PUBLIC

CANADIAN INTERNATIONAL TRADE TRIBUNAL

STAFF REPORT

(Reference No.: GC-97-001)

DAIRY PRODUCT BLENDS OUTSIDE THE COVERAGE OF CANADA'S TARIFF-RATE QUOTAS

DATA TABULATION

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This report is public. Areas marked with XX indicate that protected information was taken out.

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PART I - BACKGROUND

As part of this inquiry, the Tribunal distributed 161 questionnaires to Canadian processors of frozen dairy products, processors of processed cheese, importers, embassies and foreign industry associations and the Dairy Farmers of Canada. Data from the replies to these questionnaires and other sources, are summarized in this report by the Tribunal's research staff.

The following shows how many questionnaires were distributed to the various groups:

Frozen Dairy Products Processor's Questionnaire	62
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PART II - DATA TABULATION

1. Imports of Dairy Product Blends outside the Coverage of TRQ’s

a) Major Players

Table 1 provides an overview of the major importers of dairy product blends outside the coverage of Canada's TRQ's who responded to the Tribunal’s questionnaires.

Table 1
Major Importers of
Dairy Product Blends outside the Coverage of TRQ's

Importers	Background	Products
Burt Lewis Inc. / Burt Lewis International Corp.	Since 1976, traded full line of dairy commodities. Burt Lewis International Corporation formed specifically in 1996 to handle increasing business in international trade.	Started importing butteroil/sugar late 1993.
G. Van Kam Trading Company Ltd.	Incorporated in 1985, to trade internationally in food ingredients concentrating in the dairy sector.	Imports of dairy blends into Canada from US and EU, starting 1991.
International Dairy Ingredients Inc.	Incorporated in 1996, trades in domestic dairy ingredients, exports domestic dairy product blends, imports dairy product blends.	Imported butteroil/ sugar blend since 1996.

Source: Importer’s questionnaire.

b) Apparent Imports

(i) Butteroil/Sugar Blend

Butteroil/sugar blend has been imported into Canada under the tariff item 2106.90.95.00 – Other preparations, containing, in the dry state, over 10% by weight of milk solids but less than 50% by weight of dairy content – since 1995. Revenue Canada stated that in 1993, the butteroil/sugar blend was imported under 2106.90.90.99 while in 1994, the imports came into Canada under 2106.90.99.99.

Table 2 provides the apparent imports for the period 1993 to 1997 as reported by importers of record who replied to the Tribunal’s questionnaire.

(ii) Butteroil/Glucose and Butteroil/Processing Solids

Butteroil/glucose blend and butteroil/processing solids blend were also imported into Canada under the tariff item 2106.90.95. Table 3 provides the apparent imports for the period 1993 to 1997.

(iii) Butteroil Blends

Table 4 provides, for the period 1993 to 1997, the apparent imports of all butteroil blends, including butteroil/sugar, butteroil/glucose and butteroil/processing solids.

Table 2
Butteroil/Sugar Blend
Apparent Imports

Volume - (000 kg)

	1993	1994	1995	1996	1997
European Union					
Belgium	XX	XX	XX	XX	XX
United Kingdom	XX	XX	XX	XX	XX
Subtotal	XX	XX	XX	XX	XX
Other Countries					
Mexico	XX	XX	XX	XX	XX
New Zealand	XX	XX	XX	XX	XX
United States	XX	XX	XX	XX	XX
Subtotal	XX	XX	XX	XX	XX
Total Apparent Imports	**XX**	**XX**	**XX**	**XX**	**XX**
Percentage change		-66	697	192	152

Value
($000)

	1993	1994	1995	1996	1997
European Union					
Belgium	XX	XX	XX	XX	XX
United Kingdom	XX	XX	XX	XX	XX
Subtotal	XX	XX	XX	XX	XX
Other Countries					
Mexico	XX	XX	XX	XX	XX
New Zealand	XX	XX	XX	XX	XX
United States	XX	XX	XX	XX	XX
Subtotal	XX	XX	XX	XX	XX
Total Apparent Imports	**XX**	**XX**	**XX**	**XX**	**XX**
Percentage change		-67	823	201	148

Unit Value
($/kg)

	1993	1994	1995	1996	1997
European Union					
Belgium	XX	XX	XX	XX	XX
United Kingdom	XX	XX	XX	XX	XX
Subtotal	XX	XX	XX	XX	XX
Other Countries					
Mexico	XX	XX	XX	XX	XX
New Zealand	XX	XX	XX	XX	XX
United States	XX	XX	XX	XX	XX
Subtotal	XX	XX	XX	XX	XX
Total Apparent Imports	**XX**	**XX**	**XX**	**XX**	**XX**

Source: Importer’s questionnaire, question 13.

Table 3
Butteroil/Glucose & Butteroil/Processing Solids
Apparent Imports[1]

Volume (000 kg)

	1993	1994	1995	1996	1997
Butteroil/Glucose	XX	XX	XX	XX	XX
Butteroil/Processing Solids[2]	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX
Value ($000)					
Butteroil/Glucose	XX	XX	XX	XX	XX
Butteroil/Processing Solids	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX
Unit Value ($/kg)					
Butteroil/Glucose	XX	XX	XX	XX	XX
Butteroil/Processing Solids	XX	XX	XX	XX	XX
Average	XX	XX	XX	XX	XX

1. XX

2. XX.

Source: Importer's questionnaire, question 13.

Table 4
All Butteroil Blends
Total Apparent Imports

	1993	1994	1995	1996	1997
Total Volume (000 kg)	433	147	1,167	3,404	8,752
Total Value ($000)	949	312	2,878	8,676	22,026
Average Import Price ($/kg)	2.19	2.13	2.47	2.55	2.52

Source: Importer's Questionnaire, question 13.

(iv) Average Mark-up of Imports of Butteroil/Sugar Blend

Table 5
Apparent Imports of Butteroil/Sugar Blend
Average Mark-Up

($/kg)

	Average Import Price				
IMPORTERS	**1993**	**1994**	**1995**	**1996**	**1997**
International Dairy Ingredients					
XX	XX	XX	XX	XX	XX
G. Van Kam					
XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX
Burt Lewis					
XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX
	Average Sales Price of Imports				
	1993	**1994**	**1995**	**1996**	**1997**
International Dairy Ingredients					
XX	XX	XX	XX	XX	XX
G. Van Kam					
XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX
Burt Lewis					
XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX
	Mark-up (%)				
	1993	**1994**	**1995**	**1996**	**1997**
International Dairy Ingredients					
XX	XX	XX	XX	XX	XX
G. Van Kam					
XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX
Burt Lewis					
XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX

Source: Importer’s questionnaire, questions 13 and 16.

(v) General Comments

No price lists available, each sale is negotiated separately on a deal-by-deal basis.

Only one importer had any inventories on hand. These were minimal.

(vi) Future Import Activities

Table 6
Apparent Imports of Butteroil Blends by Importers

(000 kg)

	1993	1994	1995	1996	1997		Plans for 1998
Burt Lewis Inc.	XX	XX	XX	XX	XX	XX	
						XX	
G. Van Kam Trading	XX	XX	XX	XX	XX	XX	
International Dairy Ingredients	XX	XX	XX	XX	XX	XX	

Source: Importer's questionnaire, question 14.

c) Imports of Products under Tariff Items not Covered by TRQ's

As part of its research, Tribunal's staff tried to identify other dairy product blends outside the coverage of TRQ's other than butteroil/sugar blend being imported into Canada. Preliminary research showed that these other dairy product blends (if any) could be imported under the following tariff items: 1704.90.90.90; 1806.20.90; 1806.90.90; 1901.90.39. 1901.90.40; 1901.90.59 and 2106.90.95.

Using Statistics Canada import data for the tariff items identified, staff identified and selected the major importers under each tariff item using the period January to November 1997. Each importer whose import volumes for that period accounted for 0.5 percent or more of the total volume of imports under each tariff item was selected and was sent a Tribunal Short-Form Importer's Questionnaire. The coverage of total imports under each tariff item ranges from 67 to 98 percent. Seventy-six questionnaires were sent and 52 completed questionnaires were returned. The questionnaire consists of two pages requesting importers to describe the product(s) imported in 1997 under the above noted tariff items and to describe its use. The results of this survey are shown in Table 7. A detailed description of the products, their use by importers, and the tariff item under which the importation was made and the volume and value of these imports can be found in Schedule 1 (protected).

Table 7
Survey of Imports under Selected Tariff Items

Category	Number of Companies Reporting Imports
Products - Retail Sale	
Prepared baby food or meal supplement	2
Finished chocolates	15
Candies and confectionery items	14
Bakery products	4
Prepared puddings	10
Ice cream toppings, sauces and dips	3
Products - Further Use	
Chocolate products	13
Cocoa paste	1
Cake decorations	2
Cheese ingredients and flavourings; yogurt coatings	2
Products - Further Processing	
Chocolate crumb, milk crumb	1

Note: The number of companies reporting imports is larger than the number of companies which responded to the questionnaire due to multiple products being imported.

Source: Short-Form Importer’s Questionnaires.

2. Frozen Dairy Products

This section provides summary tables based on questionnaire responses. Individual company responses are provided in attached protected schedules.

a) The Industry

The following section provides a summary of the major industry players who process frozen dairy products and who responded to the Tribunal questionnaires.

