



## Why Canadian Dairy Companies Should Be Very Afraid of Trump

### Description

News in the Canadian media has been filled with headlines such as “Donald Trump Sours on Canada Over ‘Very Unfair’ Milk Policy” from the *Toronto Star*, and “Couillard Will Defend Quebec Dairy Farmers Against Trump’s Promises” from CTV News. They certainly paint the picture that the big, bad United States is coming after poor Canadian dairy farmers.

While the majority of Canadians (especially those in Quebec and Ontario) look for ways to calm their moral outrage over these recent statements made by Mr. Trump, who accused the Canadian dairy industry of being “very unfair” to the U.S. dairy industry, most of the articles I read featured the Canadian response to Trump’s claims and did not attempt to look into the validity of these claims.

Here’s why there are certainly a few reasons why Canada’s dairy industry should be afraid.

### Restrictive quota and tariff system in Canada

In the 1970s, Canada enacted a quota system to support Canadian dairy farmers which were, and largely continue to be, less competitive than other global producers of dairy products due to the size of the domestic market and slower advancements made in production technologies over time.

This quota system essentially restricted imports of dairy products into Canada to only a few firms that were established importers at the time. Quota licenses for dairy imports have been sold and rented, and companies have been acquired for these rights alone with the dairy-quota licences carrying significant value.

Values change from year to year; however, experts estimate that as much as \$4-7 per kilogram of cheese is the premium Canadian consumers pay for imported cheese, increasing how much domestic producers can charge while still being cheaper than the imported alternatives.

### Who owns these licences?

Canadian importers and producers of dairy products typically have dairy Tariff Rate Quota (TRQ) allowances in differing amounts. A list of quota holders can be found by doing a quick search; many

familiar names are listed.

**Saputo Inc.** ([TSX:SAP](#)) has a substantial TRQ allowance — an asset that is mentioned on the company’s balance sheet, listed under the “Risks and Uncertainties” section of the MD&A due to the relatively unknown future political status of the TRQ program.

Should the program be disbanded or renegotiated in any way, dairy firms in Canada, such as Saputo, would be very likely to see material valuation changes, and investors should be aware of this.

### **The bottom line**

A typical Canadian without direct knowledge of how the dairy industry works in Canada would think that Canadian dairy farmers are being unjustly targeted by President Trump and that his actions are “anti-Canadian.” The reality is that the U.S. just happens to be the first country with the gall to come out and say what industry representatives in Australia, Mexico, New Zealand, and the European Union all support — that Canada is unfairly restricting imports and propping up domestic producers at the expense of the rest of the world.

Stay Foolish, my friends.

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