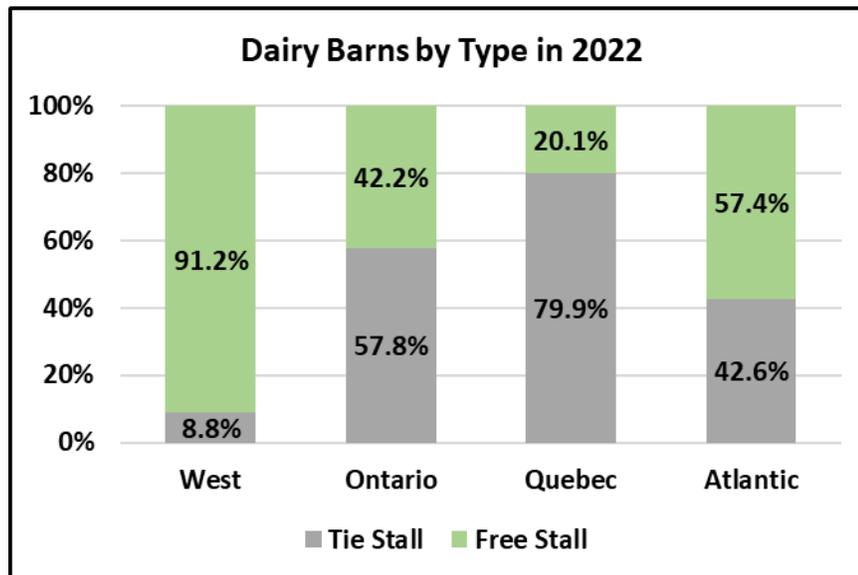
Across Canada, dairy farming cash receipts as a percentage of total provincial agricultural sector revenue vary significantly, with Quebec generating nearly one quarter of total farm cash receipts from dairy.

Figure 5.



Despite the relatively small size of the dairy sector in the West, dairy farms in western provinces are in fact among the largest and the most technologically advanced in the country. The average farm size in the West, in terms of number of dairy cows, is about twice the size of average farms in Ontario and Quebec, typically supporting greater production efficiencies and yields per cow.

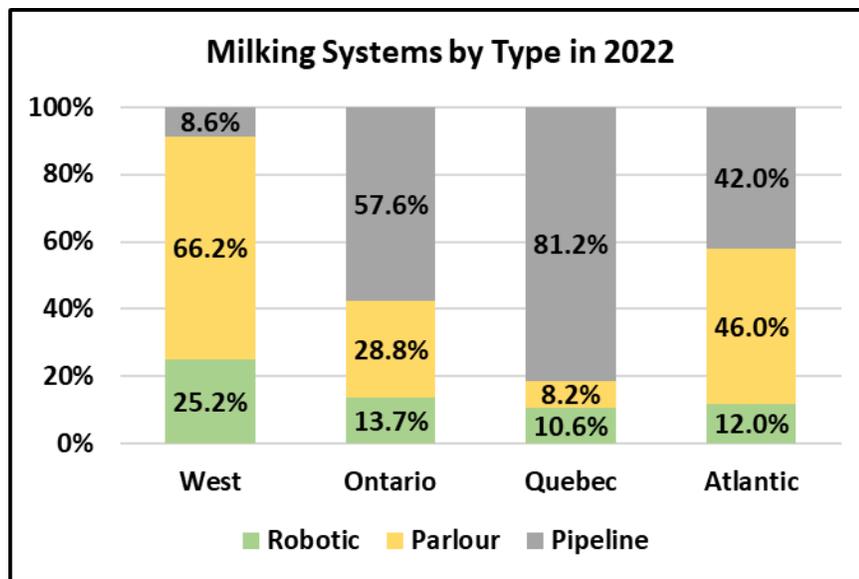
Figure 6.



Not having inherited legacy dairy facilities, Western Province dairy farmers had greater opportunities to invest in newer barns, incorporating more modern technologies and configurations. This is demonstrated

by the higher adoption of the free stall dairy farming model as well as the wider utilization of modern milking technologies, including rotary parlors and robotic milking stations.

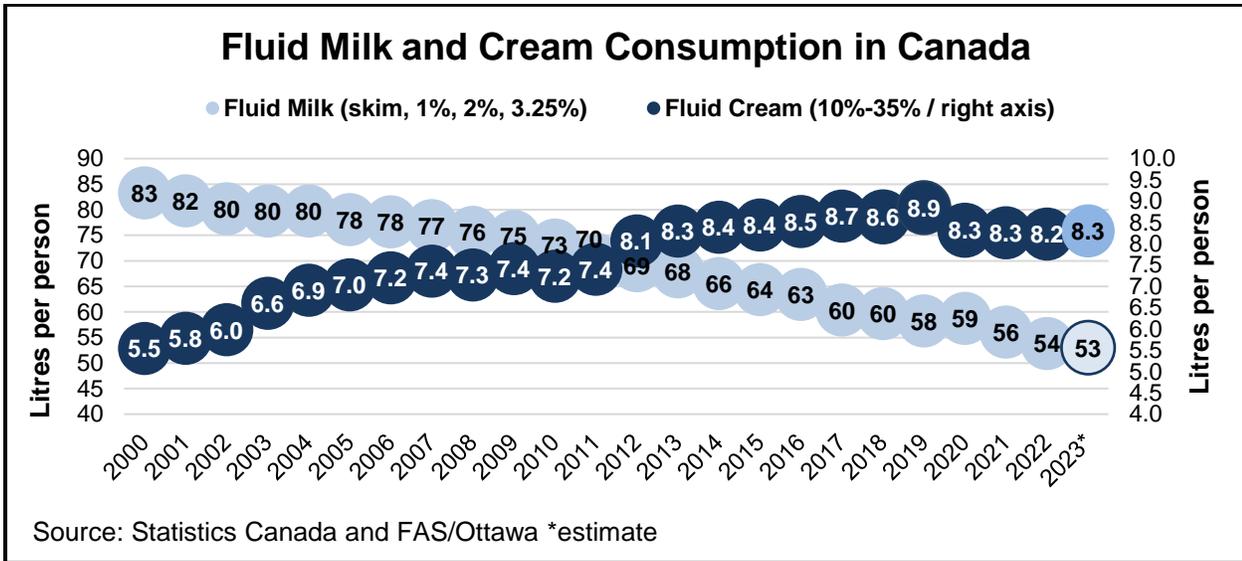
Figure 7.



Consumption:

