



# ANNUAL GENERAL MEETING

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Hanford, California  
January 23, 2019

# AN OVERVIEW OF **CANADA'S** DAIRY SYSTEM

Presented by | **BCmilk**  
MARKETING BOARD



# INTRODUCTION BC MILK MARKETING BOARD



**David Janssens**  
BCMMLB Board Member



**Cornelis Hertgers**  
BCMMLB Board Member

# INTRODUCTION BC MILK MARKETING BOARD



David Janssens  
BCMMB Board Member

- I am a 2nd generation farmer in Surrey, B.C. a city of 400,000 residents
- My parents immigrated to Canada in 1956,
- Our family operates 500 cow dairy,
- Our family owns 750 acres and grow corn (silage) & grass (hay, pasture, silage).

Corny can provide similar profile.

Both Cornelis and myself serve on the BC Milk Marketing Board

# INTRODUCTION BC MILK MARKETING BOARD



Cornelis Hertgers  
BCMMLB Board Member

- I am a 2nd generation farmer in Agassiz, B.C. a town of 6,500 residents
- My parents immigrated to Canada in 1951, started dairying in 1953
- Our family operates a 350 cow dairy, with equivalent number of replacement stock
- Our family owns 400 acres and grow corn & grass for silage, and purchase straw, some hay and a complete manufactured dairy ration

I have served as a Board Member for the BC Milk Marketing Board since 2009

# AN OVERVIEW OF CANADA'S DAIRY SYSTEM

## TOPICS

1. BC Milk Marketing Board
2. Industry Overview
3. Supply Management
4. History Of Supply Management
5. Harmonized Milk Classes
6. What Is Canada's Dairy System?
7. Players
8. Pricing
9. Positives & Negatives
10. Media Perception

# BC milk

## MARKETING BOARD

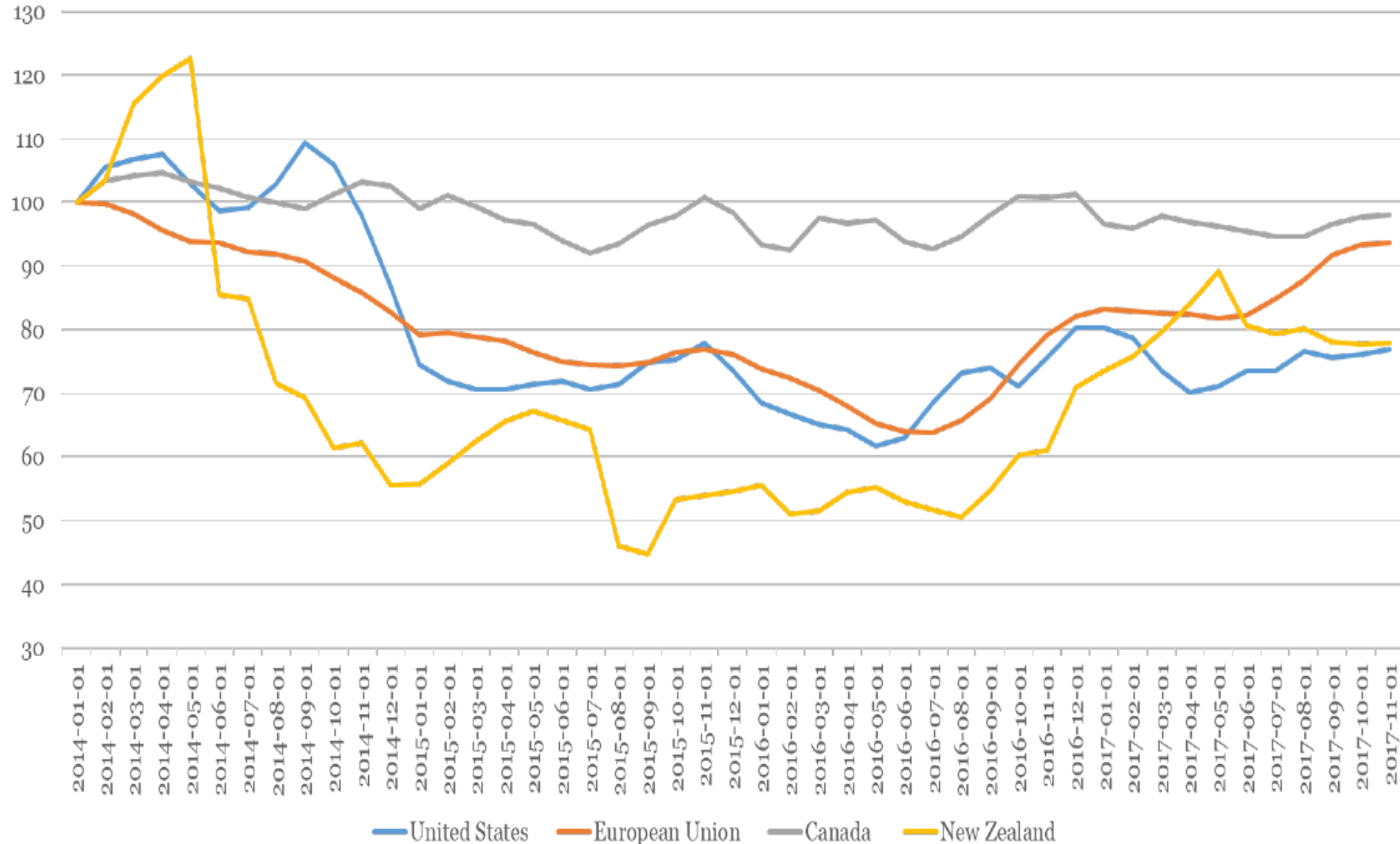
The British Columbia Milk Marketing Board has the authority to promote, control and regulate the production, transportation, packing, storing and marketing of milk, fluid milk and manufactured milk products within British Columbia. The Board exercises its powers under federal and provincial enactments.



