A close-up photograph of a black and white cow's face, looking directly at the camera. The cow has a white blaze on its face and a white patch around its eye. The background is a soft, out-of-focus blue and white.

# **DFC'S QUARTERLY SKIM**

**TRADE AND MARKET  
INSIGHTS FOR CANADIAN  
FARMERS**

**2022**  
**QUARTER 3**



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**In this newsletter, our fifth edition of *Quarterly Skim*, we take a look at the changes in dairy sales as the Covid-19 pandemic continues to affect consumption patterns. While cheese production has decreased somewhat, overall production numbers have remained relatively stable. We also consider the effects of trade agreements (CETA, CUSMA and CPTPP) on cheese, butter and milk where volumes remain steady, despite some difference in fill rates compared to last year.**

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# Consumption trends of dairy products in Canada



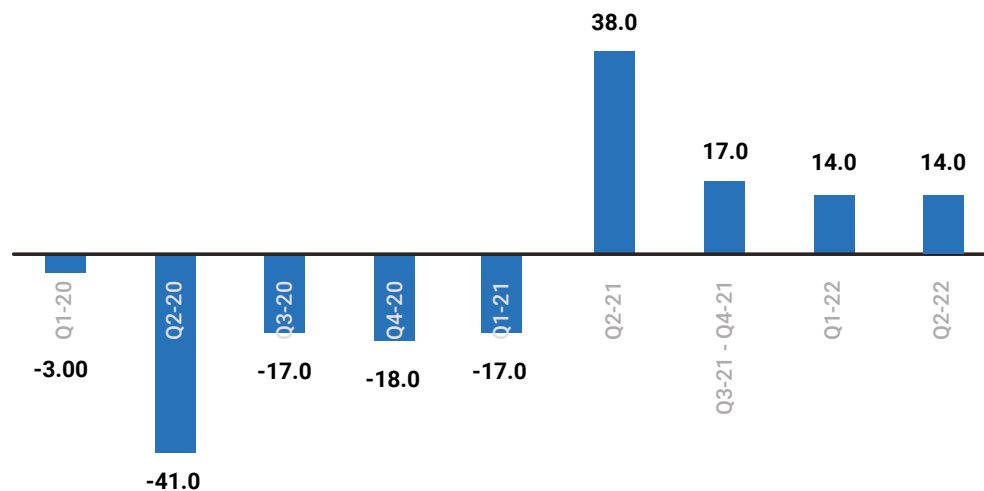
Consumption patterns in the domestic market are very important for dairy farmers since, under supply management, demand is used to steer production levels. While the food service sector was negatively impacted by the sudden shutdown of the economy at the start of the pandemic, retail activity grew in almost all categories of dairy products due to the trend towards more in-home consumption.

However, since the second quarter of 2021, as lockdown restrictions lessened and restaurants opened back up, most dairy categories at retail have trended downward as consumers relied less exclusively on home-cooked meals. Conversely, the data shows a rebound in sales in the food service sector, with double-digit growth in hotels, restaurants, and institutions (referred to as “HRI”).

Looking at cheese, for example, there has been a noticeable reversal in sales growth at the HRI level since the 2<sup>nd</sup> quarter of 2021 (fig. 1), while at the retail level, there has been a decline in consumption during the same period (fig. 2). This shift in consumption trends is the reverse effect of what was observed at the onset of the pandemic.

