Required Report: Required - Public Distribution **Date:** October 19, 2021

Report Number: CA2021-0052

Report Name: Dairy and Products Annual

Country: Canada

Post: Ottawa

Report Category: Dairy and Products

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Report Highlights:

FAS/Canada projects modest growth for milk and cheese production in 2022, as COVID-19 restrictions on the food service sector continue to impact consumption patterns. Butter production is forecast to continue growing into 2022, as stocks remain low, depleted by sustained strong consumption. FAS/Canada forecasts skim milk powder exports flat into 2022, at the lowest level since 2015, as the industry reorients toward producing milk protein concentrates and isolates. Imports of cheese and butter continue to rise, in part, due to additional duty-free market access under recently concluded trade agreements, including the USMCA.

Executive Summary:
Few sectors of the economy have been upended by COVID-19 quite like food service, where demand for some dairy products, like fluid cream, remains well below pre-pandemic levels. Despite an initial increase in retail grocery consumption of some items, like fluid milk, in 2021 consumers largely reverted to pre-pandemic purchasing patterns. Cheese and butter sales have been driving the sector, and the dairy industry is scaling back milk production growth to align overall milk supply with the current market demand.

Cheese imports are expected to expand further in 2022[1], as import tariff rate quotas (TRQs) under the Comprehensive Economic and Trade Agreement (CETA) with the European Union (EU), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the United States-Mexico-Canada Agreement (USMCA) grow to a combined volume of just over 36,000 metric tons (MT). In addition, Canada will continue to import over 20,400 MT of cheese – predominantly from EU origins – under a TRQ established at the World Trade Organization (WTO) in 1995.

FAS/Canada expects butter stocks to remain below the industry targeted volume of 35,000 MT through 2022. By August 2021, stocks of butter had declined below 26,000 MT, reflecting a sustained demand throughout the COVID-19 pandemic from both commercial manufacturers of baked goods and processed foods, as well from individuals preparing more food at home. Butter production is expected to increase moderately through 2022, to meet a steady demand and to rebuild stocks.

After an estimated significant decline in skim milk powder (SMP) exports in 2021, FAS/Canada forecasts a similar level for 2022, primarily as a result of USMCA provisions that impose export surcharges on Canadian exports of SMP and milk protein concentrates in excess of 35,420 MT. 2022 SMP production is forecast to decline to 82,000 MT, down from an estimated 85,000 MT in 2021, and further down from 90,000 MT in 2020. SMP exports in 2022 are forecast at 15,000 MT, which is equivalent to the estimated volume for 2021, representing the lowest level of exports since 2015. While the overall milk protein structural surplus is expected to remain relatively constant into 2022, the dairy industry is expected to shift its production and export focus away from SMP and into higher-protein powders, like milk protein concentrates and milk protein isolates (this last category of protein powders being excluded from USMCA export surcharges). Additionally, increased volumes of SMP are expected to reach the animal feed market in Canada.

[1] All years in this report are calendar years, unless otherwise noted. Canadian milk marketing year (MY) 2021/22 commenced on August 1, 2021 and will end on July 31, 2022.

MILK:

Production, Supply and Distribution (PS&D):

Dairy, Milk, Fluid	2020		2021		2022	
Canada	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Cows In Milk	967	972	967	991	0	990
Cows Milk Production	9,950	10,035	9,980	10,185	0	10,330
Total Production	9,950	10,035	9,980	10,185	0	10,330
Total Imports	55	55	55	75	0	90
Total Supply	**10,005**	**10,090**	**10,035**	**10,260**	**0**	**10,420**
Total Exports	25	25	25	25	0	20
Fluid Use Dom. Consum.	2,875	2,844	2,910	2,780	0	2,730
Factory Use Consum.	6,650	6,767	6,645	7,000	0	7,210
Feed Use Dom. Consum.	455	454	455	455	0	460
Total Dom. Consumption	9,980	10,065	10,010	10,235	0	10,400
Total Distribution	**10,005**	**10,090**	**10,035**	**10,260**	**0**	**10,420**

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

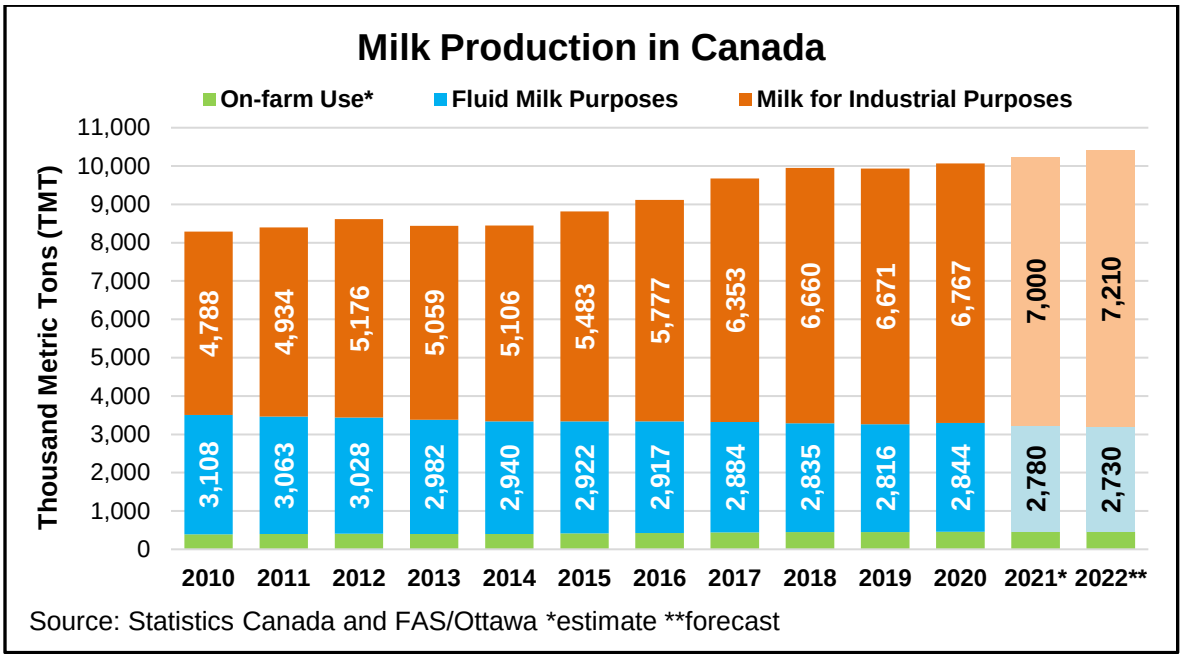
Production:

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 dairy requirements and recommends milk production adjustments to reflect changes in Canadian domestic demand for milk and 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.

Until 2020, quota increases and decreases were 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 was then responsible for distributing shares of the quota to producers according to provincial policies and in accordance with pooling agreements. In 2020, 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, so that by 2023 only one single national milk pool will cover 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 Milk Ingredients 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.



Source: Statistics Canada and FAS/Ottawa *estimate **forecast

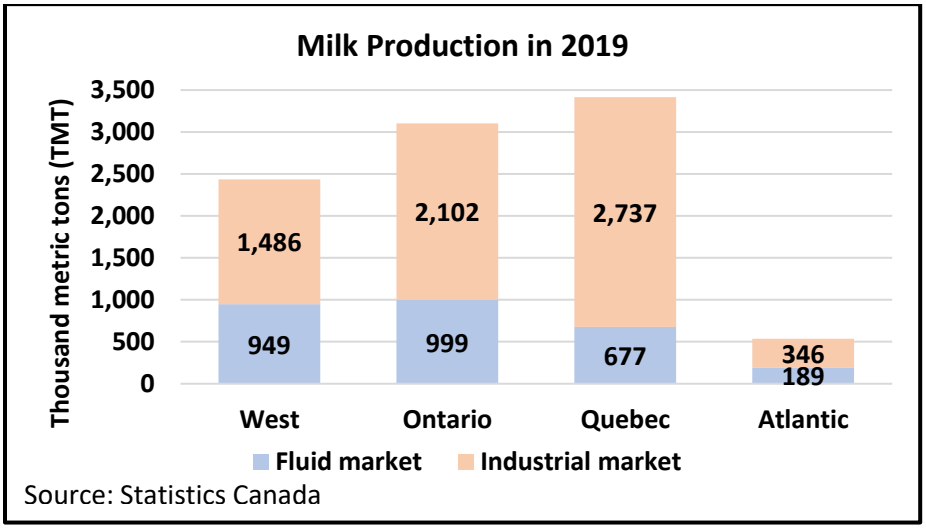
FAS/Canada forecasts total milk production to reach 10.330 million metric tons (MMT) in 2022, a modest increase from the 2021 estimate of 10.185 MMT. The onset of the COVID-19 pandemic in early 2020 placed severe restrictions on the food service sector, which resulted in significant changes in food consumption patterns. For the dairy sector, it meant a long-lasting overall decline in demand for certain products, like fluid cream, for which sales through food service establishments represent a significant portion of overall sales. The surge in the retail demand for other products, like fluid milk and sour cream, was short lived, as consumers eventually reverted to pre-pandemic purchasing habits. The several periods of partial reopening of the economy, such as summer 2020, and spring and summer 2021, only modestly contributed to supporting the overall dairy consumption. Of all dairy products, only cheese and butter enjoyed sustained demand since the early days of the COVID-19 pandemic. Throughout these times, dairy farmers reacted to all these market changes by tightening or relaxing milk production levels in order to align overall milk supply with the market demand for the various dairy products.