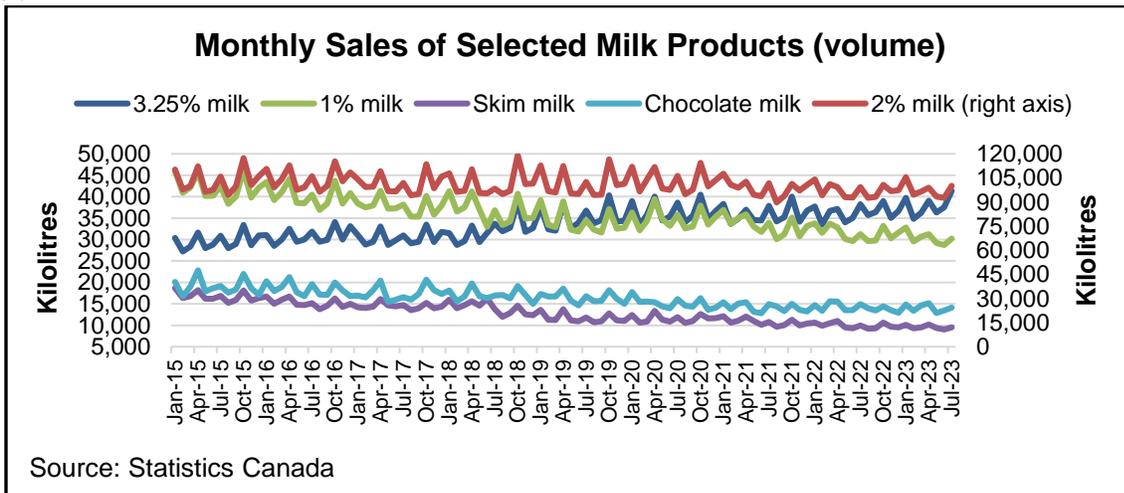
Per capita consumption of drinking milk has trended downward for over two decades, with the one-time exception being the first year of the COVID-19 pandemic (2020), as consumers spent more time at home. As the pre-pandemic trend (i.e., decreased per capita consumption) resumed in 2021, fluid milk consumption is expected to drop to an estimated average level of 53 liters per person in 2023. Fluid cream consumption, which has been steadily increasing over the past decade via sales in the food service sector (primarily coffee shops), was negatively impacted by the pandemic, and has decreased by 7 percent when compared to pre-pandemic levels, to an average of 8.2 liters per person in 2022. While the reduction in overall cream consumption persisted for several years, FAS/Canada estimates 2023 to be the turning point back to an ascending trend, with an estimated cream consumption of 8.3 liters per person this year.

Figure 8.



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

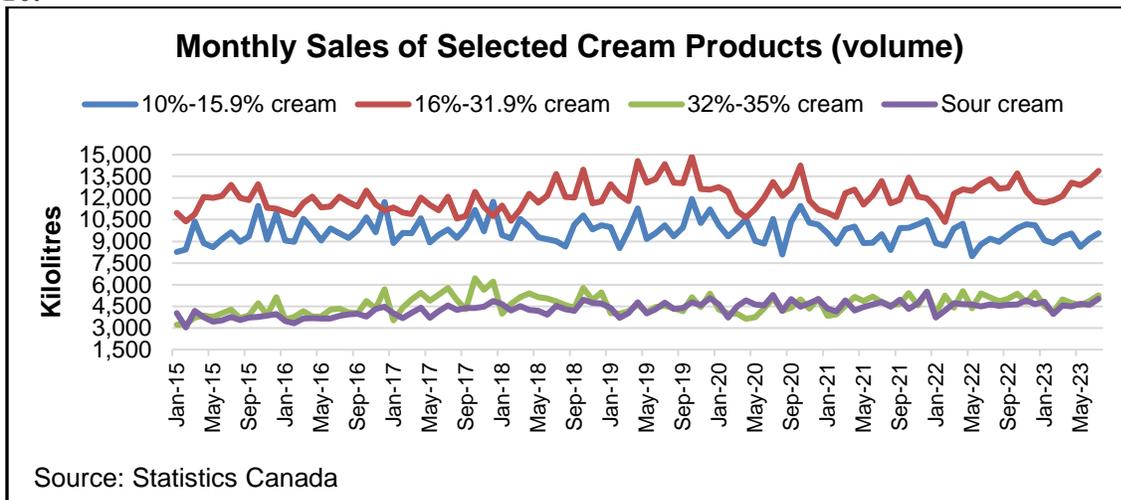
Figure 9.



In general, cream consumption has increased in Canada due to a strong coffee culture and the changing consumer preference for higher fat content products. However, restrictions on the food service sector during the COVID-19 pandemic led to a significant drop in fluid cream sales, as café and restaurant visits have ebbed and flowed in relation to COVID-19 restrictions and changing consumer behavior.

During the most recent marketing year (MY) 2022/23 (August 2022 to July 2023) overall sales of liquid cream (10 to 35 percent butterfat content) posted a 2 percent growth over the preceding MY 2021/22, yet sales remained 1 percent below the pre-pandemic level registered during the MY 2018/19. The driver behind this recent growth was the category of heavier creams (16 to 35 percent butterfat), which showed a nearly 3 percent increase over the previous marketing year.

Figure 10.



Trade:

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

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

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

Table 2.

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

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

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

Table 3.

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

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

Under the [United States-Mexico-Canada Agreement](#) (USMCA), which entered into force on July 1, 2020, Canada agreed to a milk [TRQ](#), providing additional market access as follows:

Table 4.

Quota Year (August to July)	Milk (in MT)
July 2020 (year 1)	8,333
2023/24 (year 5)	41,667
2024/25 (year 6)	50,000
2037/38 and onward	56,905

Up to 85 percent of this TRQ can be [allocated](#) to bulk milk (not for retail sale) importation for processing into dairy products used as ingredients for further food processing, and FAS/Canada estimates this TRQ will be fully filled .

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

Table 5.

Quota Year (August to July)	Cream (in MT)
July 2020 (year 1)	1,750
2023/24 (year 5)	8,750
2024/25 (year 6)	10,500
2037/38 and onward	11,950

Of the entire USMCA cream TRQ volume, 85 percent is to be [allocated](#) to the importation of cream in bulk (not for retail sale) to be processed into dairy products used as ingredients for further food

processing. Only products originating in the United States may qualify under this cream TRQ, and FAS/Canada estimates the TRQ will be fully filled.

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

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

Policy:

On August 16, 2019, the federal government [announced](#) a support package of \$1.75 billion Canadian dollars (CAD) to be distributed over eight years to dairy farmers as compensation for projected negative impacts on the Canadian dairy industry from market access concessions in the CETA and CPTPP trade agreements. Of the total amount announced, \$345 million CAD was paid out in 2019 (the first year) as direct payments under the [Dairy Direct Payment Program \(DDPP\)](#), benefitting all dairy producers in proportion to their quota shares. To be eligible, farmers would have to own a valid dairy license, own milk quota, and be registered with a provincial milk marketing board.

On November 28, 2020, the government [announced](#) an accelerated payment schedule for the remaining amounts under the DDPP, as follows:

- \$468 million CAD in marketing year (MY) 2020-21 (running from August to July)
- \$469 million CAD in MY 2021-22
- \$468 million CAD in MY 2022-23

In mid-November 2022, the federal government [announced](#) and [reconfirmed](#) a support package for Canada's supply-managed sectors (i.e. dairy, poultry and eggs) as compensation for market access concessions under the USMCA. The compensation package included \$1.2 billion CAD to be disbursed over six years for dairy farmers under the [Dairy Direct Payment Program](#).

Overall, the various compensation measures to dairy farmers for market access concessions under CETA, CPTPP, and USMCA amount to \$3.2 billion, or approximately \$330,000 per dairy farm⁶. For more information on Canada's compensation measures please review [FAS/Canada's GAIN report on Compensation \(CA2022-0037\)](#).

Canada publishes milk component prices on the [Canadian Dairy Information Centre](#) website for milk classes having different prices in different provinces, and on the [Canadian Dairy Commission](#) website for milk classes with the same price at the national level. Milk classes are defined under Canada's

⁶ AAFC [reported](#) 9,739 total dairy farms as of August 1, 2022.

[Harmonized Milk Classification System](#), which, since June 2020, no longer includes milk class 7⁷. [USMCA](#) required the elimination of milk class 7 before January 1, 2021.

Milk component prices are calculated based on the National Pricing Formula (NPF), a mechanism developed by producers and processors, 50 percent based on changes in the cost of production and 50 percent on changes in the Consumer Price Index (CPI). Typically, milk component prices are determined at the end of a calendar year and take effect on February 1 of the following year.

⁷ For additional information on milk class 7, please refer to the last section of this report related to skim milk powder (SMP).

