

Remarks to Dairy Farmers of Canada Annual Policy Conference
By Andy MacGillivray, Chair
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Ottawa

- Good mid-morning and thank you for the opportunity to once again address your delegates and the dairy producer groups in Canada.
- I want to update you today on the progress of the dairy processors association and, in particular, talk about several subjects that we believe are of utmost importance to both producers and processors.
- Over the past year we continued to grow our association membership with the addition of processors like Lucerne and Arla Foods. This builds on the base of virtually all of the major dairy processors in Canada, and we estimate that our members represent over 90% of the milk processed in this country.
- Over the past year we continued to work closely with industry partners, including the provincial processor groups, other food processor organizations including foodservice and retail, and importantly, with the Dairy Farmers of Canada. We continue to believe that we will be better able to fulfill our mandate of encouraging a healthy, growing dairy industry if we work together.
- Let me repeat our mission as a processor association – it is to promote the healthy growth of our industry. Now you have to ask the question: how well are we doing? Are we establishing the framework for the healthy growth of our industry?
- In the words of pop culture's latest daytime philosopher – Dr. Phil – let's ask ourselves the question...is it working for you? Overused as this phrase is, I think it is worth repeating as a key question for our industry – is it working for you? And is it working for us?
- That question sets up one of the greatest concerns we have as an association. It is a concern centered on growth...or the lack of it, and the implications to our industry. I think the facts best demonstrate this concern!
 - Over the past half a year we have witnessed 3 cuts to MSQ (quota) reflecting the state of demand for dairy products in Canada.
 - Over the past 12 months – as reported by A.C. Nielsen – consumer purchases or demand in key categories are seriously down.
 - All fluid milk, including specialty milk, shows a 1% drop in volume.
 - Butter shows a 4% decline.
 - Cheese shows 0% growth with a 4% decline in the latest 4 week period (December).
 - Even yoghurt, the star category, over the past decade has very modest tonnage increases (4%) nationally compared to the normal almost double digit annual growth. And ice cream continues its downward slide (- 1%).
- At the same time by sharp contrast, consumer demand for competing categories has showed increases. The best example is soya and rice drinks showing a 5% per annum increase in volume with an 8% increase in the past 4 week period (December). Refrigerated juices show a 10% annual increase in volume.
- This A.C. Nielsen data is a very accurate measurement of sales in the major supermarkets right across Canada in all cities, towns and regions. A closer look at our 2 largest regional markets reinforces this disturbing picture.
- For example, butter sales in Québec are down 6% for the 4 week period in December, yoghurt sales in that province showed no growth whatsoever this Christmas period. Cheese is down 16% in Ontario for that same four week period over cheese sales in December 2004. By contrast, in Québec soya and rice drinks are up 21% in December and almost 25% over the 52 week period.