Between 2014 and 2018, Canada experienced a significant growth in the dairy sector, with total milk production rising by 18 percent, most of which being growth in milk for factory use (also called milk for industrial purposes). Between 2014 and 2018, factory use 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. Factory use milk production is forecast to increase 3 percent in 2022, while milk production for the fluid market is expected to show a 2 percent decline.

In general, there is no direct one-to-one 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 adjustments in order to drive production in the desired direction. The actual milk production volume is the result of numerous factors, including: the number of incentive days allowed, the number of production credit days claimed, the level of penalties applied to over-production volumes, weather conditions, and farm management practices.

Canadian dairy cow productivity has steadily increased over the past decade, primarily due to improved genetics, but also as a result of improvements in management practices, feed quality, and greater use of robotic milking parlors that increase total milkings per day. In 2008, the average volume of milk production per dairy cow was 8.0 MT annually. By 2020, this volume had grown 23 percent to 9.9 MT annually. FAS/Canada projects average dairy cow milk productivity to reach 10 MT annually.

Trends[2] in Dairy Farming[3]:
Nearly 70 percent of Canada's milk production is concentrated in Quebec and Ontario, with just over 25 percent in the West and roughly 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 a relative newcomer to the Western agricultural sector, with large, modern farms still managed by first-generation producers.

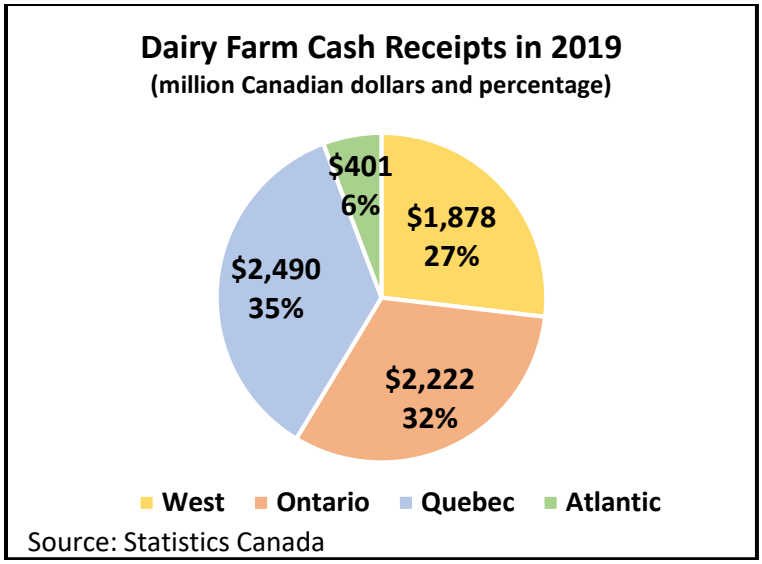


Source: Statistics Canada

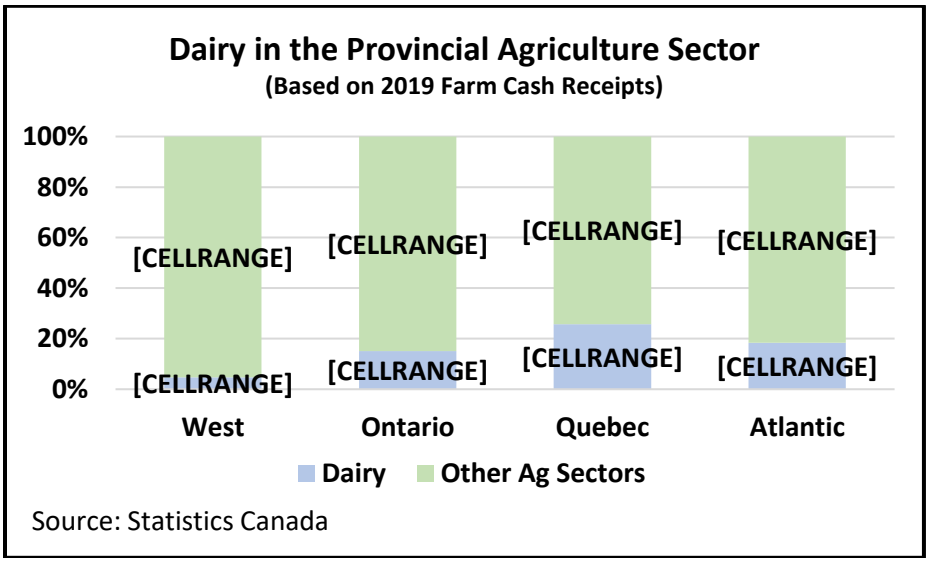
The long tradition of dairy farming in Ontario and Quebec also explains, in part, the concentration of dairy processing facilities in these two provinces. The combined share of milk for industrial use in Ontario and Quebec is close to 75 percent of total milk production in these two provinces, compared to only 60 percent in the West. As the price of milk for the fluid market is typically higher than the average

[2] This section covers longer term characteristics of the Canadian dairy sector. Although actual data is slightly different from year to year, the underlying trends remain persistent. Updates will be made as appropriate.
[3] 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.

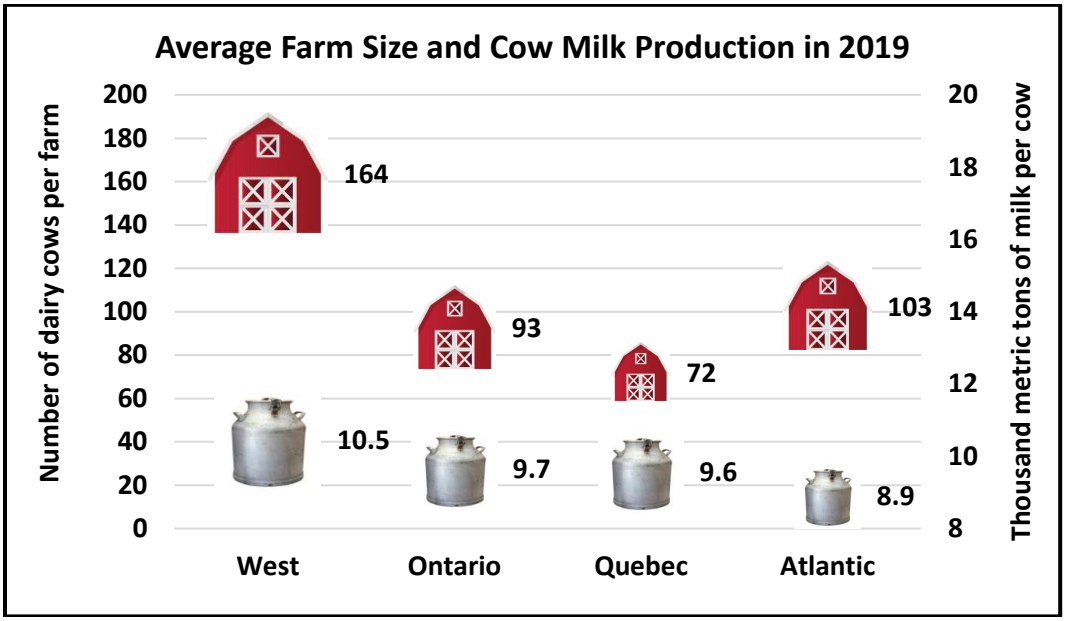
price of milk used in the production of various dairy products (milk for industrial use), the larger presence of dairy processing in the provinces of Ontario and Quebec also explains the lower blended milk price farmers receive there, compared to the blended milk price farmers receive in the West.



