THE DOHA ROUND OF WTO NEGOTIATIONS: IMPLICATIONS FOR THE CANADIAN DAIRY PROCESSING SECTOR

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EXECUTIVE SUMMARY

Enough progress has already been made in the Doha Round to predict the agricultural result with a reasonable degree of confidence. This paper examines the implications for Canada's dairy processing sector of such a deal. It does not address in any substantive way the consequences for Canadian dairy farmers.

The agricultural package which appears to be emerging would:

- Finally phase-out all export subsidies and impose new disciplines on export credit, food aid, and export state trading enterprises
- Substantially reduce overall trade distorting domestic support in developed countries and impose caps on individual commodities to limit concentration concerns
- Reduce developed country tariffs by more than 50 percent on average while permitting the most sensitive over quota tariffs to be subject to no more than a 23-24 percent reduction, provided tariff quotas are expanded by an amount equivalent to around 4-5 percent of consumption
- Require the more advanced developing countries to undertake commitments which would be generally two-thirds as large as those for developed countries.

Like most developed countries, Canada's dairy market is, with a few notable exceptions, characterized by stagnant or declining per capita consumption for the main dairy products. Growth markets in recent years have been mainly limited to specialty cheeses, cream, and yogurt. In this mature domestic market situation dairy processors have had two main domestic growth options - acquisition and consolidation, and the development of new products. However, in recent years these domestic growth options have been increasingly complemented by a foreign investment strategy, particularly investment in US dairy processing facilities. The growing global consolidation of dairy processing firms is a world-wide trend.

Producing for export has been a severely constrained growth option for Canada since the WTO ruled that, in the context of a tightly regulated domestic production and marketing framework, Canada's two-price system constituted an export subsidy and therefore is subject to the Uruguay Round export subsidy reductions. This ruling effectively limited Canada's ability to use the international market as an escape valve for structural surpluses, particularly for skim milk powder. The only export growth has been from imports for processing and re-export, and exports of food products made from milk priced the same for domestic or export sale; e.g., chocolate confectionery.

Based on benchmarking studies undertaken in the early 1990s, Canadian dairy processing costs (exclusive of raw milk costs) appear to be competitive with those of US dairy plants in the East, but not competitive with the much larger plants in the West. Currently Canada's raw milk costs for butter and cheese are roughly 45 percent higher than those in the US (and Europe).

Canada's industrial milk prices are set by government fiat and are loosely based on a cost of production formula. Over the past decade, in contrast to Canada's cost related increase in support prices, US and European offer to purchase prices have been set at stop loss levels which have remained relatively fixed. The result has been a deterioration in Canada's milk production and dairy processing competitiveness, which has both been moderated by the appreciation of the Euro, and intensified by the weakness of the US dollar. The strength of the international market reflecting the demand arising from the income and population growth of the emerging markets, and reinforced by the rundown of surplus stocks in the EU and US has obscured the decline in the international competitiveness of dairy processing in Canada.

The international market fundamentals are expected to remain strong even in the absence of a Doha Round result. However, given limited export subsidy entitlements, Canada will be unable to take any significant advantage of export opportunities. Thus, processors will be largely limited to
A shrinking domestic market as constantly escalating milk and dairy product prices encounter consumer resistance. This situation combined with the strong marketing power of the retail chains suggests that processor margins will be progressively squeezed.

A Doha Round outcome which results in the phase-out of export subsidies, a cap on product specific domestic support, and significantly expanded market access opportunities will reinforce the already strong international market fundamentals. Export-oriented dairy sectors will over time increase production to service new export opportunities, but a return to the chronically depressed and distorted international market conditions of yesteryear is unlikely, particularly when major exporters have negotiated further access opportunities through bilateral trade agreements; e.g., the recent negotiation of eventual duty-free access by New Zealand to the Chinese dairy market.

A significantly stronger international dairy market should ease the concern that a reduction of 23-24 percent over five years in Canada's 200-300 percent over-quota dairy tariffs could result in a deluge of imports. However, there will be other consequences, including:

- A five year phase-out of export subsidies (all exports of dairy products made from two-price milk) which will eliminate exports as an escape valve for surpluses
- Tariff quotas will be implemented in three equal steps over two years
- Immediate introduction of a cap on domestic support based on the 1995-2000 average support prices which will result in a roll-back (which could be concentrated on skim milk powder)
- The dairy sector could also face a further reduction in support prices as a result of the phased reduction of Canada's Total Aggregate Measure of Support (AMS). However, there is no requirement that the proposed 45 percent reduction be applied equally across all commodity sectors
- Canadian processors will likely have to give up to around 5 percent of domestic share to imports through the expansion of tariff quotas
- Domestic and export market shrinkage would likely force the closure of less efficient dairy processing plants and encourage processors to look for any remaining cost reduction opportunities through domestic consolidation
- Domestic market expansion would only occur to the extent that processors are successful in developing new products, e.g., new forms of dairy blends and desserts. The recent trend of seeking growth through foreign acquisitions would undoubtedly intensify.

The expansion of Canadian tariff quotas equivalent to around 5 percent of consumption in 2003-2005 would result in substantial windfall gains to the recipients of import licenses. Import license allocations targeted to dairy processors could help facilitate the adjustment of the Canadian dairy processing industry to the new market conditions. Allocating all or a substantial part of new import licenses to Canadian processors on the basis of their share of domestic production is a possibility that processors will need to explore with the federal government at an early opportunity.

While the Canadian dairy market has been accustomed to absorbing fairly substantial quantities of imported specialty cheeses and smaller quantities of imported butter and powdered milks, it has never had to deal with imports of fluid milk for consumption in Canada. In the Uruguay Round, Canada unilaterally determined (on the basis of a single survey) that imports of fluid milk by consumers were equivalent to 64,500 tonnes of milk and this was Canada's sole raw milk commitment. After the Doha Round, Canada will be faced with absorbing substantial commercial quantities of fluid milk imports. Which entity receives the import licenses for fluid milk (Canadian Dairy Commission, processors, retailers, private traders, the dairy farmer's trading company) will have major implications for the industry, as will the allocations for other dairy products.

Canadian dairy policy will face another challenge in determining whether to continue the current system of establishing a target price for industrial milk through the setting of federal price supports for butter and skim milk powder. The federal support prices are in turn reflected in
provincially mandated milk prices. An alternative pricing mechanism could involve negotiated prices between processors and marketing boards, similar to that in use for chicken in Ontario. Removing federal and provincial mandated pricing from the system could result in Canada's domestic support notification falling to zero since there would no longer be any administered prices. Under negotiated pricing, Canadian prices would reflect the duty paid landed cost of over quota imports rather than the current linkage to cost of milk production. Across the board negotiated pricing may also permit two-price exports to the extent that it can be demonstrated that in a less regulated marketing system differentiated pricing for export no longer constitutes an export subsidy.