CHEESE:

Table 6.
Production, Supply and Distribution (PS&D)

Dairy, Cheese*	2022		2023		2024	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Canada						
Beginning Stocks	83	82	85	84	0	85
Production	530	517	540	522	0	527
Total Imports	52	52	50	54	0	56
Total Supply	665	651	675	660	0	668
Total Exports	8	8	11	9	0	10
Total Dom. Consumption	572	559	580	566	0	573
Ending Stocks	85	84	84	85	0	85
Total Distribution	665	651	675	660	0	668

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

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

Production:

Cheese production has been one of the driving forces behind the recent expansion in milk production in Canada, with an 18 percent increase between 2014 and 2018. However, since 2019, cheese production growth appears to have leveled off as recently implemented trade agreements brought additional imported cheese volumes to the market. Facing a stable demand, FAS/Canada expects growth rates in cheese production of about 1 percent annually for the foreseeable future. For 2024, cheese production is forecast at 527,000 MT, following an estimated level of 522,000 MT in 2023. Despite the COVID-19 pandemic, cheese demand remained resilient and contributed to the overall growth in the dairy sector, a trend expected to continue in the post-pandemic environment. FAS/Canada estimates that cheese stocks have remained remarkably stable over the past 12 months, reaching an estimated 82,100 MT in August 2023, slightly lower than the estimated level of 83,600 MT in August 2022.

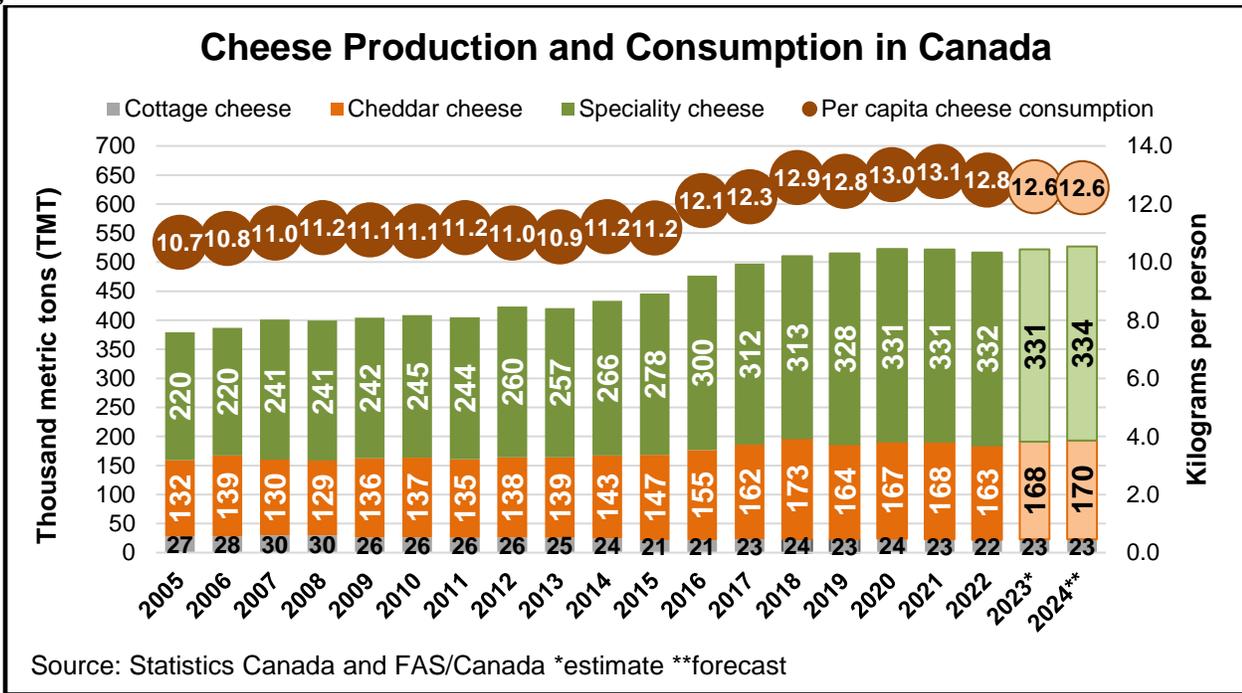
Consumption:

The recent positive change in consumer perception towards consuming foods rich in butterfat has also had an impact on cheese consumption. Canadians started to increase their consumption of cheese in 2014, with new records in per capita consumption registered for several years in a row. Sales remained unaffected by the COVID-19 pandemic, as strong retail grocery demand for cheese, consumed either directly or in processed products, coupled with demand from the fast-food restaurant segment, managed to offset the weaker demand from the rest of the food service sector. Cheese sales are expected to remain strong in a post pandemic environment as well, especially as retail offerings are increasingly supplied by imports under Canada’s various trade agreements.

Per capita consumption is influenced by the total amount of product available on the market, and by the country’s total population. Over the last two decades, Canada’s annual population growth has remained fairly stable at around 1 percent, driven primarily by the arrival of new immigrants to the country, rather

than by natural increase⁸. After pandemic-related delays in processing immigration applications resulted in lower growth rates in 2020 and 2021, Canada’s population grew in 2022 by a record of nearly 3 percent. Available data suggests this trend is likely to extend into 2023 as well. This exceptional growth in population over a relatively short period of time is the primary explanation for the lower levels of per capita cheese consumption observed in 2022 (12.8 kilograms) and estimated for 2023 and 2024 (12.6 kilograms).

Figure 11.

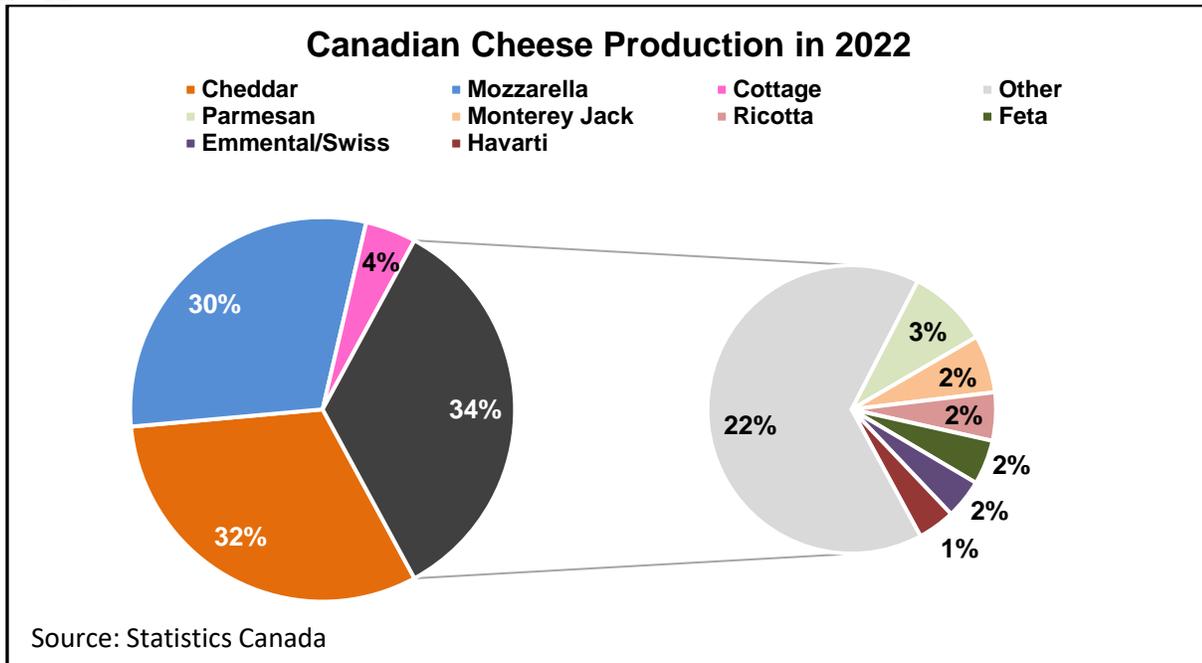


Consumption of various types of cheese in Canada largely mirrors the domestic production pattern. After cheddar, which represents about one third of cheese consumed in Canada, the second largest type of cheese consumed is mozzarella at about 30 percent of the total. Mozzarella is widely used in fresh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

Cottage cheese represents about 5 percent of total cheese consumption in Canada, and all other kinds of cheese collectively account for the last third of total consumption, comprised of various types of specialty cheeses. Many of these specialty cheeses are used industrially as ingredients in further processed foods, while others are typically used on hamburgers, sandwiches, and subs (like Swiss, Monterey Jack, Havarti, or Provolone).

