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Report Highlights:

FAS/Canada projects modest milk production growth in 2025, based on a slight increase in fluid milk consumption, and steady requirements for industrial milk. Production of cheese and butter is forecast to increase modestly in 2025, in face of adequate stocks, and solid demand. Sustained growth in cheese imports is expected to continue into 2025, as fill rates of various tariff rate quotas improve, and market access commitments expand. Skim milk powder exports are expected to remain within the limits set by the United States-Mexico-Canada Agreement, as the industry continues to focus on producing high protein diary ingredients, like milk protein isolates.

Executive Summary:
With the unexpected and significant growth in Canada's population through permanent and temporary immigration, total fluid milk consumption continued to reverse its long-term downward trend, fueling an increase in fluid milk production, forecast to grow by 1 percent in 2025, after an estimated 2 percent increase in 2024[1]. With demand for industrial milk steady, FAS/Canada forecasts a modest 1 percent growth in overall milk production (fluid and industrial markets combined) in 2025, following an estimated similar 1 percent production increase in 2024.

Growth in cheese imports is expected to extend into 2025, as the fill rates for import tariff rate quotas (TRQs) improve, while TRQ volumes continue to expand. While market access commitments under the Comprehensive Economic and Trade Agreement (CETA) with the European Union (EU) already reached their maximum volumes of 17,700 metric tons (MT) in 2022, and cheese TRQs under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) continue to expand at a modest rate, to reach nearly 14,800 MT in 2025, the two cheese TRQs under the United States-Mexico-Canada Agreement (USMCA) will robustly grow to a combined volume of 12,500 MT in 2025. 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 have remained at relatively adequate levels over the past year, reaching 28,000 MT in August 2024, compared to 29,000 MT 12 months earlier, although still below the industry's target volume of 35,000 MT. Facing steady demand, FAS/Canada expects a modest 2 percent increase in butter production in 2025, while butter imports will continue to benefit form expanded TRQ volumes under CPTPP and USMCA, which combined will reach just over 12,400 MT in 2025. Additionally, imports will be fueled by demand from food manufacturers that use Canada's import to re-export programs to incorporate cheaper imported butter into finished processed foods destined for export markets.

USMCA provisions impose export surcharges on Canadian exports of skim milk powder (SMP) and milk protein concentrates (MPC)[2] in excess of 36,710 MT. To date, these USMCA commitments have been effective in limiting Canada's exports of SMP and MPC. FAS/Canada forecasts SMP exports at 24,000 MT in 2025, 2,000 MT above the estimated level for 2024. SMP production remains flat, with the 2025 level forecast at 84,000 MT, up from an estimated 83,000 MT in 2024. While the overall milk protein structural surplus is anticipated to remain relatively stable into 2025, the dairy industry is expected to continue its production and export focus away from SMP and MPC into higher-protein powders, like milk protein isolates[3] (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) 2024/25 commenced on August 1, 2024, and will end on July 31, 2025.
[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	2023		2024		2025	
Canada	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Cows In Milk	970	966	970	969	0	970
Cows Milk Production	10,265	10,228	10,375	10,340	0	10,455
Total Production	10,265	10,228	10,375	10,340	0	10,455
Total Imports	76	73	85	85	0	90
Total Supply	**10,341**	**10,301**	**10,460**	**10,425**	**0**	**10,545**
Total Exports	15	19	12	15	0	20
Fluid Use Dom. Consum.	2,705	2,720	2,735	2,775	0	2,810
Factory Use Consum.	7,156	7,097	7,248	7,170	0	7,250
Feed Use Dom. Consum.	465	465	465	465	0	465
Total Dom. Consumption	10,326	10,282	10,448	10,410	0	10,525
Total Distribution	**10,341**	**10,301**	**10,460**	**10,425**	**0**	**10,545**

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

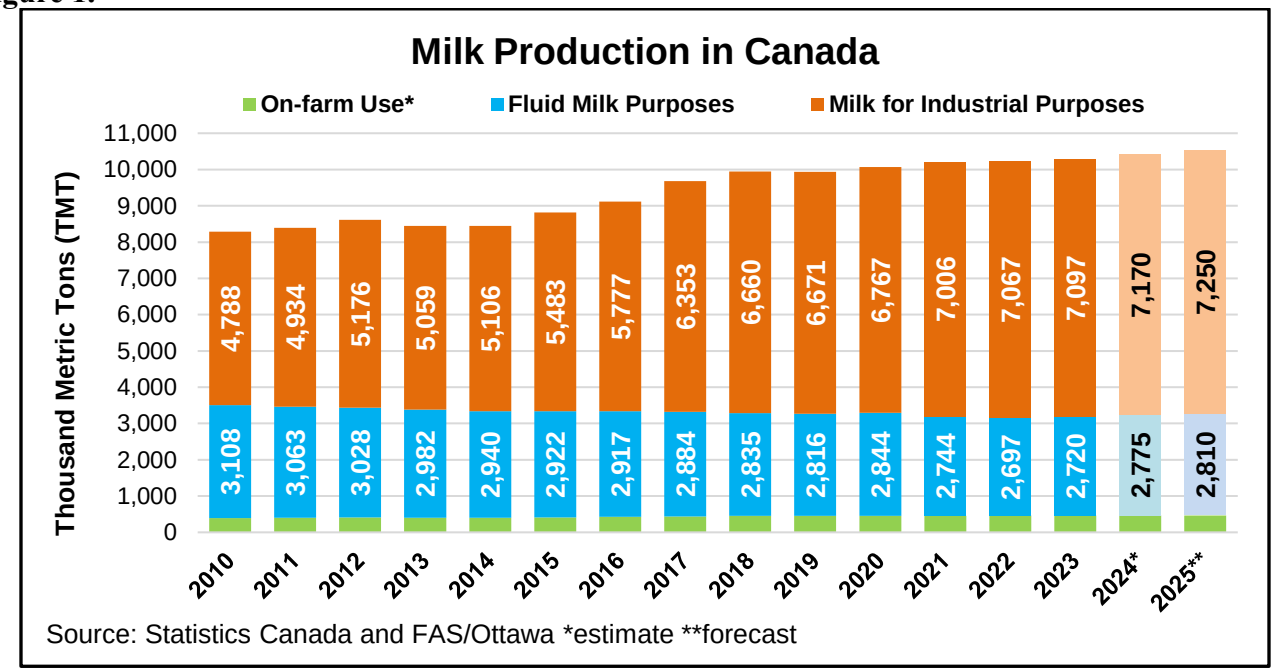
Production:
Canada maintains a supply management system for milk, in which production quota is allocated on a butterfat basis such that one share of quota is equivalent to the production of 1 kilogram of butterfat per day. The national Canadian Milk Supply Management Committee (CMSMC) sets the total 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 10.455 million metric tons (MMT) in 2025, a modest increase from the 2024 estimate of 10.340 MMT. Demand for industrial milk remains steady, while the consumption of fluid milk has departed from the long-term declining trend, reflecting the sudden and significant increase in Canada's population observed from 2023 and expected to continue into 2025. The fluid milk market is supplied with priority "on demand", and any changes in consumption are immediately reflected in production levels.