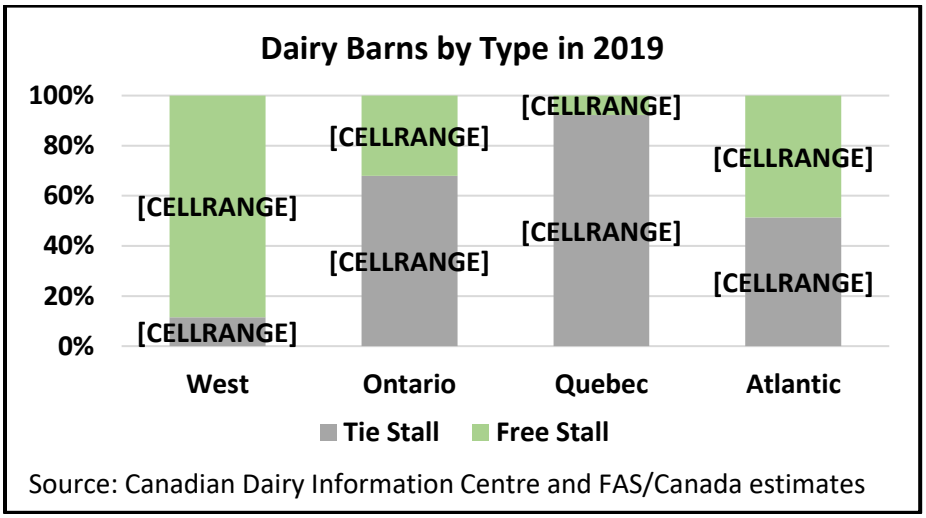
These differences in blended milk prices are reflected in the farm cash receipts generated in various regions. The West, with only 25 percent of total milk production, captures 35 percent of dairy farm cash receipts, while Ontario and Quebec generate a combined 60 percent in milk revenues, although they account for 70 percent of the national milk production volume.



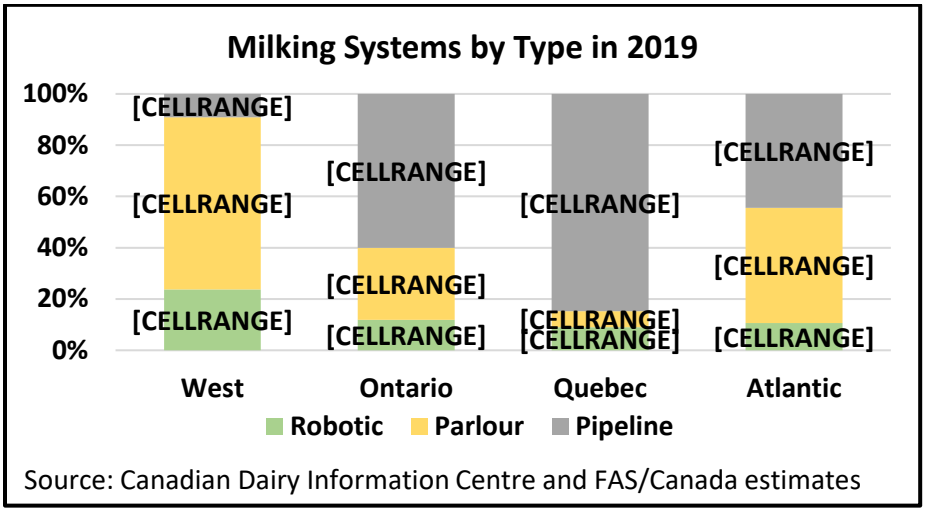
Across Canada, dairy farming cash receipts as a percentage of total agricultural sector revenue vary significantly, with Quebec generating more than one quarter of total farm cash receipts from dairy.



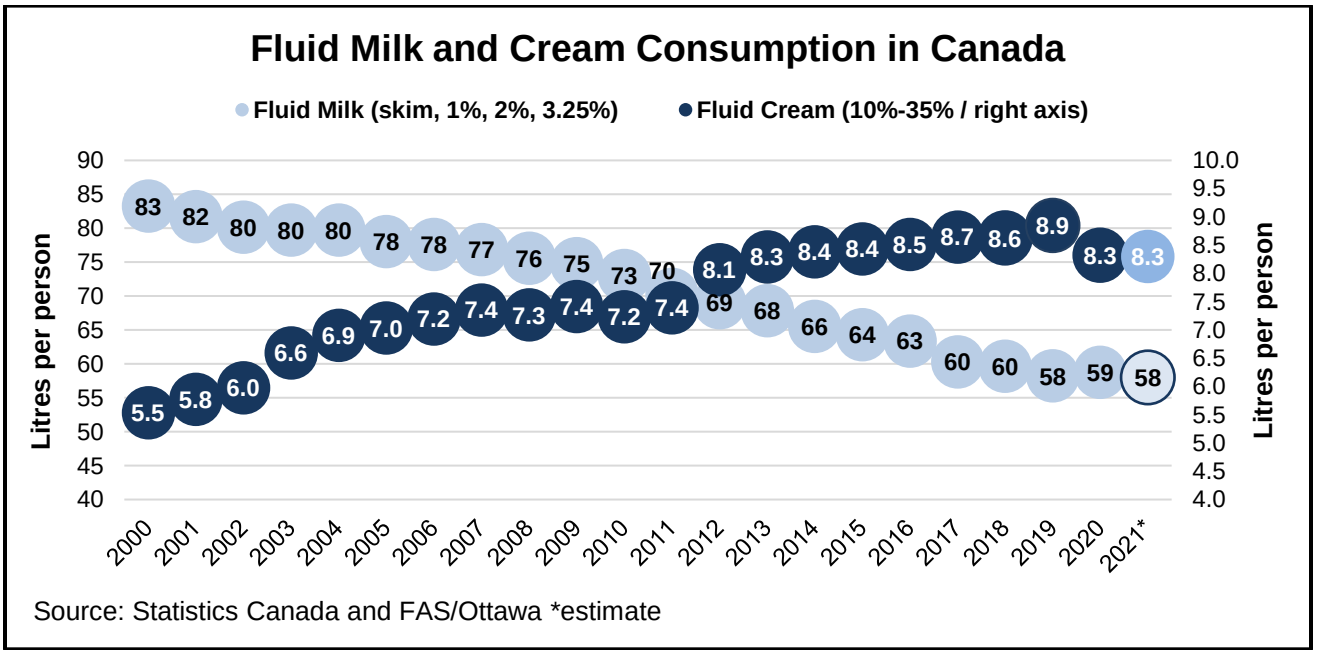
Despite the relatively small size of the dairy sector in the West, dairy farms in western provinces are in fact among the largest and the most technologically advanced in the country. The average farm size in the West, in terms of number of dairy cows, is about twice the size of average farms in Ontario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



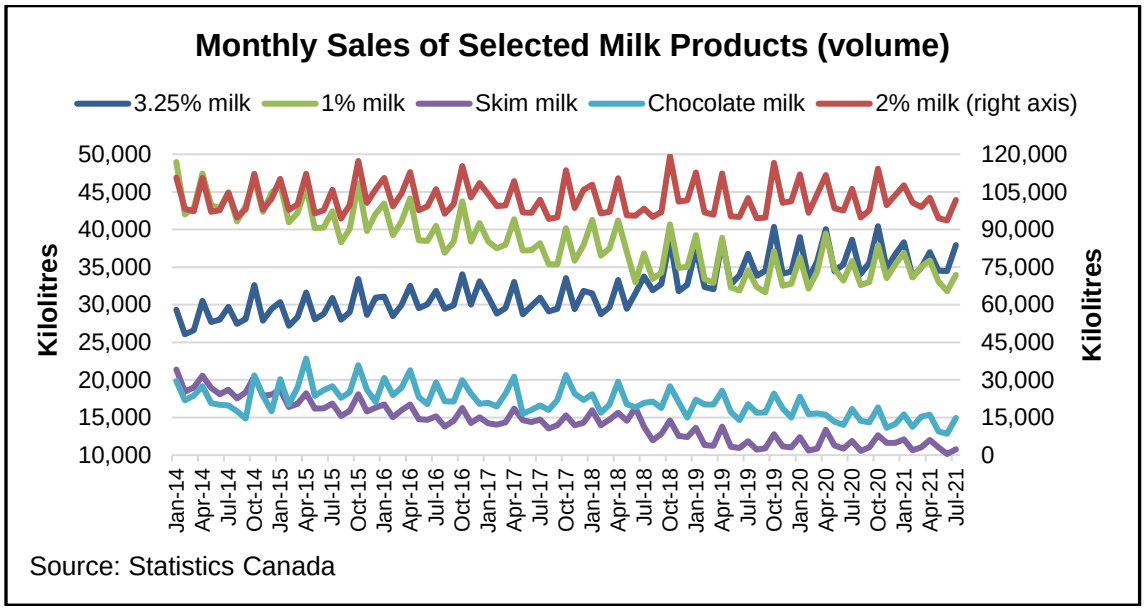
Not having inherited legacy dairy facilities, Western Province dairy farmers had greater opportunities to invest in newer barns, incorporating more modern technologies and configurations. This is demonstrated by the higher adoption of the free stall dairy farming model as well as the wider utilization of modern milking technologies, including rotary parlors and robotic milking stations.



