

# 2023 BC DAIRY INDUSTRY CONFERENCE HIGHLIGHTS

## Taking the Global Dairy Pulse Positioning for the Future

Tars Cheema

Back again to share his broad global dairy assessments with attendees at the 2023 BC Dairy Industry Conference was Christophe Lafougere, CEO of Gira – the France-based global food and drink market consultancy and research organization. With a deep understanding of global forces affecting dairy, Christophe presented an overview of trends, using data as recent as September 2023.

### Inflation

#### Milk Collection Trends

With no hint of jet-lag, Christophe presented with his characteristic enthusiasm.

Starting with an update to his global milk collection projections for the next five years, he showed that most of the world shows no growth. Key exporters like Ireland and Oceania (NZ) show little or no growth; Ireland is facing internal constraints to their industry and NZ is controlling dairy production from an environmental perspective.

While the USA shows minimal growth of 1.3% (less than previous years), their production costs have increased, which could limit their growth more.

Canada also shows growth of 1.3% (per year) but is generally not a significant global influencer.

China shows growth of 1.5% but this is expected to be filled domestically.

### Imports

When considering imports, cheese is the preferred dairy item! As demand grows, the USA and EU are the most likely to feed the need over the next five years. Christophe's projections show that 10% of the cheese market will need to be filled by imports. Skim milk powder (SMP) and whole milk powder (WMP) also show similar growth with around 50% being satisfied by imports; traditionally, these have been low margin commodities.

Notably, fluid milk importation is expected to decline by 3%.

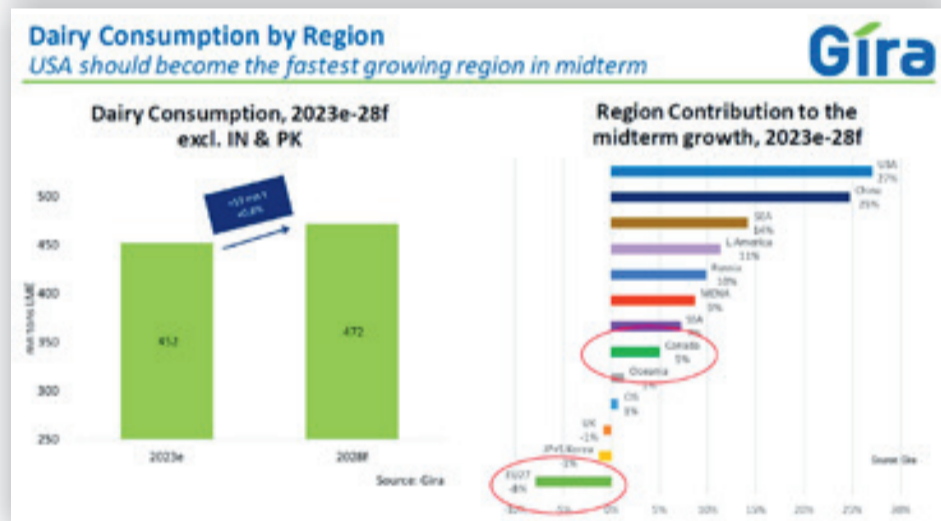
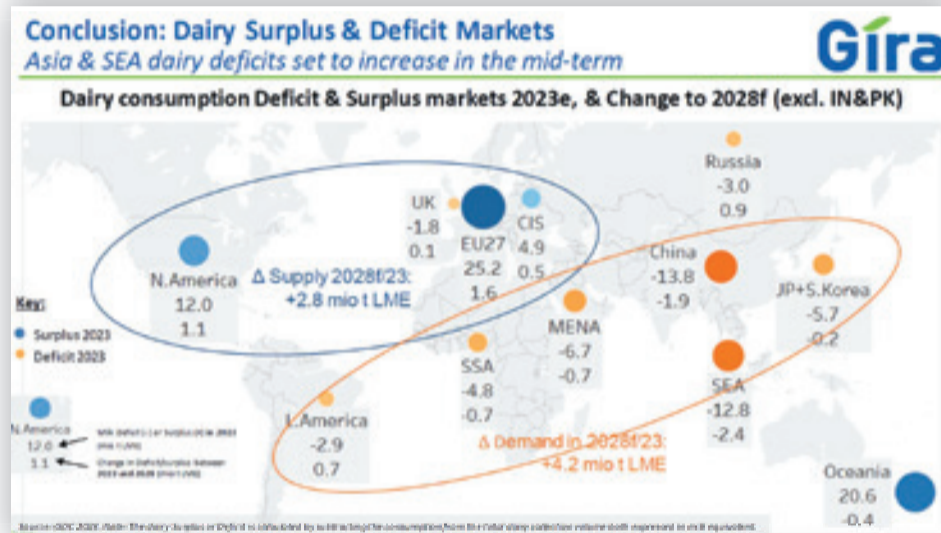
### Consumption Trends

Global dairy consumption shows a slight increase over the next five years, with the big increases coming from the USA (27%) and China (25%). "The growth in consumption will continue in the United States – it's incredible that the US will continue to eat more – and more cheese," Christophe exclaimed. "Number two is China. All eyes were on China for the last five years for consumption trends," Christophe reminds us. Their 5.6% consumption growth curve outpaced everyone else by a wide margin. But with China producing more domestic dairy, they will require far less from imports going forward.