(i) Unilever Canada Limited (Good Humor-Breyers)

Unilever Canada Limited, (Unilever), Toronto, Ontario, is a wholly-owned subsidiary of Unilever PLC. UL Canada Inc., (UL Canada), Toronto, Ontario, is a wholly-owned subsidiary of Unilever and Good Humor-Breyers, Burlington, Ontario is a division of UL Canada.

Unilever has a limited sales agency and distribution agreement between Good Humor-Breyers and Parmalat (Beatrice Foods) covering Ontario, Manitoba, Saskatchewan and Alberta. It has also a limited sales agency and distribution agreement between Good Humor-Breyers and Natrel Inc., covering Quebec.

There have been a number of acquisitions within the Unilever family of companies. The following set outs major acquisitions:

- September 1992, Unilever acquired Dickie Dee ice cream business. This business included Richard D's ice cream bars and frozen novelties.
- January 1993 - Dickie Dee ice cream business became a division of UL Canada.
- February 1993 - Unilever acquired Popsicle and Klondike businesses. These businesses known as Popsicle Industries became a division of UL Canada.
- July 1994 - UL Canada acquired the ice cream, frozen yogurt and frozen novelties business from Beatrice Foods.
- May, 1995 - UL Canada acquired the ice cream, frozen yogurt, frozen novelties and frozen dessert businesses from Natrel. These were then integrated into the existing Good Humor-Breyers Division of UL Canada.

Frozen dairy products and frozen novelties are produced at the Simcoe plant (Ontario) and bulk frozen dairy products for food service and other frozen dairy products are produced at their plant in Montreal-Nord (Quebec).

(ii) Nestlé Canada Inc.

Nestlé Canada Inc., (Nestlé), North York, Toronto, is a wholly-owned subsidiary of Nestlé S.A. of Switzerland. Nestlé has been operating in Canada since 1887 and was incorporated in 1922. Nestlé operates 11 manufacturing facilities across Canada and manufactures a variety of processed products. It produces ice cream, frozen dairy novelties and frozen dairy desserts at its plants in London and Edmonton.

Nestlé is a parent of an expanding family of businesses. In January 1997, Nestlé acquired the assets of Ault's Frozen Product Division. In May, 1997, Nestlé purchased Dairyworld Foods' Ice Cream Products Group.

(iii) David Chapman's Ice Cream Ltd. (Chapman)

David Chapman's Ice Cream Ltd. of Markdale, Ontario, is a privately-owned, family-run business manufacturing ice cream and frozen dairy novelties under its own brand name and private labels. The company was incorporated in October, 1973.

(iv) Canada Safeway Limited (Lucerne Foods)

Canada Safeway Limited, Calgary Alberta, (Safeway) is a wholly-owned by Safeway Inc., Pleasanton, California. Safeway was incorporated in 1929 and has been in the business of retail grocery stores and supermarkets.

Since 1965, Safeway, was supplied with a full range of dairy products by its wholly-owned subsidiaries, Lucerne Foods Ltd. and its predecessor, Jasper Dairy Ltd. Canada Safeway Limited and Lucerne Foods Ltd. were amalgamated on December 31, 1995. Currently Safeway manufactures and sells dairy products including ice cream, yogurt, sour cream and cottage cheese. Ice cream, ice milk and frozen dairy desserts are manufactured at the company’s plants in Winnipeg and Edmonton.

(v) Agropur, coopérative agro-alimentaire (Agropur)

Agropur is a cooperative dairy marketing and processing firm owned by more than 4,600 dairy farmer members. The Co-op currently collects milk, manufactures and distributes a large range of dairy products including fluid milk, butter, cream, yogurt, cheese and soft ice cream mix. Its subsidiaries are Natrel Inc. (100%), Natrel (Ontario) Inc. (100%), Aliments Ultima Inc. (50%) and is a minority shareholder in Bright Cheese House (49%). It sold its ice cream and frozen dairy novelties plant in Montreal-Nord in

April 1995 to Unilever. Agropur has a distribution agreement with Unilever. In March 1997, it purchased Ault Foods' Ontario-based fluid milk operations (milk, cream, soft ice cream mix) as well as its manufacturing and Canada-wide distribution operations for yogurt, cottage cheese, sour cream, dips and non-dairy beverages. Agropur currently manufactures soft serve ice cream mixes in both Quebec and Ontario which are sold to a number of distributors under private brand names such as XX.

(vi) Parmalat Canada Inc.

Parmalat Canada, (Parmalat) was XX

XX

Currently, Parmalat produces ice cream at its plant in Calgary, Alberta.

(vii) Amalgamated Dairies Limited

Amalgamated Dairies Limited, (Amalgamated Dairies), P.E.I., is a farmer-owned cooperative style association which was formed in 1953. It operates five processing dairy plants.

Today, Amalgamated Dairies manufactures and processes dairy products including milk, cream, butter, cheese, whey, buttermilk and other dairy products including frozen dairy products.

(viii) Baskin Robbins Canada

Baskin Robbins is a wholly-owned subsidiary of Baskin Robbins International of Glendale, California. It operates a plant in Peterborough, Ontario where it produces ice cream, soft serve ice cream, sherbet and yogurt.

(ix) Schwan's Canada Limited.

Schwan's Canada Limited (Schwan's), Neepawa, Manitoba, was incorporated in 1989, and is a wholly-owned subsidiary of Schwan's International Holding Inc.

Schwan's manufactures ice cream, frozen yogurt, sherbet and frozen novelty products.

(x) Central Smith Creamery

Central Smith Creamery of Peterborough, Ontario, is a wholly-owned subsidiary of Fraser Scates Ltd. It produces ice cream, sherbet and yogurt.

(xi) Les Desserts Congelés

Les Desserts Congelés, Montreal, Quebec, is a privately-owned company which was incorporated in 1956. It manufactures ice cream, frozen yogurt, sherbet and ice cream logs in its Montreal plant.

b) Production Process for Ice Cream[1]

The basic mix for the manufacture of ice cream is largely cream and other milk ingredients, plus sweeteners. Legally, ice cream must contain greater than 10 percent milkfat and can go as high as 16 percent in some premium ice creams. The milk solids-not-fat in an ice cream may range between 9 percent to 12 percent. This component contains the proteins, (caseins and whey) and carbohydrates found in milk. Approximately 12 percent to 16 percent of the content of ice cream is sweeteners. They can be a combination of sucrose and glucose-based corn syrup sweeteners. Finally, water, which comes from the milk or other ingredients comprises about 55 percent to 64 percent of the ice cream. Ice milk is very similar to ice cream in terms of composition, however, it must contain between 3 percent and 5 percent milkfat by legal definition.

The ingredients of the mix are carefully blended in proper proportions in a mixing tank. The mix may also contain amounts of functional ingredients, such as stabilizers and emulsifiers. These ingredients help prevent the formulation of ice crystals in the ice cream after it is frozen and helps give body and texture.

The mix then goes to a pasteurizer where it is heated and held at a predetermined temperature for a specific period of time. The most common type of pasteurization is the high-temperature-short-time method in which the mix is heated to 175 degrees F and held for 25 seconds.

The hot mix then goes to the homogenizer where, under pressure of 2,000 to 2,500 pounds per square inch, the milkfat globules are broken into still smaller particles to help make the ice cream smooth.

After homogenization, the hot mix is quickly cooled to a temperature of about 40 degrees F. Next, freezing of the mix is accomplished by one of two methods: a "continuous freezer" which uses a steady flow of mix; or a "batch freezer" which make a single quantity of ice cream at a time. While the ice cream is being frozen, blades in the freezer, or "dashers", whip and aerate the mix. Without this aeration, the finished product would be inedible, solidly frozen mass of cream, milk, sugar and flavouring. This aeration,

1. Source: International Dairy Foods Association, International Ice Cream Association, Washington D.C., The Latest Scoop, 1997 Edition, and Modern Dairy Products, by Lincoln M. Lambert

called "overrun"[2], is controlled by requiring that finished ice cream shall weigh not less than 4.5 pounds per gallon containing at least 1.6 pounds of total solids.

With the use of continuous freezer, ingredients such as fruits and nuts are added after freezing by a mechanical flavour feeder. Liquid flavours are added to the mix before freezing. The filling operation begins with filling various size containers, cups, or molds for ice cream on a stick or other frozen dairy products.

After freezing and filling, ice cream goes to the "hardening room" where sub-zero temperatures further harden the ice cream. From the hardening room, it is loaded into refrigerated trucks for delivery to distributors or retailers.

Table 8 provides a listing of the major processors of frozen dairy products together with the brand name products they manufacture.

2. Generally, "overrun" may be between two to three time the total solids of the mix. A usual overrun for packaged ice cream is 80 percent, for soft ice cream it is from 40 percent to 80 percent, and for bulk ice cream, the overrun could go from 80 percent to 100 percent and it may even reach 150 percent. Therefore, one gallon of mix makes about two gallons of finished ice cream.

