



California
Farmers
Union

REGIONAL MEETING

California

February, 2019

An overview of **CANADA'S DAIRY SYSTEM**



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A dairy system for
today and
tomorrow !



An overview of
**CANADA'S
DAIRY
SYSTEM**

TOPICS

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

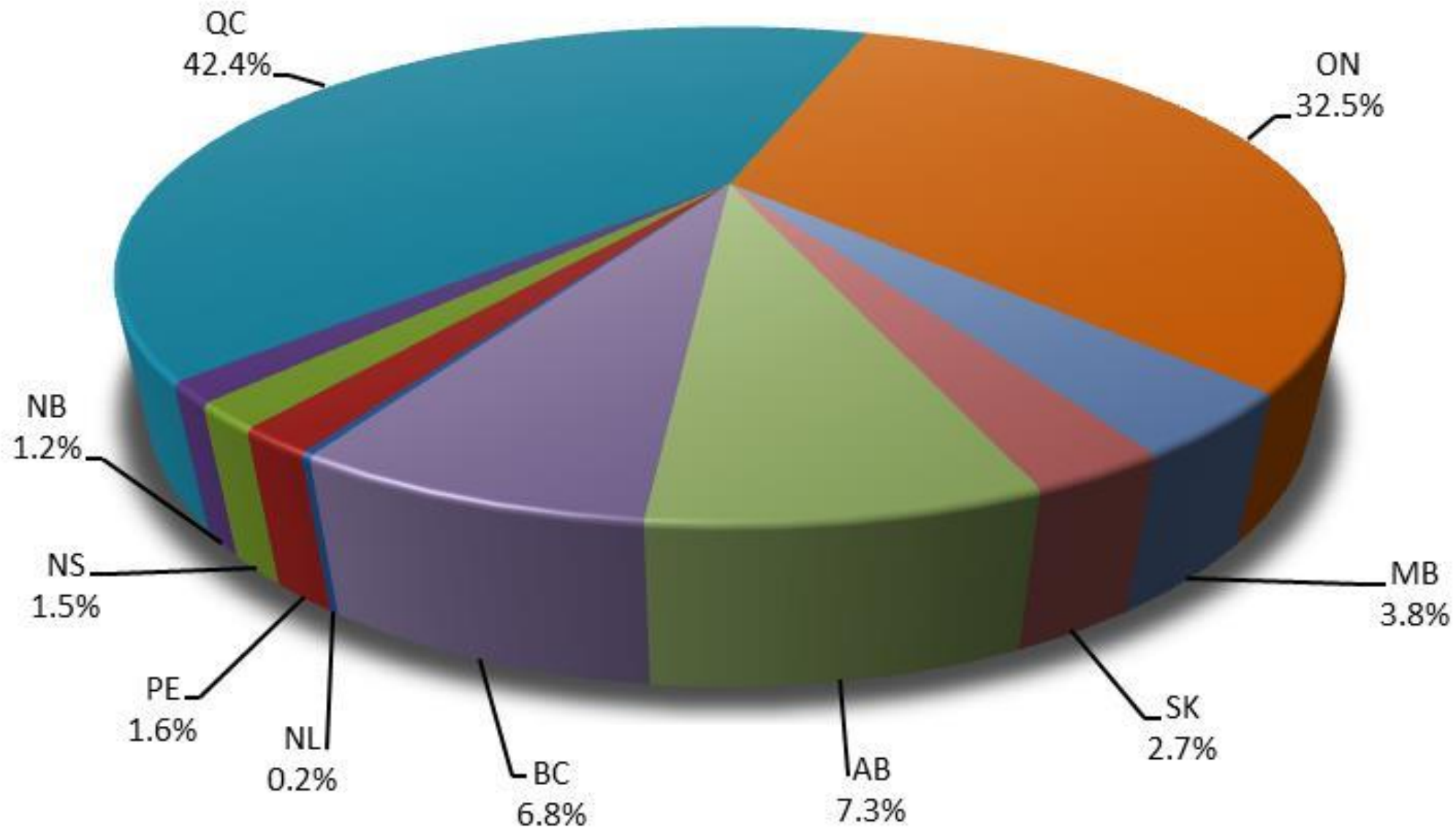
Number of Dairy Cows: 945,000

Number of Dairy Heifers: 454,300



Distribution of the National Market Sharing Quota (MSQ) on August 1st

Total: 205, 680, 000 kg of BF



Saputo

Gay Lea
BORN ON THE FARM

PROCESSING

450 PROCESSORS
NATIONALLY

