

# US Dairy Exports to Canada: Is the US Really Losing Millions in Value?

Independent Agri-Food Policy Note- April 2017

*Al Mussell and Douglas Hedley*



## The Issue

For several months, the US dairy industry has complained about changes in Canadian dairy policy resulting in losses of its export markets in Canada. For example, the US Dairy Export Council has made references to losses of “tens of millions of dollars” in relation to the implementation of Ontario Class 6 milk pricing<sup>1</sup>. In a recent response to comments made by Canadian Ambassador to the US David MacNaughton, the National Milk Producers Federation cites a relationship between National Class 7 milk pricing and US losses of market in Canada<sup>2</sup>. These themes were picked up in a speech made by US President Trump on April 18<sup>th</sup>, 2017 in Wisconsin, in which the President vowed to correct the unfairness suffered by the US due to shifts in Canadian dairy policy. He later referred to Canadian dairy policy actions as a “disgrace”<sup>3</sup>

The purpose of this independent agri-food policy note is to provide the context for these concerns enunciated by the US.

## US Dairy Exports to Canada

Detailed data on agri-food trade is maintained by the US Department of Agriculture (USDA) in its Global Agricultural Trade System (GATS). Queries of this data were made to track US exports to Canada of dairy products and associated products to Canada. This is illustrated in Table 1, and in Figures 1 and 2. Table 1 presents total US dairy exports to Canada as the aggregate of the elements in Figures 1 and 2 below. It shows that US exports have recently ranged well over \$US 500 million, and in 2016 US dairy exports to

Canada increased to almost \$US 600 million, excluding product re-exported to the US.

**Table 1 Total US Dairy Exports to Canada, \$US  
Thousand, Excluding Re-exports**

2012	2013	2014	2015	2016
423,267	508,375	583,205	534,699	592,878

Source: USDA- FAS GATS

Figure 1 presents US exports to Canada of dairy products in HS Chapter 4 (four digit), by value (\$US) since 2007. The elements of Chapter 4 are: 0401- Milk not concentrated, 0402- Milk concentrated, 0403- Yogurt and Buttermilk, 0404- Whey and Natural Milk Products, 0405- Butter, dairy spreads, and dairy fats/oils, and 0406- Cheese.

Figure 2 presents US exports to Canada of associated dairy products. These include 1702- Lactose, 2105- Ice cream, 2106- Protein concentrates, 3501- Casein, 3502- Milk albumins and albumins not elsewhere specified, and 3504- Peptones and protein. What can be observed from Table 1 and Figures 1 and 2 is that US exports of dairy products to Canada have generally been steady and slowly growing. The exports from the US to Canada of some products have grown rapidly- notably the products in HS 3504 which are dominated by milk protein isolates/diafiltered milk, and also HS 2106 (protein concentrates) and HS 3502 (albumins).

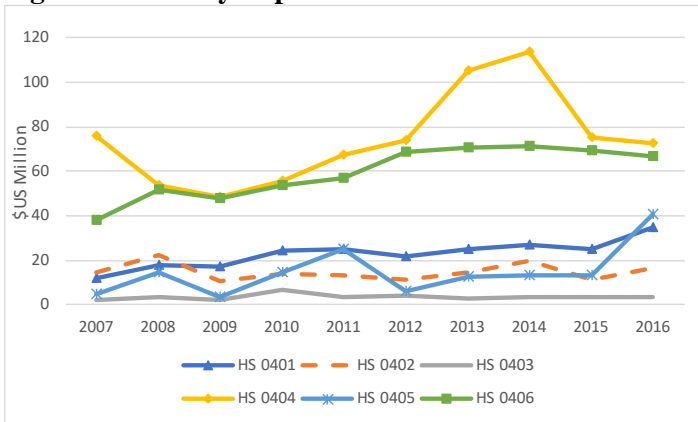
The value of whey exports to Canada (HS 0404) increased starting in 2011 and continued through 2014 but have since declined to historical levels in major part because whey prices have fallen substantially in the past two years. Figure 3 provides some perspective. It shows

<sup>1</sup> <http://www.usdec.org/newsroom/news-releases/news-releases/news-release-01/30/2017>

<sup>2</sup> <http://www.nmpf.org/latest-news/press-releases/apr-2017/april-19-nmpf-statement-response-canadian-ambassador%E2%80%99s-comments>

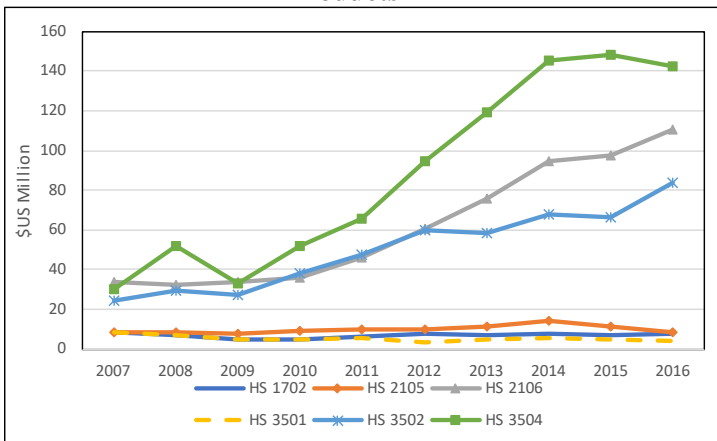
<sup>3</sup> “Trump Roars Again on Trade, Reviewing Steel and Chiding Canada” Mark Landler *New York Times* April 20, 2017