Table 8
Brand Names of Frozen Dairy Products Produced by Various Companies

1997

Category of Frozen Dairy Product	XX	XX	XX
A) Ice Cream			
i - Value/Economy	XX	XX	XX
	XX	XX	XX
	XX		
ii - Standard/Premium	XX	XX	XX
	XX	XX	
		XX	
		XX	
iii - Premium Plus	XX	XX	
	XX		
iv - Super/Premium	XX		
B) Ice Milk			XX
C) Frozen Dairy Desserts	XX	XX	
D) Frozen Dairy Novelties			
i - Value/Economy		XX	XX
		XX	XX
		XX	XX
ii - Standard/Premium	XX	XX	XX
	XX	XX	
	XX	XX	
	XX		
	XX		
	XX		
	XX		
	XX		
	XX		
	XX		
	XX		
iii - Premium Plus	XX		
	XX		
	XX		
	XX		
	XX		
	XX		
	XX		
	XX		
	XX		
	XX		
	XX		
iv - Super/Premium	XX		

Category of Frozen Dairy Product	XX	XX	XX
E) Other Frozen Dairy Products			
i - Yogurt	XX	XX	XX
	XX		
	XX		
	XX		
ii - Sherbet	XX	XX	
iii - Other			

Source: Frozen Dairy Products Processor's Questionnaire, question 23.

Table 8 (cont'd)
Brand Names of Frozen Dairy Products Produced by Various Companies

Category of Frozen Dairy Product	Private Label		Other	
	Company Name	Brand Name	Company Name	Brand Name
A) Ice Cream	XX	XX		
i - Value/Economy	XX	XX	XX	XX
	XX	XX	XX	XX
	XX	XX	XX	XX
	XX	XX	XX	XX
	XX	XX	XX	XX
	XX	XX	XX	XX
			XX	XX
			XX	XX
			XX	XX
ii - Standard/Premium			XX	XX
	XX	XX	XX	XX
	XX	XX	XX	XX
	XX	XX	XX	XX
	XX	XX	XX	XX
	XX	XX	XX	XX
	XX	XX	XX	XX
iii - Premium Plus	XX	XX	XX	XX
			XX	XX
			XX	XX
iv - Super/Premium			XX	XX
			XX	XX
B) Ice Milk	XX	XX	XX	XX
C) Frozen Dairy Desserts			XX	XX
D) Frozen Dairy Novelties				
i - Value/Economy	XX	XX		
		XX		
ii - Standard/Premium			XX	XX
			XX	XX
iii - Premium Plus				
iv - Super/Premium				
E) Other Frozen Dairy Products				
i - Yogurt			XX	XX
			XX	XX
			XX	XX
			XX	XX
			XX	XX
ii - Sherbet	XX	XX	XX	XX
	XX	XX	XX	XX
	XX	XX	XX	XX
			XX	XX
iii - Other			XX	XX

Source: Frozen Dairy Products Processor's Questionnaire, question 23.

c) Use of Butteroil/Sugar and Other Dairy Product Blends

The following table highlights processors of frozen dairy products which use butteroil/sugar blends.

Table 9
Users of Butteroil/Sugar Blends

1997

	Yes	No
XX		**XX**
XX		**XX**
XX	**XX**	
XX	**XX**	
XX	**XX**	
XX	**XX**	
XX		**XX**
XX	**XX**	
XX	**XX**	
XX		**XX**
XX	**XX**	

Source: Replies to Frozen Dairy Products Processor's Questionnaire.

Table 10 provides a summary of the advantages and disadvantages of using butteroil/sugar as identified by major users in their response to the Tribunal questionnaires.

Table 10
Advantages and Disadvantages of Using Butteroil/Sugar Blends as Identified By Frozen Dairy Product Processors

Advantages	Disadvantages
Cost savings compared to domestically sourced butterfat XX Allows for competitive pricing XX	More difficult to handle in processing than liquids XX; Difficult to handle and incorporate into ice cream mix in automated systems XX; XX XX
Cost advantage XXXX	Limit on extent the butteroil/sugar could be used due to flavour (XX), undesirable off-flavours in ice cream if inappropriate levels of blend used XX
Long life (XX), XX	More labour involved XX XX), XX
Consistent supply (XX), blend can be used when shortage of butterfat (XX XX), secure supply of butterfat to replace portion of domestic butterfat requirements XX	XX
Easy storage (XX)	XX
Melts/dissolves more easily than butter, therefore easier to use than butter (XX)	XX
XX	
XX	

Source: Frozen Dairy Products Processor's Questionnaire.

d) Purchases of Butteroil/Sugar Blends by Processors

The following table shows the purchases of butteroil/sugar blends made by the processors as reported in their replies to the Tribunal's questionnaire.

Table 11
Purchases of Butteroil/Sugar Blend by Processors

Processor	Importer	Source of Imports	Year	Volume (000kg)	Value ($000)	Average Unit Cost
XX	XX		XX	XX	XX	XX
	XX		XX	XX	XX	XX
	XX		XX	XX	XX	XX
	XX		XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX

Source: Frozen Dairy Products Processor's Questionnaire, schedule II.

e) Production

Table 12 provides a breakdown of the domestic production of frozen dairy products in 1997 by company for those who responded to the Tribunal questionnaires.

Table 12
Production of Frozen Dairy Products by Processor
1997

	Volume (litres)	**%**
XX	XX	XX
XX	XX	XX
XX	XX	XX
XX	XX	XX
XX	XX	XX
XX	XX	XX
XX	XX	XX
XX	XX	XX
XX	XX	XX
XX	XX	XX
XX	XX	XX
TOTAL	**319,976,050**	**100.0**

Source: Replies to Frozen Dairy Products Processor's Questionnaire.

The following table provides the regional breakdown of domestic production by volume and by category of frozen dairy products.

Table 13
Production of Frozen Dairy Products by Province

1997

(litres)

Province	Ice Cream	Ice Milk	Frozen Dairy Novelties	Frozen Dairy Desserts	Other Frozen Dairy Products	Total Production
British Columbia	XX	XX	XX	XX	XX	-
Alberta	XX	XX	XX	XX	XX	XX
Saskatchewan	XX	XX	XX	XX	XX	-
Manitoba	XX	XX	XX	XX	XX	XX
Ontario	XX	XX	XX	XX	XX	XX
Quebec	XX	XX	XX	XX	XX	XX
Newfoundland	XX	XX	XX	XX	XX	-
New Brunswick	XX	XX	XX	XX	XX	-
Nova Scotia	XX	XX	XX	XX	XX	-
P.E.I.	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	319,976,050

Note: This table includes information provided by: XX

Source: Frozen Dairy Products Processor’s Questionnaire, question 27.

See protected Schedules 2 -12 for individual company details.

Table 14 shows the proportion of domestic production of frozen dairy products that contain some portion of butteroil/sugar or other dairy product blends of total production. It does **not** show the amount of butteroil/sugar used in the production of frozen dairy products.

Note that this table only reports production for some companies. The following companies production data are not included: XX

Table 14
Production of Frozen Dairy Products Using Dairy Product Blends

1997

Category of Frozen Dairy Product	Total Production (litres)	Production Using Butteroil/Sugar (litres)	Share of Production Using Butteroil/Sugar to Total Production %
A) Ice Cream			
i - Value/Economy	XX	XX	XX
ii - Standard/Premium	XX	XX	XX
iii - Premium Plus	XX	XX	XX
iv - Super/Premium	XX	XX	XX
B) Ice Milk	XX	XX	XX
C) Frozen Dairy Desserts	XX	XX	XX
D) Frozen Dairy Novelties	XX	XX	XX
E) Other Frozen Dairy Products	XX	XX	XX
Total Frozen Dairy Products	**XX**	**XX**	**XX**

Notes: This table includes information provided by: XX.

XX
The total reported production does not match the results in the previous production table.

Source: Frozen Dairy Products Processor's Questionnaire, schedule V.

See protected Schedules 13 - 21 for individual company details.

f) Average Unit Costs of Certain Major Ingredients

Table 15 provides an indication of the average unit costs of certain major ingredients used in the manufacture of frozen dairy products in 1997.

Table 15
Purchases and Average Unit Cost of Certain Major Ingredients

1997

Category of Major Ingredient	Volume Purchased	Weighed Average Unit Cost
	(kg)	($/kg)
Butterfat from Dairy Products	XX	XX
Butteroil/Sugar Blends	XX	XX
Milk Ingredients (non-fat portion)	XX	XX
Modified Milk Ingredients	XX	XX
Sugar/Sweeteners	XX	XX

Note: This table includes information provided by: XX.

Source: Frozen Dairy Products Processor's Questionnaire, Schedule IV.

See protected Schedules 22- 30 for individual company details.

g) Apparent Market

Table 16 provides the domestic consumption of ice cream in Canada based on Statistics Canada.

Table 16
Ice Cream
Domestic Consumption in Canada

(000 litres)

	1992	1993	1994	1995	1996
Production	294,533	315,498	344,535	338,642	331,090
Imports	934	975	942	834	991
Exports	1,307	487	1,146	8,224	10,481
Domestic Consumption	294,160	315,986	344,331	331,252	321,600

Note: Closing and Opening Stocks are assumed to be nil.
Source: Statistics Canada and Agriculture Canada, Matrices 5633 & 5635.

Table 17 provides the domestic sales for frozen dairy products in 1997 and the average unit selling price of various categories of ice cream and other frozen dairy products as derived by Tribunal's staff based on questionnaire replies.