Why Are We Here?



## 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.

# INDUSTRY OVERVIEW

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# 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


	MB
Farms:	282
Cows:	41,900
Heifers:	20,500


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

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

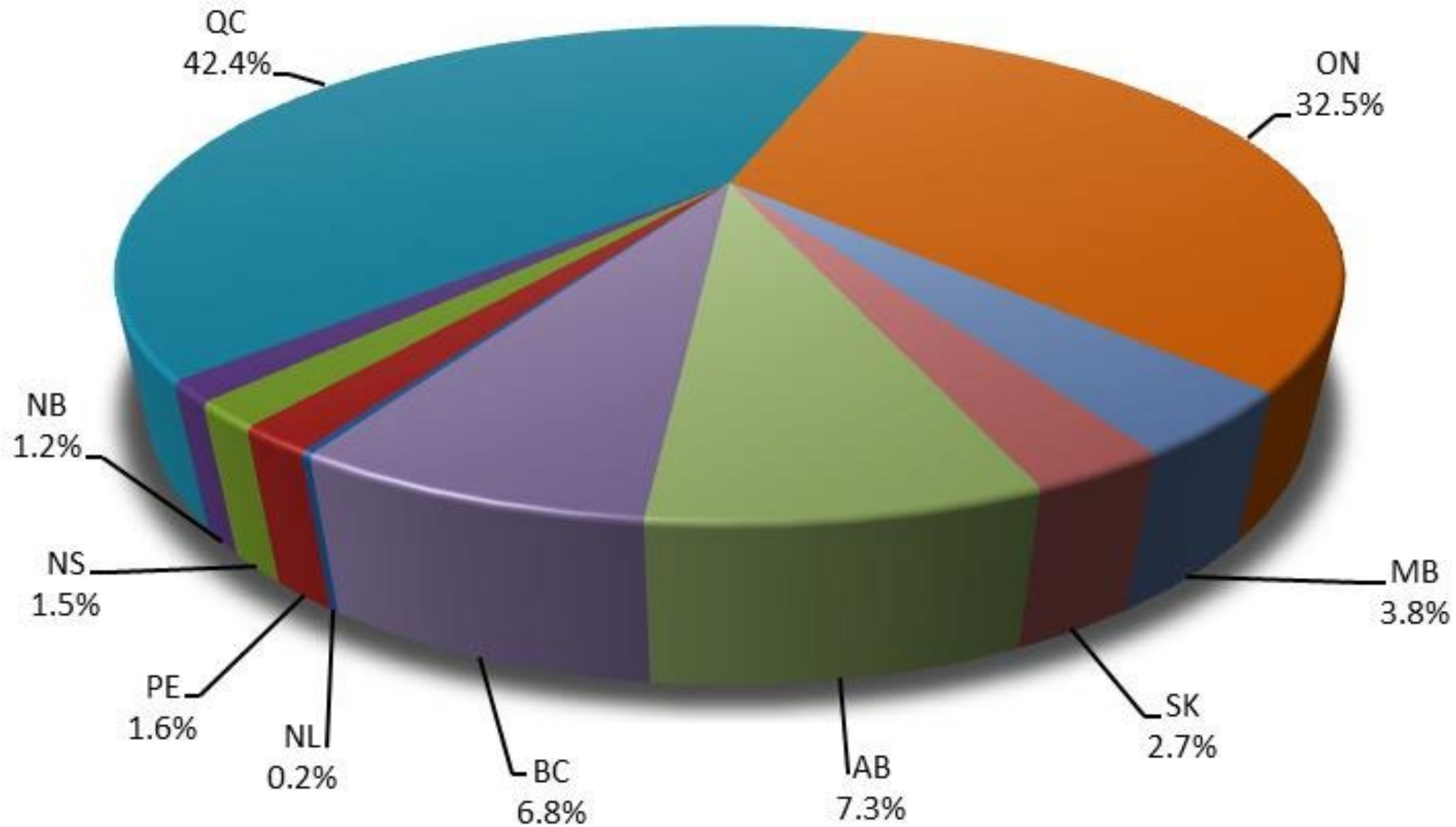
	NB
Farms:	194
Cows:	19,100
Heifers:	8,200