In 2023, according to Statistics Canada official estimates, Canada's population surpassed the 40 million mark, a 44 percent increase since 1990, when the population totaled nearly 28 million. Additionally, 2023 was the first time in Canadian history when population grew by over 1 million people in a single year, and the highest annual population growth rate on record since the 1950s. This significant population growth continued into 2024 (when Canada's population is estimated at nearly 41.3 million people) and is expected to gradually slow down from 2025 onward. This population boom is primarily attributed to both permanent and temporary immigration, with the latter category including international students and foreign workers.

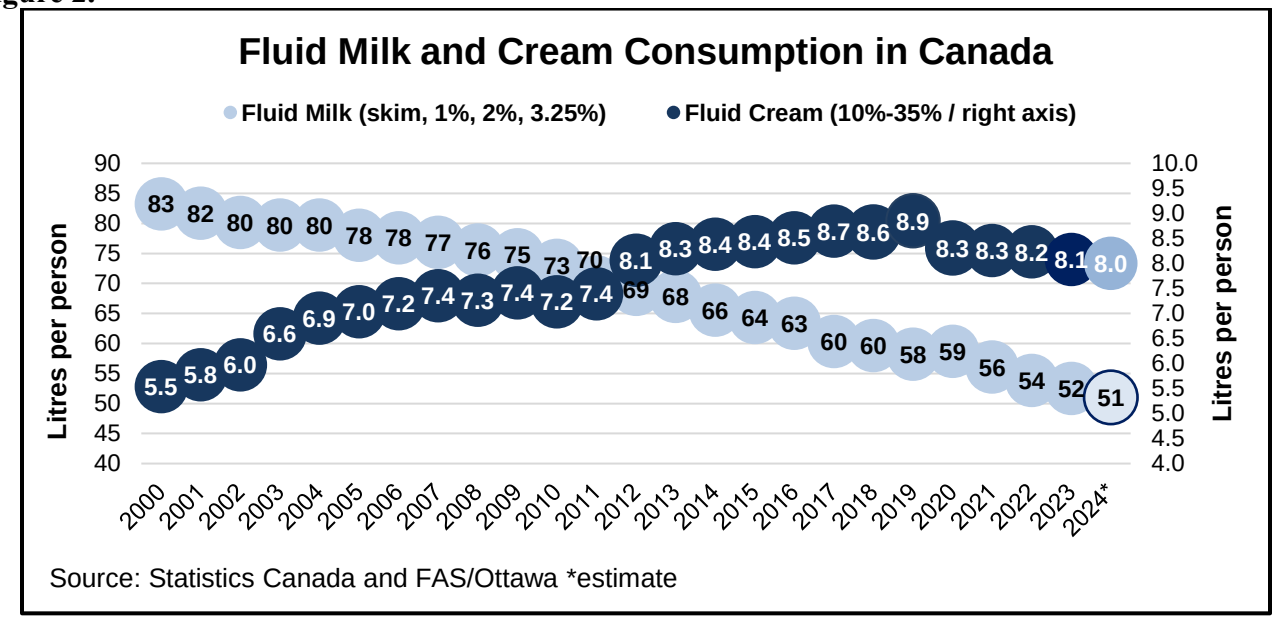
The overall dairy market in Canada is mature and stable, with certain products (like cheese and butter) increasingly supplied via imports under various trade agreements. Going forward, overall milk production is expected to increase modestly, at an annual rate of about 1 percent, largely in tandem with the long-term growth trend in Canada's population. Both industrial milk production, and milk production for the fluid market are expected to grow by 1 percent in 2025.

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 2005, the average volume of milk production per dairy cow was 7.6 MT annually. By 2023, this volume had grown 34 percent to 10.2 MT annually. FAS/Canada projects average dairy cow milk productivity to reach 10.4 MT in 2025, 36 percent over the 2005 level.

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[4]) resumed in 2021, fluid milk consumption is expected to drop to an estimated average level of 51 liters per person in 2024. Per capita fluid cream consumption, which had been steadily increasing over a decade via sales in the food service sector (primarily coffee shops), was negatively impacted by the COVID-19 pandemic, and has declined by 9 percent when compared to pre-pandemic levels, to 8.1 liters per person in 2023. FAS/Canada estimates the 2024 cream consumption of 8.0 liters per person, continuing the recent downward trend.

Figure 2.