There is no doubt that the Canadian dairy processing sector and Canadian dairy farmers will face a number of challenges in adapting to a post-Doha Round world. However, it is equally clear that, even though it will undergo some downward adjustment, a supply managed system can coexist with the prospective results of the Doha Round. The challenge for both processors and producers is to identify any necessary consequential adjustments to the existing system, and the options for ensuring a smooth transition for the industry which can no longer operate in virtual isolation from the international market - a market which will become progressively more open, but significantly less distorted over the implementation period. Processors, producers, and the two levels of government need to sit down to decide how best to adapt to the new realities.

This paper only identifies the first-stage consequences for Canada's dairy processing sector of the likely results of the Doha Round. Further work is needed to more fully explore how the industry could adjust to the changes in the trade environment. Some of the questions needing answers include:

- How will the stakeholders work to ensure a smooth adjustment to the Doha Round results and consequences? What, if any, trade adjustment assistance from government is warranted?
- What is the future role of the CDC in a post-Doha environment? Should CDC price supports be reduced to stop loss levels and be replaced by a system of negotiated pricing between processors and provincial milk marketing boards?
- If the support price of skim milk powder (SMP) were reduced to world levels, how would this impact on imports and domestic utilization in a post-Doha world?
- Which groups should receive import licenses? There is no single method for allocating current agricultural import licenses - they vary widely within and between commodities. What should be the respective roles of the CDC, processors and producers in the allocation of new import licenses? What role should private traders and retailers play? Is there a need to distinguish between how cheese and minor dairy product imports are handled compared to the import licensing for fluid milk, butter and possibly SMP?
- What are the conditions which would allow Canada to export dairy products without export subsidies?

Note:
Throughout the paper numbers without brackets are assumed to have consensus or near consensus support. Numbers and ranges in brackets are more problematic.
INTRODUCTION

For many years the dairy product sector has been recognized as one of the most distorted sectors in agricultural trade. In fact, until the Uruguay Round began its first halting steps in agricultural trade reform, the distortions in dairy trade became progressively worse as high price supports stimulated production, encouraged the use of export subsidies as a means of surplus disposal and required additional import protection in order to protect domestic prices from a perennially depressed international market.

The Uruguay Round represented a turning point, to the extent that a start was made in reducing export subsidies and converting non-tariff barriers into bound tariffs ("tariffication"). However, as was the case with other "sensitive" sectors, most over quota dairy tariffs were only cut by 15 percent from the "tariffed" levels which were well in excess of 100 percent in nearly all developed countries. Moreover, many countries did not adhere to the modality that within quota access should be no less than 5 percent of consumption. Although a modest step was also made in reducing trade distorting domestic support, this had little or no practical impact on dairy since the reduction commitments were made on an "aggregate" rather than a commodity specific basis.

Since the Uruguay Round reform results began to be implemented in 1995, the international dairy market has also been increasingly subject to a number of trends which have fundamentally changed the trading environment. Many developing country markets have evolved from aid markets into rapidly growing commercial markets as their incomes and population have increased. Dairy processing firms in developed countries have experienced tremendous consolidation in their slowly growing domestic markets and have increasingly turned to foreign joint ventures and acquisitions as a growth strategy. Once dominated by trade in bulk commodities (primarily butter, cheese, and skim milk powder), the international dairy market is increasingly characterized by a wide range of differentiated value added products, a growing number of which are tailored to meet the ingredient requirements of food processors. Technological advances have enabled dairy processors and other food processors to manufacture products from non-traditional dairy ingredients. In addition, dairy price supports in two major developed countries have over the past decade either remained largely unchanged (the US), or have been significantly reduced (the EU). Consequently, export subsidies have declined sharply as surplus stocks in developed countries have been run down and world prices have strengthened in the face of expanding demand in the emerging markets, particularly in Asia and the Middle East. Market fundamentals suggest that international prices will remain relatively firm for the foreseeable future.

This analysis examines the implications for Canada’s dairy processors if the Doha Round concludes on the basis of the revised modalities which are currently in play in Geneva. The paper first looks at the proposals in each of the three “pillars” of the negotiation - export assistance, domestic support, and market access - and then turns to the implications for Canada’s dairy market and the international dairy market. It concludes by examining some of the other factors which are also expected to influence the evolution of the Canadian and international dairy market in the coming years, e.g. currency changes and other related issues.

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1 The US and EU offered less than 3 percent on a milk equivalent basis. Canada initially offered 5 percent but downsized its final offer to make it comparable to that of the US and EU.

2 The modalities are the approaches and reduction numbers that will be used by each WTO member in drawing up initial offers. The Chair of the negotiating group on agriculture has issued two revisions to his July 2007 draft. The latest version was released publicly on May 19, 2008.
**THE MODALITIES**

Although the key ("headline") numbers have not changed from the July 2007 draft and remain in square brackets, the revised modalities nevertheless provide a sharper picture of what is in reach. In brief, the revised draft modalities envisage: (a) the elimination of all forms of export subsidies and improved disciplines on export credits, food aid and export state trading enterprises; (b) reductions in overall trade distorting domestic support (OTDS) in the range of 50-85 percent using a tiered formula, and new disciplines on commodity specific trade distorting domestic support; and (c) tariff reductions in the range of 50-73 percent, again using a tiered formula which requires deeper cuts for higher tariffs. All these commitments would be phased in over five years.

The above reduction ranges are all for developed countries. The least developed developing countries would not be asked to make any tariff or domestic support reductions while other categories of developing countries would make commitments which are at least one-third smaller and implemented over a longer period (usually eight years) as compared to developed countries.

**Export Competition**

The Doha Round modalities on export competition represent a quantum improvement over the Uruguay Round results. All export subsidies would be phased-out by 2013 for developed countries and 2016 for developing country export subsidies. Export financing would be limited to a maximum duration of 180 days and required to operate on a self-financing basis. Government financial assistance to export state trading enterprises would be phased-out over the same period as export subsidies (whether export STE's would retain their export monopoly powers is still an open question). Non-emergency food aid would be under tighter discipline to prevent displacement of commercial exports.

The willingness of the EU to envisage the elimination of export subsidies reflects the substantial reforms of the common agricultural policy (CAP) which began in the early 1990's and now cover virtually all sectors, including dairy. The common thread in most CAP reforms has been a reduction in domestic "intervention" (offer to purchase) prices which has been partially compensated by direct income payments. Bringing internal market prices down to levels close to world prices has enabled the EU to clear its massive intervention stocks and to dramatically reduce the use of export subsidies. The EU has also announced plans to phase-out milk production quotas by 2015.