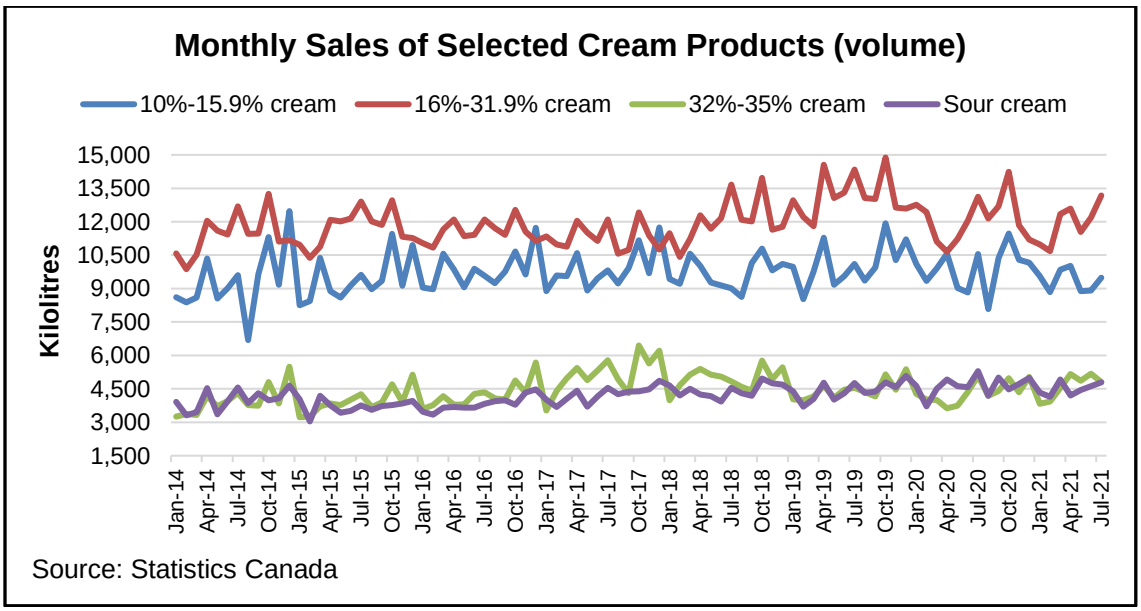
Consumption:
While per capita consumption of drinking milk has been declining, the COVID-19 pandemic has temporarily slowed this trend, as consumers spent more time at home. Fluid cream demand, which has been steadily increasing over the past decade, was also impacted by the pandemic, and has decreased nearly 7 percent when compared to pre-pandemic levels to 8.3 liters per person. By 2021, the declining trend in fluid milk consumption resumed and is now expected to continue into the following years. Overall cream consumption continues to be impacted by pandemic-related restrictions on the foodservice sector, and has yet to return to pre-pandemic levels.



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.



In general, cream consumption has increased in Canada due to the popularity of 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 cafés and restaurant visits have ebbed and flowed in relation to COVID-19 restrictions and changing consumer behavior.



Overall sales of liquid cream (10 to 35 percent butterfat content) dropped by 1 percent between marketing year (MY) 2018/19 (August 2018 to July 2019) and MY 2019/20 (August 2019 to July 2020), and further declined by 2 percent in MY2020/21. By category, sales of all fluid creams declined over the last marketing year, except for sales in the heavy cream (32 to 35 percent butterfat) category which surged by 5 percent.

The only cream category showing resilient sales during the 2020-2021 pandemic months has been sour cream, as consumers integrated this ingredient into the preparation of a greater number of meals at home.

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 to in effect fills the fluid milk TRQ. (Note: Due to COVID-19 pandemic restrictions, the U.S. border has been closed to non-essential land crossings, such as shopping, by Canadian residents since March 2020. End note.)

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:

Quota Year (August to July)	Milk (in MT)
2018/19 (year 1)	8,333
2021/22 (year 4)	**33,333**
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:

Quota Year (August to July)	Cream (in MT)
2018/19 (year 1)	500
2021/22 (year 4)	**546**
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:

Quota Year (August to July)	Milk (in MT)
July 2020 (year 1)	8,333
2021/22 (year 3)	**25,000**
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:

Quota Year (August to July)	Cream (in MT)
July 2020 (year 1)	1,750
2021/22 (year 3)	**5,250**
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. The cream TRQ is opened to products originating in the United States, and FAS/Canada estimates this 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 would be 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 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

Dairy producers also requested from the federal government additional compensation for the market access conceded under USMCA. This supplementary support package has yet to be announced.

In February 2021, Canada published updated milk component prices on the Canadian Dairy Information Centre website for milk classes having different prices in different provinces, and on the Milk Ingredients 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[4]. USMCA required the elimination of milk class 7 before January 1, 2021.

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

CHEESE:

Production, Supply and Distribution (PS&D)

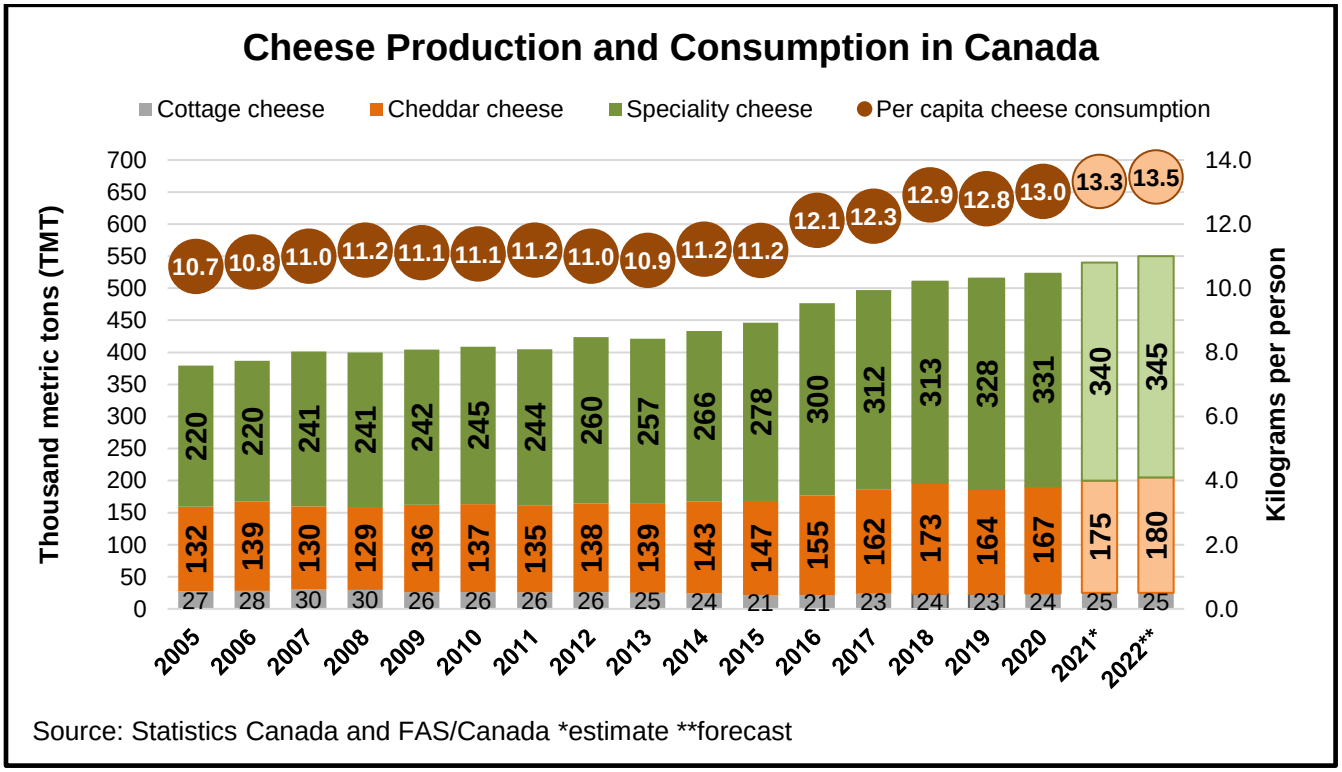
Dairy, Cheese* Canada	2020		2021		2022	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	85	85	85	83	0	90
Production	510	523	515	540	0	550
Total Imports	41	41	45	46	0	52
Total Supply	**636**	**649**	**645**	**669**	**0**	**692**
Total Exports	11	11	10	9	0	8
Total Dom. Consumption	540	555	550	570	0	594
Ending Stocks	85	83	85	90	0	90
Total Distribution	**636**	**649**	**645**	**669**	**0**	**692**

*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. Following growth rates of around 1 percent in 2019 and 2020, FAS/Canada forecasts a 2 percent increase in cheese production in 2022, up to 550,000 MT from an estimated level of 540,000 MT in 2021. Despite the COVID-19 pandemic, cheese demand remained resilient and contributed to overall dairy sector growth.