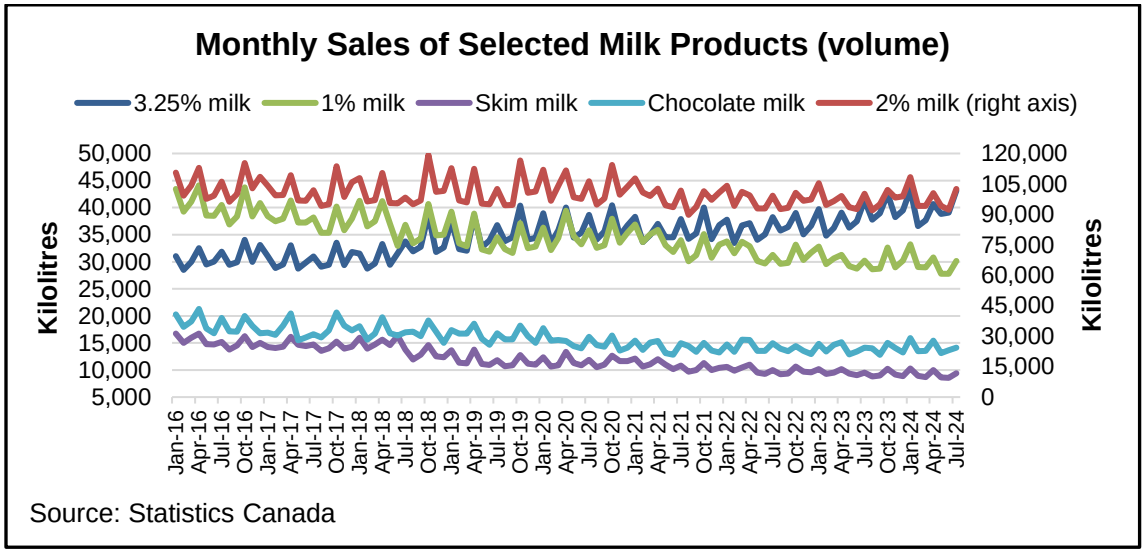


Source: Statistics Canada and FAS/Ottawa *estimate

[4] Despite the unprecedented population growth and the increase in total fluid milk consumption – as explained in the previous section – on a per capita basis, fluid milk consumption continues to decline.

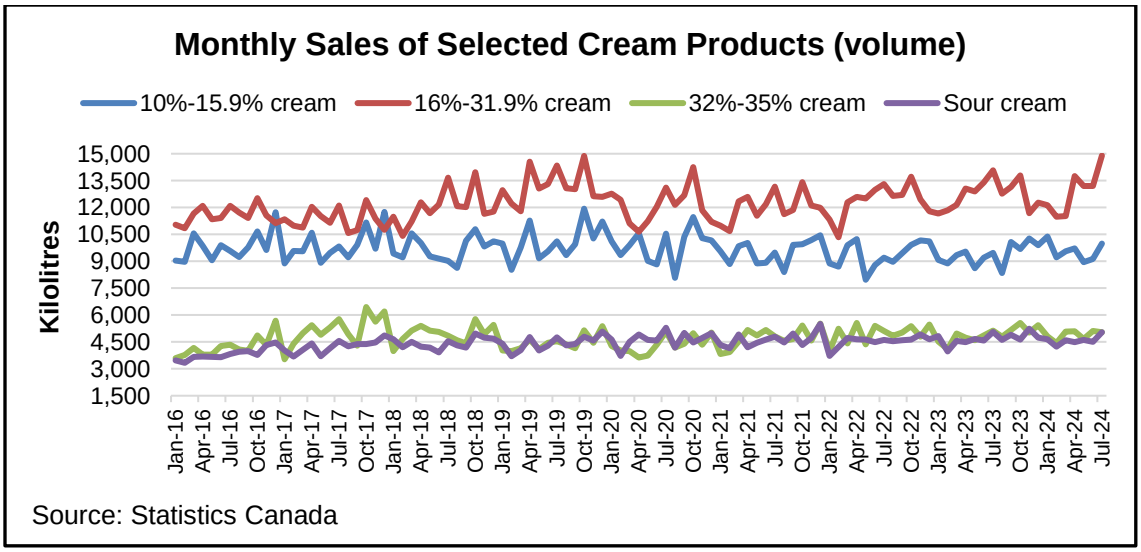
Sales data continue to indicate that Canadians buy more whole milk (3.25 percent butterfat) and less skim milk (zero percent butterfat) and reduced-fat milk (1 percent butterfat), following the overall trend of increased fat consumption in the Canadian diet.

Figure 3.



Despite a solid cream consumption in Canada due to a strong coffee culture and the changing consumer preference for higher fat content products, total fluid cream sales have dropped since 2020. During the most recent marketing year (MY) 2023/24 (August 2023 to July 2024) overall sales of liquid cream (10 to 35 percent butterfat content) posted a 2 percent growth over the preceding MY 2022/23, finally surpassing by 1 percent the sales level registered during the MY 2018/19. The heavier creams category (16 to 35 percent butterfat) showed a 1.5 percent growth, while the lighter creams category (under 16 percent butterfat) grew at 2.2 percent rate.

Figure 4.



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
2024/25 (year 7)	**50,500**
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
2024/25 (year 7)	**597**
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
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 have a high fill rate .

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
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 have high fill rates.

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 farm[5]. 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 Harmonized Milk Classification System, which, since June 2020, no longer includes milk class 7[6]. 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.

[5] AAFC reported 9,739 total dairy farms as of August 1, 2022.
[6] 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* Canada	2023		2024		2025	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	85	83	86	83	0	85
Production	522	522	535	530	0	535
Total Imports	56	56	60	65	0	70
Total Supply	**663**	**661**	**681**	**678**	**0**	**690**
Total Exports	9	9	10	12	0	10
Total Dom. Consumption	568	569	587	581	0	595
Ending Stocks	86	83	84	85	0	85
Total Distribution	**663**	**661**	**681**	**678**	**0**	**690**

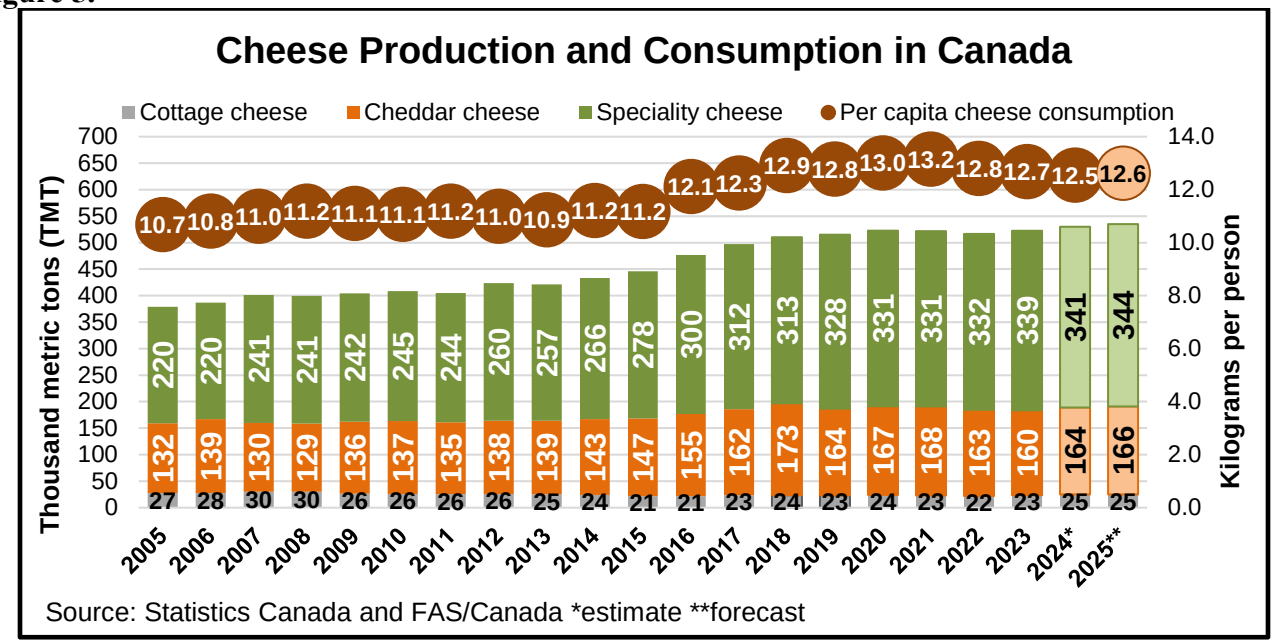
*Please note that starting with the 2018 annual report cheese data includes "cottage cheese".
Data in 1,000 metric tons. Imports include re-exports.
NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

