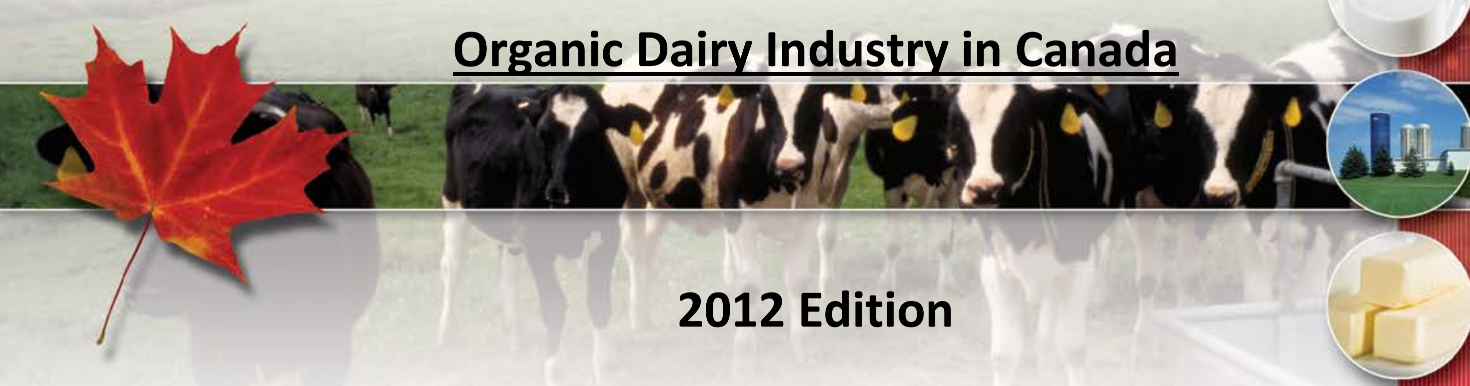
Agriculture and Agri-Food Canada
Agriculture et Agroalimentaire Canada

Organic Dairy Industry in Canada



2012 Edition

Highlights

- Organic food and beverage sales in Canada were estimated at $2.6 billion in 2010 compared to $1 billion in 2006 with an annual growth rate of 20% over the past few years.
- It is estimated that dairy makes up 11% of all organic sales in Canada, for a value of approximately $290 million.
- The 2011/12 dairy year saw 218 farms produce 937,137 hectolitres of organic milk which represents 1.19% of total Canadian dairy production.
- The production of certified organic milk is concentrated in the provinces of Quebec, Ontario, Alberta and British Columbia.
- Sales of milk and yogurt in particular are higher than those of non-fluid products such as ice cream, butter and cheese.
- On average, consumers are willing to pay 15-20% more for organic products, which is equal to the premium paid by processors for raw organic milk.
- The global market for organic food was valued at $56 billion in 2011. The world market for organic dairy products totalled just over $7 billion in 2009.

Canada

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For more information, please contact:
Canadian Dairy Information Centre (CDIC)
Agriculture and Agri-Food Canada
Email: cdic-ccil@agr.gc.ca

Canadian Organic Dairy Market

Canadian organic production follows strict standards as set out in the Canadian Organic Standards (COS). Dairy cattle are raised and tended according to these standards which include organic feed and living conditions designed to better mimic their natural environment. Organic dairy has experienced strong growth in the last decade both in Canada and worldwide. Canada's dairy industry continues to provide a growing supply and variety of organic dairy products for consumption.