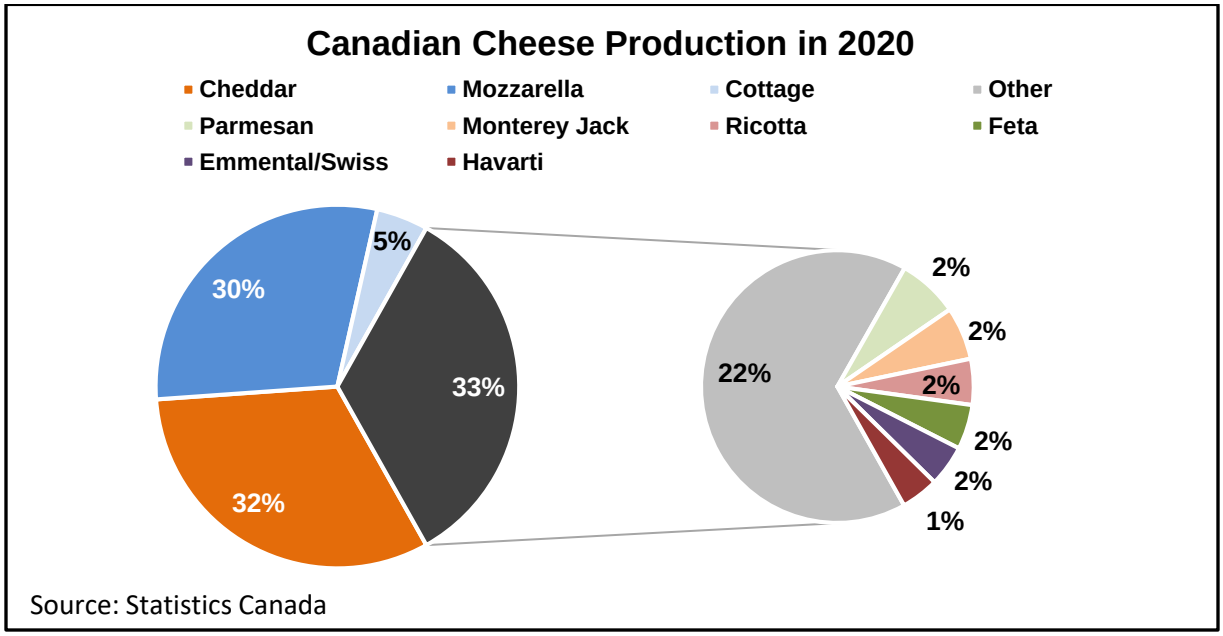
FAS/Canada estimates that cheese stocks have remained remarkably stable over the past 12 months, reaching 80,800 MT in August 2021, virtually unchanged from an estimated level of 80,400 MT in summer of 2020. Larger volumes of cheese imported from European Union and CPTPP countries, and from the United States are expected to increasingly compete with Canadian cheese and to put downward pressure on retail prices.

Consumption:
The recent positive change in consumer perception towards consuming foods rich in butterfat has also had an impact on cheese consumption. After a flat or declining trend during a long period, Canadians started to increase their consumption of cheese in 2014, with new records in per capita consumption registered almost every year since. Cheese sales remained unaffected by the COVID-19 pandemic, as strong retail grocery demand, 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. FAS/Canada forecasts per capita consumption at a new record level of 13.5 kilograms in 2022, up from the estimated level of 13.3 kilograms in 2020.



Source: Statistics Canada and FAS/Canada *estimate **forecast

Consumption of various types of cheese in Canada largely mirrors the domestic production pattern. After cheddar, which represents 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.



Source: Statistics Canada

Cottage cheese represents about 5 percent of total cheese consumed in Canada, while the remaining one third of total cheese consumed is composed 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 would include 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 and, going forward, 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 46,000 MT in 2021, before climbing to 52,000 MT in 2022, based on expanded imports from the European Union (as CETA TRQs enter the sixth year of implementation), from CPTPP countries (as those cheese TRQs enter the fifth year of implementation), and from the United States (as USMCA cheese TRQs will enter the third year of implementation).

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
		2019	2020	2021	2019	2020	2021	2021/2020
World	**T**	**17,154**	**17,867**	**24,003**	**100.00**	**100.00**	**100.00**	**34.34**
EU 28	T	10,789	11,695	15,321	62.89	65.45	63.83	31.01
United States	T	4,667	4,701	6,185	27.21	26.31	25.77	31.58
Switzerland	T	1,117	880	1,296	6.51	4.93	5.4	47.32
Australia	T	103	90	610	0.6	0.5	2.54	579.06
New Zealand	T	93	226	371	0.54	1.27	1.54	63.88
Norway	T	308	203	77	1.79	1.14	0.32	-62.26
Other countries	T	77	72	143	0.45	0.40	0.60	98.61

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 (79 companies) and the 2020 TRQ fill rate was 98 percent.

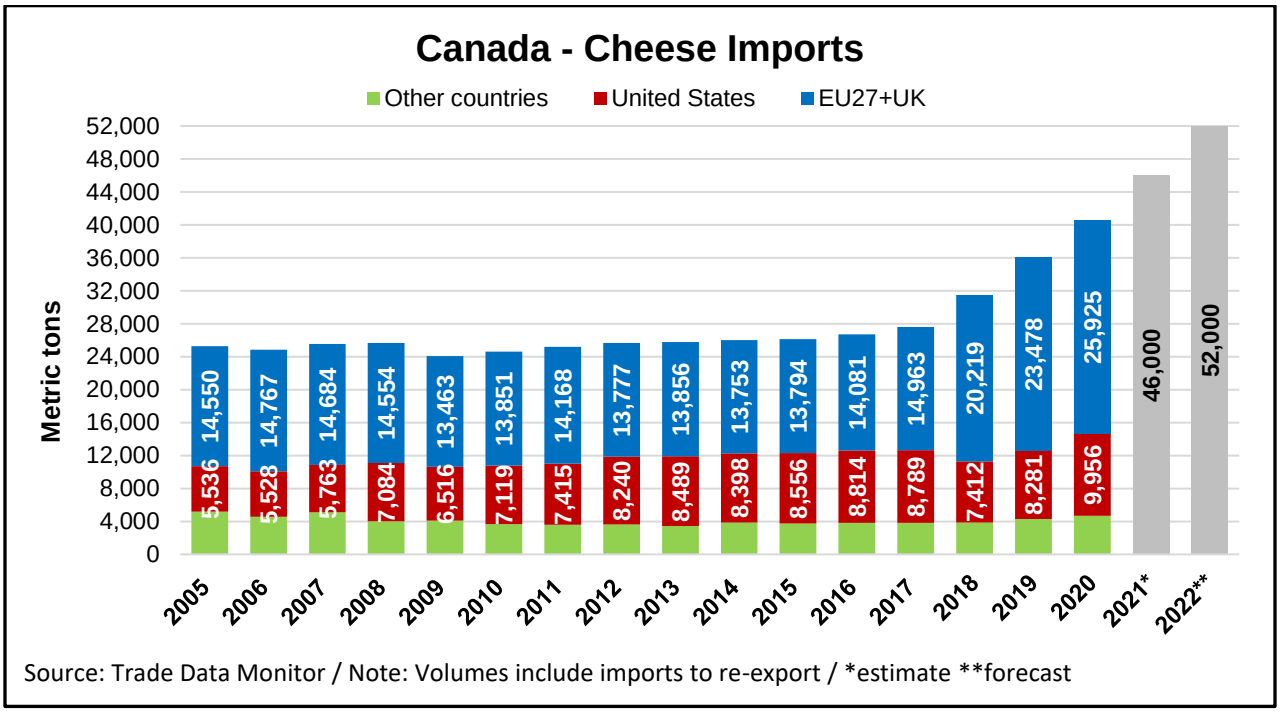
Canada provides additional access to EU members under two CETA TRQs: an industrial cheese TRQ, and an all-cheese TRQ. Both TRQs are being phased in over a six-year period.

