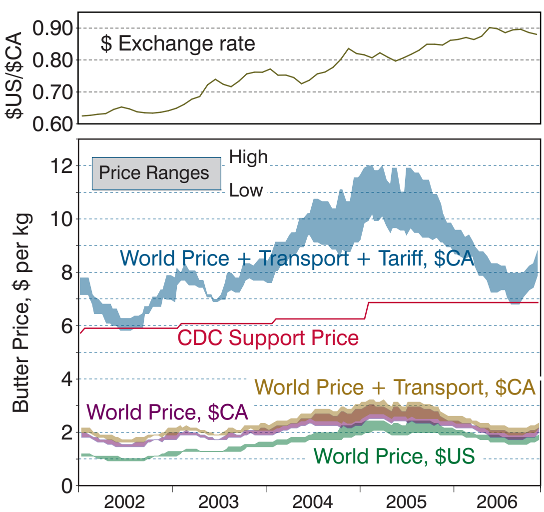
# What You Should Know about Butter

Because Canada's milk quota system is butterfat-based, import controls and the management of butter stocks are essential to system stability. Butterfat imports lower domestic quotas; storage programs balance seasonal production fluctuations with market demand.

## Imports

Imports of butter into Canada are subject to a tariff-rate quota (TRQ)—the amount allowed to enter the country tariff-free. In 2005, the TRQ for butter was 3,274 tonnes. Of this, 2,000 tonnes is specifically allocated to New Zealand. The Canadian Dairy Commission (CDC) purchases all of this within-quota butter at 'world price' and resells it to Canadian processors, mostly at special classes prices. Since world price ($CAD 1.80-2.10/kg in late 2006) plus transportation costs are substantially lower than domestic prices, the CDC reaps a tidy profit on these transactions which it invests in its market development programs.




*If world price plus transport plus tariff is less than the CDC support price, 'the tariff wall is breached' and Canada is vulnerable to 'over TRQ' butter imports. Transportation cost used was an arbitrary, constant $180 per tonne.*

Imports above the TRQ are subject to a tariff of 298.5%, applied to the current world price. As illustrated in the graphs below, the exchange rate, the over-quota tariff and transportation all increase the cost to Canadian importers of over-quota butter. If the total cost is below the support price, butter importation becomes attractive, raising the possibility of domestic MSQ reductions.

## Balancing seasonal supply and demand

The CDC's Domestic Seasonality Programs balance the seasonal demand for dairy products with the supply of milk coming from the farm. Butter and skim milk powder are purchased when production is high—in spring and early summer. The inventories are then sold to processors when production slows down in the fall and winter. A predetermined amount of butter is held in storage throughout the year, referred to as 'normal butter inventories'. These stocks are considered necessary to ensure that the domestic market has a constant supply throughout the year. The current target is to have an inventory of 12 million kilograms of butter on August 1.

Two programs are operated to manage stocks within these normal inventories. Plan A is a storage program for butter held in 25 kilogram blocks. The CDC purchases the butter and holds it for resale in the domestic market at the support price when manufacturers run low on their supplies of cream to make butter.

Plan B is a storage program used by manufacturers to balance the seasonality of their own production and sales during the calendar year. Under the Plan B program for butter, manufacturers can sell butter to the Commission in retail packaging or in 25 kilogram bulk blocks. They must then repurchase this butter within one calendar year from the date of the product's manufacture. There is also a Plan B for butteroil. Companies make their own decisions on the quantity of product they want to put in storage under this program.

All butter purchases and sales within these programs are at support prices. Carrying charges are shared by both consumers and producers.

sources: Canadian Dairy Commission; Statistics Canada, US Department of Agriculture