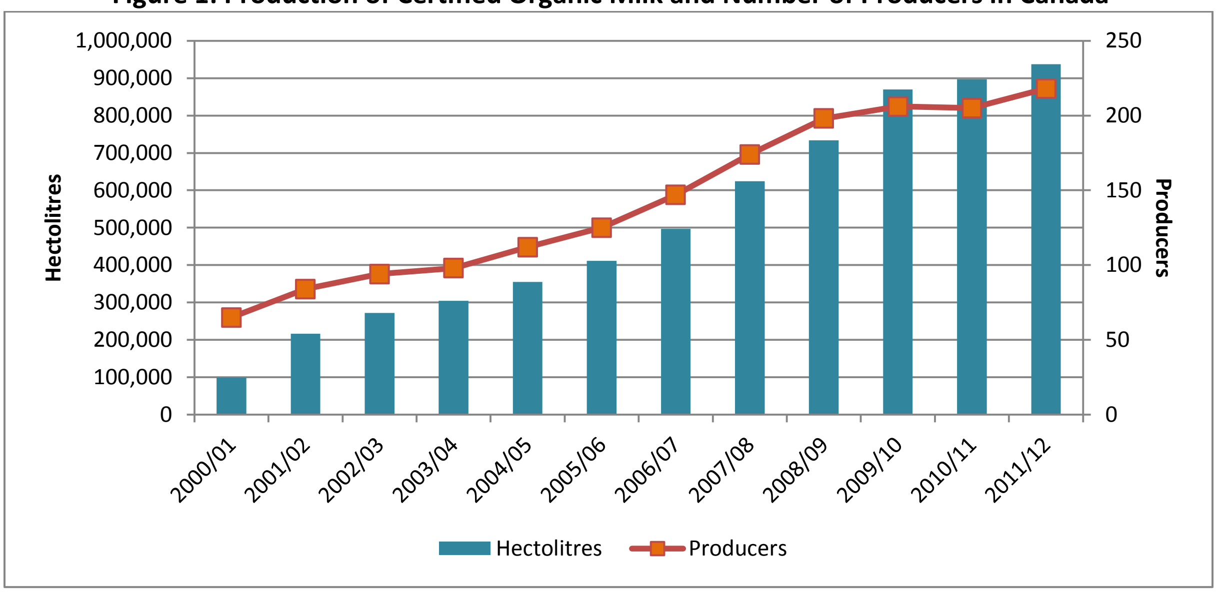
Organic food and beverage sales in Canada were estimated at $2.6 billion in 2010 compared to $1 billion in 2006 with an annual growth rate of 20% over the past few years. Organic sales represented 2.5% of total food sales at the retail level in 2008. It is estimated that dairy makes up 11% of all organic sales in Canada, with a value of approximately $290 million.

Canada's only tracked organic dairy import is *Certified Organic Milk Beverages* (HS 2202.90.49.10). Canada imported a total of 233 tonnes (valued at $597,308) of certified organic milk beverages in the 2011/12 dairy year. The United States is Canada's main source of organic imports.

Organic Milk Production and Processing

Canadian production of organic milk is increasing steadily. Volume is now 89% higher than it was five years ago. The 2011/12 dairy year saw 218 farms produce 937,137 hectolitres of organic milk, which represents 1.19% of total Canadian dairy output. Figure 1 below illustrates the growth of the organic dairy industry in Canada. Table 1 contains a breakdown of organic milk production by province and as a percentage of total milk production.

Figure 1: Production of Certified Organic Milk and Number of Producers in Canada



Source: Provincial Milk Marketing Boards

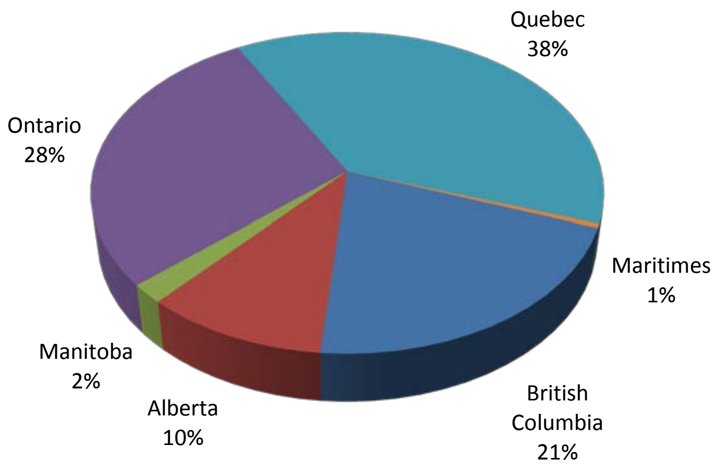
Table 1: Organic Milk Production by Province (2011/12)

Region	Hectolitres of Organic Milk	% of Total Milk Production	Producers
Quebec	357,365	1.26%	107
Ontario	266,068	0.99%	79
British Columbia	195,945	2.84%	17
Alberta	95,783	1.41%	10
Manitoba	18,001	0.54%	4
Maritimes	3,976	0.09%	1
Canada	**937,137**	**1.19%**	**218**

Source: Provincial Milk Marketing Boards, Canadian Dairy Commission

As shown in Table 1 and Figure 2, the production of certified organic milk is concentrated in the provinces of Quebec, Ontario, Alberta and British Columbia. A small proportion of total production comes from Manitoba and the Maritimes.