Quota Year (January-December)	Industrial Cheese (in MT)	All Cheeses (in MT)
2017	79	745
2018	567	5,333
2019	850	8,000
2020	1,133	10,667
2021	1,417	13,333
2022 and onward	**1,700**	**16,000**

The CETA all-cheeses TRQ is allocated to two categories of importers; dairy processors (about 50 companies) and distributors/retailers (about 180 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 (13 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 2020, the CETA all-cheeses TRQ fill rate reached 96 percent, while the CETA industrial cheese TRQ was 77 percent filled, and FAS/Canada estimates similar fill rates in 2021.

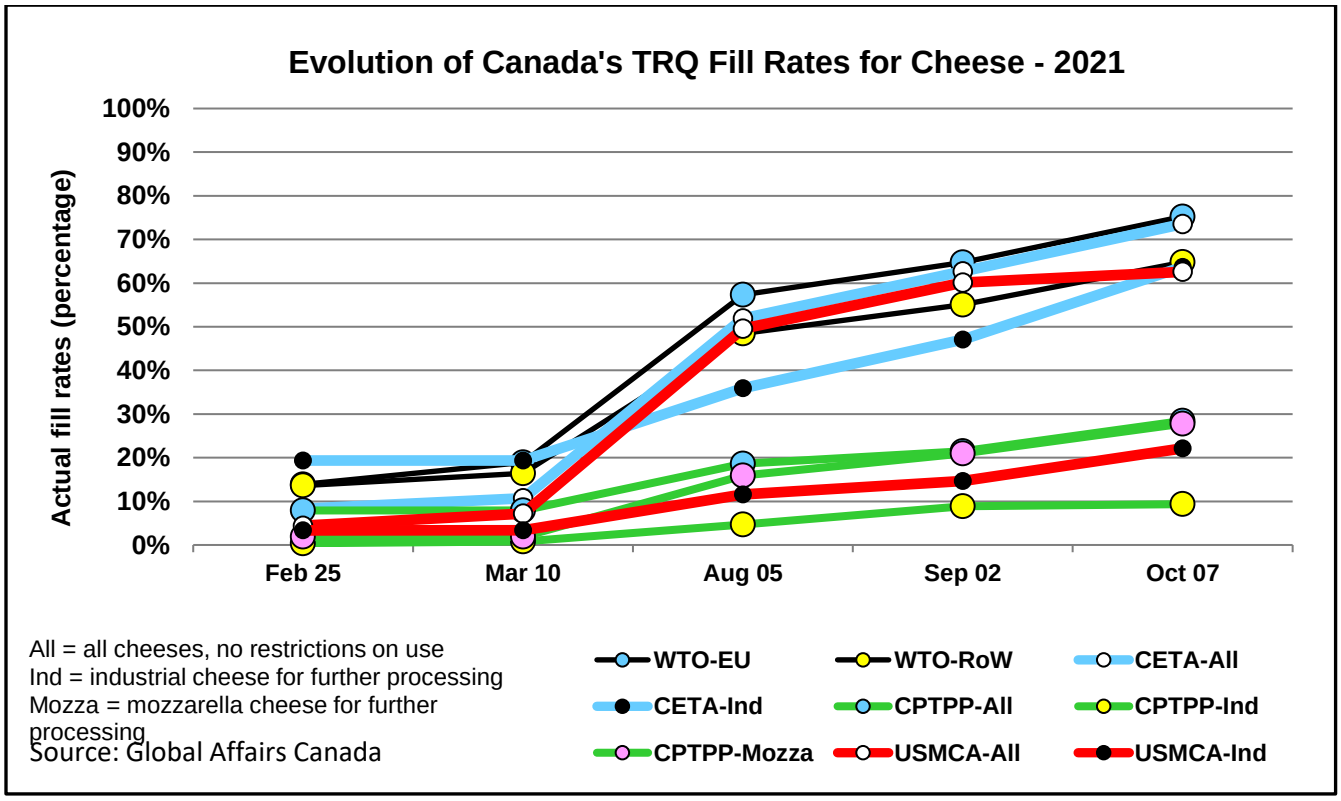


The CPTPP entered into force on December 30, 2018. Under this agreement, Canada agreed to three TRQs for cheese, which provide the following levels of market access:

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
2022 (year 5)	**6,646**	**2,417**	**3,021**
2023 (year 6)	7,975	2,900	3,625
2036 and onward	9,076	3,300	4,126

Fill rates for the CPTPP cheese TRQs observed throughout 2021 lagged behind the fill rate for the WTO cheese TRQ. FAS/Canada estimates improvement in these fill rates as the year nears its end. In 2020, the fill rates for the CPTPP TRQs were: all cheeses 61 percent, mozzarella and prepared cheeses 51 percent, and industrial cheese 6 percent.

The table below presents the evolution of the fill rates for various cheese TRQs, as observed at several points during 2021. Global Affairs Canada publishes regular reports on cheese TRQ utilization rates.



All = all cheeses, no restrictions on use
Ind = industrial cheese for further processing
Mozza = mozzarella cheese for further processing
Source: Global Affairs Canada

Under the USMCA, Canada committed to two TRQs for cheese, which provide the following levels of market access:

Quota Year (January-December)	Industrial Cheese (in MT)	All Cheeses (in MT)
July-December 2020 (year 1)	521	521
2022 (year 3)	**3,125**	**3,125**
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. FAS/Canada expects the USMCA all cheeses TRQs to fill completely, although the fill level for the industrial cheese TRQ is expected within the range of fill rates observed for other industrial cheese TRQs (CETA and CPTPP).

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, 2021, about 2,000 metric tons of cheese were covered by "repurchase agreements" valued at nearly $18 million CAD. Increasing CDC's borrowing limit required a legislative change and parliamentary approval, therefore this policy change is likely to remain in place beyond the COVID-19 pandemic, unless Parliament takes another legislative action to revert the borrowing limit to its pre-pandemic level.

The Federal Budget 2021, released in April, committed $292.5 million CAD through 2029 to compensate dairy, poultry, and egg processors for market access concessions under the Comprehensive Economic and Trade Agreement (CETA) with the European Union and under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Similar to a 2016 $100 million CAD dairy processor compensation package for anticipated CETA concessions, the Budget 2021 funds will offset the cost of processing plant expansion and upgrades. 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. Details of compensation to dairy, poultry, and egg farmers and processors for USMCA market access concessions have yet to be announced.

BUTTER:

Production, Supply and Distribution (PS&D):

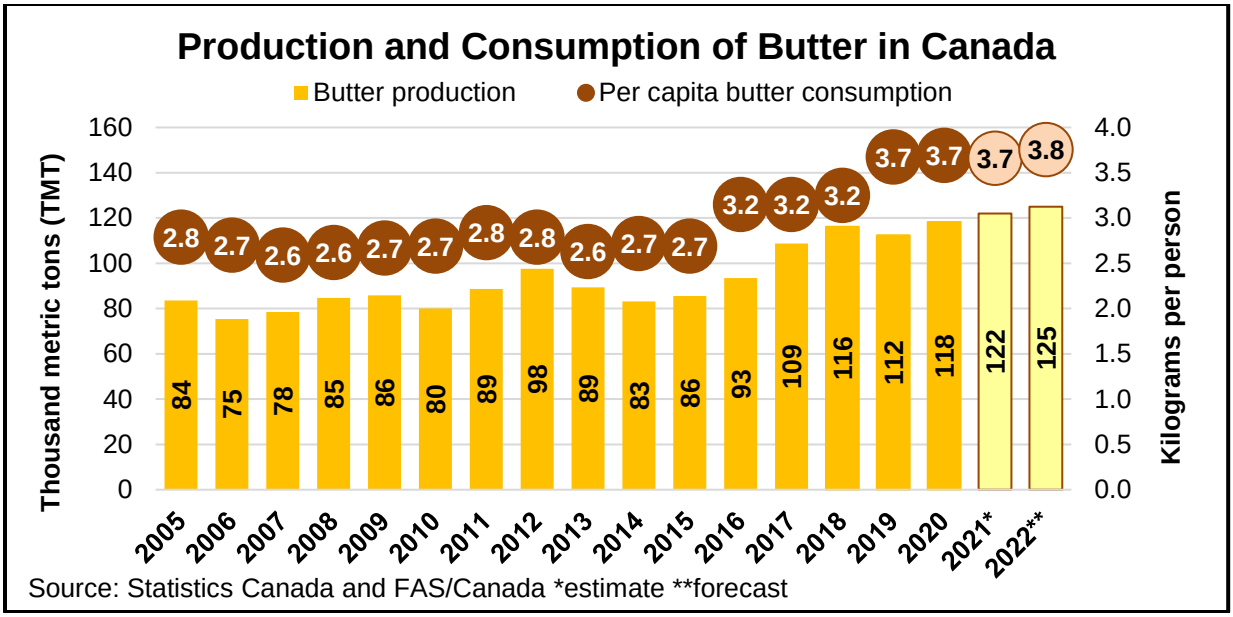
Dairy, Butter Canada	2020		2021		2022	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	27	27	27	23	0	25
Production	120	118	122	122	0	125
Total Imports	24	23	30	27	0	30
Total Supply	**171**	**168**	**179**	**172**	**0**	**180**
Total Exports	5	4	2	1	0	1
Domestic Consumption	139	141	147	146	0	149
Ending Stocks	27	23	30	25	0	30
Total Distribution	**171**	**168**	**179**	**172**	**0**	**180**

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 forecasts butter production in 2021 to increase to 122,000 MT before climbing further to 125,000 MT in 2022. 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. Gradually declining butter stocks, which dropped to 25,600 MT in August 2021 (significantly below the industry target of 35,000 MT), further support the production increase forecast.

