

An Overview of Canada's Dairy System

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Dairy Farmers of Ontario

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JOBO FARMS INC



Our Future Farmers



Dairy Farmers of Ontario (DFO)

DFO is the milk marketing board in Ontario

- Operated by dairy farmers in Ontario
- managed by Board of 12 dairy farmers
- staff of 85 people
- Operating budget \$120 Million
- Managing 3 Billion litres
- with value of almost \$2.3B

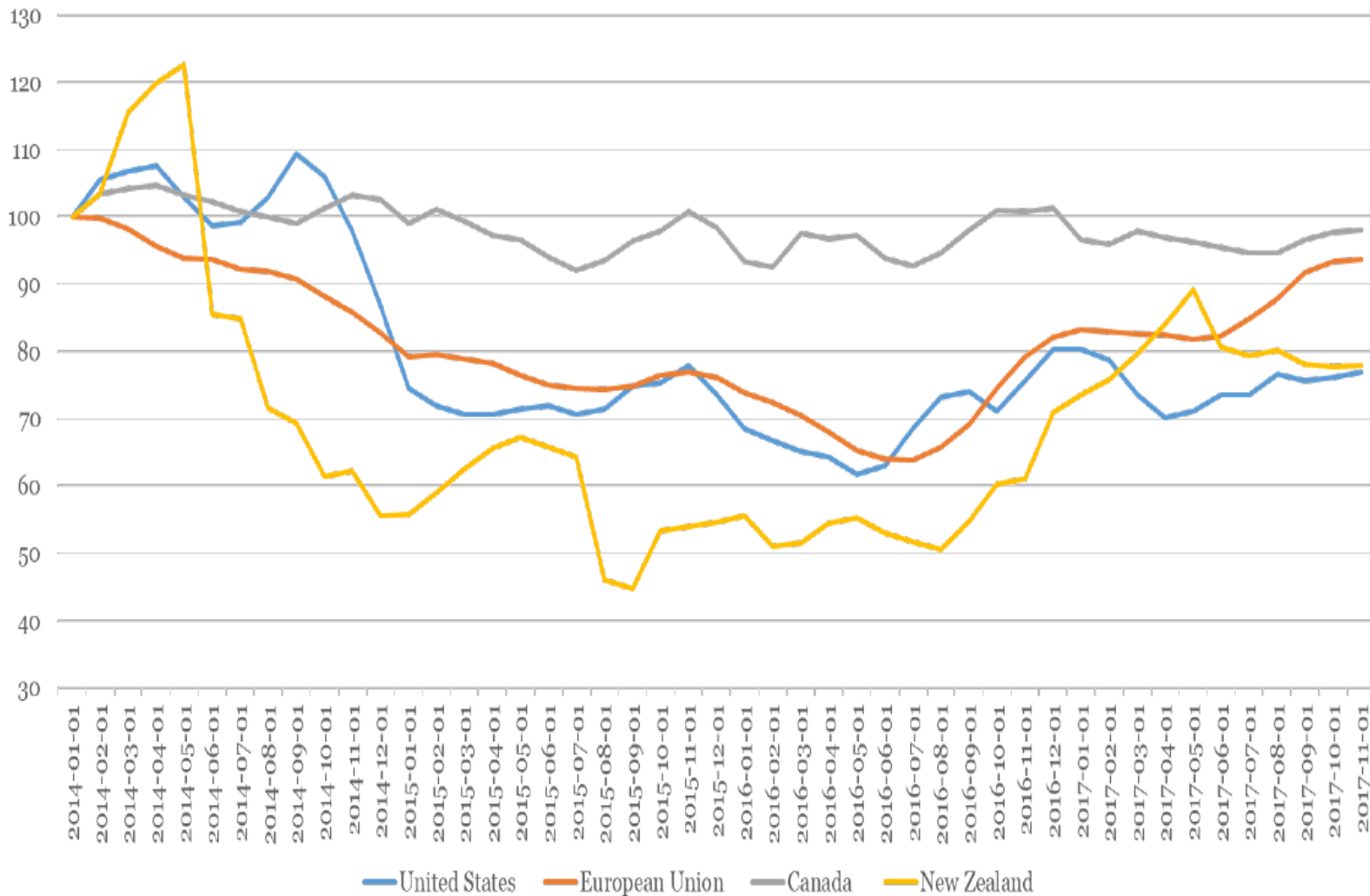




Why are we here?



