REGIONAL MEETING

California
February, 2019
An overview of CANADA’S DAIRY SYSTEM

Presented by Ralph Dietrich
A dairy system for today and tomorrow!
An overview of CANADA’S DAIRY SYSTEM

1. Industry Overview
2. Supply Management
3. History Of Supply Management
4. Harmonized Milk Classes
5. What Is Canada’s Dairy System?
6. Pricing
7. Positives & Negatives
8. Economical impact
1. INDUSTRY OVERVIEW
Dairy Farming in Canada
2017

Number of Farms with Milk Shipments: 10,951
Number of Dairy Cows: 945,000
Number of Dairy Heifers: 454,300

- **BC**
  - Farms: 400
  - Cows: 79,500
  - Heifers: 39,500

- **AB**
  - Farms: 523
  - Cows: 79,500
  - Heifers: 38,700

- **SK**
  - Farms: 160
  - Cows: 27,600
  - Heifers: 11,600

- **ON**
  - Farms: 3,613
  - Cows: 309,300
  - Heifers: 163,100

- **QC**
  - Farms: 5,368
  - Cows: 346,600
  - Heifers: 154,300

- **NB**
  - Farms: 194
  - Cows: 19,100
  - Heifers: 8,200

- **NL**
  - Farms: 32
  - Cows: 5,600
  - Heifers: 2,200

- **PE**
  - Farms: 166
  - Cows: 13,400
  - Heifers: 6,800

- **NS**
  - Farms: 213
  - Cows: 22,500
  - Heifers: 9,400
Distribution of the National Market Sharing Quota (MSQ) on August 1st
Total: 205,680,000 kg of BF

- QC: 42.4%
- ON: 32.5%
- MB: 3.8%
- SK: 2.7%
- AB: 7.3%
- BC: 6.8%
- NL: 0.2%
- PE: 1.6%
- NS: 1.5%
- NB: 1.2%
PROCESSING

450 PROCESSORS NATIONALLY

80% - 85% OF MILK MARKETED TO 4 PROCESSORS
2. SUPPLY MANAGEMENT
WHAT IS SUPPLY MANAGEMENT?

SUPPLY MANAGEMENT IS:

• A policy that regulates supply to avoid surplus and create price stability. This guarantees a stable return for the producer, and it assures the domestic market is serviced.
• Production is managed to coincide with forecasts of demand over a predetermined period.
3 PILLARS OF SUPPLY MANAGEMENT

**PRICE**
- CPI, COP

**PRODUCTION CONTROLS**
- Continuous Daily Quota (CDQ)

**BORDER CONTROLS**
- Restrict imports to negotiated agreements
Volatility in Gross Revenues per HL by Region (Jan 2014 Price =100)

Sources: CDC, USDA, DCANZ, Eurostats, Statistics Canada (exch. Rate)
Figures presented in natural composition.
Demand & Quota

Once the demand is calculated, production quotas are allocated to each province.

The province decides how to pass on increases/decreases in quota to producers.

**Canadian Demand for Milk =** Total domestic requirements + change in butter stocks
3. HISTORY

1960s/1970s farmer concerns

- Milk farm gate prices way too low
- Over supply issues (no guaranteed market)
- Farm gate price fluctuations
The government of Canada put in place a supply management system in the early 1970s in an effort to reduce the surplus in production that had become common in the 1950s and 1960s, and ensure a fair return for farmers.

In 1970, the National Milk Marketing Plan came into effect to control supply, with the federal government and the governments of Ontario and Quebec, the two largest provinces, signing on.
1980s: National Milk Marketing Plan

- Agreements between provinces and federal government
- Industrial (national) and fluid (provincial) milk production
- Match milk supply (producer) with demand (processor/consumer)
- Provide producers with a fair & stable price
- Provide consumers with supply of high quality dairy products at a fair and stable price
4. HARMONIZED MILK CLASSES

Milk produced in Canada is sold to processors via a Milk Classification system. Prices vary according to final product.

- **Class 1**: Fluid milk, milk beverages and cream
- **Class 2**: yogurt, kefir, ice cream
- **Class 3**: cheese
- **Class 4**: butter, butteroil, powder
- **Class 5**: further processing (confectionary, cheese, etc.), exports*
- **Class 7**: dairy ingredients

*in accordance with WTO commitments
5. WHAT IS CANADA’S DAIRY SYSTEM?

- At National Level Market Requirements are determined that meet domestic consumer demand for BF
- National Production Quota issued to Provinces on percentage basis
- Provinces issue Quota to producers
- Quota Exchange to buy/sell between producers
10 PROVINCIAL BOARDS

**Provincial 5 (P5)**

- Dairy Farmers of Ontario
- Les Producteurs de lait du Québec
- Dairy Farmers of Nova Scotia
- Dairy Farmers of Prince Edward Island
- Dairy Farmers of New Brunswick
- Producers laitiers du Nouveau-Brunswick

**Western Milk Pool (WMP)**

- Dairy Farmers of Manitoba
- Dairy Farmers of Saskatchewan
- Milk
- BC Dairy Association
- DAIRY FARMERS OF NEWFOUNDLAND AND LABRADOR
Under the Canadian Dairy Commission Act, the CDC's legislated objectives are:

- to provide efficient producers of milk and cream with the opportunity to obtain a fair return for their labour and investment; and
- to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

CDC strives to balance and serve the interests of all dairy stakeholders - producers, processors, further processors, exporters, consumers and governments.
Canadian Milk Supply Management Committee (CMSMC)

- Farmers (provincial boards), Processors, CDC
- Oversight by Provincial Government Ministries of Agriculture

Dairy Farmers of Canada (DFC)

- national policy, lobbying and promotional programs
- All provincial boards are members
6. PRICING

Milk Pricing

Changes in Farm Gate Price of milk classes 1-4 determined by:
- 50% change in average Cost of Production
- 50% change in Consumer Price Index

Some Classes set at world price

<table>
<thead>
<tr>
<th>Deductions</th>
<th>Cdn $/hL</th>
<th>US$/cwt</th>
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</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>$2.55</td>
<td>$0.89</td>
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<tr>
<td>Promotion</td>
<td>$1.50</td>
<td>$0.52</td>
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<tr>
<td>Admin</td>
<td>$0.625</td>
<td>$0.22</td>
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<tr>
<td>Research</td>
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<td>$0.02</td>
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<tr>
<td>DHI</td>
<td>$0.06</td>
<td>$0.025</td>
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<tr>
<td><strong>Net</strong></td>
<td><strong>$69.21</strong></td>
<td><strong>$24.10</strong></td>
</tr>
</tbody>
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Average blend price today about Cdn $74/hL or US$26/cwt
RETAIL PRICING

Set By Retailers:

**4L milk typically**
- Cdn $4.29/4 litres
- US $ 3.26/gal

**Butter typically**
- Cdn $3.00-$4.00/lb
- US $2.40 - $3.20
7. POSITIVES & NEGATIVES

• The structure is very effective at creating market stability.
• Amidst global price fluctuation and a current global depreciated price, the Canadian market remains robust.
• Supply Management functions as a mechanism that fosters a sustainable, controlled growth market.
7. POSITIVES & NEGATIVES

• As the global economy shifts for ever increased cross-border trade, supply management comes under increased pressure.

• Media, Government, and the public are prone to questioning the structure, as it can be difficult to understand the domestic benefits at a casual glance.
8. ECONOMICAL IMPACT
Agriculture is a sizeable contributor to the Canadian GDP.

Dairy in particular is a large industry, and because of supply management it has been a stable and successful industry for decades.
QUESTIONS