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 production 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 and an estimated growth of 3 percent in 2021.

Consumption:
Butter consumption has expanded rapidly over the past seven years and is forecast to rise to 3.8 kilograms per capita in 2022, up from about 2.6 kilograms per capita in 2013. 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.



Source: Statistics Canada and FAS/Canada *estimate **forecast

Trade:
FAS/Canada forecasts butter imports to grow to 27,000 MT in 2021 and to rise further in 2022, reaching 30,000 MT, in part driven by expanded market access under Canada's recently implemented trade agreements.

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
		2019	2020	2021	2019	2020	2021	2021/2020
World	**T**	**13,036**	**12,738**	**16,490**	**100**	**100**	**100**	**29.46**
United States	T	4,849	4,525	8,879	37.2	35.53	53.84	96.2
New Zealand	T	7,696	6,574	6,886	59.04	51.61	41.76	4.75
Australia	T	0	0	418	0	0	2.54	
Mexico	T	96	0	129	0.73	0	0.78	
Other countries	T	395	1,639	178	3.03	12.87	1.08	-89.14

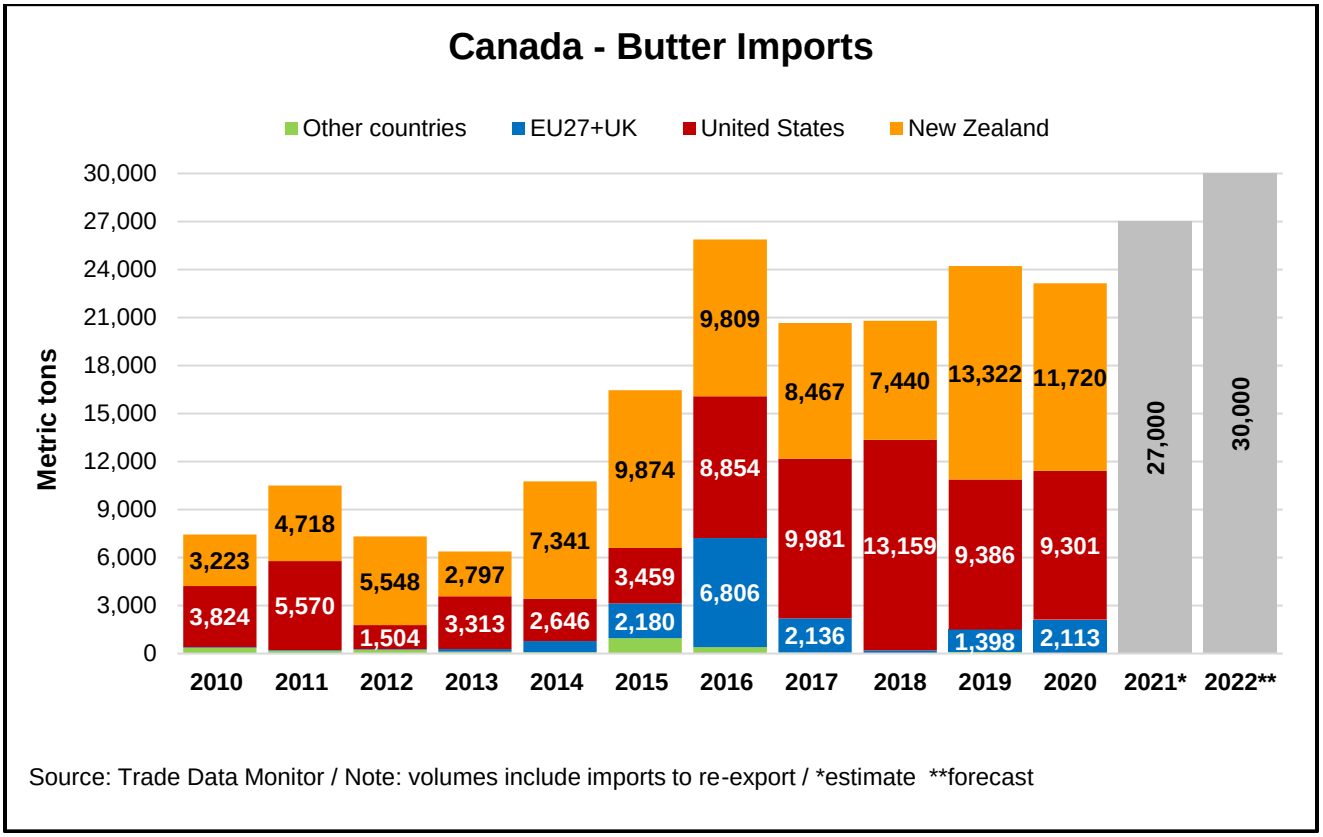
Source: Trade Data Monitor

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:

Quota Year (August to July)	Butter (in MT)
2018/19 (year 1)	750
2021/22 (year 4)	**3,000**
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.



Source: Trade Data Monitor / Note: volumes include imports to re-export / *estimate **forecast

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

Quota Year (August to July)	Butter and Cream Powder (in MT)
July 2020 (year 1)	750
2021/22 (year 3)	**2,250**
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 5 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 2021/22, 75.2 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 fill completely.

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 would be 750 MT in year one of implementation, after which the volume would 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:

Production, Supply and Distribution (PS&D):

Dairy, Milk, Nonfat Dry Canada	2020		2021		2022	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	30	30	30	27	0	26
Production	90	90	80	85	0	82
Total Imports	2	3	2	4	0	5
Total Supply	**122**	**123**	**112**	**116**	**0**	**113**
Total Exports	39	40	25	15	0	15
Total Dom. Consumption	53	56	55	75	0	70
Ending Stocks	30	27	32	26	0	28
Total Distribution	**122**	**123**	**112**	**116**	**0**	**113**

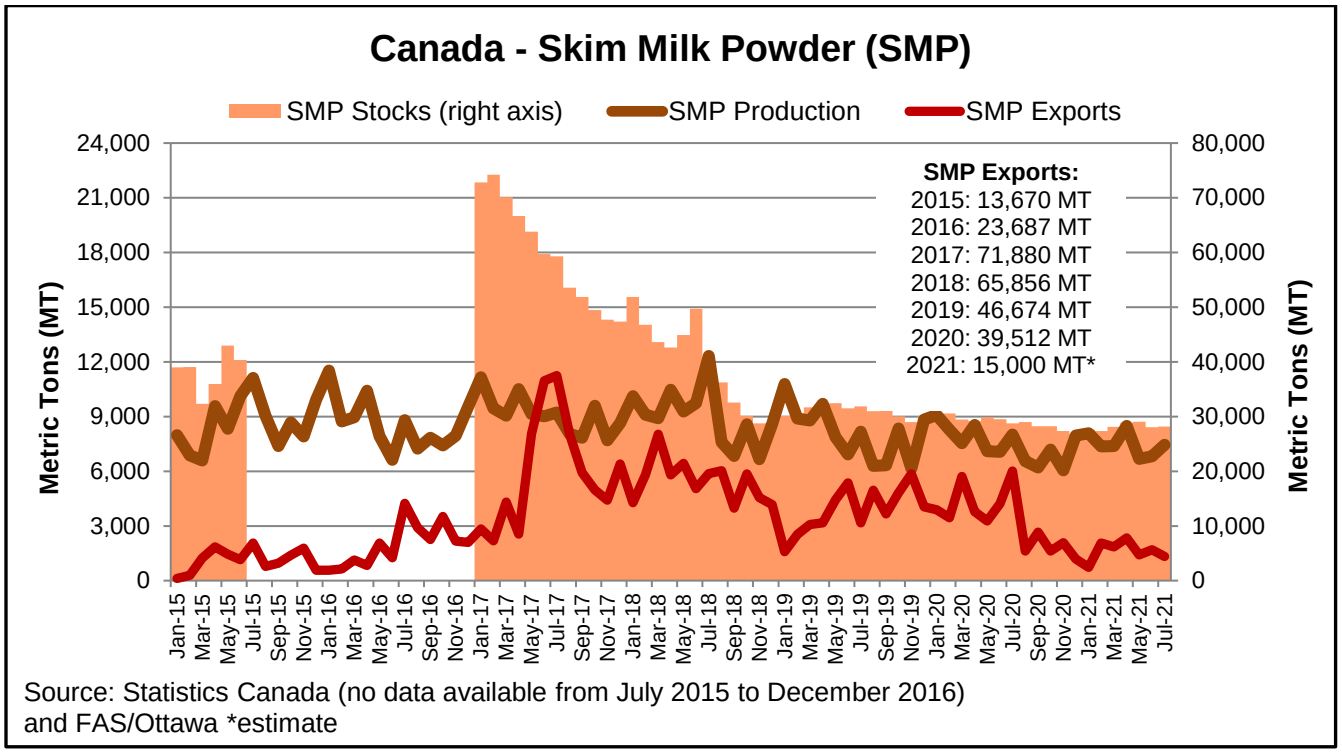
NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data
Data in '1,000 MT