Volatility in Gross Revenues per HL by Region (Jan 2014 Price =100)

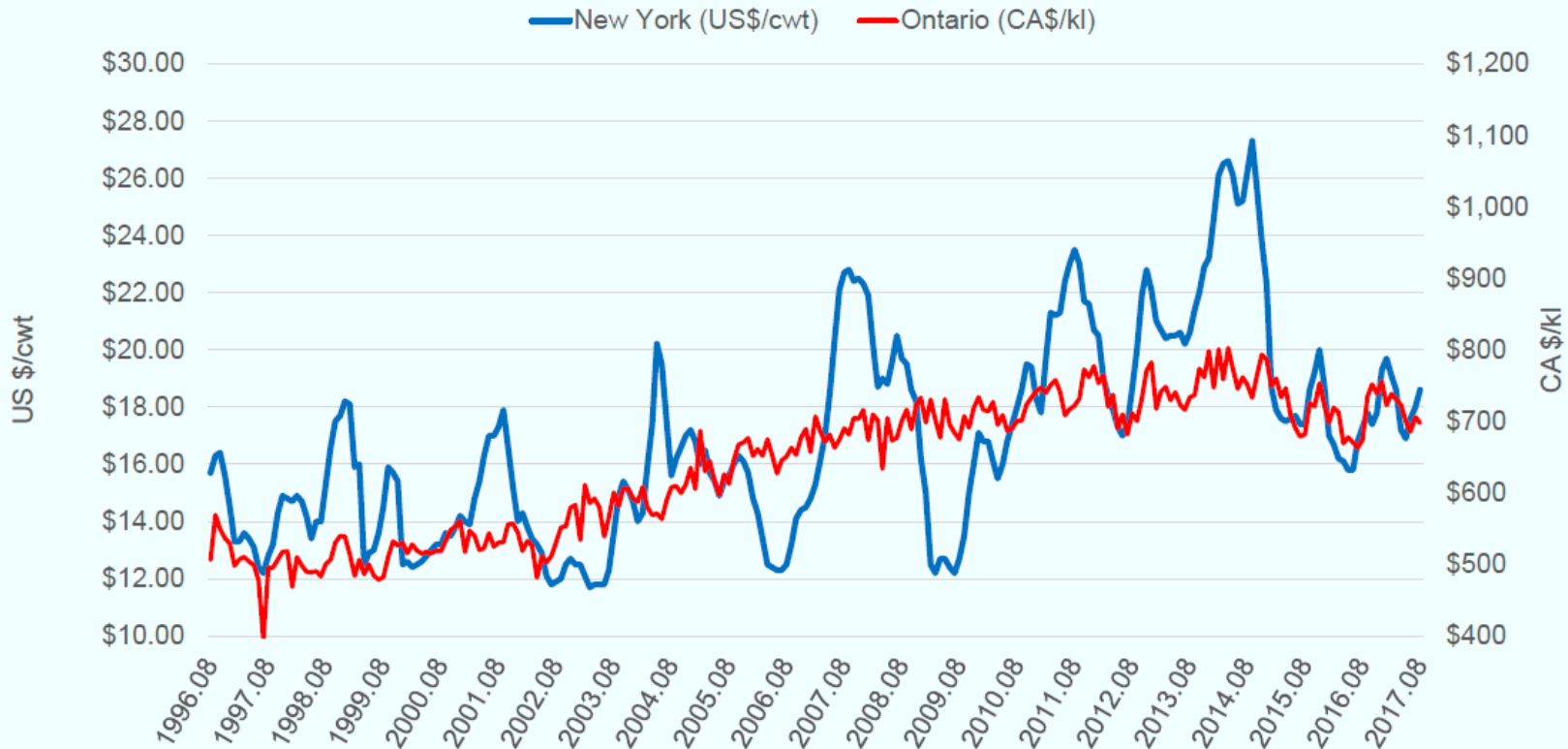


Sources: CDC, USDA, DCANZ, Eurostats, Statistics Canada (exch. Rate)

Figures presented in natural composition.

Cycles Don't Exist in a Supply-Managed Country

Average Price for All Farm Milk, New York (US\$/cwt) and Ontario (CA\$/kl)



31 October 2017

prepared by C.F. Nicholson & A.M. Novakovic

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Industry Overview



Dairy Industry Comparison

	<u>WI</u>	<u>CAN</u>	<u>ONT</u>
Licensed farms	9,500	11,000	3,580
Cows per farm	134	86	88