⁸ Natural increase is the difference between the number of births and deaths.

Figure 12.



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

Trade:

FAS/Canada forecasts cheese imports to reach 56,000 MT in 2024, following an estimated level of 54,000 MT in 2023, primarily based on expanded imports from the United States (as the USMCA cheese TRQs will enter the fifth year of implementation). Imports from EU and CPTPP countries will no longer play a driving role in Canada’s cheese imports, as the TRQs under those respective trade agreements (CETA, and CPTPP) have either reached their maximum volume (17,700 MT in the case of CETA), or the remaining TRQ growth is only marginal (after reaching 14,500 MT in 2023, TRQ expansion under the CPTPP agreement will add about 200 MT annually, for the next several years).

Table 7.
Canadian Cheese Imports: Year-to-Date Data (January-July)

Canada Import Statistics								
Commodity: HS 0406, Cheese and Curd								
Year To Date: January - July								
Partner Country	Unit	Quantity			% Share			% Change
		2021	2022	2023	2021	2022	2023	2021/2020
World	T	24,012	25,900	26,079	100%	100%	100%	0.7%
EU 27+UK	T	15,335	15,456	13,593	63.9%	59.7%	52.1%	-12.1%
United States	T	6,185	6,924	8,744	25.8%	26.7%	33.5%	26.3%
New Zealand	T	371	890	1,757	1.5%	3.4%	6.7%	97.4%
Switzerland	T	1,292	1,273	1,195	5.4%	4.9%	4.6%	-6.1%
Australia	T	610	1,066	416	2.5%	4.1%	1.6%	-61.0%
Norway	T	77	77	93	0.3%	0.3%	0.4%	20.8%
Other countries	T	142	214	281	0.6%	0.8%	1.1%	31.3%

Source: Trade Data Monitor

Under its WTO commitments, Canada maintains an annual all-cheeses [TRQ](#) of 20,412 MT. Of this total TRQ volume, 14,272 MT (70 percent) are allocated to EU members (as per Canada's WTO commitment) and the balance is made available to imports from all countries. The volumes are allocated to historical [importers](#) of cheese (75 companies) and the 2022 TRQ fill rate was 97 percent.

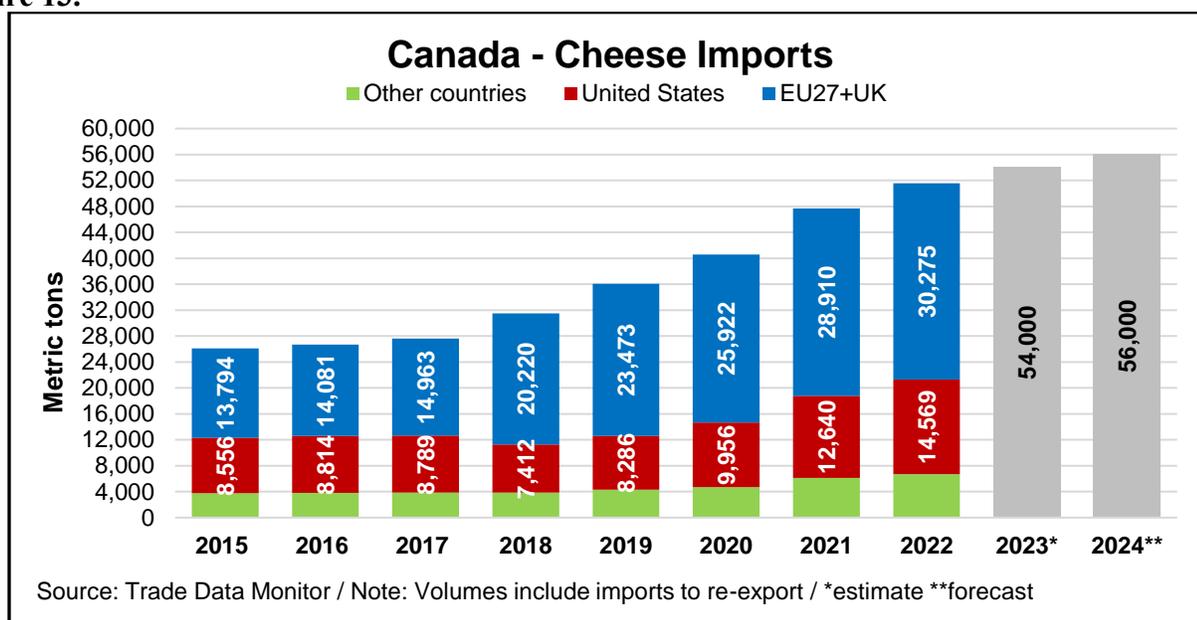
Canada provides additional access to EU members under two [CETA](#) TRQs: an industrial cheese TRQ, and an all-cheese TRQ. In 2022, following a six-year implementation period, both TRQs reached their maximum volumes as follows: the industrial cheese TRQ now has an annual (calendar year) volume of 1,700 MT, while the all-cheeses TRQ has an annual (calendar year) volume of 16,000 MT.

The CETA [all-cheeses TRQ](#) is allocated to two categories of [importers](#); dairy processors (about 45 companies) and distributors/retailers (about 200 companies). Each receive 50 percent of the total TRQ volume. In each category, 30 percent of the total TRQ volume is allocated to small and medium-sized companies (equaling 60 percent of the total all-cheeses TRQ volume) and 20 percent of the total TRQ volume is allocated to large companies (constituting 40 percent of the total all-cheeses TRQ volume).

The CETA [industrial cheese TRQ](#) is entirely allocated to [further processors](#) (8 companies), defined as companies that use cheese as an ingredient in the production of further processed food products, other than cheese, in their own provincially-licensed or federally-registered processing facilities.

In 2022, the CETA all-cheeses TRQ fill rate reached 96 percent, while the CETA industrial cheese TRQ was 40 percent filled, and FAS/Canada estimates similar fill rates in 2023.

Figure 13.