Production:
For 2025, cheese production is forecast at 535,000 MT, following an estimated level of 530,000 MT in 2024, reflective of sustained demand given Canada's exceptional population growth (please see the "Milk" section for additional information). FAS/Canada estimates that cheese stocks have remained remarkably stable over the past 12 months, reaching an estimated 82,700 MT in August 2024, virtually unchanged from the estimated level of 82,900 MT in August 2023. Overall, cheese production growth appears to have leveled off since 2019, as recently implemented trade agreements brought additional imported cheese volumes to the market. Going forward, and facing a stable demand, FAS/Canada expects growth rates in cheese production of about 1 percent annually.

Consumption:
The recent positive change in consumer perception towards consuming foods rich in butterfat has also had an impact on cheese consumption. Cheese sales are expected to remain strong, especially as retail offerings are increasingly supplied by imports under Canada's various trade agreements.

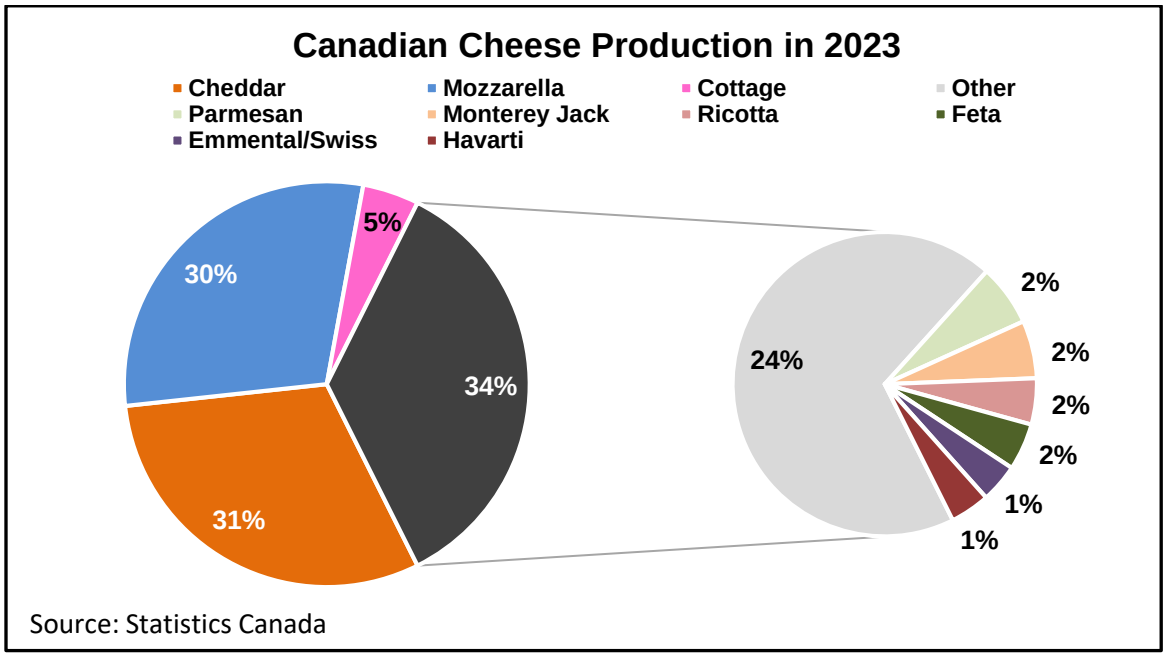
Per capita consumption is influenced by the total amount of product available on the market, and by the country's total population. As explained in the "Milk" section of this report, starting with 2023 Canada experienced an exceptional growth in population, with annual increases exceeding 1 million people. 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 recent years. FAS/Canada estimates cheese consumption at 12.5 kilograms per capita in 2024 and 12.6 kilograms per capita in 2025.

Figure 5.



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 processed products.

Figure 6.



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).

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 70,000 MT in 2025, following an estimated level of 65,000 MT in 2024, primarily based on improved TRQ fill rates, and expanded imports from the United States (as the USMCA cheese TRQs will enter the sixth year of implementation). Additionally, imports will be fueled by demand from food manufacturers that use Canada's import to re-export programs to incorporate cheaper imported cheese into finished processed foods destined for export markets. In terms of market access commitments, imports from EU and CPTPP countries will no longer play a driving role in Canada's cheese import growth, 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 only add about 200 MT annually, for the next several years).

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

Canada Import Statistics

Commodity: HS 0406, Cheese and Curd

Year To Date: January - August

Partner Country	Unit	Quantity			% Share			% Change
		2022	2023	2024	2022	2023	2024	2024/2023
World	**T**	**30,616**	**31,143**	**35,916**	**100%**	**100%**	**100%**	**15.3%**
EU 27	T	16,491	14,974	17,194	53.9%	48.1%	47.9%	14.8%
United States	T	8,590	10,502	13,287	28.1%	33.7%	37.0%	26.5%
New Zealand	T	896	2,172	1,747	2.9%	7.0%	4.9%	-19.6%
Australia	T	1,294	462	1,444	4.2%	1.5%	4.0%	212.6%
Switzerland	T	1,613	1,423	1,042	5.3%	4.6%	2.9%	-26.8%
United Kingdom	T	1,399	1,170	863	4.6%	3.8%	2.4%	-26.2%
Other countries	T	333	440	339	1.1%	1.4%	0.9%	-23.0%

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 (72 companies) and the 2023 TRQ fill rate was 97 percent.