Note that this table only reports sales for some companies. The following company sales are not included: XX.

Table 17
Frozen Dairy Products
Domestic Sales
1997

	Sales Volume (Litres)	% Share	Average Unit Value ($/Litre)
Domestic Sales			
Ice Cream			
Value/ Economy	XX	XX	XX
Standard/ Premium	XX	XX	XX
Premium Plus	XX	XX	XX
Super/ Premium	XX	XX	XX
Ice Milk	XX	XX	XX
Frozen Dairy Desserts	XX	XX	XX
Frozen Dairy Novelties			
Value/ Economy	XX	XX	XX
Standard/ Premium	XX	XX	XX
Premium Plus	XX	XX	XX
Super/ Premium	XX	XX	XX
Other Frozen Dairy Products	XX	XX	XX
Total Domestic Sales	**286,029,205**	**100.0**	**1.65**

Note: This table includes information provided by: XX

Source: Frozen Dairy Products Processor's questionnaire, Schedule X.

See protected Schedules 31 - 42 for individual company details.

(i) State of Domestic Market

Following is a summary of the views and opinions on the current state of the domestic market as reported by some processors who replied to the Tribunal questionnaire.

Table 18
Opinions and Views on the Current State of the Domestic Market

XX	XX
XX	XX XX XX
Good Humor-Breyers	. . . low margins on certain ice cream categories The current ice cream market is highly competitive with two global competitors, Unilever and Nestlé vying for leadership, in addition to a strong own label category and strong local manufacturers. In addition, there is an excess capacity in the market which together has depressed prices. . . . margins are currently at a level that can not be sustained in the long term. Prices will either have to significantly go up, or material cost go down.
Chapman	Highly competitive market.

Source: Frozen Dairy Products Processor's Questionnaire

h) **Current and Potential Usage of Butteroil/Sugar Blends**

The following table provides a low and high range of the actual percentage content of butteroil/sugar used in 1997 in the manufacture of frozen dairy products and the maximum potential usage of butteroil/sugar by category as reported by processors who replied to the Tribunal's questionnaire.

Table 19
Current and Potential Ranges of Butterfat Content from Butteroil/Sugar Blends

In Frozen Dairy Products

Category of Frozen Dairy Product	Current Range of Butterfat Content from Butteroil/Sugar Low - High Range	Potential Maximum Range of Butterfat Content from Butteroil/Sugar Low - High Range
A) Ice Cream		
i - Value/Economy	XX	XX
ii - Standard/Premium	XX	XX
iii - Premium Plus	XX	XX
iv - Super/Premium	XX	XX
B) Ice Milk	XX	XX
C) Frozen Dairy Desserts	XX	XX
D) Frozen Dairy Novelties		
i - Value/Economy	XX	XX
ii - Standard/Premium	XX	XX
iii - Premium Plus	XX	XX
iv - Super/Premium	XX	XX
E) Other Frozen Dairy Products		
i - Yogurt	XX	XX
ii - Sherbet	XX	XX
iii - Other	XX	XX

Note: This table includes information provided by: XX

Source: Frozen Dairy Products Processor's Questionnaire, Question 23.

See protected Schedules 43 - 50 for individual company details.

Table 20 reports the information provided by some processors on comparing the costs of production of frozen dairy products containing butteroil/sugar to a hypothetical case if the same volume were produced without the butteroil/sugar blend for 1997.

Table 20
Reported Cost Savings by Processors of Frozen Dairy Products When Using Imported Butteroil/Sugar Compared to 100 Percent Domestically Sourced Butterfat.

Processors	Products/volume (litres) 1997	Actual Average Cost ($/litre)	Estimated Average Unit Cost if not using Butteroil Blend ($/litre)	Estimated Savings
XX	XX	XX	XX	XXXX
XX	XX	XX	XX	XXXX
XX	XX	XX	XX	XXXX
Different Reporting Methodology Used				
XX	XX		XX	XX
XX	XX		XX	XX

Source: Frozen Dairy Products Processor's Questionnaire, Question 29.

i) Financial

The following table shows the consolidated income statement for certain processors of frozen dairy products for 1997.

Table 21
Consolidated Income Statement

1997

	1997	**%Share**
Volume of Sales (000 litres)	XX	
Net Sales	XX	XX
Cost of Goods Sold	XX	XX
Gross Margin	XX	XX
GS&A Expenses	XX	XX
Financial Expenses	XX	XX
Net Income Before Taxes	XX	XX

Note: Not all processors provided data for each year, therefore, only 1997 is presented. This table includes information provided by: XX

Source: Frozen Dairy Products Processor's Questionnaire, Schedule VI.

See protected schedules 51 - 59 for individual company details.

j) Inventories

The following table provides the inventories of butteroil/sugar blends and other dairy product blends as reported by companies who responded to the Tribunal questionnaires.

Table 22
Inventories of Imported Dairy Product Blends

	Volume (kg)	Value ($000)
A) Butteroil/Sugar		
December 31, 1992	XX	XX
December 31, 1993	XX	XX
December 31, 1994	XX	XX
December 31, 1995	XX	XX
December 31, 1996	XX	XX
December 31, 1997	XX	XX
B) Other Dairy Product Blends		
December 31, 1992	XX	XX
December 31, 1993	XX	XX
December 31, 1994	XX	XX
December 31, 1995	XX	XX
December 31, 1996	XX	XX
December 31, 1997	XX	XX

Note: This table includes information provided by: XX.

Source: Frozen Dairy Products Processors Questionnaires, Schedule III.

See protected Schedules 60 - 64 for individual company details.

k) Investments

Table 23 shows investment made by processors of frozen dairy products.

Table 23
Investment for the Production of Frozen Dairy Products

($000)

Total Investment				**Projected**		
	1995	**1996**	**1997**	**1998**	**1999**	**2000**
XX	XX	**XX**	**XX**	**XX**	**XX**	**XX**
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
XX	XX	XX	XX	XX	XX	XX
Total	**3,228**	**28,915**	**19,419**	**34,536**	**8,955**	**14,030**

Source: Frozen Dairy Products Processor's Questionnaire, Schedule VIII.

l) Capacity

The following table provides the capacity and utilization for ice cream and other frozen dairy products as reported by companies responding to the Tribunal questionnaire.

Table 24
Capacity And Capacity Utilization for Ice Cream and Other Frozen Dairy Products

1997

Ice Cream	
Practical Plant Capacity (litres)	XX
Utilization (litres)	XX
Utilization Rate (%)	57
Other Frozen Dairy Products	
Practical Plant Capacity (litres)	XX
Utilization (litres)	XX
Utilization Rate (%)	54

Note: This table includes information provided byXX.

Source: Frozen Dairy Products Processor's Questionnaire, Schedule IX.

See protected Schedules 65 - 74 for individual company details.

m) Employment and Productivity

The following table shows the number of people employed and the production of frozen dairy products.

Table 25
Employment and Productivity

1997

	Number of Employees	Production of Frozen Dairy Products (litres)	Productivity Per Employee (000 L)
XX	XX	XX	XX
XX	XX	XX	XX
XX	XX	XX	XX
XX	XX	XX	XX
XX	XX	XX	XX
XX	XX	XX	XX
XX	XX	XX	XX
XX	XX	XX	XX
XX	XX	XX	XX
XX	XX	XX	XX
Total	1,503		

Source: Frozen Dairy Products Processor's Questionnaire, Schedule VII.

PART III - PRICING

1. Price Setting and Milk Producer Returns

As explained in the staff report entitled" Profile of the Canadian Dairy Industry", the CDC establishes the national target price for industrial milk, the assumed processor margin and the support prices for butter and skim milk powder. These levels are reviewed each year on August 1 and February 1. The relationship between these various elements of the pricing structure are shown in Table 26 and Figure 1.

