Cheese! No more Cash Cow for the Canadian dairy industry

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The term "Cash Cow", largely used in business portfolio management, was initially introduced by Boston Consulting Group. The term was probably derived from the dairy farms where "milch cow" was kept for its steady milk supply. The same role is being played by the Cheese for Canadian Dairy industry, but after the implementation of the Economic & Trade Agreement with European Union (CETA) business scenario will not be the same. The European dairy industry already has a significant presence in Canadian markets, and have been given deeper access through this agreement.

On October 18, 2013, the Canada & European Union in principle entered in an Economic & Trade Agreement (CETA). Prime Minister Harper declared it an "HISTORIC WIN" when he tabled a bill in the house. At the same time, the opposition termed it as "throwing the Canadian Dairy Industry under the bus".

In terms of market size, the European Union is the largest consumer market with 28 members, 500 million consumers and $17 trillion in annual economic activity. Hence agreement is expected to be a boon for Canadian exporters by providing full access to EU markets, removing 98 per cent of EU tariffs on a wide range of Canadian products, including agricultural, seafood, metals and mineral products. This agreement will also allow auto makers to export more cars and Canadian farmers to export more beef, pork and bison. In addition to this, Canadian Dairy products will be tariff-free in EU.

In Return, European Exporters will have access in Canadian food, wine and high end car markets. After implementation of this agreement, the European dairy industry will be allowed to export 29,000 tonnes of cheese to Canada which is currently 13,000 tonnes.

This agreement may have a positive effect on Canadian exports. But it's going to affect the Canadian dairy sector adversely despite of the fact that the Government agreed to compensate the losses which incur after the implementation of this agreement. The Canadian dairy representative's stance is "we want return against our investments from the markets not from the tax payer's money".
The EU dairy sector has some strategic advantages over the Canadian dairy sector as well, since they

are desperate to explore new markets for their cheese. In a report developed by the International Dairy Federation in 2009, Canadian dairy processors were paying 71.21 $/HL in raw milk procurement whereas EU dairy processors were paying 42.38 $/HL. In addition to low price raw milk procurement the EU dairy industry is heavily subsidized by the Government. In the international political prevailing scenario on August 07, 2014 Russia imposed a ban on imports of food items from the EU. Russia is a big market of EU cheese; and in 2013 the EU exported cheese amounting1.0 billion Euro to Russia. On August 18, 2014, the EU commissioner of agriculture & rural development announced a plan to establish storage facilities for dairy products to maintain the supply and demand balance which went unfavorable because of restrictions imposed by Russia. The Commissioner also announced a plan to explore new markets because of the reduction in demand and other competitive advantages The EU dairy industry is currently pricing cheese 25% less than Canadian dairy industry.

Principally, the Canadian dairy market has been divided into two segments.

The Fluid Market: It comprises the fresh cream and fresh milk markets. This segment takes the 37% of the national milk production.

Industrial Milk Market: Butter, cheese, yogurt, ice cream and dry milk fall under this segment that consumes 63% of Canadian milk.

The Canadian dairy industry has approximately 24,500 personnel in its workforce in production facilities and 22,055 at dairy farms contributing $5.92 million in 2012. It is the second highest agricultural sector in terms of business volume, hence has a significant impact on the Canadian economy. Domestically, the Canadian dairy industry is facing reduction of dairy products per capita consumption and increasing bargaining strength of grocery chains. Both factors have reduced the profit margins in the industry.

The CETA is going to hit the second segment of the Canadian dairy market; the segment which has the larger share of consumption of national milk production. In 2012 Canada imported 25,669 tons of cheese amounting $265.4 million. The major share of imports goes to United States. The Cnadian government is allowing 29,000 tons only from EU.

CETA will decrease approximately 4-5% demand of Canadian raw milk and 8-10% reduction in Canada-made cheese. This 4-5% decrease will have a direct effect on the Canadian butter and fresh cream markets as well, because the cream which is separated from whole milk during cheese making is used in butter and fresh cream. As a result, prices of these two products may go higher after the implementation of this agreement.

To cope with the changing business scenario, Canadian dairy farmers will have to remodel the 40 years old milk supply management system like New Zealand and Australia did with special attention to milk used in cheese making. Secondly, import of the additional volume under CETA should be achieved gradually over the period of 7-10 years. This interim period will allow local dairy producers to explore new markets to sell Canadian cheese or find some other products like SMP, FCMP, UHT and condense milk to consume the surplus milk.

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