Figure 2: Organic Milk Production by Province (2011/12)

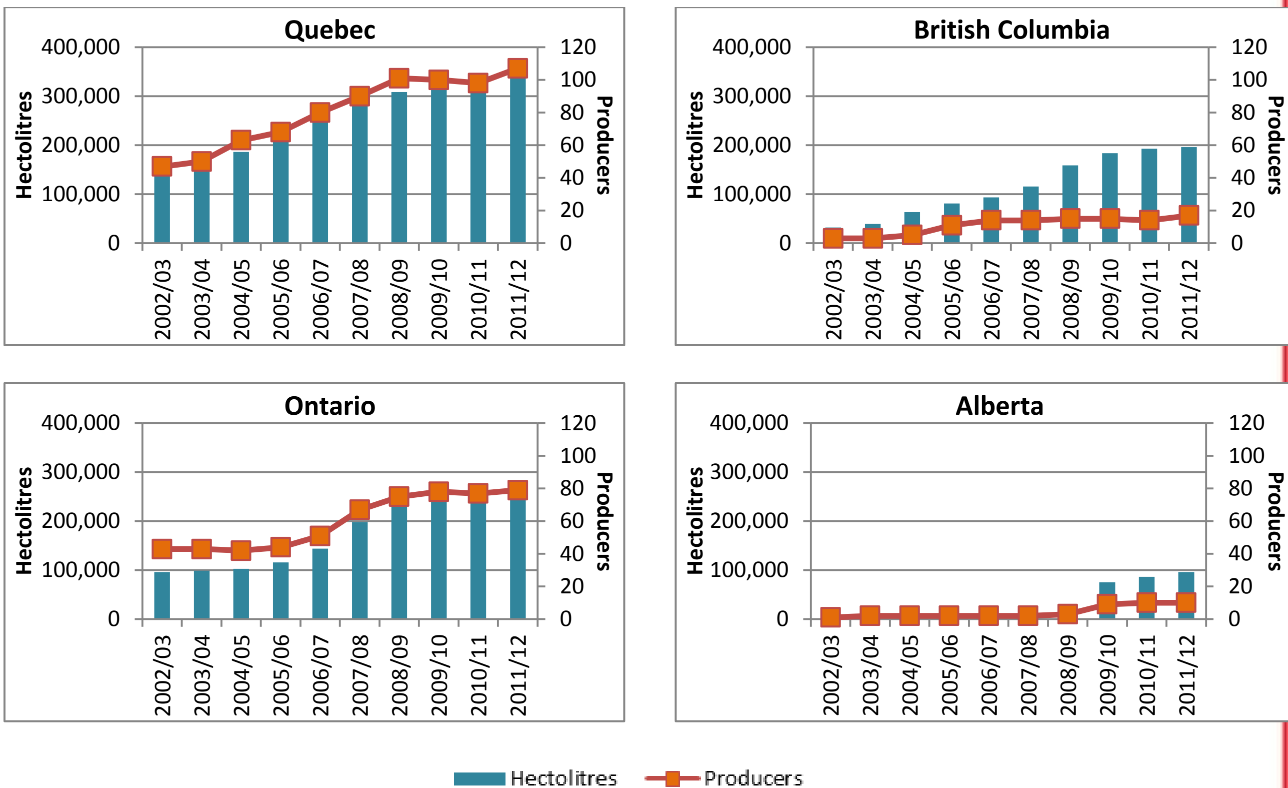


Source: Provincial Milk Marketing Boards

Organic milk output in Canada does not reflect the actual amount of organic milk used in processing. The industry is still relatively young. In some cases, due to the lack of infrastructure, organic milk is collected and transported in the same tankers as conventional milk, effectively ruling out the use of the milk in organic finished products. This is especially true in the case of provinces that have only a few producers. These producers have the option of keeping some or all of the milk to process on-farm. Even in Ontario, where organic production has been well established for over a decade, on average, 10% of organic milk output is not utilized as organic milk.