It is all too easy to underestimate the significance of finally banning export subsidies in agriculture - something which occurred for industrial products in the mid-1950s. While the use of export subsidies has declined significantly since the Uruguay Round, the fact remains that countries with outstanding export subsidy entitlements can and have resumed export subsidies when faced with market downturns, as witnessed by the recent resumption of EU export subsidies on pork.

**Domestic Support**

As in the Uruguay Round, there would be no requirement to reduce domestic support which has no or minimal trade distorting effects. In the Doha Round the criteria for this so-called "green box" would be tightened somewhat but the level of green support would continue to be a unilateral decision.

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3 The EU has insisted that the earliest date for export subsidy elimination would be the end of 2013. This date has been accepted by other negotiators as the working hypothesis for developed countries. It remains to be seen whether this date would change if the Doha Round did not conclude in 2008.
The revised modalities envisage three tiers for reducing overall trade distorting domestic support (OTDS). The deepest cuts of around 80-85 percent would apply to the EU. The US and Japan would be subject to cuts of around 70 percent while all other developed countries would be subject to OTDS reductions in the order of 60 percent.

The OTDS number is an agriculture wide measure of total non-green domestic support and is the sum of three elements - Total Aggregate Measure of Support (AMS) or "amber box" support, "de minimis" (less than 5 percent product specific or non-product specific support), and "blue box" support (includes non-green support under production control). Each of these three elements are subject to separate reduction requirements, but the crucial point is that the OTDS number is the binding commitment and countries will be required to make additional reductions if the sum of the three constituent elements is less than the OTDS number.

As a developed country in the third tier, the modalities suggest that Canada would be subject to a (phased) 45 percent reduction in Total AMS. However, there is no requirement that this reduction be applied equally across all commodity sectors. How this reduction is achieved is a unilateral decision of each country.

As mentioned previously, a major innovation in the Doha Round is the introduction of product specific obligations in the AMS and blue boxes which would force countries to limit trade distorting support to the average levels prevailing in 1995-2000.

For most participants, the barometer for measuring success in the domestic support negotiations is the final OTDS number for the US and they are pressing for a number in the order of $13 Billion. The US has linked its OTDS number to the market access result. The more ambitious the market access improvements, the closer the US will come to $13 Billion.

**Market Access**

The market access modalities also apply a tiered approach to tariff reductions which would be phased in over five years. For developed countries, tariffs below 20 percent would be cut by 50 percent, tariffs below 50 and above 20 percent would be cut by 57 percent and tariffs below 75 percent and above 50 percent would be cut by 64 percent. There is still no convergence on the reduction number for tariffs above 75 percent but a 70-73 percent range appears most likely.

However, the price for what many observers regard as an ambitious tariff formula is the provision which allows smaller tariff reductions on the most sensitive tariff lines. The draft modalities propose that the maximum number of sensitive tariff lines would be limited to about 5 percent of the total number of tariff lines. For sensitive products there would be three allowed deviations from the corresponding tariff formula reduction number - one third, one half, and two thirds. The greater the deviation from the formula the greater the obligation to increase the amount of low duty access under a tariff quota. If the maximum deviation of two-thirds was applied to an existing over quota tariff, the additional amount entering under the lower in quota tariff would be to about 4 percent of consumption. It is proposed that the additional low duty in quota access would be available to all WTO members. In other words there should be no country allocations for the new low duty access. (However, the US has not given up on the possibility of country specific quotas for some of its export products.)

In the case of the highest over quota tariffs (those over 75 percent), a sensitive product would only be subject to a tariff reduction of 23-24 percent, instead of a full tariff formula cut of about 70 percent.

Although the maximum number of tariff lines which could be designated as sensitive is likely to be about 5 percent, countries may be able to designate more, provided they are prepared to "pay" for this deviation by giving additional low duty in quota access which would be implemented in
three equal steps over two years. For example, instead of increasing low duty in quota access by an amount equivalent to \([4]\) percent of domestic consumption, the increase might be \([5]\) percent if the number of sensitive tariff lines were increased to, say, \([7]\) percent of the total number of tariff lines. Consumption is defined as the 2003-2005 average.

One of the major outstanding issues in market access is whether to designate sensitive tariff lines at the 6 or 8 digit harmonized tariff level. The EU is proposing the 8 digit level which would give it the flexibility to only designate some tariff lines as sensitive. The problem with this "partial designation" approach is that domestic consumption data is rarely available at the 8 digit level and arbitrary proxies based on imports have been proposed by the EU instead. Some exporters have criticized this approach as undermining the market access ambition for sensitive products, particularly for sugar and rice.

In the Uruguay Round countries were given the right to apply special agricultural safeguard (SSG) duties for a limited time in emergency situations on those products which were tariffied (which were mainly in developed countries). The SSG is triggered either by volume or price criteria, and does not require an injury determination. In the Doha Round many exporters are pressing for the elimination of the SSG for developed countries. In contrast a number of developed country importers are arguing to retain SSG rights on a reduced number of tariff lines (1.5 percent of the total is the number in play).\(^4\)

In order to provide some additional confidence that the flexibilities for sensitive products will not significantly erode the ambition implicit in the tariff formula, the revised modalities include a provision which would require developed countries to reduce tariffs by a minimum average of 54 percent (and developing countries by a maximum of 36 percent).\(^5\)

While developing countries could designate sensitive products under slightly more liberal terms than developed countries, they also would have access to two special provisions which are only available to developing countries. A limited number of products could be self-designated as "special", and would be subject to reduced tariff cuts which would be lower than that for "sensitive" products. In addition, all agricultural tariff lines of developing countries would be eligible for a special safeguard mechanism (SSM) which would permit additional import duties on a temporary basis if certain import price or volume triggers were met.

**Implementation Schedules**

Approximately 12 months would be required between the conclusion of the negotiations and the beginning of the implementation period. This period is required to make the legislative and regulatory changes necessary to implement the Doha Round results. In the Uruguay Round, tariff reductions began to be phased-in at the start of the implementation period (January 1, 1995). But reductions in domestic support and export subsidies only began to be implemented at the start of the respective commodity marketing years (August 1, 1995 in the case of Canada's dairy commitments). It is likely that a similar scheduling will occur following the Doha Round with the exception of the tariff quota expansion which will likely start to be implemented at the same time as the tariff cuts in three equal steps over two years.