Table 26
Calculation of Producer Returns

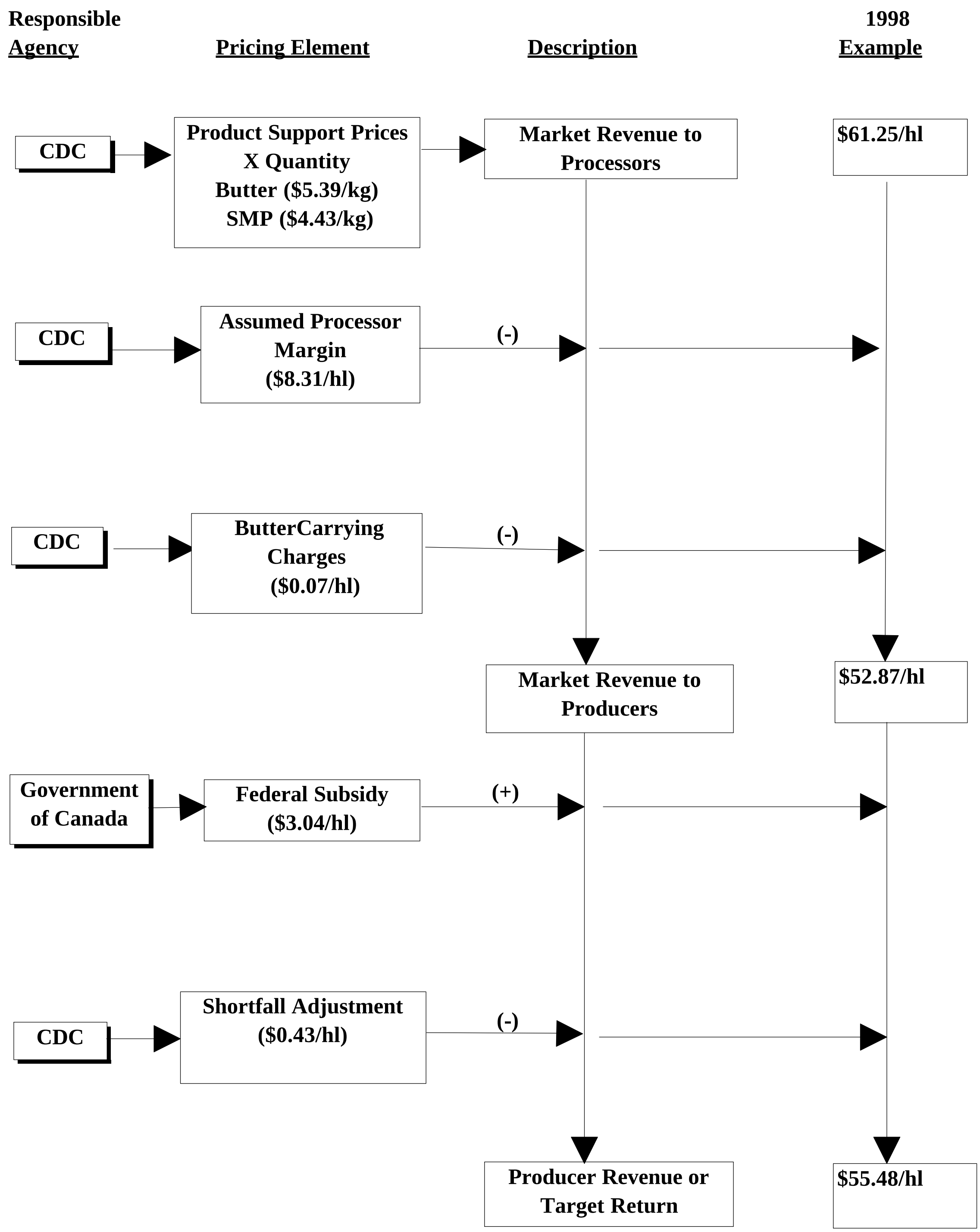
for the period February 1, 1998 to January 31, 1999

1. Market Revenue to Processors	= (butter support price x quantity of butter in one hl of milk) + (skim milk powder support price x quantity of skim milk powder in one hl of milk) = ($5.3927/kg x 4.365 kg/hl) + ($4.431/kg x 8.51 kg/hl) = $61.25/hl
2. Market Revenue to Producers	= Market Revenue to Processors - Assumed Processor Margin - Butter Carrying Charges = $61.25/hl - $8.31/hl - $0.07/hl = $52.87/hl
3. Total Producer Revenue or Target Return	= Producer Revenue from Marketplace + Federal Dairy Subsidy - Shortfall Adjustment = $52.87/hl + $3.04/hl - $0.43/hl = $55.48/hl

Definitions:
1. hl = hectolitres or 100 litres
2. "Support Prices" - Butter and skim milk powder are joint products. i.e. from one hl of milk, 4.364 kg of butter and 8.51 kg of skim milk powder can be produced Only these two products have support prices.
3. "Assumed processor margin" is calculated to cover the cost of transforming milk into butter and skim milk powder and a return on the processor's investment.
4. "Federal subsidy" are government payments which moderate the price of industrial milk products to consumers by reducing the price required by producers from the market place. The federal subsidy is paid only on industrial milk production that is destined for the domestic market and planned exports to the European Union. The federal dairy subsidy, currently $3.04 per hectolitre, is being phased out by $0.76 per hectolitre per year and should be totally eliminated by February 1, 2002.
5. "Butter carrying charges" of $0.07 per hectolitre cover storage and financing of normal levels of butter inventories and a portion of the CDC’s administrative expenses.
6. "Shortfall adjustment" is the compensation paid to producers for the insufficient price adjustment that occurred when the federal subsidy was first reduced.

Source: Canadian Dairy Commission

Figure 1
Industrial Milk Pricing Flow Chart



Until the early nineties, price increases were typically distributed fairly evenly between butter and skim milk powder. However, from August 1, 1993, the butter support price was left unchanged and the increase was put on skim milk powder. As a result, skim milk powder became relatively more expensive which increased pressure on dairy products that were relatively low in butterfat but high in non-fat solids. Since fat-reduced products fall in this latter category and since low-fat products enjoyed increasing popularity, dairy processors were not always happy with this arrangement. On February 1, 1998, butter support prices increased slightly to take some pressure off skim milk powder prices.

On February 1, 1998, the support price for skim milk powder increased from \$4.203 per kilogram to \$4.431 per kilogram, while the support price for butter increased from \$5.324 to \$5.3927 per kilogram. The assumed processor margin for processors rose from \$8.12 to \$8.31 per hectolitre.

Butter carrying charge of \$0.07 per hectolitre is subtracted from the guaranteed market revenue to processors to cover storage and financing of normal levels of butter inventories and a portion of the CDC’ s administrative expenses.

The February 1, 1998 pricing decision included a \$1.25 per hectolitre increase to producers for industrial milk. The total producer revenue equals the \$55.91 per hl minus the \$0.43 "shortfall" adjustment. The reduction in federal subsidy from \$3.80 per hectolitre to \$3.04 per hectolitre was passed on to the market place through support price adjustments.

Table 27 shows (1) the support price for butter, (2) the support price for skim milk powder, (3) the target return for the producer, (4) the processor margin and (5) the federal subsidy since 1980.

Table 27
Support Prices, Target Return, Federal Subsidy and Processor Margin

	Support Prices, $/kg		$ per Hectolitre		
	Butter	Skim Milk Powder	Federal Subsidy	Processor Margin	Target Return
1 April 1980	3.34	2.01	6.03	3.71	33.31
1 August 1980	3.51	2.13	6.03	4.13	34.61
1 January 1981	3.63	2.20	6.03	4.13	35.70
1 April 1981	3.78	2.28	6.03	4.54	36.61
1 August 1981	3.95	2.37	6.03	4.56	38.06
1 January 1982	4.13	2.46	6.03	4.56	39.61
1 April 1982	4.17	2.50	6.03	5.03	39.61
1 August 1982	4.33	2.59	6.03	5.06	41.02
1 January 1983	4.38	2.61	6.03	5.06	41.40
1 April 1983	4.42	2.65	6.03	5.06	41.66
1 August 1983	4.55	2.72	6.03	5.30	42.80
1 January 1984	4.60	2.74	6.03	5.30	43.18
1 April 1984	4.71	2.79	6.03	5.54	43.83
1 August 1984	4.78	2.85	6.03	5.53	44.65
16 August 1985	4.93	2.92	6.03	5.72	45.68
1 August 1986	5.04	2.98	6.03	5.84	46.48
1 February 1988	5.10	3.01	6.03	5.84	47.06
1 August 1988	5.10	3.01	6.03	7.20	47.06
1 August 1989	5.17	3.05	6.03	7.15	47.45
1 August 1990	5.33	3.13	6.03	7.34	48.69
1 August 1991	5.33	3.30	6.03	7.52	49.92
1 August 1992	5.32	3.30	6.03	7.52	49.86
1 February 1993	5.36	3.34	6.03	7.52	50.26
1 August 1993	5.32	3.50	5.43	7.60	50.76
1 August 1994	5.32	3.71	5.43	7.83	52.28
1 August 1995	5.32	3.93	4.62	7.97	53.23
1 August 1996	5.32	4.20	3.80	8.12	54.23
1 February 1998	5.39	4.43	3.04	8.31	55.48

Source: Canadian Dairy Commission

2. Special Class Pricing System

Currently, milk produced in Canada is sold through a common milk classification system for the manufacture of products according to following Classes 1 to 5. Table 28 provides a description of the various products included in each class.