Figure 3 on the following page illustrates the growth of certified organic milk production in the major organic dairy producing provinces over the last ten years. Manitoba and the Maritimes do not have production statistics for the entire review period, however, relevant data can be found on our website at the following link: http://dairyinfo.gc.ca/index_e.php?s1=dff-fcil&s2=farm-ferme&s3=org-bio.

Figure 3: Production of Certified Organic Milk and Number of Producers by Province



Source: Provincial Milk Marketing Boards

Organic Dairy Products

In October 2012, Nova Scotia began producing and selling organic fluid milk. Prior to this, the only organic milk sold in the Maritimes was produced and processed in other parts of Canada. In the 2012/13 dairy year, it is estimated that only 25-35% of organic production in Nova Scotia will be processed into organic products. However, a second producer became certified in June 2012 and a third is expected to follow suit in the second half of the 2012/13 dairy year.

Milk, yogurt, ice cream and cheese are the most popular categories of finished organic dairy products in Canada. Sales of milk and yogurt generate the highest returns; they rank 2nd and 3rd among packaged organic product sales in Canada (see Table 2).

Table 2: Top Selling Packaged Organic Products (2008)

Product	Sales ($ million)
Soy Drinks	47.3
Milk	37.2
Refrigerated Yogurt	35.4
Ready-to-Eat Cereals	32.0
Coffee (roast and ground)	27.2
Soup	19.5
Eggs	15.7
Bread	13.1
Baby Food	11.4
Juices & Drinks (shelf stable)	9.8

Source: ACNielsen

Organic Product Pricing

Organic products often sell at higher prices than conventional products. The price premium is the result of higher production and distribution costs, as well as consumers' willingness to pay extra for organic food. The rise in prices of conventional (non-organic food) products since 2009 has helped boost sales of organic milk, cream, butter and yogurt, narrowing the price differential between organic and conventional products.

On average, consumers are willing to pay 15-20% more for organic products, which is equal to the premium paid by processors for raw organic milk. This makes sense as the extra cost associated with organic production is passed along the supply chain and paid for by the consumer. Table 3 shows a breakdown of the organic premiums paid by processors in each province.

Table 3: Organic Raw Milk Premium Paid by Processors by Province (2012)

<table>
<tr><th>Province</th><th>British Columbia</th><th>Alberta</th><th>Manitoba</th><th>Ontario</th><th>Quebec</th><th>Nova Scotia</th></tr>
<tr><td>Milk Classes 1 & 2</td><td rowspan="2">$0.30/litre</td><td rowspan="2">$0.26/litre</td><td rowspan="2">$0.30/litre</td><td>$0.27/litre</td><td>$0.25/litre</td><td rowspan="2">20%</td></tr>
<tr><td>Milk Classes 3, 4 & 5</td><td>$0.16/litre</td><td>$0.16/litre</td></tr>
</table>

Source: Provincial Milk Marketing Boards

Organic producers are often required to pay additional administration and transportation fees. These fees are often deducted directly from the premium paid by processors and average between $0.08 and $0.12 per litre.

Certification Process

Although any dairy farm can be converted to organic production, the transition is easier for small and medium sized operations and pasture-based farms. The transition takes up to four years, depending mainly on the history of fertilizer use. Land, crops and cattle must all be certified.

Farmers may not use pesticides or commercial fertilizer on their land for three years prior to being officially recognized. Milking cows must be given organic feed for 12 months before their milk can be certified as organic. In addition, farmers may not use antibiotics or hormone treatments. When veterinary drugs other than those listed in the Permitted Substances Lists are administered, a withholding period equivalent to double the label requirement or 14 days, whichever is longer, shall be observed before the products from treated livestock can be considered organic.

Organic farms generally require more labour than traditional farms. Labour requirements vary from operation to operation but farmers can expect a 5-10% increase. Nonetheless, organic farmers can benefit from cost savings on fertilizer, spray and medical expenses. In addition, organic farms typically use 20-50% less energy than conventional farms.