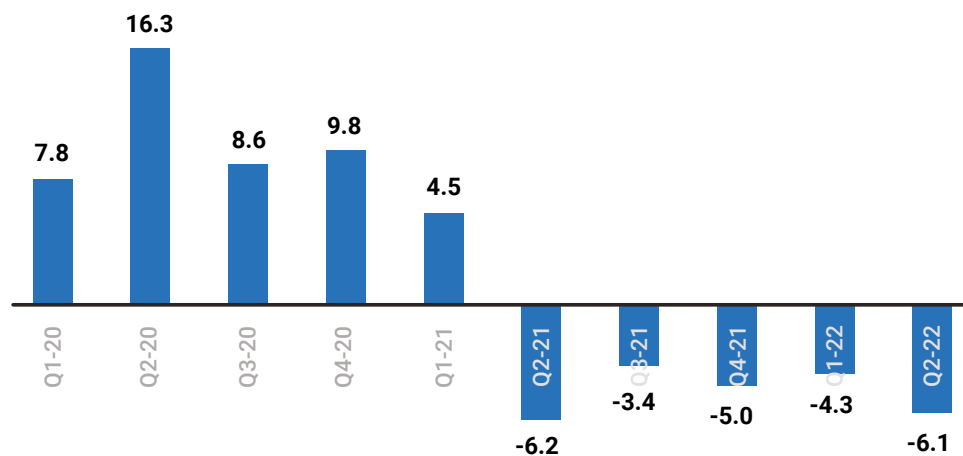


**(Figure 1) Cow's Milk Natural Cheese:  
Percentage change in kilogram sales for HRI**



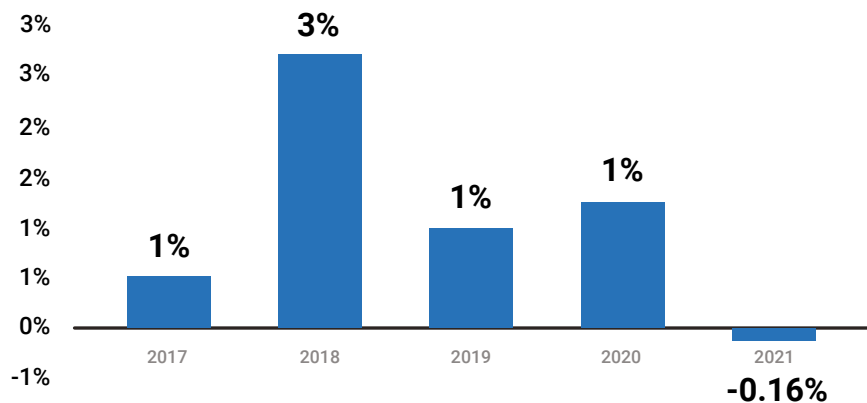
Source: Direct Link

**(Figure 2) Cheese: National Percentage Change  
in Retail Volume (Kg) Sales**

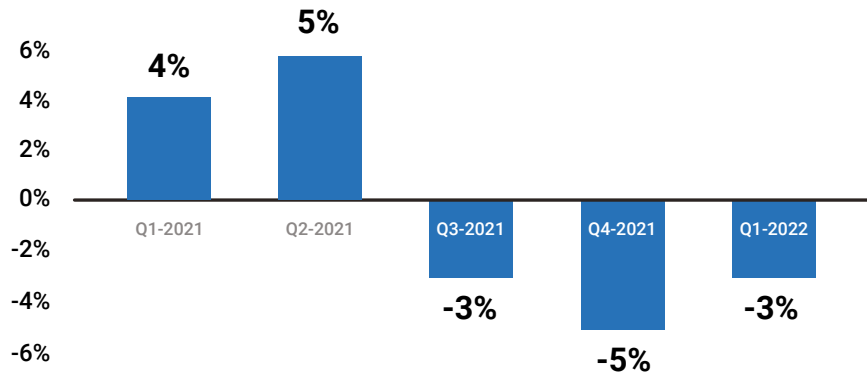


Source: Nielsen

In 2020, cheese production increased year-over-year by 1% in Canada (fig. 3). This illustrates that the pandemic benefited the cheese market in terms of production and consumption. In 2021, growth slowed in the second half of the year (fig. 4), although cheese production across the country has remained relatively stable overall.