Table 28
Special Class Pricing System
National Milk Classification Order

Milk Class	Products
Class 1A	3.25% milk, 2% milk, 1% milk, skim milk, modified enriched milk, kosher milk, UHT milk (all types).
Class 1B	whipping cream, table cream, half and half cream, coffee cream, UHT cream (all types)
Class 1C	chocolate or flavoured milk, skimmed or partly skimmed chocolate or flavoured milk, flavoured milk-based beverages, egg nog, cordials, condensed milk to be reconstituted as fluid milk, soured milk (acidophilous milk), milk treated for lactose intolerance, buttermilk, chocolate or flavoured UHT (all types).
Class 2	acidulous cream (sour cream), milk used to prepare mixes (ice cream, light ice cream, ice milk, milk shakes, fudge, frozen yogurt, sherbet, other frozen dairy products), pudding, milk-based meal replacement beverages, soup mixes, infant formula, "cafeinate", yogurt, kefir.
Class 3A	cheese curds, cheddar and cheddar-type cheeses sold fresh, all fresh cheeses (cottage, quark, baker's ricotta, fresh cream curd, Harzkase), cheeses of the 3A class with a low butterfat content, skimmed versions of the 3A class, cheeses of the 3A class in brine, all speciality cheeses.
Class 3B	cheddar cheese, stirred curd, skim milk curd, creamy cheese bases (cheese mixes), kosher cheddar cheese, light cheddar.
Class 4A	all types of butter (flavoured butter, low calorie butter, cultured butter, herb butter), all types of milk powder, casein, caseinate, condensed milk as an ingredient in the food industry, butteroil.
Class 4B	condensed milk for retail sale, sweetened condensed milk for retail sale
Class 4C	new products for the domestic market
Class 4D	processed animal feed, inventories and extraordinary losses; for an unclassified product, six months to classify it; in the meantime, pay according to where it is situated or consider it within class 4C if it is a new product.
Class 5A & 5B	Further Processors who compete with imported finished products - Class 5A - Cheese Products - Cheese ingredients for further processing for the domestic or export market. Class 5B - Non-cheese products. Eligible finished products include: frozen pizza, frozen dinners, frozen pasta dinner, dry & canned soups, dry & canned sauces, salad dressings, dry baking mixes, baby food formula, frozen desserts, frozen entrees, chocolate mix powder, pudding, macaroni & cheese and ghee.
Class 5B	Further Processors, (bakeries), not competing against imported finished products for the domestic or export market. Permits are issued for butter, butteroil, imported butter, skim milk powder used in milk bread.
Class 5C	Dairy input into confectionery industry, eligible finished products include chocolate bars, chocolate truffles and candies.
Class 5D	Input for a fixed volume: 1.23 mil hl for various exports, 0.43 mil hl for cheese to the U-K, Structural surplus of skim milk powder established by the CMSMC All other participants - All other products
Class 5E	Plan C and pre-emptive surplus removal

Source: Canadian Dairy Commission

3. Component Prices per Class

Producers receive different prices for milk components depending on the end-use of the products. They receive the highest return per hectolitre for milk produced for the domestic market allocated to Classes 1 to 4.

Table 29 shows the prices and volume of milk components used to produce various products in Classes 1 to 4 for the first six months of 1997. These prices represent an average for all of Canada.

Table 29
Milk Component Prices and Volumes Utilized by Class and Product - Canada

January to June 1997

		Component Prices ($/kg)			$/hl	Volumes Utilized (mkg)		
Product	**Class**	**BF[1]**	**Protein**	**OS[2]**	**Total**	**BF**	**Protein**	**OS**
Fluid Milk	1a	5.46	6.56	3.70	61.61	28.76	38.59	67. 13
Table Cream	1b	5.43	5.22	3.58	56.62	7.62	1.75	3.04
Yogurt	2	5.43	4.00	3.89	54.37	10.18	3.49	6.07
Speciality Cheese	3a	5.47	9.04	0.58	51.78	29.27	26.56	46.26
Cheddar	3b	5.48	8.59	0.58	50.40	17.67	15.66	27.27
Butter, Ingredients	4a	5.45	3.51	3.51	50.82	21.53	6.77	11.65
Condensed Milk	4b	5.44	3.62	3.62	51.71	1.57	1.15	2.66

Source: Canadian Dairy Commission
1. BF = Butterfat
2. OS = Other Solids

Among the Classes 1 to 4, fluid milk receives the highest price followed by table cream. It should be pointed out that the returns per hectolitre are estimates because producers are paid for the components that are used to make the dairy products.

The volumes shown for butterfat, protein and other solids represents the volume of these components utilized in the production of the various milk products listed.

Table 30 shows selected milk component prices and volumes of product produced for Class 5. It demonstrates that the returns on Classes 5a to 5c are significantly lower than the return on Classes 1 to 4. The lowest return is obtained under Class 5e which is made up of surplus product which is sold at international spot prices.

These prices are subject to international price movements and exchange rate fluctuations and this is reflected in the prices.

Table 30
Selected Milk Component Prices and Volumes of Product Produced for Class 5
January to June 1997 Average

Product	Class	Component prices ($/kg)			Total Price to Producer ($/hl)	Volume of Product Produced
		BF	Protein	OS		
Speciality Cheese	5a	2.99	7.01	0.57	36.37	7,418t
Cheddar Cheese	5a	3.05	7.01	0.57	36.55	1,902t
Fluid Milk	5b	3.08	2.92	2.92	37.00	3,454KL
Creams	5b	3.05	2.92	2,92	36.89	1,906KL
Yogurt	5b	3.05	2.92	2.92	36.91	110t
Butter, Ingredients	5b	2.98	2.91	2.94	36.75	5,246t
Milk products for confectionery	5c	2.64	2.59	2.59	32.51	N/A
Milk	5d	2.18	2.18	2.12	27.28	2,021KL
Cream	5d	2.46	2.46	2.46	30.69	189KL
Yogurt	5d	2.57	2.57	2.57	32.06	31KL
Speciality Cheese	5d	1.94	4.87	0.51	25.37	1,656t
Cheddar Cheese	5d	3.97	6.72	0.51	38.56	3,203t
Butter	5d	1.83	1.83	1.83	24.91	506t
Milk	5e	2.15	2.15	2,15	26.87	1,993KL
Cream	5e	2.20	2.20	2.20	27.47	16.8KL
Speciality Cheese	5e	1.50	4.54	0.51	22.75	5,027t
Cheddar Cheese	5e	1.86	4.92	0.51	25.23	1,982t
Butter	5e	1.28	1.28	1.28	15.98	5,087t

Notes: t = tonnes, BF - butterfat, hl - 100 litres, KL='000 litres, OS = other solids
One hl of milk = approximately 3.6 kg of butterfat, 3.21 kg of protein and 5.6755 kg of other solids.
Source: Canadian Dairy Commission

Table 30 shows that for milk used in the production of butter in Class 5d, for example, producers would receive $1.83/kg for each of the components butterfat, protein and other solids for a total price to producers of $24.91/hl. The total volume of butter produced under Class 5d amounted to 506 tonnes for the period January to June 1997.

Table 31 provides a comparison of the volumes of end products produced in various class groupings and the related average prices paid to the producers for the first six months of 1997. It is interesting to note the different price butter receives depending on which class it is used in.

Table 31
Quantity of Product Produced and Average Prices Paid to Producers
January to June 1997 Average

Product	Classes 1 to 4		Classes 5a , 5b, 5c		Classes 5d, 5e	
	Volume	$/hl	Volume	$/hl	Volume	$/hl
Milk	12.5 Mhl	61.61	0.03 Mhl	37.00	0.04 Mhl	27.08
Cream	0.6 Mhl	56.62	0.02 Mhl	36.89	0.002 Mhl	30.43
Ice Cream	42,664 t	54.37	-	-	-	-
Yogurt	51,351 t	54.37	110 t	36.91	30 t	30.68
Speciality cheese	75,312 t	51.78	7,418 t	36.37	6,683 t	23.40
Cheddar cheese	56,540 t	50.40	1,1902 t	36.55	5,185 t	33.47
Butter	44,642 t	50.82	2,600 t	36.28	5,087 t	18.25
Skim Milk Powder	16,663 t	50.82	2,003 t	37.28	19,450 t	23.56

Note: Mhl = Million hectolitres t = tonnes
Source: Canadian Dairy Commission

4. A Comparison of Canadian and U.S. Prices Indexes.

Table 32 shows the industrial or wholesale price indices of selected dairy products in Canada and the United States.

Table 32
Canadian and United States Industrial Product Price Indexes

1992 = 100

		Canada				
Product Indexes	**Matrix Number**	**1993**	**1994**	**1995**	**1996**	**1997** [1]
Butter	P2046	101.7	102.7	103.2	103.3	102.3
Cheese, Other than Whole Milk	P2048	101.1	104.6	107.6	112.3	117.3
Skim Milk, Powdered	P2049	104.8	109.1	113.5	117.8	121.7
Ice Cream & Ice Milk	P2053	101.8	104.7	108.1	112.9	113.2
Other Dairy Products	P2054	99.7	103.6	107.7	109.8	112.8
Cheese, Cheddar and Processed	P2056	101.4	104.9	108.2	113.5	118.1
Aggregate Indexes						
Dairy Products	P2040	101.2	104.8	107.9	111.3	114.3
Industrial Milk Products	P2045	101.4	104.5	107.2	110.8	113.4
		United States				
Product Indexes						
Creamery Butter	PCU2021#1	91.9	85.1	93.6	120.0	129.1
Ice Cream and Ices	PCU2024#1	101.9	102.0	102.7	106.2	110.5
Natural and Processed Cheese	PCU2022#	99.9	100.4	100.8	108.8	105.4
Cheddar Cheese	PCU2022#30201	100.6	101.2	100.8	111.8	103.1
Processed Cheese	PCU2022#411	101.2	101.4	103.2	111.0	108.9
Aggregate Index						
Dairy Products	PCU202_#	100.4	101.7	101.8	109.9	109.1

Note:
1 1997 indexes: Canada includes January to November only; U.S. are preliminary figures.
2. Canada and United States product definition is essentially the same as listed.
3. Please refer to Canadian CANSIM matrix number and U.S. Series ID for details.
Source: Statistics Canada Catalogue no. 62-011-XPB, and United States Bureau of Labor Statistics Data Producer Price Index Revision-Current Series, URL: http://stats.bls.gov/.