80% - 85 % OF MILK
MARKETED TO 4
PROCESSORS

Kraft*Heinz*



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

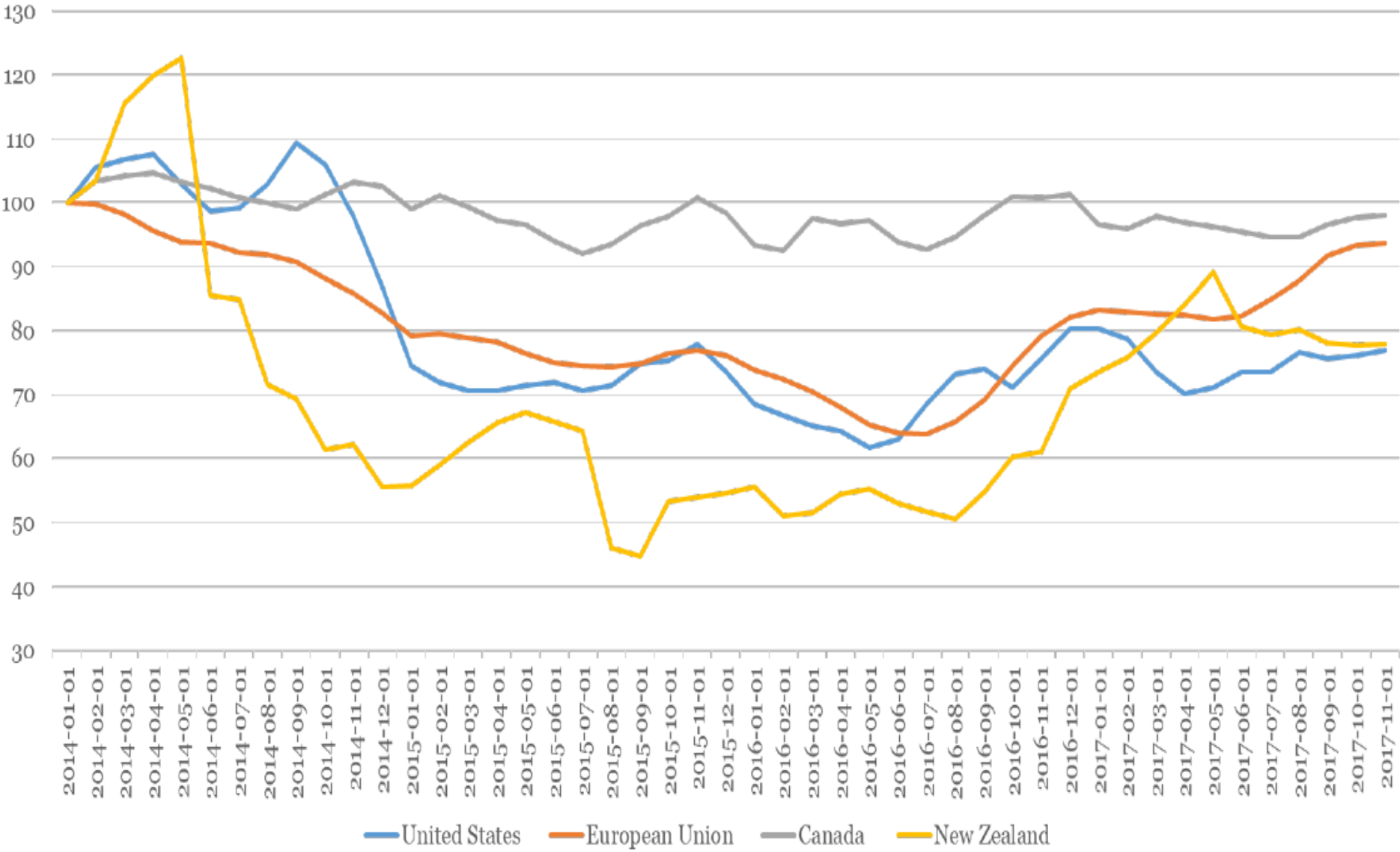
PRODUCTION CONTROLS

- 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

Canadian Demand for Milk = Total domestic requirements + change in butter stocks

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

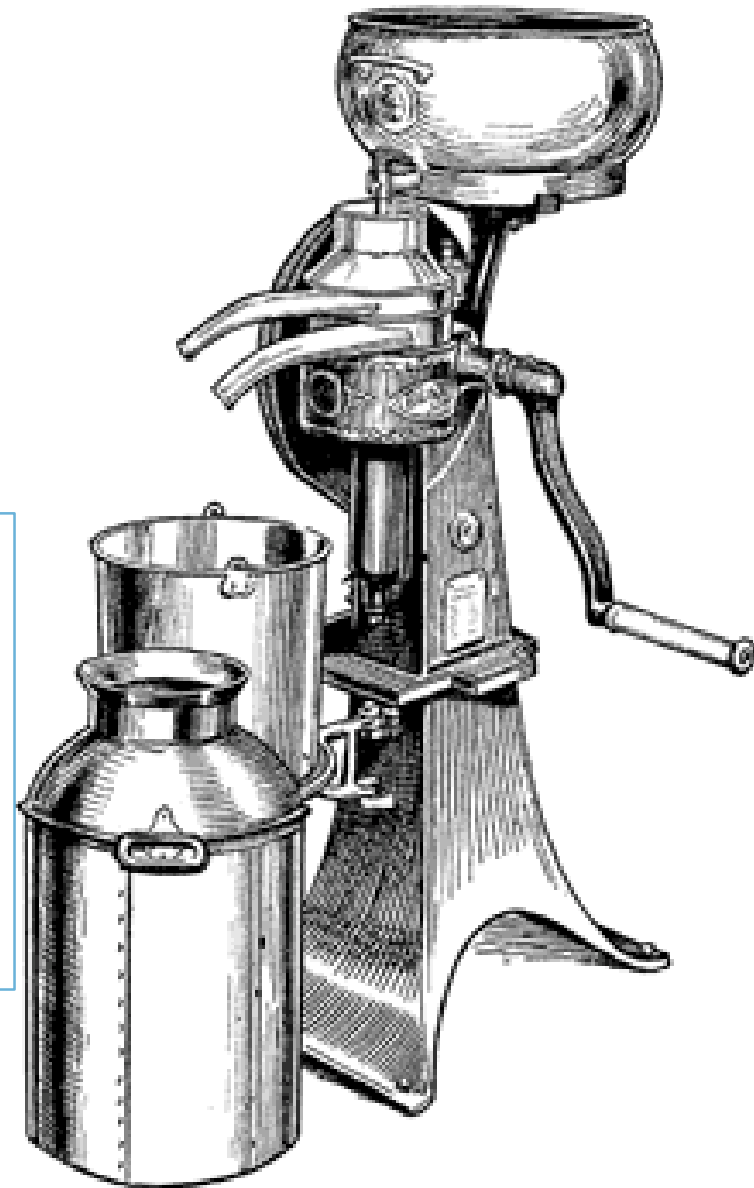
The province decides how to pass on **increases/decreases** in quota to producers



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)



Les
Producteurs
de lait
du Québec



Western Milk Pool (WMP)



Sask**milk**

Dairy Farmers
of Manitoba



DAIRY FARMERS OF
NEWFOUNDLAND AND LABRADOR





**Canadian
Dairy
Commission**

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

Average blend price today about Cdn \$74/hL or US\$26/cwt		
Deductions	Cdn \$/hL	US\$/cwt
Transportation	\$2.55	\$0.89
Promotion	\$1.50	\$0.52
Admin	\$0.625	\$0.22
Research	\$0.05	\$0.02
DHI	<u>\$0.06</u>	<u>\$0.025</u>
Net	\$69.21	\$24.10

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

POSITIVES

- 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



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