	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**



## PROCESSING

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450 PROCESSORS  
NATIONALLY

80% - 85 % OF MILK  
MARKETED TO 4 PROCESSORS

*Saputo*

*Gay Lea*  
BORN ON THE FARM

**Kraft***Heinz*





# SUPPLY MANAGEMENT



# WHAT IS SUPPLY MANAGEMENT?

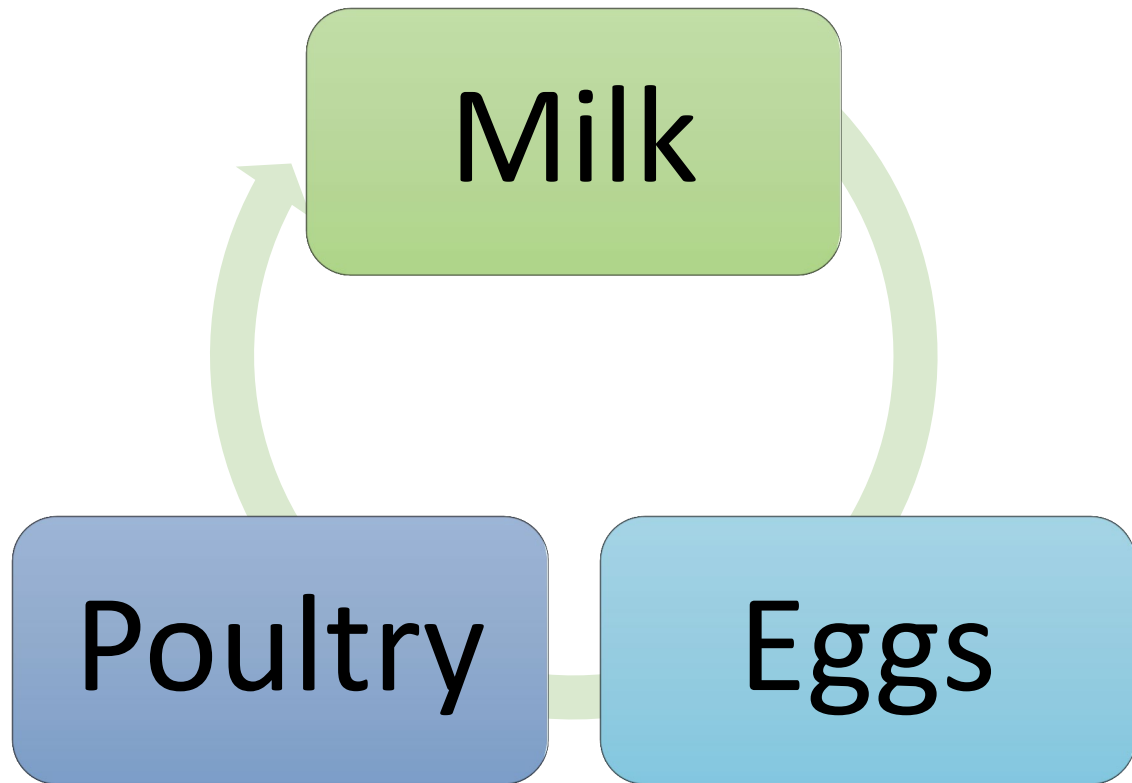
## SUPPLY MANAGEMENT IS:

- **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.
- This structure also takes into account certain imports that enter Canada as well as production which is shipped to export markets.
- Imports of dairy, eggs and poultry are controlled using tariff rate quotes or TRQ's. These allow a predetermined quantity to be imported at preferential tariff rates while maintaining control over the quantity imported.



# WHAT CANADIAN INDUSTRIES UTILIZE IT?

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# HISTORY



# SUPPLY MANAGEMENT

**1960s/1970s  
farmer concerns:**

- Milk farm gate prices way too low
- Milk become short, then long
- Pay prices have crashed
- Over supply issues
- Farm gate price fluctuations



# HISTORY

- **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.<sup>[3]</sup>
- **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.
- **By 1974**, every province except Newfoundland had signed on. Following dairy, a national supply management system was implemented for eggs in 1972, turkey in 1974, chicken in 1978, and chicken hatching eggs in 1986.