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\(^4\) Only tariff lines which were "tariffied" in the Uruguay Round were eligible for special agricultural safeguards (SSG's). Their use has varied widely between countries and products. Some countries have incorporated the price or quantity triggers into their tariff schedules and their application is automatic. Others, including Canada, have treated SSG's as a discretionary import measure.

\(^5\) The average tariff cut would include all tariff cuts except within quota tariff cuts. The within quota tariff reduction will be treated separately and is still in play.
IMPLICATIONS FOR CANADIAN DAIRY PROCESSORS

The Canadian Market

Canadian dairy processors operate in an administered pricing system whereby the price for milk for fresh consumption or for processing ("industrial" milk) is set by provincial milk marketing boards using delegated provincial powers. These prices vary according to end-use (a so-called "classified" pricing system). Provincial prices for industrial milk are derived from the federal offer to purchase programs for butter and skim milk powder. Federal support prices operated by the Canadian Dairy Commission (CDC) are aimed at achieving a certain "target" price for industrial milk, which in turn, is (loosely) based on a cost of production formula. Milk production is subject to individual farm quotas at the provincial level and the whole system is operated at the national level through the joint delegation of federal and provincial powers.

About 40 percent of Canadian milk production is sold in the form of fresh milk or fresh milk products. The remainder is sold for processing - primarily cheese and butter. About 8 percent of milk is sold to further processors at prices which are competitive with US industrial milk prices. This was necessary in order to keep processors of further processed products, such as chocolate confectionery and frozen pizza manufacturers, competitive in the face of duty free imports of the finished product from the US and Mexico under NAFTA. Less than 2 percent of milk is sold to processors for export.

Canada's ability to set the price of milk sold for consumption in Canada at levels well in excess of world prices is protected by a system of tariff quotas for fresh milk and the main dairy products - over quota tariffs range from 200-300 percent for most dairy products. Currently, the average milk price in Canada is about 45 percent higher than that of the US and the EU.

Exports

A WTO panel has determined that Canadian two-price milk used for processing and export if sold to processors at prices below average cost of production constitutes an export subsidy. However, industrial milk sold at the same price for domestic or export use is not an export subsidy, for example, milk used in the manufacture of chocolate confectionery. Thus, a Doha Round agreement to eliminate export subsidies would effectively mean that, in the absence of a substantial reduction in internal industrial milk prices, all dairy product exports made from two-price milk would cease and thereafter the only exports (made from Canadian milk) would be in the form of processed products which were made from milk which was priced the same, irrespective of whether the finished product was sold for export or for consumption in Canada.

Canadian exports of dairy products carrying an export subsidy are equivalent to less than two percent of domestic milk production. However, there is a rapidly growing export of dairy and further processed products made from imported dairy ingredients which have been made possible by Canada's import for re-export program (IREP). This re-export trade reflects the need by processors to maintain plant throughput in the face of a largely stagnant domestic market and limited ability to use two-price milk for export (the existing export subsidy entitlements reflect the results of the Uruguay Round and would be phased-out as the Doha Round results are phased-in).

Domestic Support

All developed countries in the third tier (which includes Canada) would have their Total AMS reduced by 45 percent. However, this is an aggregate commitment. It does not require an equal reduction across the individual components. Thus, Canada could choose to reduce its dairy AMS by a lesser amount, but if it did so, it would have to increase its AMS reductions on other...
commodities to make up an average reduction of 45 percent. The most recent Canadian domestic support notification (for 2004) showed a product specific AMS for milk of $559 million, which was comprised entirely of federal market price support through the CDC offer to purchase programs for skim milk powder and butter. However, in the years immediately following the phase-in of the Uruguay Round results, the notification also included federal direct income payments which were in the process of being phased-out. Thus, in the 1995-2000 Doha Round base period, the average non-green support of $576 million includes both market price support and (declining) direct income payments. Market price support was computed by multiplying the volume of "eligible" skim milk powder and butter sales by a price gap which was measured as the difference between the Uruguay Round average 1986-1988 external reference price and the respective Canadian offer to purchase prices (the "applied administered price").

Under the Doha Round modalities, the product-specific AMS limits for milk would be the average of the product specific AMS during the Uruguay Round implementation period (1995-2000) as notified to the WTO; that is, $576 million. Although only treating the federal offer to purchase programs as non-green support ignores the administered prices of the provinces, this approach is consistent with the way some other counties have notified their market price support for milk, in particular the EU. Under this methodology, Canada could claim its AMS for dairy was zero if there were no CDC offer to purchase program.

If the CDC offer to purchase programs were continued in the future, they could not be operated in a way which would result in the calculated product specific AMS for milk exceeding $576 million. This would have the practical effect of further eroding the link between the cost of production formula and federal price support levels. This would mean support prices for butter and/or skim milk powder would have to be reduced immediately in order to bring Canada's product specific AMS into conformity with its WTO commitments. In practice, this means Canada would have the option of concentrating the support price reductions on one product, e.g., SMP rather than butter, since the cap reflects the sum of butter and SMP market price support. (There has been some suggestion amongst industry leaders that it would make sense for a number of reasons to reduce SMP prices to world levels).

In addition to any roll back in CDC support prices required by the cap on product specific support, Canada would have to decide the dairy sector's share of the commitment to reduce the Total AMS by 45 percent.

**Market Access**

While the main dairy products are protected by high over quota tariff in the 200-300 percent range, some products are duty free (casein/caseinates and certain milk protein concentrates). Canada is currently negotiating to bring all milk protein concentrates (MPC's) under tariff quota, pursuant to its re-negotiation rights and obligations under Article XXVIII of the GATT).

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6 The EU and Canada calculate their dairy AMS the same way by only using the volume of milk subject to dairy product price support. The US up to now uses the total volume of milk produced because it has a mandated price support for all milk. This may change in the future since the Farm Bill under consideration envisages deleting the mandated support price for all milk and relying exclusively on the product price supports to calculate the AMS. This would bring the US calculation into conformity with the EU and Canadian methodology which has the practical effect of not using all milk to calculate the AMS.