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

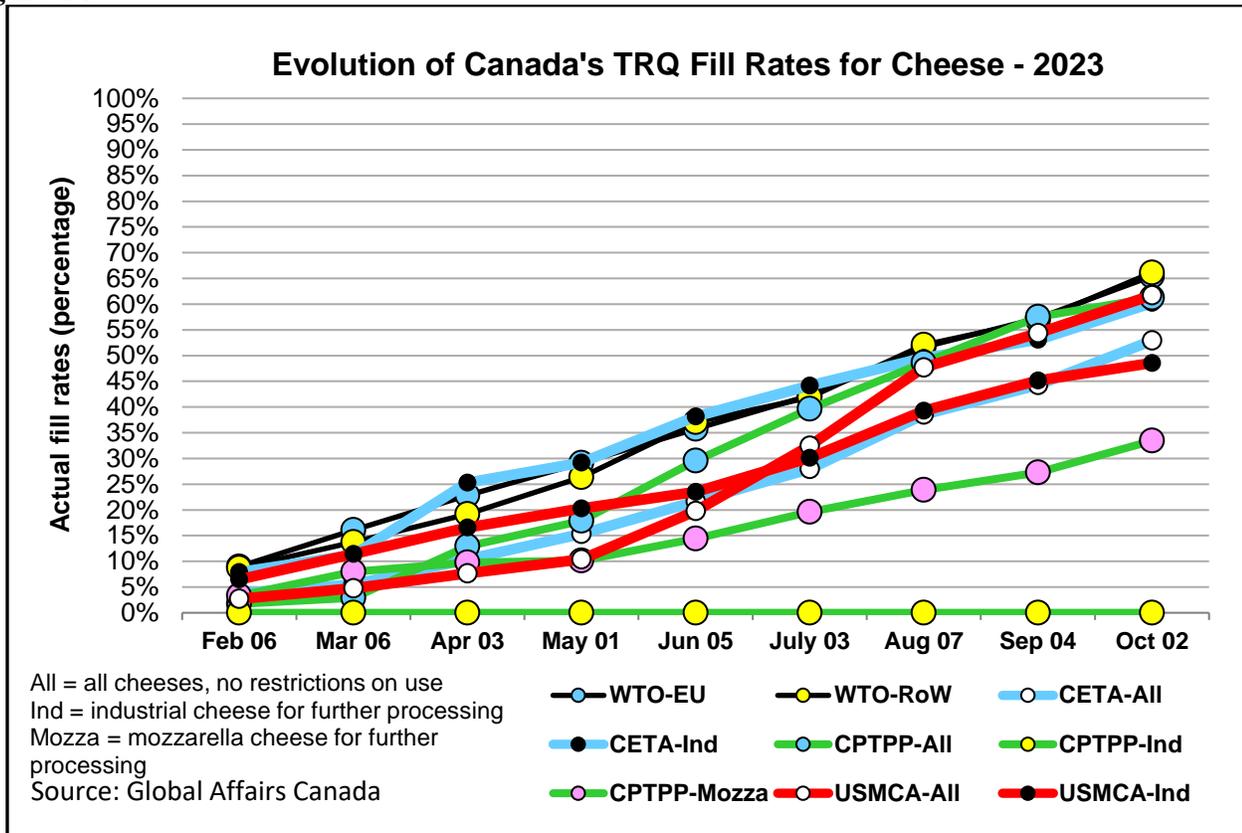
Table 8.

Quota Year (January-December)	Industrial Cheese (in MT)	Mozzarella and Prepared Cheese (in MT)	All Cheeses (in MT)
2018 (year 1)	1,329	483	604
2024 (year 7)	8,055	2,929	3,661
2036 and onward	9,076	3,300	4,126

In 2022, the fill rates for the CPTPP TRQs were: all cheeses 66 percent, mozzarella and prepared cheeses 60 percent, and industrial cheese 1 percent.

The table below presents the evolution of the fill rates for various cheese TRQs, as observed at several points during 2023. Global Affairs Canada publishes regular reports on cheese TRQ [utilization](#) rates.

Figure 14.



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

Table 9.

Quota Year (January-December)	Industrial Cheese (in MT)	All Cheeses (in MT)
July-December 2020 (year 1)	521	521
2024 (year 5)	5,208	5,208
2025 (year 6)	6,250	6,250
2038 and onward	7,113	7,113

The USMCA cheese TRQs are available exclusively to imports from the United States. The USMCA also includes provisions to ensure the cheese TRQs volumes are allocated in commercially viable shipping quantities. In 2022, the fill rate for the USMCA all cheeses TRQs was 88 percent, while the fill rate for the industrial cheese TRQ was 45 percent.

Under the USMCA, the United States opened a [TRQ](#) for imports of cheeses of all types from Canada. The market access available under this TRQ covers an initial 2,083 MT of cheese in year one of

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

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

Policy:

On May 15, 2020, in response to the COVID-19 pandemic, the federal government [announced](#) a \$200 million CAD increase to the Canadian Dairy Commission's (CDC) borrowing limit (from \$300 million CAD to \$500 million CAD) to enable the CDC to increase its temporary purchase and storage of butter and cheese to help balance market supply and demand. According to [announced program details](#), the CDC would purchase products from dairy processors under a contractual commitment that these companies buy them back at the selling price, at a later date when market conditions improve. Information on the [CDC website](#) shows that as of April 30, 2023, about 850 metric tons of cheese were covered by "repurchase agreements" valued at nearly \$8 million CAD. Increasing CDC's borrowing limit required a legislative change and parliamentary approval, therefore this policy change remained in place beyond the COVID-19 pandemic, and is likely to continue in the foreseeable future, unless Parliament takes another legislative action to revert the borrowing limit to its pre-pandemic level.

The Federal Budget 2021 [committed](#) \$292.5 million CAD through 2029 to compensate dairy, poultry, and egg processors for market access concessions under the CETA with the European Union and under the CPTPP. Similar to a 2016 \$100 million CAD dairy processor compensation package for anticipated CETA concessions, the [Supply Management Processing Investment Fund](#) will offset the cost of new automated equipment and technology. The new funds will be made available to the more than 500 dairy processors and nearly 150 poultry and egg processors in operation in Canada.

In mid-November 2022, the federal government [announced](#) and [reconfirmed](#) a support package for Canada's supply-managed sectors (i.e. dairy, poultry and eggs) as compensation for market access concessions under the USMCA. The compensation package included additional \$105 million for dairy, poultry, and egg processors, on top of the existing funding under the [Supply Management Processing Investment Fund](#).

BUTTER:

**Table 10.
Production, Supply and Distribution (PS&D):**

Dairy, Butter Canada	2022		2023		2024	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	25	21	27	22	0	24
Production	120	113	125	116	0	117
Total Imports	33	32	35	34	0	36
Total Supply	178	166	187	172	0	177
Total Exports	1	1	1	1	0	1
Domestic Consumption	150	143	160	147	0	150
Ending Stocks	27	22	26	24	0	26
Total Distribution	178	166	187	172	0	177

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data
Data in 1,000 metric tons. Imports include re-exports.

Production:

FAS/Canada estimates butter production to reach 116,000 MT in 2023, before modestly growing to 117,000 MT in 2024. With stable demand, the slowdown in butter production growth is also explained by the continued implementation of Canada's CPTPP and USMCA agreements that result in increased import volumes supplying the domestic market. Overall, the COVID-19 pandemic had no impact on butter demand in Canada as the decline in consumption through the food service sector was offset by increased consumption at retail level and in commercial manufacturing of baked goods (especially pastry products). Butter stocks, which were on a declining trend over the past five years, have begun their recovery in early 2023, reaching 29,000 MT in August, compared to nearly 24,000 MT in August 2022, and thus gradually approaching the industry target of 35,000 MT.