The industrial product price index shows that the support prices have an important influence on industrial prices. From 1993 to 1997, the support price for butter remained constant and this is reflected in the price index for butter. Skim milk powder prices, on the other hand, increased significantly as did cheese prices. Prices for ice cream increased moderately. The dairy product index increased by close to 13 percent, more than butter but less than skim milk powder..

Table 33 shows the retail price indices of selected dairy products in Canada and the United States.

Table 33
Canadian and United States Consumer Price Indexes

1992 = 100

Canada

Product Indexes	**Matrix Number**	**1993**	**1994**	**1995**	**1996**	**1997**
Fresh Milk	P700021	98.9	97.2	99.1	100.3	103.1
Butter	P700022	99.6	100.5	104.2	105.7	109.0
Cheese	P700023	101.0	102.3	104.9	107.2	110.2
Ice Cream and Related Products	P700024	96.9	97.1	98.4	101.2	102.9
Aggregate Indexes						
Dairy Products	P700020	99.5	99.1	101.7	103.4	106.1

United States

Product Indexes						
Fresh Whole Milk	CUUR0000SS09011	101.2	103.8	103.7	111.6	113.1
Butter	CUUR0000SS10011	93.9	89.7	92.7	116.5	124.2
Cheese and Related Products	CUUR0000SEFJ02	99.9	100.7	101.8	106.8	109.0
Ice Cream and Related Products	CUUR0000SEFJ03	100.6	103.0	105.0	110.5	115.0
Aggregate Index						
Dairy and related products	CUUR0000SEFJ	100.7	102.5	103.3	110.6	113.2

Note:
1. Canada and United States product definition is essentially the same as listed.
2. Please refer to Canadian CANSIM matrix number and U.S. Series ID for details.

Source: Statistics Canada Catalogue no. 62-010-XPB and United States Bureau of Labor Statistics Data Consumer Price Index-All Urban Consumers, URL: http://stats.bls.gov/.

5. Wholesale Prices of Certain Dairy Products in Canada and the United States

Table 34 provides a comparison of Canadian and U.S. wholesale prices of butter, skim milk powder and cheese.

Wholesale butter prices in the United States have been declining since the eighties, but prices for skim milk powder have increased. Cheese prices increased slowly. Since the early nineties, U.S. butter prices have been close to world prices, unless there was a domestic shortage.

Comparing Canadian support prices against the U.S. prices shows that, whereas the trend for butter prices was downward in the U.S., it increased in Canada until 1992 at which point it was held constant until February 1, 1998. Note also that the exchange rate has a strong influence on the U.S. prices when converted to Canadian dollars. The gap between U.S. prices and Canadian prices for skim milk powder is not as large, although still significant. The gap between U.S. wholesale cheese prices and the Canadian price for cheese has also widened. It should be noted that the Canadian prices are support prices and are not real observed wholesale prices. One must exercise care when comparing these prices in Canada and the U.S. However, it is worthwhile to observe differences in price changes.

Table 34
Comparison of Canadian and U.S. Wholesale Prices of Certain Dairy Products[1]
$Can./kg

	Butter		Skim Milk Powder		Cheese	
	U.S.	Canada	U.S.	Canada	U.S.	Canada
1981	3.91	3.95	2.46	2.37	3.69	3.91
1982	4.02	4.33	2.53	2.59	3.76	4.28
1983	4.00	4.55	2.53	2.72	3.76	4.49
1984	4.25	4.78	2.60	2.85	3.94	4.72
1985	4.25	4.93	2.53	2.92	3.84	4.85
1986	4.43	5.04	2.47	2.98	3.90	4.94
1987	4.10	5.04	2.32	2.98	3.60	4.94
1988	3.59	5.10	2.17	3.01	3.36	5.15
1989	3.34	5.17	2.75	3.05	3.62	5.19
1990	2.63	5.33	2.59	3.13	3.50	5.34
1991	2.51	5.33	2.37	3.30	3.14	5.49
1992	2.20	5.32	2.86	3.30	3.51	5.48
1993	2.12	5.32	3.19	3.50	3.74	5.66
1994	2.03	5.32	3.25	3.71	3.96	5.85
1995	2.28	5.32	3.28	3.93	4.02	6.06
1996	3.02	5.32	3.67	4.20	4.48	6.30
1997	3.28	5.32	3.36	4.20	4.05	6.30

Note:

1. U.S. prices are wholesale prices as published by the USDA, but expressed in Canadian dollars. The annual average exchange rate fell from 1.199 in 1981 to 1.4267 in 1997.
2. Prices for Canada are the support prices for butter and skim milk powder.
3. The price for cheese was calculated similar to the support prices, i.e. Market revenue divided by the yield for cheddar cheese (9.3633 kg per hectolitre of milk).
4. Wholesale price of butter in U.S. is Grade A Chicago, Prices for Skim milk powder in U.S. are Wholesale prices for Non-fat Dry Milk, Central States; Wholesale Cheese prices in U.S. are for 40lb blocks Wisconsin cheddar.
5. See Appendix I for a listing of the above noted U.S. prices in $U.S.

Source: USDA, Agriculture and Agri-Food Canada, CDC

6. International Market Prices

World prices for dairy products vary widely. Only a small portion of dairy production is exported and changes in supply and demand tend to have a strong influence on transaction prices. The following table shows some international market prices. The yearly averages tend to hide the fluctuations that occur throughout the year.

Table 35
Various Prices of Butter, Butteroil and Sugar

($US per MT)

	1993	1994	1995	1996	1997
Butter					
World Low [1]	1,240	1,092	2,008	1,669	1,518
World High [1]	1,446	1,500	2,303	1,831	1,689
United States [2]	1,409	1,368	1,661	1,997	1,770
Canada [3]	1,330	1,264	1,746	1,780	1,870
Butteroil:					
World Low	-	1,400	2,000	-	-
World High	-	2,300	2,750	-	-
(¢US per Pound)					
Refined Sugar[4]:					**Jan-Oct**
World Low	11.60	13.14	16.31	13.95	13.58
World High	13.39	18.65	20.27	18.14	15.66

Notes: * World: as reported by USDA; Canada HS 040.10.00 and HS 0405.00.10 prior to 1996; United States: as reported by USDA.
1. Simple average of monthly f.o.b. North Europe and selected world port prices as reported by USDA
2. Annual export value divided by annual export quantity as reported by USDA; the 1997 is for Jan-Sept.
3. Annual export value divided by annual export quantity as reported by Statistic Canada,
4. Contract No.5, London Daily Price, for refined sugar f.o.b. Europe, spot, LIFFE, London
Source: USDA, TIERS

In December, 1997, concerns about the currency fluctuations and economic conditions in Asia, plus speculation relative to the impact of El Nino weather were affecting international prices. International prices for butterfat have been firm. The outlook for world butterfat points to a stable or rising market during the first half of 1998. In both the United States and the EU, the domestic butter situation remains relatively tight. Quoted EU butter prices are currently in the $1,900 - $2,000/tonne (fob basis). Prices for butteroil are being quoted at approximately $100 per tonne above butter.

When the CDC sells products on the international market from Class 5e, using the surplus removal program, it is sold at a world price. Because of government policies in many countries, the international transaction prices must be regarded with great care.

Appendix I - U.S. Wholesale Prices

	Butter		Skim Milk Powder		Cheddar Cheese	
	$US/kg	**$CAN/kg**	**$US/kg**	**$CAN/kg**	**$US/kg**	**$CAN/kg**
1981	3.26	3.91	2.05	2.46	3.07	3.69
1982	3.26	4.02	2.05	2.53	3.05	3.76
1983	3.25	4.00	2.05	2.53	3.05	3.76
1984	3.28	4.25	2.00	2.60	3.04	3.94
1985	3.11	4.25	1.85	2.53	2.82	3.84
1986	3.19	4.43	1.78	2.47	2.81	3.90
1987	3.09	4.10	1.75	2.32	2.72	3.60
1988	2.92	3.59	1.77	2.17	2.73	3.36
1989	2.82	3.34	2.33	2.75	3.06	3.62
1990	2.25	2.63	2.22	2.59	3.00	3.50
1991	2.19	2.51	2.07	2.37	2.74	3.14
1992	1.82	2.20	2.37	2.86	2.91	3.51
1993	1.64	2.12	2.47	3.19	2.90	3.74
1994	1.49	2.03	2.38	3.25	2.90	3.96
1995	1.67	2.28	2.39	3.28	2.93	4.02
1996	2.21	3.02	2.69	3.67	3.29	4.48
1997	2.36	3.28	2.43	3.36	2.92	4.05

Note:
1. U.S. prices are wholesale prices as published by the USDA, but expressed in Canadian dollars. Prices for Canada are the support prices for butter and skim milk powder. For Cheese, a price cheese (9.3633 kg per hectolitre of milk).
2. Wholesale price of butter in U.S. is Grade A Chicago.
3. Prices for Skim milk powder in U.S. are wholesale prices for Non-fat Dry Milk, Central States.
4. Wholesale Cheese prices in U.S. are for 40 lb. blocks Wisconsin. These prices were calculated in a similar manner as the support prices, i.e. Market revenue divided by the yield for cheddar.