In general, a certified organic product must meet the conditions outlined below:

- Grown without the use of toxic or persistent synthetic pesticides, herbicides, fungicides or fertilizers
- Produced without fossil fuel (nitrogen) based fertilizers or sewage sludge and without GMOs or nanotechnology

- Produced without the use of synthetic growth hormones or antibiotics
- Produced under humane animal health and welfare standards, including outdoor access

Transitioning to organic processing is not a big issue. All the equipment used is made of stainless steel and is cleaned at the end of each day. One of the techniques used by dairy processors that manufacture both organic and conventional products is to run organic milk through the system at the beginning of each day, followed by conventional milk, so there is no need to flush out the lines and clean the equipment.

Regulations and Labelling

The federal *Organic Products Regulations* (OPR) came into effect on June 30, 2009. Under these Regulations, products labeled with the word "organic" or the Canada Organic logo must be certified by a federally accredited certification body. Accreditation is controlled by the Canadian Food Inspection Agency (CFIA). Certified products and accredited certification bodies must comply with all *Canadian Organic Standards* (COS).

The Canada Organic Logo is permitted for use only on food products which are certified as meeting the revised Canadian standards for organic production and which contain at least 95% organic ingredients. Some organic producers add a "verification seal" to their packaging to inform consumers that their product was made without any genetically modified organisms (GMOs). All certified organic food products and ingredients must be GMO-free but not all GMO conscious consumers are aware of this fact.

Organic certification and labelling serves many useful purposes. It protects consumers against misleading labelling and reduces confusion about what constitutes organic. Organic labelling supports market development by stimulating consumer and industry interest in the benefits of organic products as compared to non-organic products. The Canada Organic logo also helps Canadian producers gain access to international markets.

In 2009, Canada signed an equivalency agreement with the United States which recognized the Canada Organic logo and all Canadian certified organic products and producers. Under the agreement, both the Canada Organic logo and the United States Department of Agriculture (USDA) organic seal may be used on certified organic products from both countries, eliminating the need for producers to certify their products twice. Canada also signed an equivalency agreement with the European Union (EU 27) in 2011.

Quebec and British Columbia have their own organic certification bodies, respectively, the *Conseil des appellations réservées et des termes valorisants* (CARTV) and the Certified Organic Association of British Columbia (COABC). As of January 1, 2012 the CARTV specifications and technical requirements are equivalent as those of the Canadian Organic Standards (COS). COABC standards do not share the same equivalence with the COS, unless the producer is certified by an ISO 65 accredited certification body. Quebec's CARTV organic certification program covers 120 dairy herds and 6,412 dairy cows and goats, for a total of 40 dairy products.

Global Organic Dairy Market

The global market for organic food was valued at $56 billion in 2011. Organic dairy products accounted for just over $7 billion of the global market for organic food in 2009. The global market for organic dairy products is expected to keep expanding in response to the steady increase in demand. Millions of people in emerging markets (Brazil, China and India) are entering the middle class each year and demanding higher quality foods.

The US organic food and beverage sector amounted to over US$29 billion in 2011. In the United States, dairy accounts for the largest share of the packaged organic food market, surpassing all other food categories, including bakery products and snacks. Since the United States is our biggest trading partner and our geographic neighbour, the prevalence of organic products in the US food market is advantageous for Canadian organic dairy growth and development.

Trends and Outlook

In the global organic dairy product market, spoonable yogurt has undergone the most significant product development in the last few years. This trend has been reflected in the Canadian market with the introduction of new product lines such as Greek yogurt and single-serving yogurt cups with granola and fruit toppings. These products are placed in the "Grab and Go" section of grocery stores, targeting consumers looking for a "breakfast treat" or an option for kids' lunches.

Major organic brands are increasingly offering added-value products and products for children. Canadian manufacturers offer products that tout their Omega 3 content and, as mentioned, spoonable yogurt with granola and fruit is marketed to children. Claims are also being made that organic dairy is healthier and contains more vitamins, anti-oxidants and healthy fatty acids (DHA, Omega 3).

More stores are using private labels which eliminate the distribution mark-up. In the case of organic milk, for example, the product is usually shipped directly to the store's warehouse. Using a private label reduces the retail price, which in turn makes the product more accessible and affordable for consumers.

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