

“Secret” Canadian Class 7 Milk Price Formula Revealed!!!

by Pete Hardin

The Canadian dairy industry is utilizing its new Class 7 price as a “double-whammy” — rendering as uneconomical use of U.S.-produced Ultra-Filtered milk, plus undercutting global dairy exports prices.. Documents made available to *The Milkweed* include specific details of those pricing strategies by Canada’s dairy industry through the secretive Class 7 price.

“Secretive?” Of course, information on the monthly Class 7 price calculation is known to provincial Canadian dairy officials — the folks who set prices for milk paid to Canadian dairy farmers. The Class 7 formula was once very briefly posted on a website by Canadian dairy authorities, but was erased within a few hours and has remained a mys-

tery to outsiders ever since. At least now, global dairy protein powder marketers can know what price basis their Canadian competitors are using to dramatically undercut global prices.

The Class 7 price formula’s predominant feature incorporates a classic, dairy “bottom-feeder” strategy: Pick the low end of the lowest available global price quote for Skim Milk Powder (SMP) prices ... and then subtract a hefty “manufacturing allowance” to guarantee processors’ profits.

The Class 7 formula sorts out the lowest of three SMP quotes — using USDA’s Dairy Market News’ every other week “International Dairy Markets” reports as data sources. Dairy Market News is internationally recognized for its excellence in dairy reporting and analysis. So why should the Canadians reference anything but the best???

The Canadian Class 7 milk price also uses the lowest global price quote for butterfat. However, at this time, global butterfat supply/demand is tight and prices are high. So the Canadians are less inclined to sell cut-rate butterfat on the global market. In fact, Canada is a major outlet for U.S. cream and butter.

March 2017 lowball sales price list

Another document — a price list of “Special Milk Class Prices” offered for the period of March 1 through March 31, 2017 — was also made available to *The Milkweed*.

That sales sheet — issued by the Canadian Dairy Commission — lists “Prices for Class 7 Products” that work out to \$0.7518/lb (\$Can). Using an estimated .73:1 exchange rate for the Canadian and U.S. currencies, that price works out to an equivalent of \$0.5488/lb. (\$US). That abysmal price is far below any global prices offered by major international dairy commodity sellers, such as the European Union, New Zealand and the United States.

Class 7 formula uses lowest global SMP price

The hyperactive dairy rumor mill has been reporting, for the past several weeks, that Canadian-sourced Skim Milk Powder (SMP) products have been undercutting global prices by about \$200/metric ton in Mexico and Southeast Asia. Dairy industry sources also say that Canadian SMP is being offered to U.S. buyers at prices ranging from \$.66/lb. to \$.70/lb. SMP is the basic global standard for dairy protein powders. SMP is reduced-protein “cousin” of nonfat dry milk. SMP’s protein content is 34% — a standard set by CODEX.

Bottom-line: Canada’s March 2017 price sheet breaks down to a lower-cost price advantage of \$0.126 (\$US) per pound on sales to Southeast Asia, compared to U.S.-sourced products.

U.S. dairy sources report that Canadian SMP delivered to Mexico is priced at levels that would require “low 70s” (i.e., cents/lb.) to match those offers. Mercifully, Canada is not a major dairy protein powder exporter. Volumes of Canadian SMP are believed to be relatively limited, compared to holdings of major global players such as the European Union and New Zealand.

Ironically, information available to *The Milkweed* reveals that Canadian SMP is priced cheaper in Southeast Asia than to Mexico. That’s because of a quirk in international shipping rates. The large number of ocean-going freighters leaving Pacific ports from the United States and Canada empty means back-haul rates are exceptionally cheap.

Historically, Canada’s dairy industry has managed its overall milk supply through a system of farm milk quotas. Canada has historically plotted to produce close to its national needs for butterfat, and thus run “long” on nonfat milk solids. Canada has evolved as a significant destination for U.S. exports of cream and butter, according to press reports.

Ultimately, the Canadian documents reflect hypocrisy. Through the Class 7 pricing system, Canada is simply undercutting prices to export buyers on dairy proteins. And that’s basically what Canada has sought to block — low-cost, U.S.-produced, dairy proteins crossing the border to our neighbor to the north.