7 The current AMS price gap for butter is calculated as the difference between the support price for butter and the corresponding external reference price prevailing in 1986-88. This is then multiplied by "eligible production" which is defined as total production of butter less product sales for further processing in Special Classes 5 a, b, and c, less total exports, plus that portion of exports that had received the support price. Similar methodology is used to calculate the product specific AMS for skim milk powder, although in this case sales under Class 4m are also excluded to determine "eligible production".
Assuming the Article XXVIII renegotiations are concluded before the Doha Round results start to be implemented, most dairy products, with the major exception of casein and caseinates, would be protected by tariff quotas. Other things equal, Canada would presumably want to designate all of these tariff lines (as well as those of the other supply managed sectors) as "sensitive" - thereby eligible for as little as a 23-24 percent reduction as opposed to a [70-73] percent reduction under the tariff formula. However, the modalities indicate that the maximum number of tariff lines eligible for "sensitive" designation would be limited to no more than [4-6] percent of total tariff lines. Since Canada has 94 over-quota tariffs in the supply managed sectors which represent more than 7 percent of the total, it will need to decide which of these tariffs must be designated as sensitive (and if so whether to deviate from the formula tariff cut by two-thirds, one-half or one-third) and which could be subject to a full formula cut of around 70 percent.

There are a number of ways to manage the number of tariff lines requiring sensitive treatment. One would be to prioritize. For example, there are a large number of cheese tariffs and some of the more exotic and more expensive ones could be considered for inclusion under the tariff formula (a simple variation of the EU partial designation approach). Another possibility would be to take a full formula reduction on ice cream and ice cream mixes since over one half of the domestic ice cream production is already made from imported ingredients (mainly butter oil/sugar mixes which are not subject to tariff quotas). Yet another option would be to offer to provide additional low duty access in exchange for being able to designate more than [4-6] percent of total tariff lines as sensitive.

The "price" for a less than full formula tariff reduction would be to provide additional low duty within quota access equivalent to [3-5] percent of consumption for a one third deviation from the formula cut, [3.5-4.5] percent of consumption for a one-half deviation and [4-6] percent of consumption for a maximum two-third deviation. Moreover, there is an additional "price" of 0.5 percent of consumption for countries which wish to retain more than 4 percent of tariff lines in excess of 100 percent (See Table 1 for illustrative over quota tariff reductions and Table 2 for illustrative tariff quota expansions). Recent developments in Geneva suggest that the final outcome would likely be closer to the low end of the ranges than the high end.

It should be noted that the Doha Round would require Canada to provide additional tariff quota access for fluid milk for consumption in Canada. In the Uruguay Round Canada claimed on the basis of a single survey that non-commercial imports by consumers constituted Canada's access commitment for fluid milk. A Doha Round result would require the creation of in-quota access for commercial imports of fluid milk.

In summary, if Canada wished to designate all of its over quotas tariffs as sensitive, retain them at levels in excess of 100 percent, and subject to a maximum deviation tariff reduction of 23-24 percent, it would have to provide additional low duty in quota access equivalent to something in the order of 5 percent of consumption for those products for which domestic disappearance data is readily available. It could minimize the need to expand tariff quota access by increasing the number of dairy tariff lines subject to a formula cut and/or increasing the number of tariff lines subject to less than a two-third deviation.
**Implications**

A Worst Case Scenario

Assuming as a worst case scenario that the consumption number was 5 percent\(^8\) of the 2003-2005 average would result in additional low duty tariff quotas of roughly 19,000 tonnes of cheese (separate quotas for table and processed cheese?); 130,200 tonnes of fluid milk; 3,600 tonnes of butter, 10,800 tonnes of ice cream, and 2,900 tonnes of skim milk powder (separate quotas for feed and human consumption?) to mention some of the most important dairy products. As noted previously, these new tariff quotas would be implemented in three equal steps over two years.

It is proposed that all of the additional low duty access from the Doha Round would be available on a MFN (non-discriminatory) basis. Arguably, this means that the existing relatively low in quota MFN tariffs would have to be reduced to free because of the NAFTA obligation to eliminate all in quota tariffs.\(^9\)

It should be recalled that, in addition to losing market share as a result of the expansion in tariff quota access, dairy processors would also face the phase-out of two-price milk exports which would be the equivalent to a further loss of market share of 1-2 percent.

**How Import Licenses are allocated Matters**

It is proposed that the new tariff quotas would be separate from the Uruguay Round tariff quotas and would be administered in accordance with the WTO Agreement on Import Licensing.

Under the existing import license administration system for dairy, most import licenses, with the major exception of butter, are allocated to the historical importers of record (mainly trading companies importing specialty cheeses before they were placed under import quota in the early 1970's). Over the years these import allocations have been rented and bought and sold and today more of the licenses are controlled by dairy processors\(^10\). In the case of butter there had been no imports allowed for many years and the Canadian Dairy Commission (CDC) was designated as the sole importer for the tariff quota access created by the Uruguay Round.

It should also be recalled that, in addition to the creation of additional in quota access for dairy products, the Doha Round would require expanded access for fluid milk. In the Uruguay Canada noted that imports by consumers for their own consumption would fulfill Canada's tariff quota obligation for fluid milk. A Doha Round result will require decisions on which entities (CDC, dairy producers, dairy processors, retailers or traders) get the licenses for commercial imports of fluid milk for fresh consumption.\(^11\)

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\(^8\) A 5 percent consumption number assumes for illustrative purposes that the maximum allowable deviation from the tariff formula is chosen (two-thirds), that this requires a 4 percent of consumption tariff quota expansion, that the price of having 7 percent of tariff lines as sensitive is an additional 0.5 percent of consumption, and the price of retaining a tariff line in excess of 100 percent ad valorem is also an additional 0.5 percent of consumption.

\(^9\) In the Canada/US Free Trade negotiations it was agreed that all existing tariffs would be eliminated but that Article XI import quotas would remain. A NAFTA panel subsequently ruled that Canada was entitled to apply the tariff equivalent of the quantitative import restriction when it was required under the Uruguay Round to “tariff” import quotas and prohibitions.

\(^10\) Transfer of import license allocations are subject to the approval of the Department of External Affairs and International Trade. Import permit allocations do not confer property rights; they remain the property of the Federal Government.

\(^11\) It could be argued that imports of fluid milk should be for fresh consumption only since the tariff quota expansion is based on sales of fluid milk and cream and not industrial milk used in the consumption of dairy products. However, it should be noted that the tariff description for milk does not distinguish end use and...
The "economic rent" implicit in the difference between buying at the world price and selling at the tariff protected Canadian prices would be substantial as would be the new tariff quotas arising from the Doha Round. Simply allocating the new access to existing license holders on a pro rata basis would generate substantial windfall gains. On the other hand, dairy processors would be faced with the loss of around 4-5 percent of domestic market share which would increase per unit costs. Compounding the loss of domestic market share would be the eventual loss of all dairy product exports made from two-price milk. In these circumstances, it could be argued that the dairy processors should be given (on the basis of their share of production in Canada) most of the new import licenses as a form of trade adjustment assistance. A similar mixed system of import license allocation already exists for chicken. Dairy producers on the other hand are expected to argue that most, if not all, of the new import access particularly for butter and fluid milk, be given to their recently established trading company (or at a very minimum the CDC) in order to manage the adjustments to the supply management system.