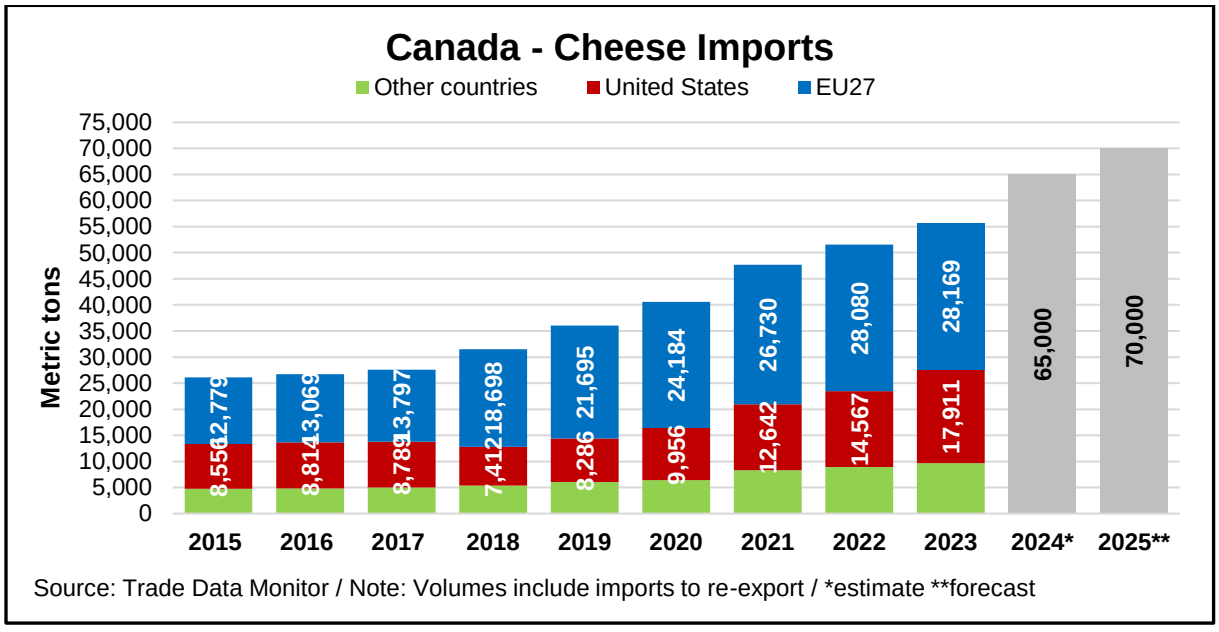
Canada provides additional access to EU members under two CETA TRQs: an industrial cheese TRQ, and an all-cheese TRQ. In 2022, following a six-year implementation period, both TRQs reached their maximum volumes as follows: the industrial cheese TRQ now has an annual (calendar year) volume of 1,700 MT, 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 50 companies) and distributors/retailers (about 190 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 (9 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 2023, the CETA all-cheeses TRQ fill rate reached 93 percent, while the CETA industrial cheese TRQ was 83 percent filled, and FAS/Canada estimates similar high fill rates in 2024.

Figure 7.



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:

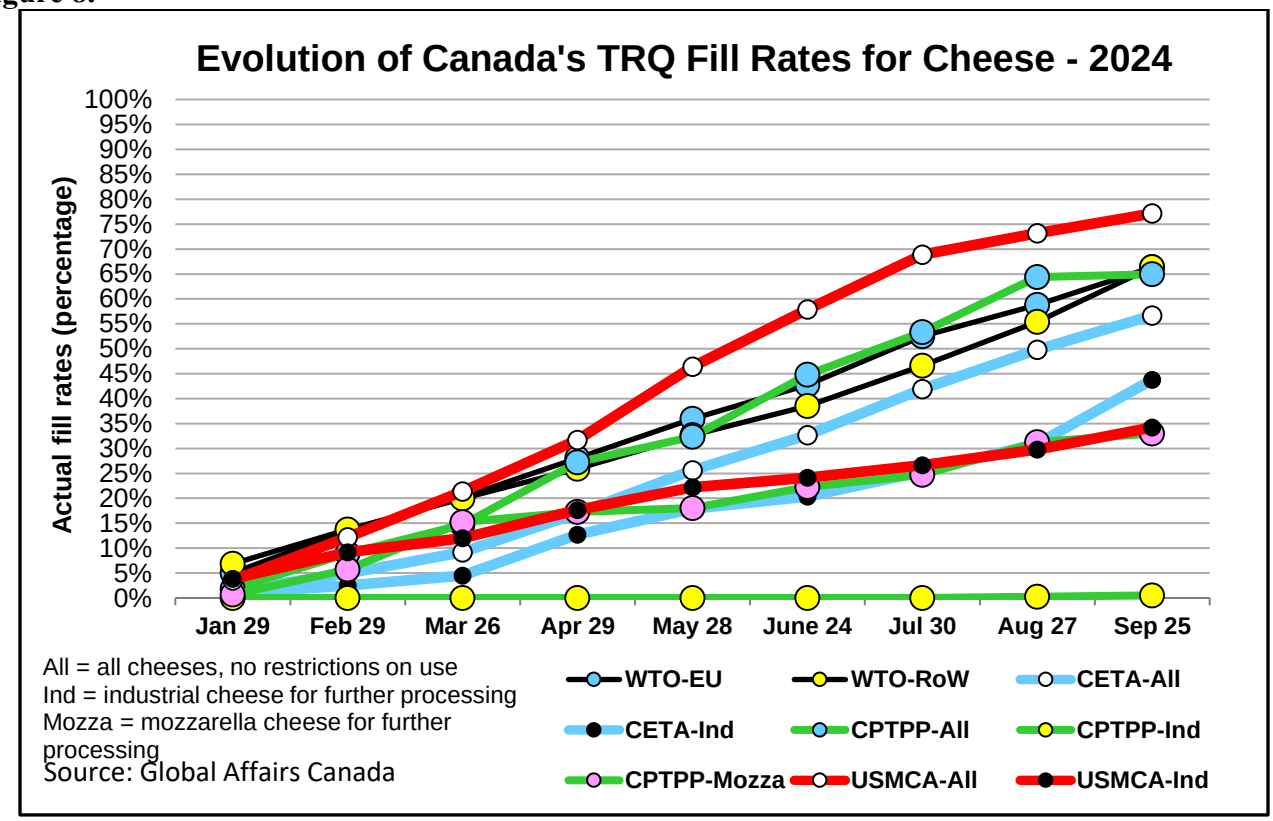
Table 8.