**Figure 1 US Dairy Exports to Canada in HS 4**



Source: USDA- FAS GATS

**Figure 2 US Exports to Canada of Associated Dairy Products**



Source: USDA- FAS GATS

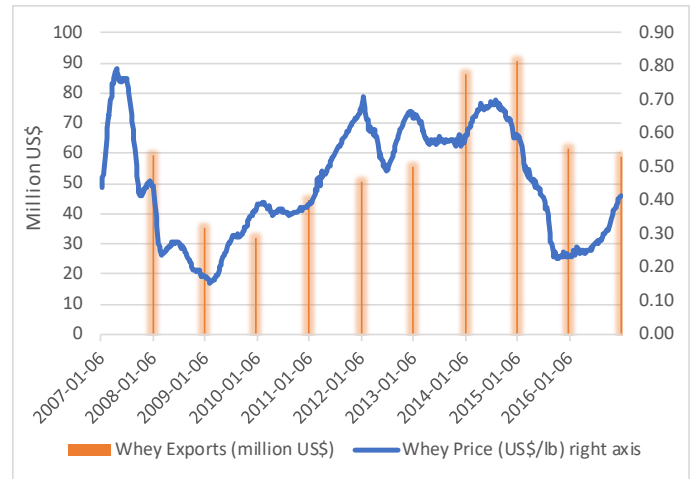
that much of the increase in whey export value from 2011 to 2014 can be attributed to relatively high prices; declines in export value since 2014 are consistent with much lower prices in 2015 and 2016.

## US Exports of Milk Protein Isolates/Diafiltered Milk to Canada

The situation with regard to milk protein isolates/diafiltered milk exports from the US to Canada

**Figure 3 US Whey Exports to Canada, Dried Whey Prices**

Source: USDA NASS/AMS

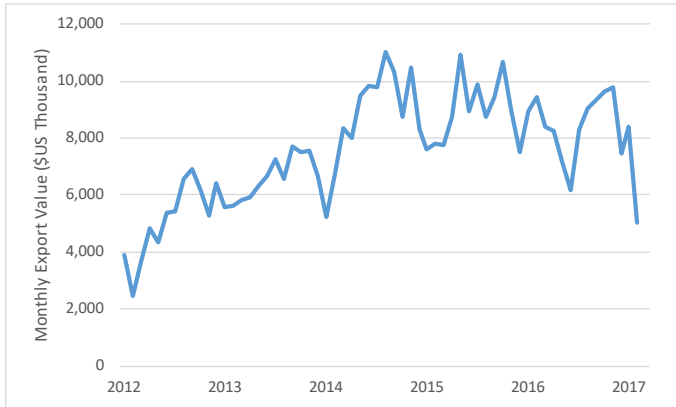


warrants special attention. The US dairy industry has made special reference to these products, and Canada applies a tariff rate of zero on imports from the US of milk protein isolates/diafiltered milk, and without any volume limit. Trends in US exports to Canada in this category are illustrated in Figure 4 on a monthly basis, to allow for indication of recent changes. The figure shows that, starting from January 2012, US exports of milk protein isolates/diafiltered milk to Canada increased aggressively. Monthly export values more than doubled between 2012 and 2014. These began to level off in 2015-16 at \$US 8 million-10 million/month. On an annual basis, US exports of milk protein isolate/diafiltered milk were \$US 106.2 million in 2014, \$US 106.9 million in 2015, and \$US 101.9 million in 2016.

Thus, using the monthly data which would pick up losses in exports most acutely, dramatic changes are not evident. The annual data are not consistent with material losses of US exports of these or other dairy products to Canada.

**Figure 4 US Exports to Canada in HS 35040010, Monthly**

Source: USDA- FAS GATS



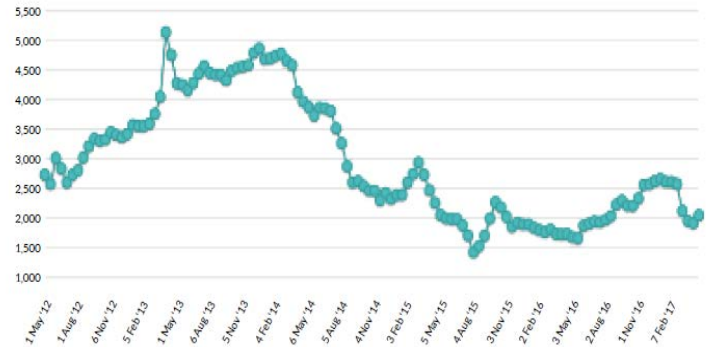
## Blame Canada?