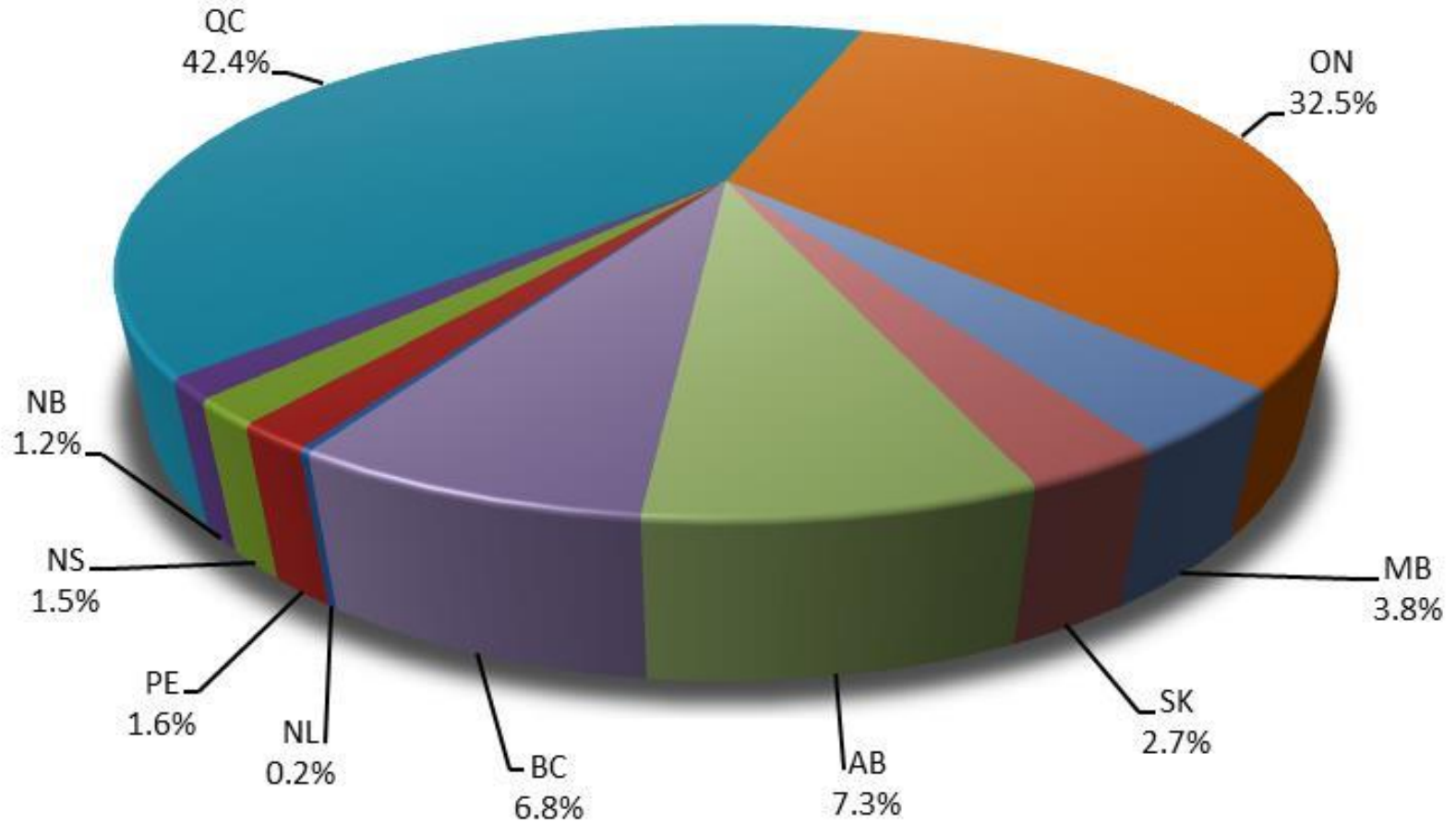


Dairy Farming in Canada 2017

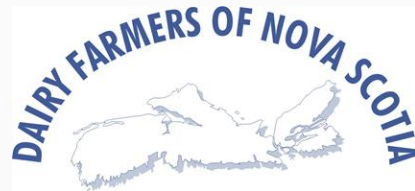
Number of Farms with Milk Shipments: 10,951
Number of Dairy Cows: 945,000
Number of Dairy Heifers: 454,300



Distribution of the National Market Sharing Quota (MSQ) on August 1st
Total: 205, 680, 000 kg of BF



P5



Western Milk Pool



DAIRY FARMERS OF
NEWFOUNDLAND AND LABRADOR



Processing

- 450 processors nationally
- 80% - 85 % of milk marketed to 4 processors



Saputo



Gay Lea
BORN ON THE FARM

Kraft *Heinz*



Market Growth

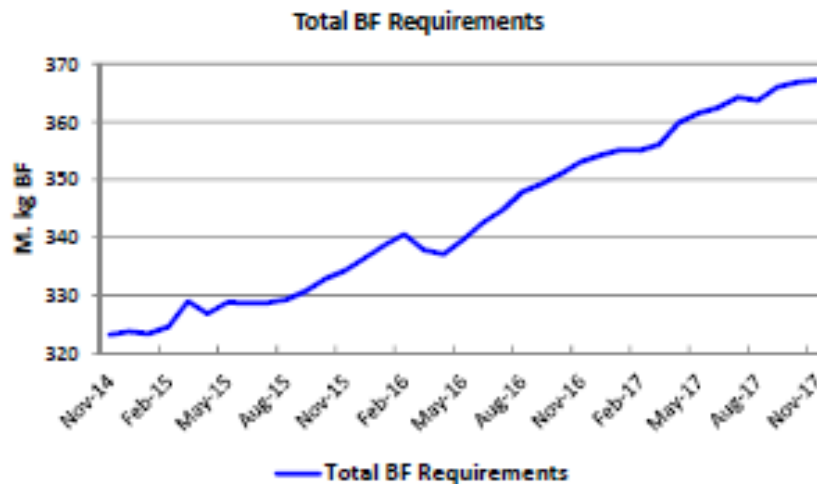
TOTAL BF REQUIREMENTS

TOTAL BF REQUIREMENTS FOR THE 12-MONTH PERIOD ENDING NOVEMBER 30, 2017:

367.26 M. KG BF

+0.12% OVER OCTOBER 2017

+4.00% OVER NOVEMBER 2016



Main BF utilization increases

(12-m Nov. 2016 vs. 12-m Nov. 2017)

- Butter!
- Cheese!
- Ice Cream (2b)
- Yogurt
- Milk



Historical Context



Historical Context

- In 1960, Ontario milk producer organizations were fragmented and lacked unity in purpose.
- Their bargaining position in the marketplace was very weak.
- Returns to the vast majority of milk producers for labour, management and investment were inadequate
- There were numerous inequities and inefficiencies in the milk marketing system.
- Because of this chaos, the Ontario government commissioned a study in 1963 to determine how to solve what appeared to be an ever increasing problem.
- The answer came in the form of the [Milk Act](#), which was passed in 1965.