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
2025 (year 8)	**8,135**	**2,958**	**3,698**
2036 and onward	9,076	3,300	4,126

In 2023, the fill rates for the CPTPP TRQs were: all cheeses 76 percent, mozzarella and prepared cheeses 54 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 2024. Global Affairs Canada publishes regular reports on cheese TRQ utilization rates.

Figure 8.



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
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 2023, the fill rate for the USMCA all cheeses TRQ was 98 percent, while the fill rate for the industrial cheese TRQ was 81 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, 2024, about 1,450 MT of cheese were covered by "repurchase agreements" valued at nearly $13 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):

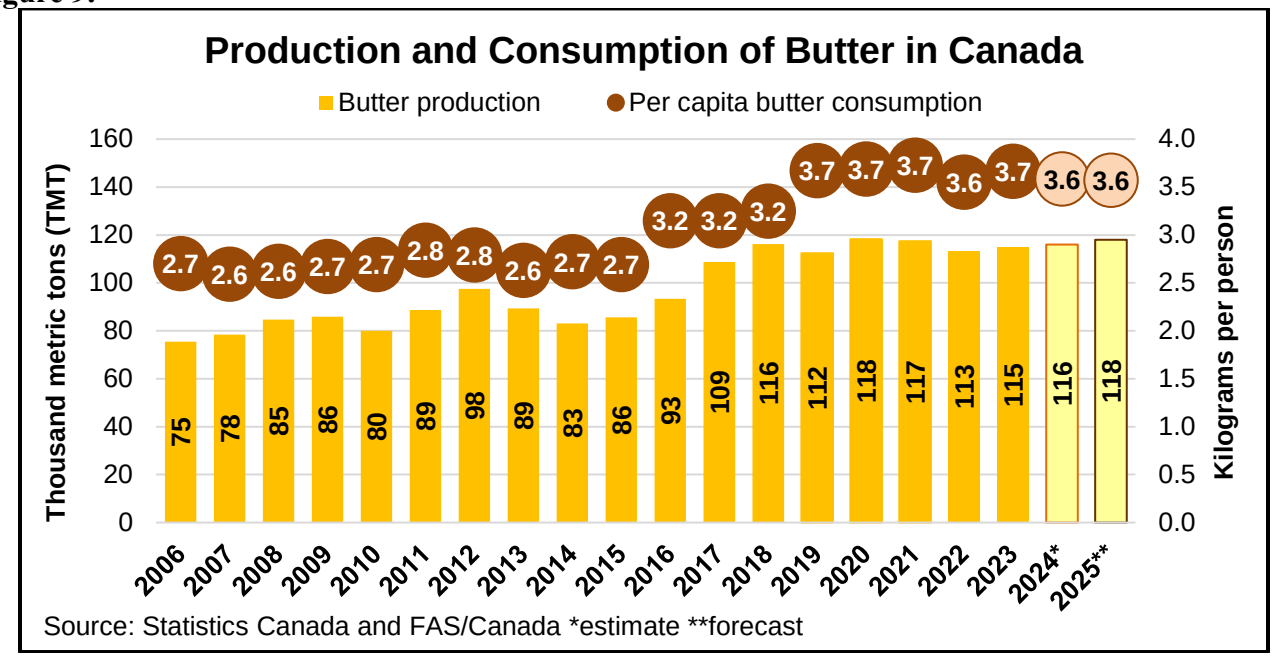
Dairy, Butter Canada	2023		2024		2025	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	27	22	28	21	0	20
Production	125	115	130	116	0	118
Total Imports	37	36	37	38	0	40
Total Supply	**198**	**173**	**195**	**175**	**0**	**178**
Total Exports	1	1	3	2	0	1
Domestic Consumption	160	151	164	153	0	155
Ending Stocks	28	21	28	20	0	22
Total Distribution	**198**	**173**	**195**	**175**	**0**	**178**

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 2024, before slightly increasing to 118,000 MT in 2025. With stable demand, butter production continues a steady path of modest growth, as the domestic market is also supplied via increased import volumes under Canada's CPTPP and USMCA TRQs. Butter stocks have remained at relatively adequate levels over the past year, reaching 28,000 MT in August 2024, compared to 29,000 MT 12 months earlier, although still below the industry's target volume of 35,000 MT. Going forward, FAS/Canada does not expect a significant growth in butter production, which is anticipated to increase at modest rates of 1-2 percent annually.

Consumption:
Given sustained overall consumption, the exceptional growth in population over the past two years (for additional details please see the "Milk" section, earlier in this report) is the primary explanation for the stagnant and lower levels of per capita butter consumption observed since 2022. FAS/Canada forecasts a level of 3.6 kilograms per capita in 2025, unchanged from the estimated level in 2024. In additional to butter consumed by individuals, the food manufacturing sector also significantly contributes to the sustained butter demand, as many processing companies replaced plant-based fats with butter in their recipes.

Figure 9.



Trade:
FAS/Canada estimates butter imports to reach 38,000 MT in 2024 and to further increase to 40,000 MT in 2025, 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-August)

Canada Import Statistics

Commodity: HS 0405, Butter And Other Fats And Oils Derived From Milk

Year To Date: January - August

Partner Country	Unit	Quantity			% Share			% Change
		2022	2023	2024	2022	2023	2024	2024/2023
World	**T**	**22,523**	**24,867**	**23,911**	**100%**	**100%**	**100%**	**-3.8%**
United States	T	14,169	13,895	14,488	62.9%	55.9%	60.6%	4.3%
New Zealand	T	8,022	10,552	9,028	35.6%	42.4%	37.8%	-14.4%
EU27	T	200	204	173	0.9%	0.8%	0.7%	-15.2%
Australia	T	0	0	213	0.0%	0.0%	0.9%	
Other countries	T	132	216	9	0.6%	0.9%	0.0%	-95.8%

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.