# SUPPLY MANAGEMENT

## **1980s: National Milk Marketing Plan**



- Series of agreements between provinces and federal government
- Industrial (national) and fluid (provincial) milk production
- Principle: 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

# 3 PILLARS OF SUPPLY MANAGEMENT



## 1. **PRICE**

CPI, COP

## 2. **PRODUCTION CONTROLS**

Continuous Daily Quota (CDQ)

## 3. **BORDER CONTROLS**

Restrict imports

Know what is being imported

# DEMAND & QUOTA

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**Canadian Demand for Milk** = Total domestic production + imports – exports + 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 (i.e., monthly, every 3 months etc.)





# HARMONIZED MILK CLASSES

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# 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



# WHAT IS CANADA'S DAIRY SYSTEM?

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- 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

# WHAT IS CANADA'S DAIRY SYSTEM?

| PLAYERS



# PLAYERS – 10 PROVINCIAL BOARDS

## Provincial 5 (P5)



Les  
Producteurs  
de lait  
du Québec



## Western Milk Pool (WMP)



Sask**milk**

DAIRY FARMERS OF  
NEWFOUNDLAND AND LABRADOR



Dairy Farmers  
of Manitoba



# PLAYERS

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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.



# PLAYERS

## **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

## 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

## PRICING



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	<b>\$69.21</b>	<b>\$24.10</b>

# RETAIL PRICING

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## Set By Retailers:

### 4L milk typically

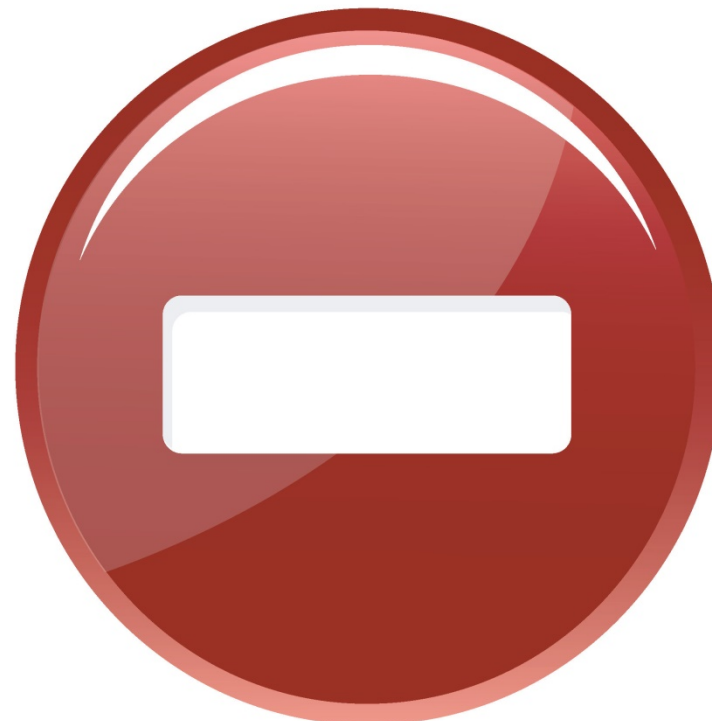
- Cdn \$4.29/4 litres
- US \$ 3.26/gal

### Butter typically

- Cdn \$3.00-\$4.00/lb
- US \$2.40 - \$\$3.20

# POSITIVES & NEGATIVES

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# POSITIVES & NEGATIVES ASSOCIATED

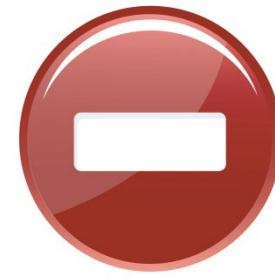
## POSITIVES

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



## 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.



# MEDIA PERCEPTION

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- **Supply Management is often criticized by the national media as being “anti-trade”.**
- Many economy-focused journalists in Canada are dedicated to free-trade economic perspectives at all costs, and view Supply Management as a protectionist policy.
- A common criticism is that because of Supply Management, the consumer is paying a higher price for the product.
- There is a certain attitude within the media that the structure simply “protects rich farmers”.
- In reality, the structure creates a reasonable and stable return for the producer. Product pricing is controlled at the processor level.

# GOVERNMENTAL PERCEPTION

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- 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.
- Supply Management has had strong governmental support, particularly by the Federal Conservative Government who were steadfast in their defense of the structure amidst global trade negotiations and media critique.
- Our Federal Government changed last January, with a new Liberal Government. As an industry we wasted no time with national lobby initiatives to educate this new government around our issues.
- They have thus far demonstrated a decent level of support for supply management and Canadian dairy.

# THANK YOU

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**BC** **mil**k  
MARKETING BOARD



QUESTIONS

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