India and Pakistan are not included in the projections as they operate closed markets. "India is the world's largest milk producer with an average herd size of 3-5 cows. The Indian government prevents imports to protect the whole infrastructure. It's a way for the government to keep that population in the countryside producing milk."

"A key point is Europe – we are negative." Interestingly, the EU is predicted to contract 8%! "Some products like cheese will continue to grow, but the overall consumption is negative."

When looking at individual products, most will see 0.5% to 1.4% growth per year, with the big volume items being milk, cheese and yogurt. But to be clear – liquid milk consumption is declining everywhere – **except China.**



"But keep in mind, most of that milk will be produced in China, that's the major difference from the last five years," explains Christophe.

However, there are five countries in SE Asia that Christophe expects to see significant growth in consumption – perhaps equivalent to China. Thailand, Indonesia, Philippines, Malaysia and Vietnam. "Their populations are growing, their GDP is growing, but this isn't the best place in the world to produce milk. You have high temperature, high humidity, little land – it's very costly. They will need to import and they will need ingredients. Canada is on the right side of the ocean," he pointed out.

He summarized his 'helicopter view' of the world using a world map punctuated with blue balls for countries in a milk surplus position in 2023 and orange balls for those in a deficit position. Over time, the surplus production is expected to contract and the demand in the deficit countries will increase. "At some point, the curves will come together, and we will raise the question – where will the needed milk be produced?"

So, expect less milk produced in US, EU and Oceania, while consumption will increase outside of these regions. Expect cheese consumption to continue everywhere. "Cheese is important, because the by-product of the

cheese – **why** – makes a lot of very good ingredients!" He concluded with a reminder of the role milk proteins will play in the future – just as he had done last year. "Investments in milk proteins production won't take place in the EU when they are producing less milk."

### Christophe's Other Global Observations

#### The Future of Milk Production in Europe

It's important to understand the issues since there could be parallels for us in Canada, Christophe opened. In some cases like Ireland and NL, environmental regulations are constraining dairy to control N and P emissions.

"In France, it's not environment – it's more complex – it's linked with society – the way we are considering dairy farmers." A key problem is the aging demographic of dairy farmers – nearly 50% of farmers are over 50 years and less than 40% of dairy farmers that quit are replaced. "We have a generation problem." Deterrents include: perception of farmers (agri-bashing), financial risk, environment/climate/regulatory uncertainties, labour and more. This general trend could result in France becoming a net dairy importer in the coming years, Christophe believes. Processors will need to extract even more value out of milk in order to pay more for the milk.



Christophe Lafougere of global consultancy firm Gira provided an entertaining and informative global dairy review.

### Added-Value to Milk

"Adding value to milk is compulsory." Christophe re-emphasized this point which was central to his presentation at last year's conference. While 75% of dairy proteins are already commodities, there is still room to extract 'added-value' from the other ingredients. There is potential to grow this market by exporting to Asia, but it requires developing the capacity at home first.

They produced in Canada is an untapped source of value, as is the skim milk resulting from sending cream to cheese processors.

### Sustainability

"Carbon will be the dairy quota of the future." EU commissioner Phil Hogan.

Just as dairy producers are grappling with the new age of sustainability, dairy processing companies must also develop plans that ensure their businesses can meet rapidly evolving expectations of 'sustainable business practices.' Carbon emissions are certainly one of the most high-profile with 93% of the largest world dairy companies disclosing their environmental targets in 2022. It's complicated to be sure – Scopes 1 and 2 are directly related to the processor activities while Scope 3 Emissions come from other sources (dairy producers), which are estimated to be **90% of the total.** Ambitious reduction targets set for 2030 in Europe will cost billions! Arla is actively pursuing their Sustainability goals by directly incenting the farmer milk price as they make specific changes to farm practices. Another very direct approach is developing product packaging that uses 30% less CO2, 40% less plastic and is 100% recyclable.

"Retailers will push for Scope 3 emissions reduction, meaning farmers must be prepared," Christophe summarized.

### Christophe's Key Conclusions

Many more uncertainties face dairy.

- While less milk will come from key export zones, more milk will be needed.
- Cheese will continue to be key: both increased production and consumption.
- Dairy ingredients are now the key component of dairy processors' profitability.
- Four elements will determine the growth of Canadian milk industry by 2028:
  - population growth, per capita consumption of dairy products, value-added solutions to the non-fat solids problem (mostly for the export market) and market access commitments under trade agreements.

"Don't forget sustainability. Otherwise, retailers will wake you up!" he reinforced. "Reactive costs much more than being proactive," Christophe concluded.