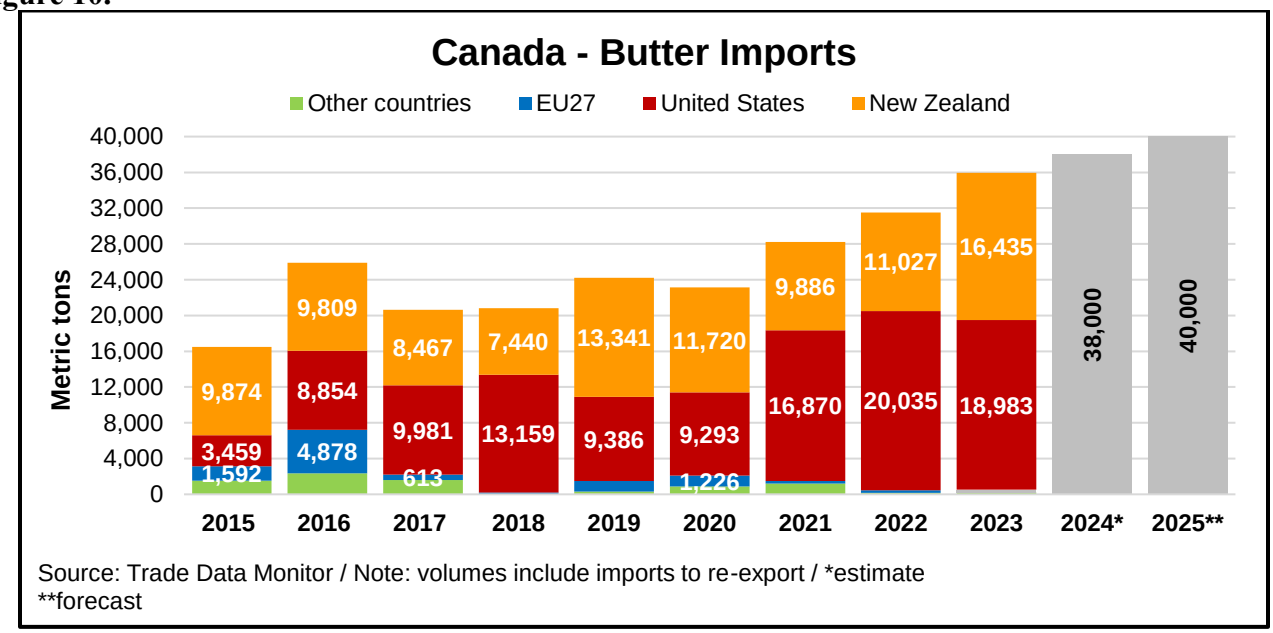
Under the CPTPP (which entered into force on December 30, 2018), Canada agreed to a TRQ for butter which would provide the following market access:

Table 12.

Quota Year (August to July)	Butter (in MT)
2018/19 (year 1)	750
2024/25 (year 7)	**4,545**
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 10.



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
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, including retail. Based on the current allocation policy for this TRQ, this threshold was reached in the current marketing year 2024/25, so that only 50 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	2023		2024		2025	
Canada	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	24	27	21	26	0	26
Production	88	82	87	83	0	84
Total Imports	2	2	2	2	0	2
Total Supply	**114**	**111**	**110**	**111**	**0**	**112**
Total Exports	26	26	22	22	0	24
Total Dom. Consumption	67	59	66	63	0	62
Ending Stocks	21	26	22	26	0	26
Total Distribution	**114**	**111**	**110**	**111**	**0**	**112**

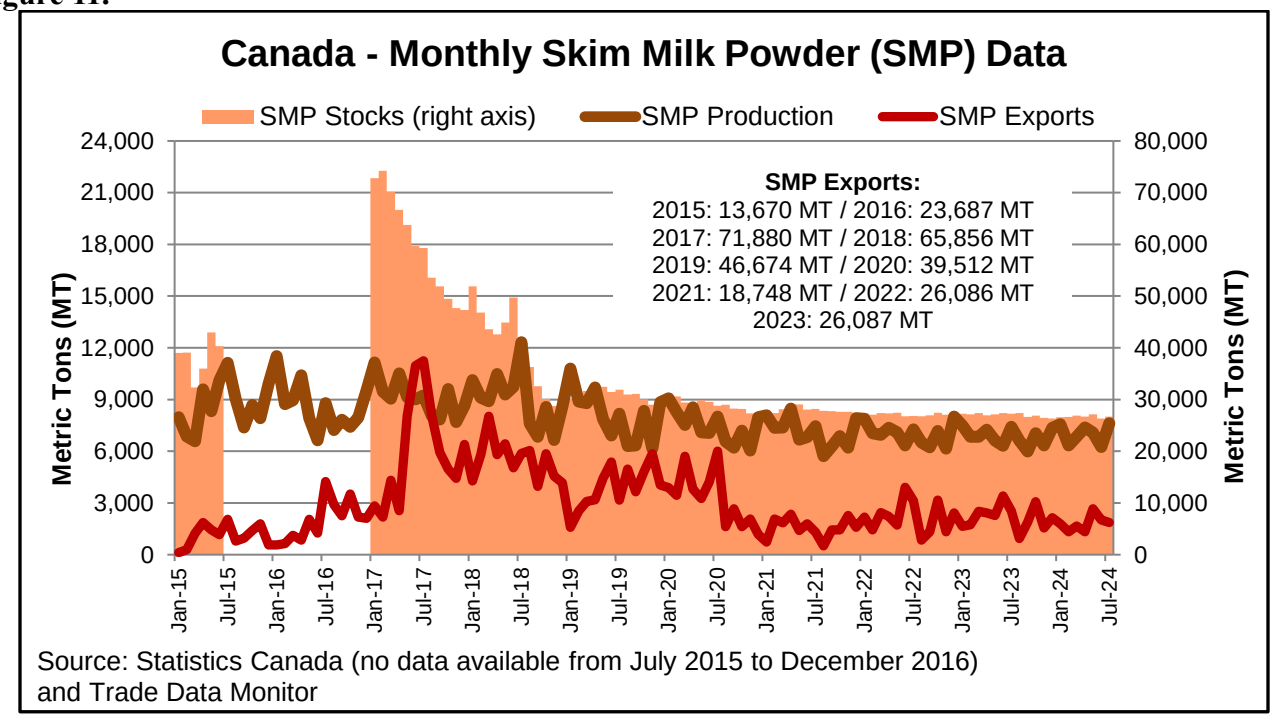
NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data
Data in '1,000 MT