Historical Context

- The [Milk Act](#) called for an intermediate body that would buy all the milk produced on Ontario farms and sell that milk to the processors.
- That body was the Ontario Milk Marketing Board (OMMB).
- The Ontario Milk Marketing Board successfully addressed those marketing problems and worked on responding to a continuously evolving set of domestic and international market changes

Historical Context

- The Dairy Farmers of Ontario was formed on August 1, 1995 following the merger of the Ontario Milk Marketing Board and the Ontario Cream Producers' Marketing Board.
- The activities of DFO are monitored by the Ontario Farm Products Marketing commission.
- The Board is also subject to decisions of the Ontario Farm Products Appeal Tribunal which hears appeals from parties dissatisfied with Board Decisions.



Canada's Dairy System



What Is Canada's Dairy System

- System known as Supply Management

What is supply management?

Canada's supply management system provides balance in the dairy sector by enabling Canadian dairy farmers to act collectively to negotiate price and adjust milk production to meet consumer demand.



What Is Canada's Dairy System

Three Pillars

1. Producer Pricing
2. Production Discipline
3. Import Control



What Is Canada's Dairy System

Marketing Boards

- Farmer managed, derive authority from provincial legislation
- All milk in the province sold to the provincial Board
- Boards look after all logistics of milk pickup and delivery to plants



What Is Canada's Dairy System

- At National Level Market Requirements are determined that meet domestic consumer demand and avoid overproduction of BF
- National Production Quota issued to Provinces on percentage basis
- Provinces issue Quota to producers
- Quota Exchange to buy/sell between producers

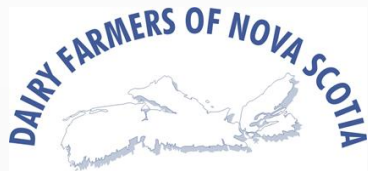


Players in Canada's Dairy System



Players – 10 Provincial Boards

P5



Western Milk Pool



DAIRY FARMERS OF
NEWFOUNDLAND AND LABRADOR



Players



- 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
 - Farmers (provincial boards), Processors, CDC
 - Oversight by Provincial Government Ministries of Agriculture
- Dairy Farmers of Canada
 - national policy, lobbying and promotional programs
 - All provincial boards are members



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 \$73/hL or US\$27/cwt



Pricing

P5 AND WESTERN MILK POOL BLEND PRICES*

The graph below shows the 12-month blend price for the P5 provinces and Western Milk Pool (WMP).