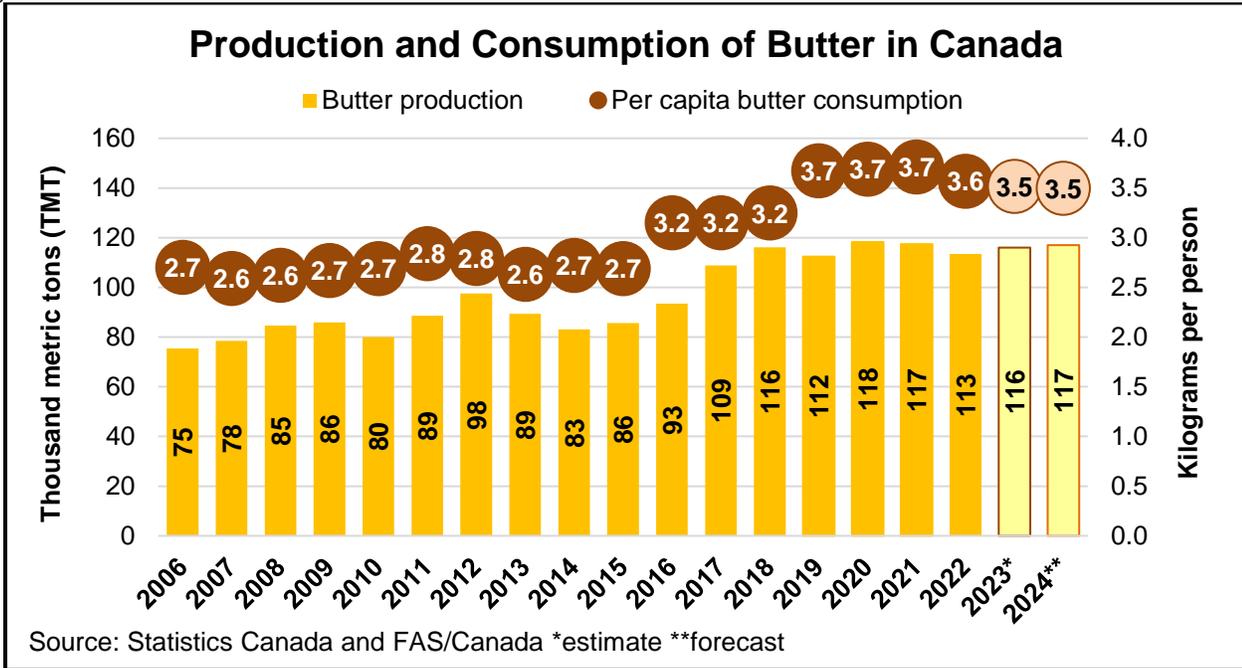
Between 2014 and 2018, butter production increased by nearly 40 percent, reflecting Canadian consumers' sudden, strong increase in demand for butterfat. Even with the unprecedented growth in production, Canada required supplemental imports in 2016 and 2017 to satisfy market demand. During the summer of 2019, butter stocks reached over 45,000 MT, well exceeding the industry target of 35,000 MT. This sent a market signal to processors to scale back butter production, which eventually drove 2019 butter production 3 percent below the 2018 level. Butter demand increased with the onset of the COVID-19 pandemic, as confined consumers moved to home baking and cooking, resulting in a butter production growth rate of 5 percent in 2020.

Consumption:

Given sustained overall consumption, the exceptional growth in population over the past two years (for additional details please see the cheese consumption section, earlier in this report) is the primary explanation for the lower levels of per capita butter consumption observed in 2022 (3.6 kilograms) and estimated for 2023 and 2024 (3.5 kilograms). Prior to this development, butter consumption had expanded rapidly between 2013 and 2021, when it reached 3.7 kilograms per capita, up 41 percent from

one decade earlier. After highly publicized media reports on academic research about butter, Canadian consumers’ perception of the health attributes of foods rich in butterfat changed dramatically during that period, driving butter consumption up sharply. Throughout the COVID-19 pandemic butter consumption remained steady, as the decline in sales via the food service sector was matched by increases in the retail sector and in food manufacturing.

Figure 15.



Trade:

FAS/Canada estimates butter imports to reach 34,000 MT in 2023 and to further increase to 36,000 MT in 2024, in part as a result of expanded market access under Canada’s recently implemented trade agreements, and in part as influenced by food manufacturers’ imports under re-export programs (such as IREP, as explained further below). Currently, about two thirds of Canada’s butter imports are destined for further processing into final food products destined for export markets.

Table 11.
Canadian Butter Imports: Year-to-Date Data (January-July)

Canada Import Statistics								
Commodity: HS 0405, Butter And Other Fats And Oils Derived From Milk								
Year To Date: January - July								
Partner Country	Unit	Quantity			% Share			% Change 2021/2020
		2021	2022	2023	2021	2022	2023	
World	T	16,490	20,165	21,246	100%	100%	100%	5.4%
United States	T	8,879	12,885	12,241	53.8%	63.9%	57.6%	-5.0%
New Zealand	T	6,886	6,971	8,821	41.8%	34.6%	41.5%	26.5%
EU27+UK	T	178	176	164	1.1%	0.9%	0.8%	-6.8%
Australia	T	418	0	0	2.5%	0.0%	0.0%	
Other countries	T	129	133	20	0.8%	0.7%	0.1%	-85.0%

Source: Trade Data Monitor

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

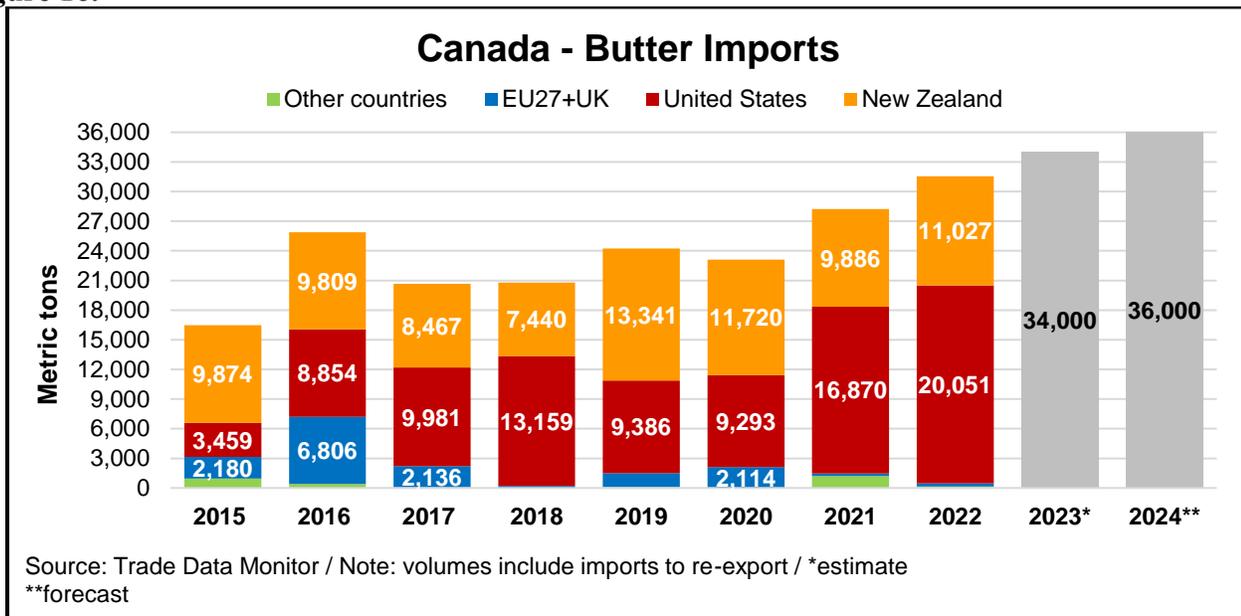
Under the [CPTPP](#) (which entered into force on December 30, 2018), Canada agreed to a [TRQ](#) for butter which would provide the following market access:

Table 12.

Quota Year (August to July)	Butter (in MT)
2018/19 (year 1)	750
2023/24 (year 6)	4,500
2031/32 and onward	5,121

Up to 85 percent of this TRQ is to be [allocated](#) to bulk imports of butter (not for retail sale) to be used in further food processing. FAS/Canada estimates the CPTPP butter TRQ to be fully filled.

Figure 16.



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

Table 13.