Compensating dairy processors for reduced plant efficiencies through import license allocation would also help to a certain extent those producers who are members of dairy processor cooperatives but would not assist those producers who sell to corporate dairy processors. Although outside of the scope of this paper, how to compensate dairy farmers for any adverse economic consequences of the Doha Round is a question which cannot be ignored. Suffice to note that in Europe unilateral dairy reform reductions in support prices were (partially) compensated by "green box" direct income payments. If Canada were to follow the European example, care would have to be taken to ensure that any such payments fit the WTO green box criteria so as to make them exempt from reduction.

The question of who should receive import licenses for the new tariff quotas raises the question of whether the CDC should continue to be designated the importer of record for the old butter quota and whether it should be allocated the import rights to the tariff quota expansion for butter (and possibly other dairy products). Again on the grounds that the domestic butter makers will bear the cost of loss of domestic market share, it could be argued that most of the new butter access should be allocated to Canadian butter manufacturers. On the other hand, dairy producers could argue that additional butter imports should be directed to displace imports of say butter oil/sugar mixtures which are not under tariff quota and which have displaced considerable quantities of milk and cream from ice cream production. Milk producers probably attach more importance to controlling the end use of imports than to the question of who gets the economic rent. (The "economic rent" associated with the new butter quota alone could easily be in the order of $10-15 million, depending on the spread between the import price and the Canadian support price. Current world prices (fob Europe) are around $4,000 per tonne for butter and $3,000 per tonne for skim milk powder, as compared to the Canadian offer to purchase price of $6,932 per tonne, and $5,984 per tonne respectively).

There is little doubt that Canadian importers of cheese would argue strongly that any new cheese import licenses should be allocated on a pro rata basis to those already in the cheese importing business.

Canada's trading partners will be concerned how and to whom import licenses are allocated. For example, most would prefer that licenses be allocated to the private trade with no end use restrictions, as opposed to an import state trading entity such as the CDC, or given to a producer-controlled import monopoly. However, so long as the tariff quotas are filled, exporters would have no legal grounds to complain, provided the import licenses are administered in accordance with the WTO Agreement on Import Licensing (which does not prohibit the designation of import monopolies) and the specific provisions of the amended Agreement on Agriculture as regards tariff quota administration. It is proposed that persistent "under filling" of tariff quotas would result

therefore, depending on which entity receives the import license, imports of fluid milk could be diverted to (say) ice cream manufacture.
in the mandatory use of only two tariff quota administration options; (1) first come, first served (at the border), or (2) automatic, unconditional import licenses on demand.

**Retaining the Import for Re-export Program is Vital**

Currently, a substantial amount of dairy products (and some fresh milk) are imported duty free under Canada's Import for Re-export Program (IREP). As noted previously, this program has grown dramatically in recent years in order for dairy processors and other food processors using dairy inputs to be competitive in export markets. Under the Doha Round results, imports for re-export would not be counted against the corresponding tariff quota. However, this program is vital to the Canadian food processing industry which must have access to inputs at world competitive prices if it is to continue to export. Certainly those dairy processors which use imported dairy inputs to make further processed products for export benefit from longer production runs than those which would exist if the plant was producing solely for the relatively stagnant Canadian market.

**The Risk of Over-quota Imports**

There has been some concern that even a reduction of 23-24 percent in the existing over quota tariffs could result in imports entering over the over quota tariff if world prices weaken and/or the Canadian dollar appreciates further relative to that of the US dollar (International dairy prices are normally denominated in US dollars). As noted previously, the market fundametals suggest that world prices are expected to remain firm for the foreseeable future without a Doha Round result. With a Doha Round result, international prices are expected to strengthen further as export subsidies are phased-out and increased market access opportunities are phased-in.

There are several ways to minimize the threat of over quota imports. One would be to reduce domestic support prices and to compensate producers, in whole or in part, by “green” direct income payments. In any event, some reduction in support prices is likely to be required in order to bring Canada's product specific AMS for milk down to the $576 million cap. Another way would be to maximize the number of minimum tariff reductions. However, the price of applying the minimum tariff reduction is a greater loss of domestic market share. The consequences of over quota imports could also be reduced by designating the most vulnerable tariff lines as being eligible for special agricultural safeguard treatment - assuming that this can be retained for at least some of the sensitive tariff lines.

**Shifting from Administered Prices to Negotiated Prices?**

Currently, domestic prices are determined largely by a combination of federal and provincial administered prices which are in turn linked to cost of production. The only link to the international market is the price of milk sold for further processors which is set at a US competitive price. When international prices are strong, the over quota tariffs are prohibitive and over 90 percent of domestic pricing is fully insulated from external factors. Over quota tariffs only become determinate when international dairy prices are weak and/or the Canadian dollar appreciates significantly.

If the product-specific domestic support cap is going to have the effect of preventing a continuation of cost of production pricing, the question arises as to whether this would provide an opportune time to consider shifting from a fully administered pricing system to a negotiated pricing system - perhaps one similar to that used in the chicken supply management system in Ontario. If prices were freely negotiated between the provincial marketing boards and the processors and the federal price supports were set at (low) stop loss levels, Canada would have little or no non-green domestic support to notify. Negotiated prices would then be determined
largely by the duty paid landed price of imports. The result would be that the Canadian milk market would more closely follow international price developments, albeit with margins in the order of 150-230 percent, reflecting the still significant over quota tariffs. However, negotiated prices would introduce the potential for price instability for both producers and processors which is largely absent under the current administered pricing system. It should also be recalled that butter/skim milk powder processors have benefited considerably from the cost linked processor margin which is built into the respective offer to purchase programs.

**Increased Consolidation in Dairy Processing**

There appears little doubt that the phase-in of a Doha Round result which included a loss of domestic market share of around 5 percent and the complete loss of exports made from domestic milk would increase the pressure for consolidation among Canadian milk processors. A loss of market share of this magnitude could also lead to the closure of a number of small, less efficient plants, as over capacity becomes even more serious than it is today. This could be a particular problem for the processing plants in Atlantic Canada because of their relatively small size and/or underutilization of capacity.

Like the dairy processing industry in the US, the Canadian dairy processing industry is a mixture of national and multinational corporate firms as well as a number of cooperatives that range in size from the very large to the very small. Since the early 1990's, there has been considerable consolidation (the three largest firms now account for over 70 percent of milk sales). However, this trend has slowed somewhat in recent years as witnessed by the recent breakdown of amalgamation negotiations between two of the largest cooperatives. Given that there are major economies of scale in larger processing plants, there is little doubt that a Doha Round result would intensify pressures for industry consolidation.