**There is a three-month lag reporting these figures.*

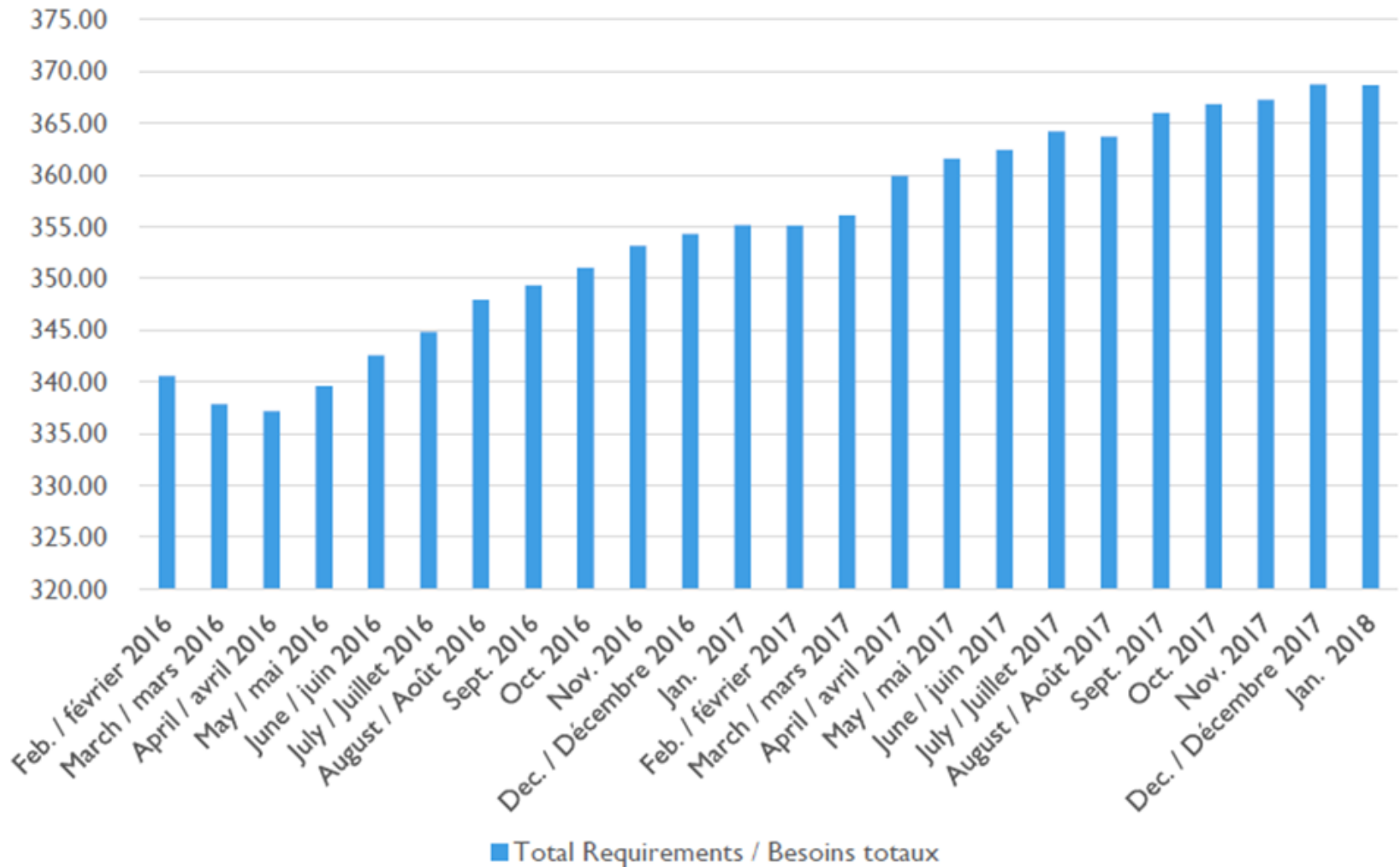


Retail Pricing

- 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



Total Requirements / Besoins totaux (Millions kg of/de BF/MG)



Quota Growth

- Last 3 years more than 24% new Quota at Farm level
- That means more production at the farm at stable pricing, which means more investment
- Processors in last 2 years have begun and committed more than \$600 million new processing capacity

Summary of Canadian System

- Canada's supply management system provides balance in the dairy sector by enabling Canadian dairy farmers to act collectively to negotiate price and adjust milk production to meet consumer demand.
- While farmers around the world face unexpected wild market fluctuations, Canadian farmers sell their milk at constant and stable prices.
- As a result, Canadian dairy farming is one of the few agricultural sectors that are self-sufficient – providing income security for farmers and requiring no government subsidy. This means Canadian farmers can invest in their farms, communities and Canada.





Questions?