**(Figure 3) YOY Change of Cheese Production in Canada (Annual)**

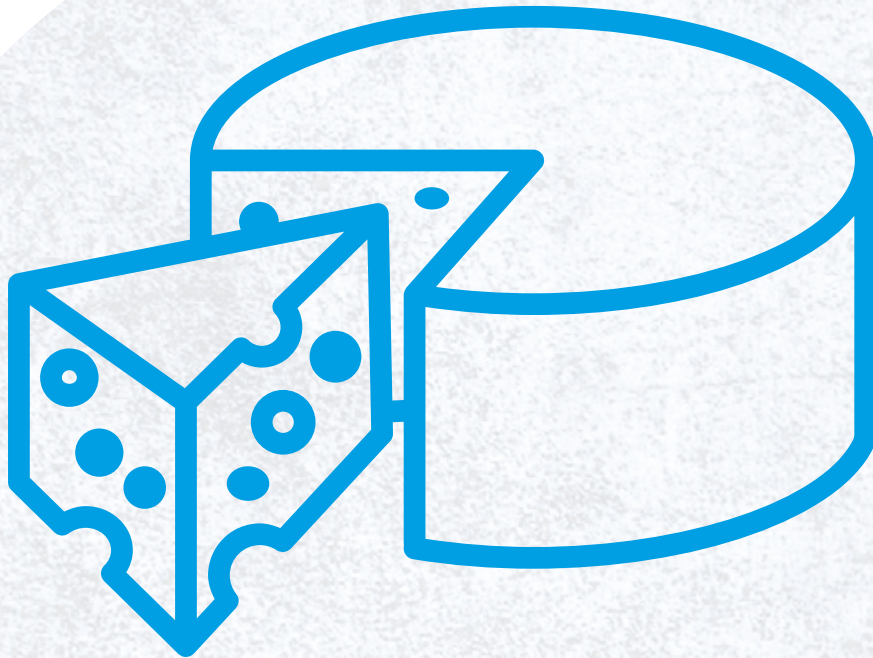
Source: Statistics Canada

**(Figure 4) Change of Cheese Production in Canada (Quarterly)**

Source: Statistics Canada

Although growth returned in the foodservice sector, the decline in demand for dairy products at the retail level is of concern as it outpaces the foodservice increase, and the production level has not yet returned to its pre-pandemic levels. Even with growth in 2021, production still stands below 2019 levels. In addition, Direct Link's food service data show that 2022 first quarter cheese sales at the foodservice level are still 8% below the same period in 2019.

According to a recent Mintel study on cheese consumption in Canada, the top four factors affecting consumers when purchasing cheese are price, flavour, format and if the product is made in Canada. These considerations present growth opportunities for cheese consumption in the domestic market, since while inflationary trends affect all food sectors, it is expected many consumers could change their purchasing habits under these conditions. Additionally, new formats might drive growth in the cheese category. For instance, Mintel's study informs that half of consumers are willing to pay premium prices for cheese in convenient sizes. Overall, the survey reiterates that Canadian consumers have a high preference for local cheese and want to see more of it in grocery stores. According to this study, 84% of cheese consumers are of the opinion that a greater range of cheese from Canadian producers should be available at grocery stores – a ripe opportunity for the Blue Cow to keep shining.





# Trade



Dairy farmers and stakeholders continue to face increasing pressure due to ongoing trade disputes with the United States and New Zealand over imports. Here we examine fill rates under Canada's foreign trade agreements, namely the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), the Canada-United States-Mexico Agreement (CUSMA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), mid-way through 2022. All the data used in this analysis comes from Global Affairs Canada.

## ! A few things to note

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### **Tariff Rate Quotas:**

Canadian imports of dairy products are managed using tariff rate quotas (TRQs). These allow a pre-determined quantity of dairy products to be imported at preferential tariff rates. One way to assess the impact of international trade agreements is by looking at the TRQ fill rates. A higher fill rate would indicate a higher volume of imports relative to what was agreed to in the trade deal.

### **Calendar Year vs. Dairy Year:**

Throughout this publication, we reference both the 'calendar year,' which runs from January 1 to December 31, and the 'dairy year,' which runs from August 1 to July 31. Some commodities and trade agreements follow the calendar year, and some follow the dairy year.