It is interesting to note that, even though the Canadian dairy market is regarded as mature with limited growth potential, this has not prevented new foreign investment in Canada by European dairy processors in Italy, and more recently, Denmark. This suggests that up to now the stability of the Canadian dairy market, combined with favourable margins, have been sufficiently attractive to offset any lack of growth concerns.

A Doha Round result which shrinks domestic market share will no doubt encourage Canadian dairy processors to further intensify their search for expansion through foreign acquisitions. Recent investments by Canadian dairy processors in the US, South America and Europe suggest that concerns with the limited growth opportunities of the domestic market are already an important consideration in the business plans of the largest Canadian dairy processors.

**When to Plan for Adjustment?**

The issue is when do the stakeholders sit down to discuss how to adjust to a Doha Round result which does not correspond to the position of dairy farmers and the Federal Government that there be no changes to either Canada's over quota import tariffs or any expansion of tariff quotas. All the main political parties support supply management, therefore the challenge is to determine how supply management can best coexist with a Doha Round outcome which would result in a relatively modest (23-24 percent) reduction in over quota tariffs and an expansion of around 5 percent in tariff quotas. It now appears that formal stakeholder discussions are unlikely to take place until after the negotiations are concluded, given fears that premature public discussion on adjustment would undermine negotiating positions in Geneva. There is no doubt, however, that dairy farmers believe that they have an implicit commitment from the Federal Government that there will be no adverse economic impacts on dairy farmers from the Doha Round.
Dairy processors will need to ensure that they have a seat at the table whenever discussions on how to adjust to the Doha Round results begin. As the second largest food processing sector (after meat packing) with over 25,000 employees spread across Canada but concentrated in Quebec and Ontario, dairy processors have a major stake in any effort aimed at facilitating the adjustment of the dairy production and processing industries to a post-Doha Round environment.

The International Market

Only 7 percent of world milk production is used in products which are traded on the world market. Most of the milk produced is consumed in the same region, mainly in the form of fluid milk. Even after the Uruguay Round access commitments were fully implemented, current market access into most developed countries represents no more than 1-2 percent of dairy consumption on a milk equivalent basis.

The FAO/OECD expects that average prices for dairy products on world markets will increase substantially during the coming decade as compared to the past decade. Cheese, skim milk, and whole milk powder prices are projected to increase by 35-40 percent while butter prices are expected to increase by about 25 percent when comparing the price difference between 1996-2006 and 2006-2016. The main reasons for this positive outlook are the increasing demand from the emerging markets and the fact that the EU will have to give up market share on the international market as consumption increases in the domestic EU market consumes a larger share of the milk produced. In contrast, during the next decade, the US is expected to increase its share of the world dairy export market given the depreciation of the US dollar relative to other dairy exporter currencies and the continuation of EU milk production quotas until their expected end after the 2014-2015 marketing year.

The FAO/OECD world market projections are based on the assumption of continuation of current policies and do not take account of the prospective Doha Round results. The elimination of export subsidies, the expansion of market access, and the cap on trade distorting domestic support for dairy would only act to reinforce the positive outlook based on the underlying market fundamentals.

The magnitude of the additional market impetus provided by the Doha Round results will depend heavily on the extent to which the market access opportunities in the major import markets (US, EU and Japan) correspond to the revised modalities - the closer the correlation, the larger the market strength reinforcement. It will not be possible to determine with any precision the size of the potential new market access opportunities until countries table their initial offers. For example, it is not yet clear how the EU proposals regarding "partial designation" will impact the size of tariff quota expansion by developed countries. Neither is it yet clear how many dairy tariff lines are going to be subject to a full formula tariff cut and how many are going to be placed in the three sensitive designations, i.e. a two-third, one-half or one-third deviation from the corresponding tariff formula reduction. There has been some speculation that the US may not designate as many dairy tariff lines as sensitive as one would have otherwise expected. This speculation is based on the assessment that US plants (and dairy farmers) in the western US states have great economies of scale, and a weak dollar increasingly gives them access to industrial milk at internationally competitive prices. In contrast, other observers still believe the more import-sensitive producers and smaller milk plants in the eastern US will prevail in insisting the US treat dairy tariffs as sensitive.

Even if the final market access results do not turn out to be as great as implied by the revised modalities, there appears little doubt that even a less ambitious Doha Round result will accentuate the globalization trend which has increasingly characterized the business plans of the larger dairy processors over the past decade. In a constant search for growth opportunities, processors in slowly growing developed country markets will intensify their search for economies of scale by pursuing investment acquisitions in both domestic and foreign markets.
The US, EU, New Zealand, Australia, and Argentina are in a good position to exploit the opportunities created by a more open and less distorted international dairy market because they have consciously adjusted or are in the process of adjusting their domestic dairy policies to a more global trading environment. Countries which do not do so risk relying on a shrinking domestic market and a continuing deterioration in their international competitiveness.

OTHER ISSUES

Whether or not the Doha Round fails or concludes in 2008 or later Canadian dairy processors will be faced with a number of factors which will work against a simple continuation of the status quo.

Exchange Rates

A Canadian dollar at or close to par with the US dollar means Canadian consumers are becoming increasingly aware of the large differences in retail dairy prices between Canada and the US (Canadian retail butter prices are more than double that of the US; similar price differences exist for the other major dairy products). However, although the Canadian dollar has appreciated considerably relative to the US dollar in recent years, it has remained relatively stable vis-à-vis the EU and the Oceanic countries. If current exchange rate relationships persist, existing tariff quotas could be filled increasingly by US product, as opposed to European or Oceanic supplies. To the extent Canadian dairy processors control dairy import licenses, an increasing amount of trade could represent intra-company trade given the existing US investment in dairy processing in Canada and the growing Canadian investment in dairy processing plants in the US. That is, the dairy processing sector could become more integrated into a North American dairy processing market even though the national milk production markets remain largely insulated from one another.

If the Canadian dollar remains close to par with the US dollar, there will be continuing pressure for some Canadian dairy processing plants to import more milk and dairy products from the US under IREP for further processing and re-export as one way to prevent a further build-up of over capacity.

Changes in Dairy Product Composition Regulations

Effective December 14, 2008, Canadian Food Inspection Agency (CFIA) regulations which require cheeses makers to use minimum percentages of protein derived from milk will come into force.\(^{12}\) This regulation is a response to pressure from dairy farmers who are concerned about the growing displacement of fluid milk by (imported) non-traditional dairy ingredients in the manufacture of cheese. There is also pressure to apply similar composition regulations to ice cream and yogurt.

