Les Producteurs de lait du Québec

Press release
For immediate release

Market review – 2015 Semi-Annual General Meeting of Les producteurs de lait du Québec

A hard year for the price of milk received by producers and growth under threat, despite positive developments in the current market situation

Quebec City, November 26, 2015 – At their Semi-Annual General Meeting, Les Producteurs de lait du Québec gave a mixed review of the 2014-2015 dairy year. Even though the market situation is fairly positive, producers faced difficult conditions in the price they receive for their milk, trade agreements, and imports that pose a huge threat to the sector.

As for the market, from October 2014 to September 2015, retail sales of cream rose by 3.5%, yogurt by 2.7% and Greek yogurt by 7.4%. During the same period, butter sales rose by 2.4% while cheese sales increased 2%. The increased sales have more than compensated for the slight 1% decline in fluid milk sales and -0.4% in ice cream sales. As for production quota, it was increased by 7% from December 2014 to December 2015. Half of this increase is aimed at meeting current growth in sales, whereas the other half is aimed at rebuilding butter stocks. The exhaustion of butter stocks can be explained by the fact that butter and cream consumption has been growing at an unprecedented rate since 2013. Butter went from an average annual growth rate that was contained between 1% and 2% to a rate fluctuating between 2% and 4%.

"This high growth is real and the Canadian Dairy Commission (CDC) projects that it will continue in 2016. Apart from fluid milk and ice cream, all products have enjoyed higher retail sales, especially butter and cream. Demand for butter is not a uniquely Canadian phenomenon, The same situation can be observed in the United States" explained Bruno Letendre, Chair of Les Producteurs de lait du Québec.

This is good news for the dairy sector, despite the accompanying negative counter-effects, such as a huge drop in the price of milk received by producers since the beginning of 2015. This drop can be partly explained by the fact that the milk class used to make butter is one of the least profitable classes for producers because butter stocks are built from whole milk rather than cream, which leaves a liquid by-product of solids non-fat that must be sold off at a discount for animal feed and other uses. It is also due to the drop in world milk prices that affect part of the price that Canadian producers receive. From April 2013 to August 2015, the price of skim milk powder went from USD $5,100 per tonne to less than USD $1,600 per tonne. The record price in 2013 can be mainly explained by strong Chinese demand and lower global production, due in part to poor climate conditions in New Zealand. These record prices drove up production in exporting countries. At the same time, Chinese demand struggled and Russia imposed an embargo. Supply quickly exceeded demand, which led to the current global dairy crisis. Finally, in 2015, the target prices set by the CDC and the price of fluid milk (Class 1) for producers was adjusted downward due to the decrease in production costs.

“Next year’s price outlook is better. The CDC will have to take our higher production costs and lower revenue this year into consideration when adjusting the target price for 2016. As for global prices, even though we have no control over them, some signs suggest a recovery that would positively impact the price of the special classes,” added Mr. Letendre.

Free trade

The dairy sector will also be greatly affected when the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union and the Trans-Pacific Partnership (TPP) come into force. When these two trade agreements have both come into force, producers will ultimately be hit by a recurrent loss of around 6% of the Canadian dairy market, in addition to the 8% in market segments already conceded by Canada to its trade partners under previous trade agreements. Total annual milk sale losses (gross revenue) for Canadian producers will come to around $400 million once the impacts of the TPP ($250 million) and the CETA ($150 million) are factored in. Total permanent annual losses in milk sales will range from $29,000 to $33,000 per farm. The compensation program announced by the previous government should cover only $11,000 on average per dairy farm for a period of 15 years. The additional access granted will decrease the contribution of the food production and processing sectors to the Canadian and regional economies.

Imported milk proteins

Milk producers are still grappling with a border control circumvention problem in the dairy sector: unlimited, tariff-free imports of liquid protein concentrates. These products were specifically designed to circumvent both the tariff measures and the limits under the cheese compositional standards for added milk ingredients that do not come directly from farm milk. Government authorities have known of this problem for at least two years, but it has yet to be resolved. The losses caused by imported protein concentrates totalled around $200 million in 2014 and continue to rise.

Economic benefits

Milk production generates around 83,000 direct, indirect and induced jobs in Quebec and contributes as much as $6.2 billion to the gross domestic product. Finally, it results in $1.29 billion in tax receipts, including $678 million for the federal government and $454 million for the Quebec government.

About Les Producteurs de lait du Québec

Les Producteurs de lait du Québec, affiliated with the UPA, represents Quebec’s 5,856 dairy farms, which annually deliver nearly 3 billion litres of milk every year, for a total of over $2.4 billion in farm receipts.
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