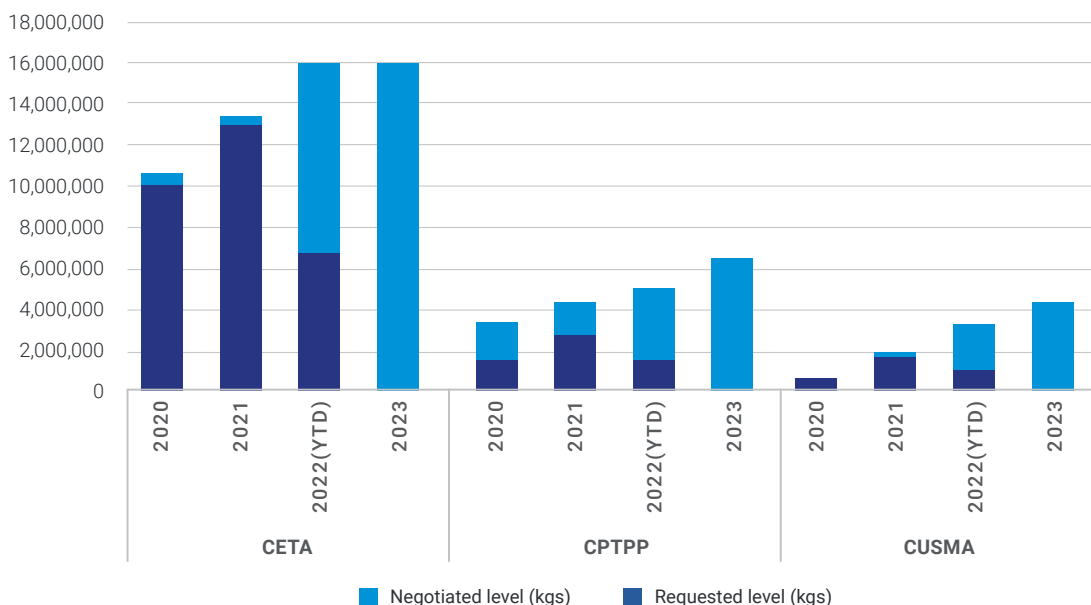
# Cheese

## Imports grow under CETA and CPTPP, but slow under CUSMA

Historically, fill rates for cheese under the CETA, CPTPP, and CUSMA have been very high. Imports under CETA and CPTPP are on pace to exceed 2021 volumes, continuing a trend of growth. As of July 31, Canada has received 6,888 tonnes of cheese imports (43% fill rate) under CETA, compared with 6,174 tonnes over the same period last year. Under CPTPP, Canada has received 1,776 tonnes of cheese imports (32.7% fill rate), so far this calendar year. This is on track to surpass 2021 levels which reached 2,795 tonnes (64.3% fill rate).

However, import volumes under CUSMA have slowed slightly in 2022 compared to the year prior. At this time last year, Canada had received 1,035 tonnes of cheese imports under CUSMA (49.7% fill rate), but so far this year, Canada has received just 868 tonnes of cheese imports (27.8% fill rate).

(Figure 5) Imported Volume by Agreement, Cheese



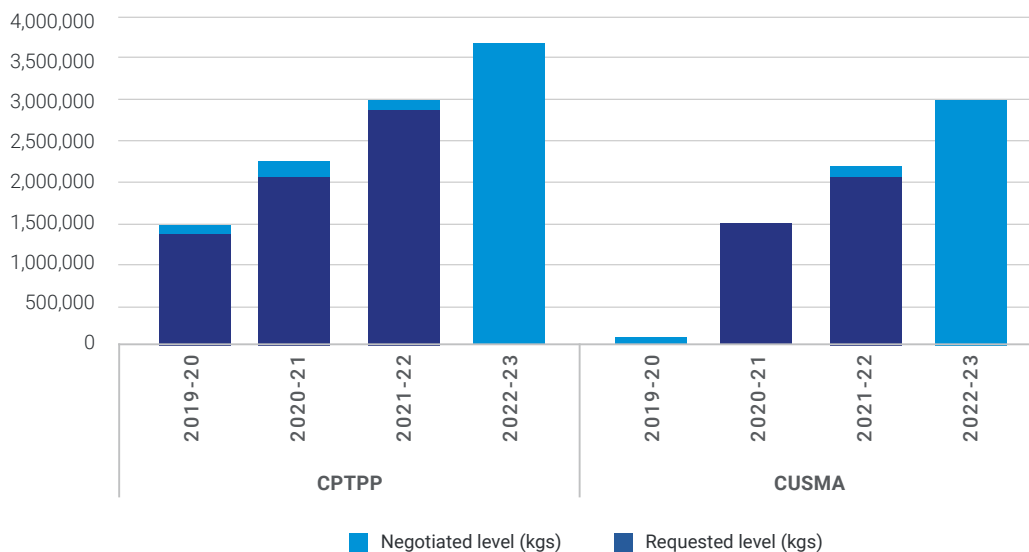


# Butter

## Imports claiming a bigger piece of a growing pie

Historically, import levels and fill rates for butter have been significant and yet, the volume of butter imports continues to increase year-over-year. Under CPTPP, fill rates increased to 95% compared to the same period one year ago, when it was 91.5%. The actual imported volume of butter also increased from 2,059 tonnes in the 2020-21 dairy year to 2,849 tonnes in the 2021-22 dairy year. Under CUSMA, the volume of imported butter has increased year-to-date compared to the same period last year (2,090 tonnes this year vs 1,487 tonnes last year), even though the fill rate declined from 99.1% to 92.9%. This can be attributed to a change in the negotiated level from one year to the next.