Quota Year (August to July)	Butter and Cream Powder (in MT)
July 2020 (year 1)	750
2023/24 (year 5)	3,750
2024/25 (year 6)	4,500
2037/38 and onward	5,121

According to USMCA commitments, up to 85 percent of the butter and cream powder TRQ volume in year 1 of implementation could be allocated for further processing (not for retail sale), with the obligation to gradually reduce this percentage so that in year 6 of implementation only 50 percent of the TRQ is allocated for further processing, with the remaining volumes being made available for any use. Based on the current [allocation](#) policy for this TRQ, for marketing year 2023/24, 64 percent of the total volume must be imported in bulk for use in further food processing. The USMCA butter and cream powder TRQ is opened exclusively to imports from the United States, and FAS/Canada expects this TRQ to be fully filled.

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

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

SKIM MILK POWDER:

**Table 14.
Production, Supply and Distribution (PS&D):**

Dairy, Milk, Nonfat Dry Canada	2022		2023		2024	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	32	27	24	27	0	27
Production	90	84	95	82	0	80
Total Imports	2	2	2	2	0	2
Total Supply	124	113	121	111	0	109
Total Exports	30	30	31	30	0	30
Total Dom. Consumption	70	56	70	54	0	52
Ending Stocks	24	27	20	27	0	27
Total Distribution	124	113	121	111	0	109

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data
Data in ‘1,000 MT

Production:

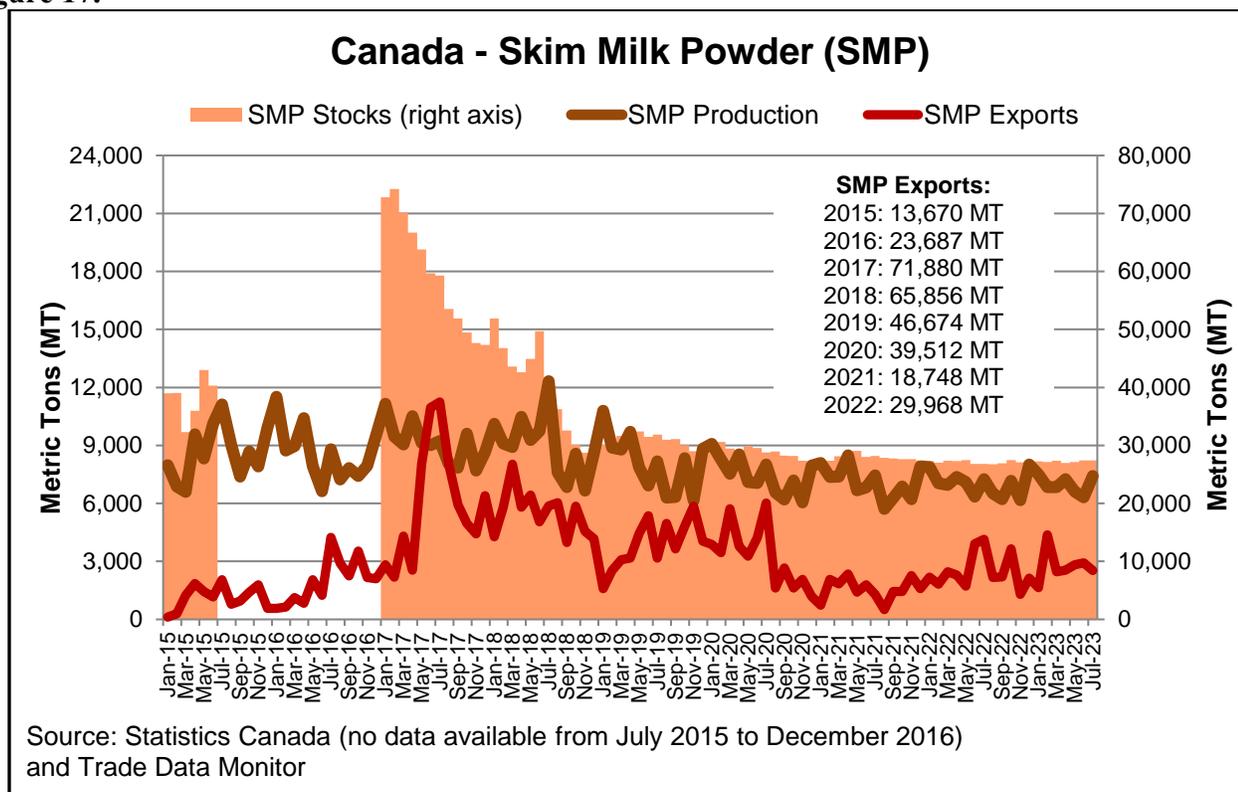
FAS/Canada forecasts skim milk powder (SMP) production to drop to 80,000 MT in 2024, for a seventh consecutive year decline, from the estimated level of 82,000 MT in 2023. While typically SMP production follows the trends in butter production, as skim milk is largely a by-product of processing milk into butter, the anticipated decline in SMP production is rather related to the dairy industry continuing to shift its focus toward products with a higher concentration of protein, like milk protein concentrates (MPC) and milk protein isolates (MPI).

Between 2014 and 2018, SMP production in Canada increased by 32 percent, reflecting sharply higher butter production. In addition, between 2017 and 2020, SMP production in Canada was also supported by milk price class 7. As part of Canada’s “National Ingredient Strategy,” milk price class 7 became effective on February 1, 2017. Class 7, also called the National Ingredient Class, included milk processed for specific ingredients, including SMP. For a further discussion of the introduction of class 7 and its effects, please see the July 2017 issue of [Dairy: World Markets and Trade](#), published by the Foreign Agricultural Service.

Following the introduction of class 7, the Canadian Dairy Commission (CDC) stopped purchasing and storing SMP under its Surplus Removal and Domestic Seasonality Programs. The CDC also stopped exporting SMP. In turn, Canadian dairy processors became responsible for managing SMP stocks. Prior to February 2017, the largest disposal market for surplus SMP was the domestic animal feed market. As SMP export prices are typically higher than domestic animal feed prices, Canadian processors began exporting increasingly large amounts of SMP to draw down SMP stocks. Declining from their February 2017 peak of 73,000 MT, SMP stocks fell below 30,000 MT in summer 2020, when milk class 7 was eliminated. Currently, SMP stocks seem to have stabilized between monthly volumes of 25-30,000 MT, a trend which is expected to persist in the foreseeable future.

With the implementation of USMCA on July 1, 2020, Canada became subject to provisions requiring an export surcharge on exports of SMP and MPC products in excess of an annual threshold (for details, please see next section); exports of MPI are not covered by these provisions. These trade commitments explain why the dairy processing sector is expected to increasingly focus on producing (and exporting) MPI products with a very high protein concentration, rather than SMP and MPCs.

Figure 17.



Consumption:

SMP is used as a milk protein ingredient in manufacturing various other dairy products such as cheese and yogurt, as well as in the manufacturing of other processed foods, mostly health and nutrition products, where milk protein is a main ingredient, or serves as a protein booster. Additionally, surplus SMP that cannot find a lucrative market is often disposed of as animal feed. FAS/Canada estimates

Canadian utilization of SMP (as dairy ingredient and animal feed) to remain relatively stable around 50-60,000 MT annually for the foreseeable future.

Trade:

Exports

Following the introduction of milk class 7, Canadian SMP exports grew to record high levels, reaching nearly 72,000 MT in 2017. Since production leveled off and stocks declined, and following the implementation of USMCA provisions, FAS/Canada forecasts SMP exports at 30,000 MT in 2024, unchanged from the estimated level for 2023. Additionally, export data continue to reveal a shift in focus toward exporting increasing volumes of MPI, a trend which FAS/Canada expects to continue in the coming years.