Production:
FAS/Canada forecasts skim milk powder (SMP) production to drop to 82,000 MT in 2022, for a third consecutive year decline from the estimated level of 85,000 MT in 2021. 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 shifting 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. Over the past couple of years, SMP stocks seem to have stabilized around a monthly volume of 30,000 MT, 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.



Consumption:
Following the introduction of milk class 7, Canadian processors have been able to access domestically produced non-fat milk solids (including SMP and MPC) at lower prices. These non-fat milk solids are used as ingredients in manufacturing various dairy products such as cheese, yogurt and ice cream. Additionally, given limited export opportunities, SMP is likely to regain a more significant place on the animal feed market. Going forward, FAS/Canada estimates Canadian utilization of SMP (as dairy ingredient and animal feed) to remain relatively stable around 70,000 MT annually.

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 because of USMCA provisions, FAS/Canada forecasts SMP exports at 15,000 MT in 2022, unchanged from the same estimated level in 2021. Additionally, export data reveal a shift in focus toward exporting increasing volumes of MPC and 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 the July of the following year.

With USMCA coming into force on July1, 2020, year 1 of implementation for the export-limiting provisions was the period July 1-31. 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 2021/22 the threshold level is 35,420 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 2021/22) amounting to 40,480 MT. Additional information on dairy export thresholds can be found on GAC's dedicated webpage.

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

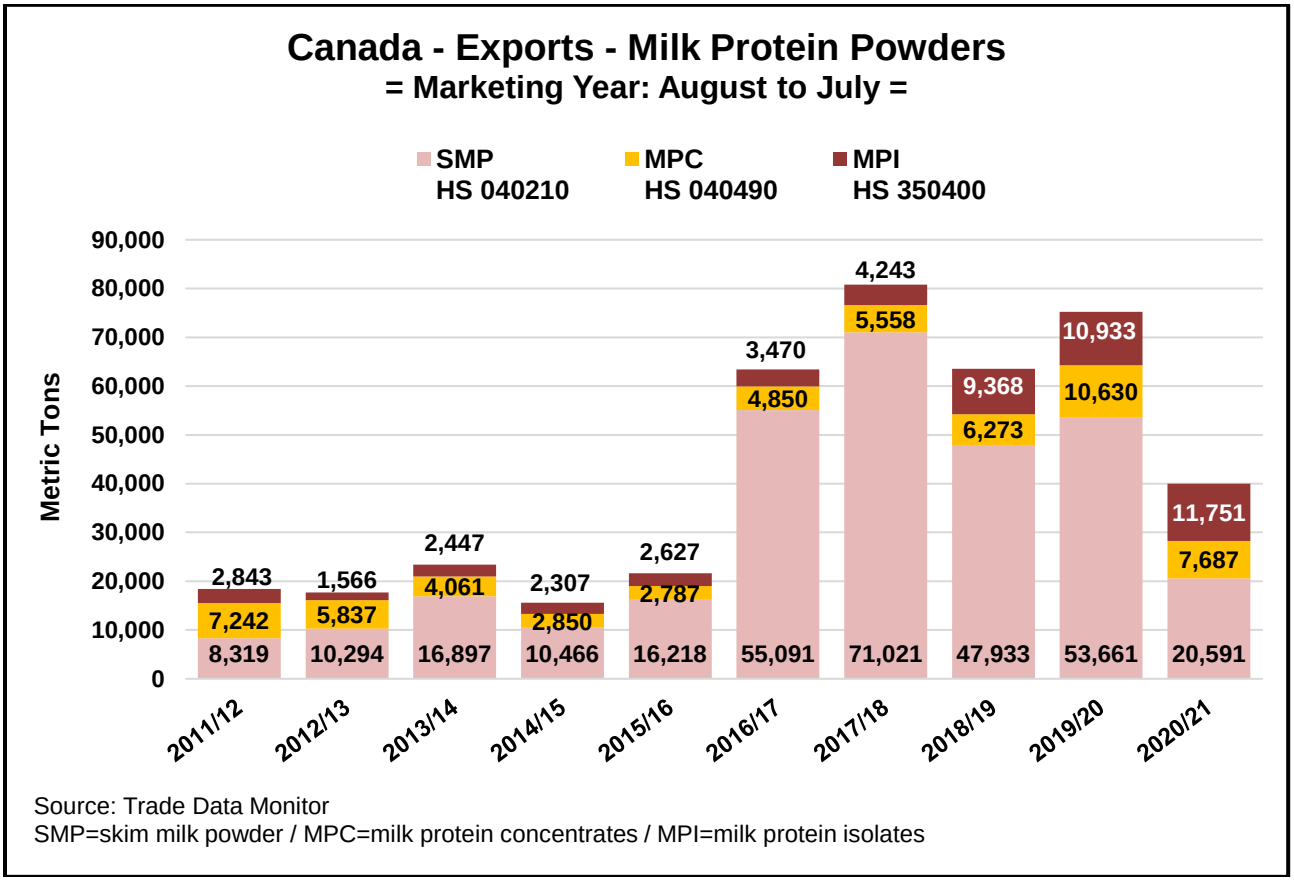
Canada Export Statistics

Commodity: HS 040210, Skim Milk Powder

Year To Date: January - July

Partner Country	Unit	Quantity			% Share			% Change
		2019	2020	2021	2019	2020	2021	2021/2020
World	**T**	**23,348**	**30,335**	**11,390**	**100**	**100**	**100**	**-62.45**
Algeria	T	5,353	5,997	2,676	22.93	19.77	23.5	-55.37
Egypt	T	4,958	7,539	2,674	21.24	24.85	23.48	-64.54
United Arab Emirates	T	550	1,750	1,348	2.36	5.77	11.83	-22.99
Indonesia	T	2,259	1,775	1,127	9.68	5.85	9.9	-36.5
Jamaica	T	737	844	952	3.16	2.78	8.36	12.86
Vietnam	T	250	4,741	551	1.07	15.63	4.83	-88.39
Philippines	T	1,548	1,031	375	6.63	3.4	3.29	-63.64
Thailand	T	1,432	0	275	6.14	0	2.41	0
Japan	T	225	794	200	0.96	2.62	1.76	-74.8
Mexico	T	1,610	350	200	6.9	1.15	1.76	-42.86
Pakistan	T	318	150	175	1.36	0.49	1.54	16.65
Bahrain	T	200	50	150	0.86	0.17	1.32	200
Other countries	T	3,908	5,314	687	16.74	17.52	6.03	-87.07

Source: Trade Data Monitor



Source: Trade Data Monitor
SMP=skim milk powder / MPC=milk protein concentrates / MPI=milk protein isolates

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:

Quota Year (August to July)	Skim Milk Powder (in MT)
2018/19 (year 1)	1,250
2019/20 (year 2)	2,500
2021/22 (year 4)	**5,000**
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:

Quota Year (August to July)	Skim Milk Powder (in MT)
July 2020 (year 1)	1,250
2021/2022 (year 3)	**3,750**
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.

Attachments:

No Attachments