**(Figure 6) Imported Volume by Agreement, Butter**  
(Dairy year, August 1-July 31)

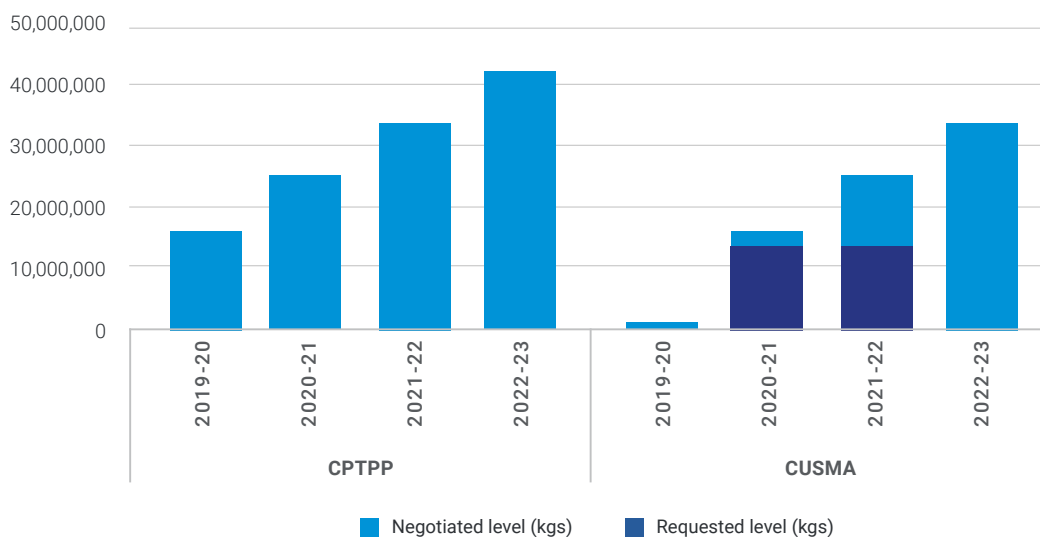


# Fluid milk

## imports growing under CUSMA

Over the past three years, Canada has not received any fluid milk imports under CPTPP. The logistics and cost of transporting fluid milk over such a long distance would be a key barrier to increasing volumes. However, Canadian milk imports under CUSMA continue to trend upwards with a volume of 14,055 tonnes in the 2021-22 dairy year compared to last year's volume at 13,720 tonnes. As with butter, the decline in the fill rate from 82.3% to 56.2% despite an increase in import volumes can be attributed to a rising cap (the negotiated volume).

(Figure 7) Imported Volume by Agreement, Milk  
(Dairy year, August 1-July 31)



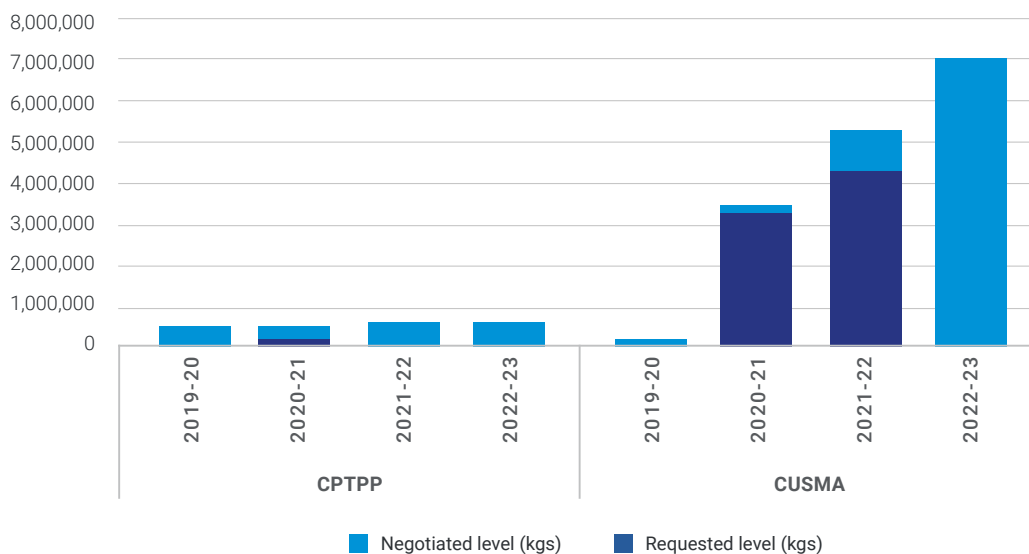


# Cream

## Imports dip under CPTPP but grow under CUSMA

In the 2020-21 dairy year, Canada received 121 tonnes of cream (22.9% fill rate) under CPTPP. This year, there have been no cream imports under CPTPP. Under CUSMA, imports of cream increased by 50% in the 2021-22 dairy year compared to the past dairy year. In 2020-21, the fill rate was 96.8%. This year, the fill rate is only 79.8%, however, the quantity of imported cream increased from 3,388 tonnes to 4,190 tonnes. While fill rates of cream TRQs are lower this dairy year, in terms of quantity, a higher volume of cream came into Canada and is impacting our domestic market.

(Figure 8) Imported Volume by Agreement, Cream  
(Dairy year, August 1-July 31)



## Looking ahead

Should you have any suggestions for topics in future editions, we invite you to send them to [communications@dfc-plc.ca](mailto:communications@dfc-plc.ca).