Under the [USMCA](#), Canada is subject to certain export-limiting [provisions](#), including an annual threshold for combined exports of SMP and MPC, after which an export charge of \$0.54 CAD per kilogram would apply to volumes in excess of the threshold. These provisions apply on a marketing year (MY) basis, starting in August until July of the following year.

With USMCA coming into force on July 1, 2020, year 1 of implementation for the export-limiting provisions was the period July 1-31, 2020. During this period, the export threshold was 55,000 MT, and Canadian exports of SMP and MPC did not exceed this volume.

In MY 2020/21 (August 1, 2020 to July 31, 2021, or year 2 of implementation), the export threshold became 35,000 MT. Going forward, for each subsequent marketing year, the export threshold increases by 1.2 percent on an annual basis. For the current MY 2023/24 the threshold level is 36,275 MT. Global Affairs Canada's (GAC) website provides details on the [export allocation](#) policy and includes the list of [quota holders](#).

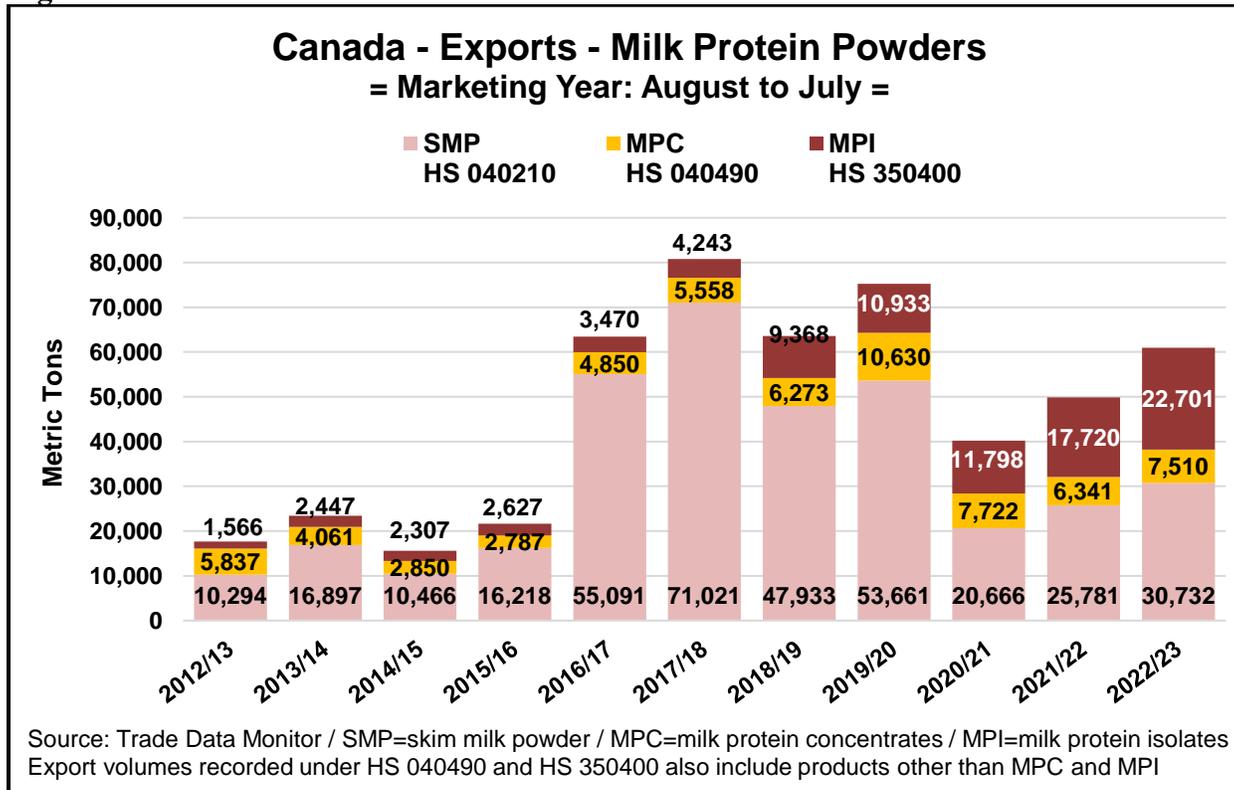
In addition to SMP and MPC, USMCA includes similar export-limiting provisions for infant formula. The year 1 (July 2020) threshold was 13,333 MT (which Canada did not exceed), and the year 2 (MY 2020/21) threshold was 40,000 MT. The export charge for volumes exceeding the threshold is \$4.25 CAD per kilogram. After year 2, the export threshold for infant formula also increases by 1.2 percent on an annual basis, currently (in MY 2023/24) amounting to 41,457 MT. Additional information on dairy export thresholds can be found on GAC's dedicated [webpage](#). To date, Canada has not reported any exports of infant formula.

Table 15.
Canadian Exports of Skim Milk powder: Year-to-Date Data (January-July)

Canada Export Statistics								
Commodity: HS 040210, Skim Milk Powder								
Year To Date: January - July								
Partner Country	Unit	Quantity			% Share			% Change
		2021	2022	2023	2021	2022	2023	2021/2020
World	T	11,490	18,522	18,632	100%	100%	100%	0.6%
Egypt	T	2,674	7,204	7,593	23.3%	38.9%	40.8%	5.4%
Algeria	T	2,676	3,466	4,301	23.3%	18.7%	23.1%	24.1%
United Arab Emirates	T	1,348	765	1,974	11.7%	4.1%	10.6%	158.0%
Jamaica	T	952	927	798	8.3%	5.0%	4.3%	-13.9%
Jordan	T	125	225	762	1.1%	1.2%	4.1%	238.7%
Mexico	T	200	540	623	1.7%	2.9%	3.3%	15.4%
Philippines	T	375	1,513	600	3.3%	8.2%	3.2%	-60.3%
China	T	8	92	351	0.1%	0.5%	1.9%	281.5%
Bahrain	T	150	350	250	1.3%	1.9%	1.3%	-28.6%
Other countries	T	2,982	3,440	1,380	26.0%	18.6%	7.4%	-59.9%

Source: Trade Data Monitor

Figure 18.



Imports

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

Table 16.

Quota Year (August to July)	Skim Milk Powder (in MT)
2018/19 (year 1)	1,250
2023/24 (year 6)	7,500
2031/32 and onward	11,014

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

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

Table 17.

Quota Year (August to July)	Skim Milk Powder (in MT)
July 2020 (year 1)	1,250
2023/2024 (year 5)	6,250
2024/25 (year 6)	7,500
2037/38 and onward	8,536

This SMP TRQ is exclusively opened to imports from the United States, however, given the domestic availability of protein ingredients at competitive prices, FAS/Canada does not estimate that the USMCA SMP TRQ will be filled.

Under the USMCA, the United States opened a [TRQ](#) for imports of Canadian SMP. The market access provided under this TRQ started at 1,250 MT in year one of implementation, after which the volume will rapidly increase to 7,500 MT in year six of implementation, before gradually increasing to 8,536 MT by year 19 of implementation. After that, the volume would remain constant at 8,536 MT annually.

Policy:

On September 29, 2023, the federal government [announced](#) the launch of a \$333 million CAD over ten years [Dairy Innovation and Investment Fund](#) to help the dairy sector “modernize, replace, and increase solids non-fat processing capacity and minimize non-marketed skim milk.” The government release mentioned that with this funding announcement “all compensation programming to producers and processors for lost market share under recent international trade agreements [including USMCA] has been launched” and included the commitment “to not making any additional market access concessions for supply-managed products in future trade agreements.” Details on what specific projects this new funding covers will be announced gradually, as the program is being implemented.

Attachments:

No Attachments