Currently, numerous U.S. dairy interests are demanding an investigation of Canada’s Class 7 milk pricing system by the office of the United States Trade Representative. A USTR complaint about alleged inequities of Canada’s Class 7 program to a higher tribunal — the World Trade Organization — is a time-consuming process that could take two or three years to conclude, after factoring in time for appeals.


Right or wrong, the alleged dairy grievances have sparked a burgeoning trade war between the United States and Canada. The Trump administration has invoked a stiff tariff on imports of Canadian softwood lumber. And Canada is reportedly considering closing its Pacific Ocean ports to exports of coal from the United States. Due to environmental considerations, large amounts of coal are not shipped from this nation’s West Coast ports.



Class 7 Effective Prices (\$CAD/kg SNF and BF)		Effective Pricing Period	
Reference		Mar-17	17-Feb
1	Exchange Rate	a	1.3386
2	US SMP \$US/tonne		1910.40
3	Europe SMP \$US/tonne		1900.00
3	Oceania SMP \$US/tonne		2087.50
	Lowest SMP Price \$US/tonne	b	1900.00
	Price \$CAD/kg of SMP	$c = a \times (b/1000)$	2.5433
6	\$CAD/kg of solids	$d = c / .98$	2.5952
7	Processor Margin \$CAD/kg of Solids	$e = .9191 / .98$	0.9379
11	Class 7 SNF \$CAD/kg	$f = d - e$	1.6574
5	US BF \$US/tonne		3218.72
4	Europe BF \$US/tonne		3000.00
4	Oceania BF \$US/tonne		2975.00
	Lowest BF Price \$US/tonne	g	2975.00
	Price \$CAD/kg	$h = a \times (g/1000)$	3.9823
8	\$CAD/kg of solids	$i = h / .97$	4.1055
9	Revenues from SNF \$CAD/kg Solids	$j = f \times (.71 / .97)$	1.2131
10,11	Revenues to be generated from BF \$CAD/kg	$k = i - j$	1.9545
	Class 7 BF \$CAD/kg	$l = k / (.26 / .97)$	7.2918

Canada’s Class 7 Formula

- Bank of Canada monthly average rate
<http://www.bankofcanada.ca/rates/exchange/daily-exchange-rates-lookup/>
- NASS weekly US price for Non-Fat Dry Milk (average of most recent 4 weeks)
http://future.aae.wisc.edu/data/weekly_values/by_area/1627?tab=prices
- USDA International Dairy Product Prices SMP (average of most recent 4 weeks)
http://future.aae.wisc.edu/data/weekly_values/by_area/1707?tab=prices
- USDA International Dairy Product Prices BF (average of most recent 4 weeks)
http://future.aae.wisc.edu/data/weekly_values/by_area/1705?tab=prices
- USDA Dairy Market weekly US price for Dry Whole Milk (average of most recent 4 weeks)
http://future.aae.wisc.edu/data/weekly_values/by_area/3704?tab=prices
- Based on a 2% SMP moisture content
- Based on a processor margin of 0.9191 \$/kg of SMP and assuming a 2% moisture content; the resulting content is 0.9379 kg SNF/kg of total solids in SMP
- Based on a 3% WMP moisture content
- Based on a 71% SNF content in WMP and 3% moisture; the resulting content is 0.7320 kg SNF/kg of total solids in WMP
- Based on a 26% BF content in WMP and 3% moisture; the resulting content is 0.2680 kg of BF per kg of total solids in WMP
- Numbers are rounded to the 4th decimal place

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March 2017 Canadian Dairy Processor Costs

Special Milk Class Prices

Prices for 5abc

Milk Class	Butterfat (\$/Kg)	Protein (\$/Kg)	Other Solids (\$/Kg)
5(a)	7.1345 1.7%	5.0750 -16.8%	1.0185 14.2%
5(b)	7.1345 1.7%	1.9911 -15.6%	1.9911 -15.6%
5(c)	7.0409 6.7%	1.6083 -8.4%	1.6083 -8.4%

**Prices in effect during the month of May 2017*

Prices for Class 7 Prices

Milk Class	Butterfat (\$/Kg)	Protein (\$/Kg)	Other Solids (\$/Kg)
7	7.2918	1.6574	1.6574

**Prices in effect from 01 March 2017 to 31 March 2017*