

2023 BC DAIRY INDUSTRY CONFERENCE HIGHLIGHTS

Connecting the Global Dots Affecting Dairy

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Regular attendees at BC's Dairy Industry Conference have come to expect great information and great entertainment from Dan Wong, President of the Western Dairy Council. Dan's long, varied experience in governmental and corporate issues make him particularly adept at 'connecting the dots.'

"I want to explore the way events in the world at large have affected our lives in the Canadian dairy industry," Dan set the scene at November's Conference.

He presented a timeline of events which have had palpable consequences for Canadian dairy – despite their distance from our borders – in this respect, the world appears to be getting smaller!

The Geopolitical Sphere

Six years ago, the newly elected US President took aim at Canada's dairy producers in response to a trade dispute. Calling it a 'disgrace,' he blamed NAFTA and the fuse was lit – resulting in the CUSMA outcome which included Canada being forced to accept USA pricing of Class 4a and further, "accept quantitative limits on global exports of SMP, MPC and Infant Formula."

"This handcuffs the Canadian dairy industry's ability to mitigate its structural surplus, which is a problem in major dairy markets throughout the world, but especially pronounced in Canada," Dan emphasized. As butterfat demand increases, the increasing surplus of solids-non-fat are becoming increasingly more costly to deal with. "The Canadian Dairy Commission has alarmingly calculated we could be awash in 1.3 billion litres of skim milk by 2035," he said. This singular issue, he suggested, led to the "big preoccupation" in 2023 of the Canadian dairy industry to incentivize investments in dairy processing infrastructure.

The federal government responded with creating the Dairy Industry Innovation Fund with \$333 million to "help modernize, replace and/or increase processing capacity for SNF and minimize skim milk that is not marketed." Western Canada's share of this Fund is pegged at \$74M. The other major response, Dan explained, was the Market Growth Program initiated by the P10 to "to accelerate and support projects which aim to reduce structural SNF surplus, support market growth, or process milk in areas/ regions with significant skim milk surplus/ processing deficiencies."

The next 'dot' came 21 months ago from 8000 km away. The seemingly unnecessary/ unprovoked Russian war on Ukraine has resulted in "blockades in Ukrainian and Black Sea ports, destroyed transportation infrastructure and disrupted supply chains," describes Dan. "All this has made a bad global supply situation worse. Shortages and uncertainty are everywhere. There are worldwide increases in feed, fertilizer, fuel prices, exacerbating post-Covid inflation and spurring high interest rates," Dan lays it all out. The far-away war has added more to the rising input costs Canadian farmers were coping with since the pandemic, generating corresponding 'knock-on effects' to processors and consumers.

Nine months ago and 10,000 km away, the leader of the Chinese Communist Party was elected for a third term, making him "empowered and more determined than

ever to assert China's economic might throughout the world." Their 'zero-Covid' response in 2020 caused great chaos in supply chains everywhere as they shut-down all movement – China is the world's largest exporter and second largest importer of goods. The deep disruption caused costs to surge all the way to Canadian producers and processors.

India became the world's most populous country in early 2023. Declining birthrates all over the world are leading to aging populations and countries like Canada relying on immigration to bridge the gap. The ethno-cultural mix has shifted notably in Canada and even globally, in recent decades. Dairy consumption has been steadily shifting from milk to varied culturally-connected products. "As processors, we need to adjust our product mix to the changing consumer," Dan explained. "And as long as we are gearing up our product offerings for a more international audience, we might as well be thinking about exportability," he suggested.



The Economic Sphere

"Inflation took off 40 months ago – everywhere," Dan begins, "with grocery inflation outpacing general inflation." Food

affordability has become a front-page issue, even as the rate of inflation is slowing in recent months. "Grocery inflation still remains higher than the Bank of Canada's target of 2% – as much as two points higher than the general consumer price index. Dairy products remain about in the middle of the pack for food price inflation," Dan points to the charts. (Food inflation has eased somewhat since the presentation in November 2023.)

As a result, consumer habits are changing – less eating-out and shifting to discount stores and (cheaper) generic brand products. "With fingers pointing at grocery retailers, they in turn point at their suppliers – the processors and producers." The CDC decision to delay the February milk price adjustment to May is an example of disruptions when government interferes with normal commercial workings. Meanwhile, processors and producers are left to absorb the increased costs. Suddenly, grocery inflation's political vibrations have made the Grocery Code of Conduct more interesting to governments.

The Sustainability Sphere

Dan suggests the modern environmental movement began in the 1960's. In 1987, the World Commission on Environment and Economic Development stressed equal importance of environmental stewardship and economic development. Further expectations were made on business and financial organizations at the 1992 Rio Earth Summit. In 2001, the EU formalized a framework which linked the business's social and economic outcomes.

"It has led to the holistic 'sustainability' platform – commonly known as ESG – environmental, social and governance – it's become one of the central tenets of businesses worldwide," Dan confirms.

With climate change now the immediate focus of sustainability efforts, businesses are responding. "Certainly, you as producers have made that commitment to Net-Zero through Dairy Farmers of Canada. ESG means there is more to come, and it's not optional anymore," he warned. "It's table stakes for industry – it's basically the social license to do business."

Dan pointed out that ESG is far more than climate change and carbon emissions – they all combine to have significant impacts on how companies do business and affect their products. He cited the non-refundable recycling fees that both consumers and processors must pay to



... Putting the Spotlight on a New Demographic Order

- Aging populations
- Declining birth rates
- Geographic shifts in population
- Ethno-cultural diversity

... All with big implications for dairy markets worldwide



Source: United Nations Department of Economic and Social Affairs

Birth Rates in Decline Worldwide

| Fertility Rates in Selected Countries | | | |
|---------------------------------------|-----|---------|-----|
| Replacement Rate | 2.1 | India | 2.2 |
| Australia | 1.8 | Japan | 1.4 |
| Brazil | 1.7 | Greece | 1.3 |
| Canada | 1.5 | Ukraine | 1.4 |
| China | 1.7 | UK | 1.8 |
| Italy | 1.3 | USA | 1.8 |

Source: UN Population Division

... Countries turn to immigration to offset declining birth rates

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BC's government. "In 2022, dairy processors in BC remitted \$10M in recycling fees. And there's more to come – more fees on more forms of packaging." From butter wraps to yogurt cups and ice cream containers – the cost of recycling these packages (and others) must be extracted from industry and consumers. Eco-labels warning of environmental impacts of the packaging is under discussion in Europe. Canada is

discussing minimum levels of recycled content in packaging, he adds.

Recognizing the broad range of challenges facing dairy, Dan used the well-known Gretzky phrase, 'Skate to where the puck is going, not where the puck has been.'

"I think that's good guidance for us." He mentioned the exciting advancements of Vitalus Nutrition in their many new

innovations with dairy ingredients – serving both a domestic and international market. "Once the Vitalus plant expansion is complete, it will be one of the largest dairy ingredients manufacturers in North America," Dan indicated.

"Punjab Milk Foods has very quietly become North America's largest dairy-based south Asian foods manufacturer, also with a plant expansion underway." On a smaller scale, Tree Island Gourmet Yogurt on Vancouver Island has completed a new plant expansion, increasing its production of yogurt from local, grass-fed milk. These are just a few examples of progressive approaches for more advantageous positioning in a changing dairy marketplace.

Dan's Final Thoughts

"There is lots of innovation and expansion taking place. Dairy processors are committed to growth and innovation – and investments are being made. To really move the industry forward, a truly strategic



approach is needed, with alignment, transparency and focus. Collaboration across the entire industry supply chain and **especially** between producers and processors is more important than ever."





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