Production:
FAS/Canada forecasts skim milk powder (SMP) production to reach 84,000 MT in 2025, from the estimated level of 83,000 MT in 2024. Typically, SMP production follows the trends in butter

production, as skim milk is largely a by-product of processing milk into butter. Going forward, FAS/Canada expects SMP production to continue on a trend of modest growth, with an occasional production decline, as the dairy industry continues to focus on products with a higher concentration of protein than SMP, like milk protein concentrates (MPC) and milk protein isolates (MPI). SMP stocks seem to have stabilized at 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 11.



Source: Statistics Canada (no data available from July 2015 to December 2016) and Trade Data Monitor

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 60,000 MT annually for the foreseeable future.

Trade:

Exports
FAS/Canada forecasts SMP exports at 24,000 MT in 2025, slightly higher from the estimated level of 22,000 MT 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. For the current MY 2024/25 the threshold level is 36,710 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. For the current MY 2024/25, the export threshold for infant formula amounts to 41,955 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-August)

Canada Export Statistics

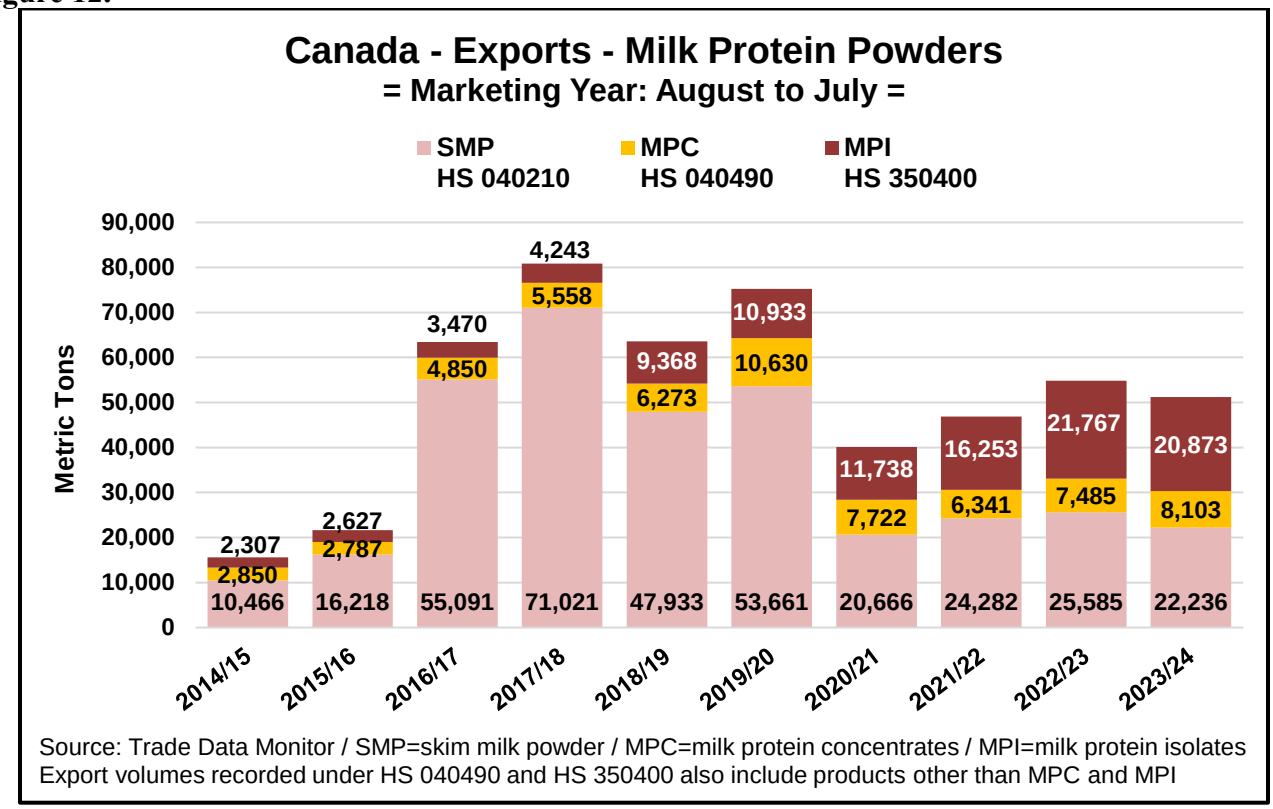
Commodity: HS 040210, Skim Milk Powder

Year To Date: January - August

Partner Country	Unit	Quantity			% Share			% Change
		2022	2023	2024	2022	2023	2024	2024/2023
World	**T**	**17,860**	**17,451**	**14,304**	**100%**	**100%**	**100%**	**-18.0%**
Algeria	T	3,341	4,351	4,991	18.7%	24.9%	34.9%	14.7%
Egypt	T	7,429	5,174	3,121	41.6%	29.6%	21.8%	-39.7%
United Arab Emirates	T	765	2,174	1,301	4.3%	12.5%	9.1%	-40.2%
Cuba	T	361	504	1,126	2.0%	2.9%	7.9%	123.4%
Jamaica	T	977	798	1,041	5.5%	4.6%	7.3%	30.5%
Mexico	T	540	623	459	3.0%	3.6%	3.2%	-26.3%
Jordan	T	225	787	425	1.3%	4.5%	3.0%	-46.0%
Lebanon	T	0	100	405	0.0%	0.6%	2.8%	305.0%
Philippines	T	921	625	351	5.2%	3.6%	2.5%	-43.8%
Other countries	T	3,301	2,315	1,084	18.5%	13.3%	7.6%	-53.2%

Source: Trade Data Monitor

Figure 12.



Source: Trade Data Monitor / SMP=skim milk powder / MPC=milk protein concentrates / MPI=milk protein isolates
Export volumes recorded under HS 040490 and HS 350400 also include products other than MPC and MPI

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
2024/25 (year 7)	**7,725**
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
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