The problem for Canadian cheese processors (and potentially other dairy product processors), is that compositional regulations aimed at limiting the erosion of domestically produced milk used in the manufacture of cheese increases costs by reducing yield and prevents processors from taking advantage of cost-reducing technological advances available to foreign cheese processors. Adopting standards which are unique to Canada will place Canadian cheese makers at a growing competitive disadvantage, vis-à-vis foreign cheese processors in export markets and (to the extent there is difficulty in policing) to ensure imports meet the Canadian regulations in the Canadian market.

One disturbing side effect of the new regulations is the suggestion that they will also apply to imports for processing and re-export. Imports of cheese under IREP amount to 3-4,000 tonnes per year and it is unclear whether foreign cheese producers will be willing to produce cheese to

\(^{12}\) Includes fresh milk, skim milk, partly skim milk, and cream.
meet Canadian specifications for such a relatively small market. If they do it will probably be at an added cost which will reduce the competitiveness of the Canadian export product. If access to IREP is constrained, it will reduce the opportunities for Canadian food processors to export finished products by having access to cheese inputs at world competitive prices.

It has already been indicated that these regulations will be challenged under Canada's Agreement on Internal Trade. They are also expected to be challenged by Canada's trading partners as inconsistent with Canada's rights and obligations under the WTO. Several years of uncertainty will ensue until the respective dispute settlement processes are exhausted.

**Ongoing Import Pressure from Products Not Covered by Tariff Quotas**

The import concerns underlying the cheese composition, milk protein concentrate and butter oil/sugar blend issues are sub-sets of the larger problem that processors will constantly be looking for opportunities to minimize input costs and develop new products, and foreign suppliers will be always looking for ways to ship dairy ingredients in a form which avoids entry at over quota tariffs. Technological change is increasingly allowing food processors to use dairy ingredients in new ways and new forms. Pressure to limit more imports through Article XXVIII tariff renegotiations and/or technical regulations will increase to the extent the gap between Canadian and world prices widens and diminish as the gap narrows.

Ultimately, if Canada is too successful in limiting imports of dairy ingredients, it runs the risk that food processors using significant volumes of dairy ingredients in making finished products will simply shift their operations to the US.

**Retail Developments**

Traditionally, Canadian dairy processors have felt squeezed between single desk sellers on the supply side and an increasing concentration of buying power from the retail store side. Retail power is expected to exert increased pressure on processor margins, particularly if Wal-Mart expands significantly its food sales ("supercentres"). Dairy processor margins, which have remained quite profitable up to now can be expected to decline in future, particularly if per unit costs increase sharply as a result of the loss of domestic market share and exports as the Doha Round results are implemented. There could also be some further pressure on dairy processor margins to the extent that retailers (and further food processors) have direct access to import licenses covering significant volumes of product. These pressures could drive more dairy processors into the production of dairy blends and dairy substitutes where higher margins may be available.
**Table 1:**

**CANADIAN DAIRY PRODUCTS – OVER-QUOTA TARIFF PROTECTION UNDER THE REVISED DOHA ROUND MODALITIES, ASSUMING A 70% FORMULA CUT ON THE HIGHEST TARIFFS**

<table>
<thead>
<tr>
<th>Product</th>
<th>Current Tariff</th>
<th>Formula 70% cut</th>
<th>1/3 Deviation 46.2% cut</th>
<th>2/3 Deviation 23.8% cut</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter</td>
<td>298.5%</td>
<td>89.6%</td>
<td>137.9%</td>
<td>226.9%</td>
</tr>
<tr>
<td>SMP</td>
<td>241%</td>
<td>72.3%</td>
<td>113.3%</td>
<td>183.2%</td>
</tr>
<tr>
<td>Cheddar Cheese</td>
<td>245.5%</td>
<td>73.7%</td>
<td>113.4%</td>
<td>186.6%</td>
</tr>
<tr>
<td>Specialty Cheese</td>
<td>245.5%</td>
<td>73.7%</td>
<td>113.4%</td>
<td>186.6%</td>
</tr>
<tr>
<td>Processed Cheese</td>
<td>245.5%</td>
<td>73.7%</td>
<td>113.4%</td>
<td>186.6%</td>
</tr>
<tr>
<td>Yogurt</td>
<td>237.5%</td>
<td>71.3%</td>
<td>109.7%</td>
<td>175.8%</td>
</tr>
<tr>
<td>Whey Powder</td>
<td>208%</td>
<td>62.4%</td>
<td>96.1%</td>
<td>153.9%</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>277%</td>
<td>83.1%</td>
<td>128%</td>
<td>205%</td>
</tr>
<tr>
<td>Fluid Milk</td>
<td>241%</td>
<td>72.3%</td>
<td>111.3%</td>
<td>178.3%</td>
</tr>
<tr>
<td>Cream</td>
<td>292.5%</td>
<td>87.8%</td>
<td>135.1%</td>
<td>216.5%</td>
</tr>
<tr>
<td>Cottage Cheese</td>
<td>245.5%</td>
<td>73.7%</td>
<td>113.4%</td>
<td>186.6%</td>
</tr>
</tbody>
</table>

Source: Derived from Canada’s Customs Tariff

**Table 2:**

**CANADIAN DAIRY PRODUCTS – ADDITIONAL TARIFF QUOTA VOLUMES UNDER THE REVISED MODALITIES, ASSUMING 5% OF 2003-2005 CONSUMPTION**

<table>
<thead>
<tr>
<th>Product</th>
<th>New TRQ 5% of 2003-2005 Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter</td>
<td>3,600 tonnes</td>
</tr>
<tr>
<td>Skim Milk Powder</td>
<td>2,900 tonnes</td>
</tr>
<tr>
<td>Whole Milk Powder</td>
<td>500 tonnes</td>
</tr>
<tr>
<td>Whey Powder</td>
<td>1,400 tonnes</td>
</tr>
<tr>
<td>Buttermilk Powder</td>
<td>200 tonnes</td>
</tr>
<tr>
<td>Cheese</td>
<td>19,000 tonnes</td>
</tr>
<tr>
<td>Concentrated Milk (evaporated and condensed)</td>
<td>2,100 tonnes</td>
</tr>
<tr>
<td>Yogurt</td>
<td>10,900 tonnes</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>10,800 tonnes</td>
</tr>
<tr>
<td>Fluid Milk</td>
<td>130,200 tonnes</td>
</tr>
</tbody>
</table>

Sourced from Statistics Canada, Food Statistics 2006: Table 3.8.