



Les
Producteurs
de lait
du Québec

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Les Producteurs de lait du Québec AGM: annual review of 2021 and dairy market in early 2022

Sustained growth, tempered by the effects of the trade agreements

Saint-Hyacinthe, April 13, 2022 – After a difficult year for the dairy sector in 2020, the effects of the COVID-19 crisis faded gradually in 2021 and this trend has continued in early 2022. The end of the lockdown and the easing of health directives, including the reopening of restaurant dining rooms, had a positive effect on demand for dairy products. In total, sales reached \$2.864 billion in 2021, up 4.1% from 2020, while production increased by 2.7% to reach 3.456 billion litres of milk. However, in the second half of the year, changes in consumer habits linked to the end of the lockdown and a higher volume of imported products caused by the trade agreements dampened this growth.

The impact of the Canada-United States-Mexico Agreement (CUSMA), which has been in effect since July 2020, was more noticeable in the last year. The unpredictable way that U.S. products entered our markets during the year disrupted the supply management system, which specifically strives to strike a precise balance between supply and demand. **“The government formalized its commitment to compensate dairy producers for the negative impacts caused by the market concessions under CUSMA in its 2022 budget. However, we are concerned that we will have to wait until the fall economic and fiscal update for more details on the amounts that will be paid and the terms and conditions of their payment. We need predictability. Our farms have been dealt a major economic blow that they are already reeling from. The compensated amounts are not extra money for producers. They will be used to make up for the markets conceded by the government under CUSMA that our farms had invested in with the intention of developing them”** stated Daniel Gobeil, Chair of Les Producteurs de lait du Québec, to the producers attending its Annual General Meeting.

In March 2020, the pandemic and the initial lockdowns caused a portion of the sales in the hotel, restaurant and institutional (HRI) sector to shift towards retail sales. As health measures were gradually lifted, we observed a progressive return to a more traditional balance between the two sales sectors that had prevailed before the pandemic. Nevertheless, the hotel and restaurant markets have still not fully recovered and consumers have also changed their buying habits as a result of the pandemic. Retail sales in February 2022 are nevertheless higher than they were in February 2020, just before the pandemic began. Based on data provided by The Nielsen Company, Canadian retail sales in this period grew by 5.8% for butter, 11.2% for cream, 4.6% for ice cream, 7.5% for cheese, 0.7% for fluid milk and 2.9% for yogurt.

“The pandemic instilled a desire in society as a whole to buy local, as well as a desire to develop our food independence and security, which are actually core tenets of our supply management system. That is why our consumers have stayed faithful to our products,” added Gobeil.

Price of milk and skyrocketing production costs

The average price of milk paid to producers during 2021 rose 1.95% due to increased milk composition, specifically for butterfat, the 2% adjustment made to the price of regular classes

of milk (milk and other dairy products) on February 1, 2021 and higher world prices. These positive effects were partially cancelled out by changes in the sales structure. In fact, less profitable secondary processing-related sales grew at a faster rate than the consistently high sales of cheese, where 43% of the milk is produced on farms, compared to 18% for milk and cream and 10% for yogurt and ice cream. In the retail market, Quebecers are still Canada's top consumers of yogurt, at 10.7 kg per capita annually, and cheese, at 8.4 kg per capita.

The price increase in 2021 was not enough to cover the substantial upsurge in production costs. Indeed, the higher cost of cattle feed, fertilizer and fuel drove up production costs by 13.4% between the summer of 2019 and the summer of 2021. Unfortunately, the price adjustment in February did not fully offset these higher costs, which has made it all the more necessary to maintain a favourable sales structure. Furthermore, due in large part to inflation and the war in Ukraine, production costs have continued to rise since the last reference period used for indexation purposes. From the summer of 2021 to February 2022, the cost of fertilizer and herbicides climbed 40.9%, the cost of fuel 26.7%, and the cost of dairy cattle feed 9.4%. The impact of these huge and ongoing production cost hikes is being temporarily softened by world prices, which are dramatically up due to the pandemic and the current geopolitical situation. These higher prices are providing relief from some of the soaring costs. **“Our producers are still very concerned about their production costs, which continue to surge, and we will keep a close watch on this situation to ensure the continued viability of dairy farms in these circumstances,”** concluded Daniel Gobeil.

About Les Producteurs de lait du Québec

Les Producteurs de lait du Québec, affiliated with the UPA, represents Quebec's 4,643 dairy farms, which deliver roughly 3.46 billion litres of milk, for a total of over \$2.86 billion in farm receipts. Milk production and processing generate around 65,000 direct, indirect and induced jobs in Quebec and contribute as much as \$5.3 billion to the gross domestic product. Finally, they generate \$1 billion in tax receipts.

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