- And I see in the data compiled by the CDC for next week's CMSMC meeting there is a similar story unfolding in the restaurant industry where growth in dairy product use is reported as slightly negative or 0 over the past 12 months.
- If we dwell a bit longer on the fluid milk category, we see that over the past 10 years per capita consumption has declined by 14%. This is the largest category in the grocery stores – probably the fastest turning and highest consumer involvement of any in the grocery business – yet usage continues to shift to competing beverages – soy, soft drinks, water, juice.
- All those categories are driven by innovation, a strong consumer focus and independent strategies for growth.
- Is it working for us?
- Now if we had witnessed these results in a year where we worked together, focused on the consumer, respecting the importance of each part of the supply chain, creating an environment to enable growth, then it would be very discouraging. But we didn't.
- What is discouraging is that we let it happen to ourselves.
- While the juice processors and producers focus on growth strategies, we focussed on countering each other's arguments about regulations, labelling, trade rules. We've allowed the soy processors...the juice makers...even the margarine manufacturers to focus on the consumer, and create growth for their producers and processors.
- Unfortunately, events in Ottawa over the past 12 months have placed us at odds with you and many of your policy proposals. DPAC believes that we need more investment and focus on advanced technologies for dairy ingredients that allow us to innovate and provide consumers with new, affordable dairy products. It is part of our vision for growth. The real tragedy of the CITT ruling on dairy ingredient imports is not just that we will see increased imports and a further erosion of our marketplace, but the fact that we are not at all prepared to process and compete with these imports.
- These results and this approach, we believe, cannot continue! Now, I am not standing here blaming producers. Processors are equally at the center of this issue – and I am not standing here blaming supply management. We believe in the stability that supply management can offer. But it's not working for us – not in the way that it can if we focus on satisfying consumers, on creating growth and by working together.
- But talk, as they say, is cheap...or as Dr. Phil would say...create your own experience! Do what matters! How is it possible for our industry to better work together to build a healthier result? We would suggest four areas of focus – ones that will be of particular value given a change in government that will certainly be looking for our leadership.
- A first opportunity is with regards to Canada's Food Guide for Healthy Eating. It appears that the direction today is to downplay the important role of dairy in Canadians' diets. We are just as concerned as producers with the proposal to lower the recommended daily serving of milk products. This is clearly an area of common interest where we should and must work together! Milk and dairy was once described as the perfect food. Somehow we have allowed others to encroach on this claim. What better way to work together than to re-establish our healthy credentials.
- A second opportunity might be the proposed dairy labelling amendments. We all know the battles over Bill C-27, which would have had serious and perhaps unintended repercussions with how and what we process. Last week, on behalf of DPAC and a larger group of industry associations, we sent a letter inviting DFC to join us collectively to work together and resolve any outstanding labelling issues. Working together is the best way to resolve this matter. We must give our respective boards this mandate to work together in this way.

- As a third opportunity – it may be the most accessible – because we have already begun. Under the guidance of the Department of Agriculture and the Canadian Food Inspection Agency, we have formed a Dairy Issues Working Group. The group is made up of key Agriculture and CFIA staff, along with Richard Doyle and Jacques Laforge, as well as Don Jarvis and myself. Our original mandate was to work to a common solution on regulatory issues. With the commitment from all parties, we believe we could and should open up the mandate to encompass a review and recommendation of a completely revised and modern set of dairy processing and product regulations that keep us in step with our competition and the world at large. And that creates an environment of growth.
- It is important work, very necessary but will take some time. We have agreed that regulations provide a framework for a profitable sector. They can grow the diversity of markets for both producers and processors and must be geared to modern consumer demands. Our regulatory system needs to reduce duplication and disharmony and be simple and facilitate compliance. Importantly, they need to increase opportunities for dairy products to promote the health of Canadians.
- And finally, we all know that for 2007 the CDC needs to update and revise its pricing model. We also know that pricing has been at the center of issues our industry has faced – what better time to map out a plan to work together – to address a pricing model that meets the needs of producers, processors and consumers, while we establish a framework for growth.
- And let me add a fifth. Last week the Federal Court upheld a CITT ruling that allows more milk protein concentrates to enter this marketplace without tariffs. Last fall DPAC had proposed a solution that we believed would mitigate some of the impact of this development while being WTO compliant. At that time the idea was rejected by DFC. It is time to relook at it – it is time to work together to grow our industry.
- Over the past year I have had several occasions to attend international dairy conferences, involving both producers and processors. I can tell you the most common theme was growth. They talked about demand outstripping supply. In the U.S. last month, they were very bullish about the growth prospects for their industry – producers and processors.
- We need that growth orientation.
- We cannot innovate, grow and prosper as one of the country's major food industry sectors by building up even more trade barriers. But we can – by working together – find ways to simplify our regulations, create a new pricing model and tap the goodness and growth in dairy products.
- As we look at our Canadian industry and ask – is it working for us? I think the answer is obvious.
- But it doesn't need to be so! This is still a large, relevant, important industry...waiting for leadership. Leadership that will build a framework that enables growth. Leadership that encourages and supports processors and producers to work together.
- It can work for us! Let's do what matters!

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