The economic malaise gripping the US dairy industry relates to a range of factors. One is overall dairy price levels. The US dairy industry has faced a prolonged low price situation, consistent with low global dairy prices. The current market glut is in products made from skim milk, not necessarily in butter/cream. Since butterfat and skim are produced in fixed proportions in cows' milk, meeting butter demand in the US assures a surplus of skim unless profitable exports of skim in its various forms take place. This problem is not unique to the US. Europe is facing the same problem with limited international demand, high milk production and low prices for dairy product exports.

Figure 5 provides some context, based on global skim milk powder auction prices. Skim milk powder prices began a decline in 2014, appearing to bottom out in 2015-16, but with little improvement since.

Another factor has related to broader export markets for the US. The US dairy market is sensitive to exports; the US Dairy Export Council reports that the equivalent of about 14% of US milk production is exported. Shifts in international markets in which large dairy importers reduce their purchases from the US can impact US dairy markets. One example is China. China has been an

**Figure 5 Global Skim Milk Powder Auction Prices, \$US/tonne**



Source: Global Dairy Trade

aggressive importer of dairy products and ingredients, but this has slowed resulting in significantly reduced dairy imports from the US.

Figure 6 provides an illustration. In 2013 and 2014 US dairy exports to China ranged around \$US 700 million, and exports to China were well above comparable exports to Canada. Since then, China has reduced its dairy imports; in 2016 US dairy exports to China were just over half what they were in 2013-14. In the interim, US dairy exports to Canada have continued to increase, and now exceed exports to China by a significant margin.

Thus, while other major markets for US dairy exports have shrunk, US exports to Canada have grown.

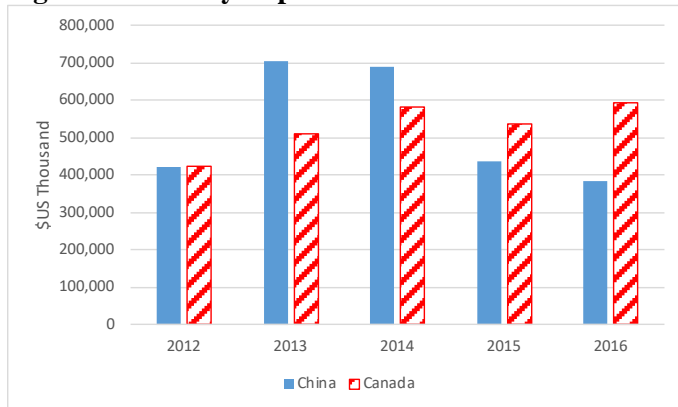
## Linkage to Ontario Milk Price Class 6/National Class 7

Ontario implemented Class 6 milk pricing in April 2016. Manitoba and Saskatchewan have also endorsed programs similar to Ontario Class 6. National Class 7 pricing has yet to be implemented. The US has linked its objection to these Canadian pricing initiatives to alleged losses in its Canadian export sales. However, the data on US exports appear not to bear this out. With approximately one year of experience with Ontario Class 6, if it was having the effect asserted in US dairy industry communications, surely this would have materialized

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**Figure 6 US Dairy Exports to China and Canada**



Source: USDA- FAS GATS. Includes dairy product exports in HS 04, 17, 21, and 35. Excludes re-exports

long before now.

This is important, because a fundamental element in formal remediation of trade disputes is injury- in order to bring remedial action against another country, a country must show that it has been injured by another’s policies/trade practices, and it must show that these policies/practices violate trade rules. Injury to the US dairy industry from lost Canadian exports is simply not evident.

Moreover, the US has not been clear or precise with regard to what its concerns are with Canada’s dairy policy. President Trump referred to it as “unfair”; the US dairy industry has variously referred to Canada being “outside its trade obligations”- but without stating which obligations it feels that Canada is not meeting. Those raising the issue regarding milk protein isolates/diafiltered milk must acknowledge that the US has free and open access to the Canadian market. There are no tariffs nor quantity limits placed upon US exports to Canada for these products. It is a matter of US product landed in Canada competing with Canadian product.

Thus, there are gaps in terms of alleged infringements, evidence of injury, and basic understanding of competitive issues.

## Conclusion

President Trump’s raising of Canadian dairy as an element of trade issues in NAFTA is consistent with months of communications by the US dairy industry as well as members of the US congress. As such, it is not an astounding surprise. Moreover, it may simply represent an example of the administration’s approach to negotiation, using public dialogue, alliteration, and drama as instruments within which to frame and condition what will ultimately be formal negotiations requested by the US- in relation to NAFTA or otherwise.

At this point, the US has not been specific regarding its concerns with Canadian dairy, other than to make clear that it doesn’t like the Ontario ingredient strategy nor its forthcoming national counterpart. The US has not said how it believes that Canada has acted illegally or outside of its commitments. It has not said how it intends to proceed with Canada in this regard. It has claimed to have incurred export market losses in Canada, but its own data do not bear this out.

It must be acknowledged that Canadian agricultural policy is formulated to address domestic issues, consistent with its international trade obligations. This applies to the dairy ingredient strategies just as it does to other forms of agricultural policy, such as crop/production insurance or farm income stabilization programming. It falls to countries challenging Canada to make the case that its agricultural policies are out of compliance.