Source: USDA, Dairy Market News

Appendix II - Apparent Market for Butterfat For Industrial Use
('000 kilograms)

	1993	%	1994	%	1995	%	1996	%	1997	%
Domestic Consumption from Domestic Production	143,268	XX	149,348	XX	148,900	XX	135,502	XX	141,760	XX
Imports										
Butterfat from Butteroil Blends:										
United States	XX		XX		XX		XX		XX	
New Zealand	XX		XX		XX		XX		XX	
Other	XX		XX		XX		XX		XX	
Total from Butteroil Blends	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Butterfat from Butter	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Total Imports	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Total Apparent Market	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Year to Year % change			4		0.1		(7.2)		6.6	

Notes:
Butterfat from butteroil blends includes butteroil/sugar, butteroil/glucose, butteroil processing solids
The 1997 figure for butter imports has been estimated using nine month data for 1996 and 1997.
Imports of butteroil were converted to butterfat on the basis of a conversion factor of .487 (.49x.993) where .49 represents the 49 percent of butteroil in dairy blends and .993 represents the amount of butterfat in butteroil.
Imports of butter were converted to butterfat on the basis of a factor of .81, representing the amount of butterfat in butter.

Source: Questionnaires, Agriculture and Agri-food Canada and CITT calculations.

Appendix A

ANALYSIS OF IMPORTS UNDER SELECTED HS CODES

Importer Name	Tariff Items	1997 -11 months Est. Volume (kgs)	Est. Value (Can $)	Description	Use	Category
	1704.90.90.90			Chocolate bar crumb	Further processing	Chocolate crumb
	1806.20.90			Chocolate crumb	Further processing	Chocolate crumb
	1704.90.90.90			Chocolate compound coatings	Further use	Chocolate products
	1806.20.90			Chocolate compound coatings	Further use	Chocolate products
	1704.90.90.90			Yogurt coatings	Further use	Cheese ingredients & flavourings; yogurts
	1704.90.90.90			Chocolate coatings and chips	Further use	Chocolate products
	1806.20.90			Milk chocolate slabs	Further use	Chocolate products
	1704.90.90.90			Coloured & white chocolate	Further use	Chocolate products
	1806.20.90			Milk chocolate slabs & buttons	Further use	Chocolate products
	1704.90.90.90			White chocolate	Further use	Chocolate products
	1806.20.90			Belgium milk chocolate slabs	Further use	Chocolate products
	1806.90.90			Chocolate compound	Further use	Chocolate products
	1806.20.90			Enriched cocoa paste	Further use	Cocoa paste
	1704.90.90.90			Chocolate compound	Further use	Chocolate products
	1806.20.90			Chocolate coatings	Further use	Chocolate products
	1704.90.90.90			Fruit flavoured jelly slices	Further use	Cake decorations
	1704.90.90.90			Chocolate coatings/cups/shavings	Further use	Chocolate products
	1806.20.90			Chocolate decorations & cups	Further use	Cake decorations
	2106.90.95			Natural cheese flavouring	Further use	Cheese ingredients & flavourings; yogurts
	1806.20.90			Chocolate paste	Further use	Chocolate products
	1704.90.90.90			Cake decorations	Further use	Cake decorations
	1806.90.90			Chocolate chips and chunks	Further use	Bakery products
	1806.20.90			Chocolate coating	Further use	Chocolate products
	1806.20.90			Chocolate flakes and peels	Further use	Chocolate products
	1806.20.90			Milk chocolate slabs	Further use	Chocolate products
	1806.90.90			Chocolate	Further use	Chocolate products
	1704.90.90.90			Chocolate compound w/o cocoa	Further use	Chocolate products
	1806.20.90			Chocolate compound with cocoa	Further use	Chocolate products
	1806.90.90			Milk chocolate	Further use	Chocolate products
	1704.90.90.90			White chocolate compound	Further use	Chocolate products
	1901.90.40			Prepared puddings	Retail sale	Prepared baby food or meal supplement
	2106.90.95			Prepared baby foods	Retail sale	Prepared baby food or meal supplement
	1806.90.90			Milk chocolate candies	Retail sale	Bakery products
	1806.90.90			Chocolate fondue and spreads	Retail sale	Finished chocolates
	1704.90.90.90			Hard candy	Retail sale	Candies and confectionery items
	1806.90.90			Finished chocolates	Retail sale	Finished chocolates

Appendix A

ANALYSIS OF IMPORTS UNDER SELECTED HS CODES

Importer Name	Tariff Items	1997 -11 months Est. Volume (kgs)	Est. Value (Can $)	Description	Use	Category
	1806.90.90			Confectionery items	Retail sale	Candies and confectionery items
	1806.90.90			Wrapped bulk chocolates	Retail sale	Finished chocolates
	1704.90.90.90			Bakery and bakery aid products	Retail sale	Bakery products
	1704.90.90.90			Dry fudge mix	Retail sale	Bakery products
	1806.20.90			Dry fudge mix with chocolate	Retail sale	Bakery products
	1806.90.90			Pecan pie mix	Retail sale	Bakery products
	1704.90.90.90			Sesame bars	Retail sale	Candies and confectionery items
	1704.90.90.90			Marshmallows	Retail sale	Candies and confectionery items
	1806.90.90			Chocolates	Retail sale	Finished chocolates
	1806.90.90			Finished chocolates	Retail sale	Finished chocolates
	1901.90.39			Chocolate mini pudding	Retail sale	Prepared puddings
	1806.90.90			Finished chocolates & spreads	Retail sale	Finished chocolates
	1704.90.90.90			Butterscotch chipits	Retail sale	Finished chocolates
	1806.90.90			Chocolate and candies	Retail sale	Candies and confectionery items
	1704.90.90.90			Candies confectionery	Retail sale	Candies and confectionery items
	1901.90.40			Ready to eat puddings	Retail sale	Prepared puddings
	1704.90.90.90			Ice cream toppings	Retail sale	Ice cream toppings, sauces and dips
	1806.90.90			Ice cream toppings	Retail sale	Ice cream toppings, sauces and dips
	1704.90.90.90			Candies and confectionery items	Retail sale	Candies and confectionery items
	1704.90.90.90			Jelly candy	Retail sale	Candies and confectionery items
	1806.90.90			Assorted chocolates, bars & nuts	Retail sale	Finished chocolates
	1901.90.40			Rice pudding & creme caramel	Retail sale	Prepared puddings
	1806.90.90			Finished chocolates	Retail sale	Finished chocolates
	1901.90.39			Ready to eat pudding cups	Retail sale	Prepared puddings
	1704.90.90.90			Candies	Retail sale	Candies and confectionery items
	1806.90.90			Chocolates and licorice	Retail sale	Candies and confectionery items
	1901.90.39			Pudding cups	Retail sale	Prepared puddings
	1704.90.90.90			Polish sesame snap	Retail sale	Candies and confectionery items
	1704.90.90.90			Fruit flavour bits	Retail sale	Bakery products
	1901.90.39			Muffin pre-mix	Retail sale	Bakery products
	1704.90.90.90			Fruit snacks	Retail sale	Candies and confectionery items
	1806.20.90			Hot fudge topping	Retail sale	Ice cream toppings, sauces and dips
	1806.90.90			Chocolate syrup	Retail sale	Ice cream toppings, sauces and dips
	1901.90.39			Prepared pudding	Retail sale	Prepared puddings
	1901.90.40			Prepared pudding	Retail sale	Prepared puddings
	1901.90.40			Rice and tapioca pudding	Retail sale	Prepared puddings

Appendix A

ANALYSIS OF IMPORTS UNDER SELECTED HS CODES

Importer Name	Tariff Items	1997 -11 months Est. Volume (kgs)	Est. Value (Can $)	Description	Use	Category
	1901.90.39			Veggie dips	Retail sale	Ice cream toppings, sauces and dips
	1704.90.90.90			Chocolate coatings and shavings	Retail sale	Finished chocolates
	1806.90.90			Chocolate decorations & cups	Retail sale	Finished chocolates
	1901.90.39			Single serve puddings	Retail sale	Prepared puddings
	1806.20.90			Chocolate dry powdered mix	Retail sale	Prepared puddings
	1901.90.59			Vanilla dry powdered mix	Retail sale	Prepared puddings
	1806.90.90			Assorted chocolates	Retail sale	Finished chocolates
	1704.90.90.90			Sesame candies	Retail sale	Candies and confectionery items
	1806.90.90			Assorted chocolates & spreads	Retail sale	Finished chocolates
	1901.90.39			Powdered meal replacement mix	Retail sale	Prepared baby food or meal supplement
	1704.90.90.90			Candies	Retail sale	Candies and confectionery items
	1806.90.90			Candies	Retail sale	Candies and confectionery items
	1704.90.90.90			Liquorice and sugar confectionery	Retail sale	Candies and confectionery items
	1806.90.90			Liquorice candies	Retail sale	Candies and confectionery items
	1806.90.90			Chocolate confectionery items	Retail sale	Finished chocolates
	1806.90.90			Chocolate confectionery items	Retail sale	Finished chocolates
	1901.90.39			Ready to eat pudding cups	Retail sale	Prepared puddings
	1806.90.90			Assorted chocolate products	Retail sale	Finished chocolates

Notes:
NR : Statistics Canada had no data for that tariff item.

Sources: Short-Form Importer's Questionnaires; Statistics Canada