Sudden dairy price increase leaves food-service industry scrambling to adjust

AMY O'KRUK
PUBLISHED AUGUST 1, 2018
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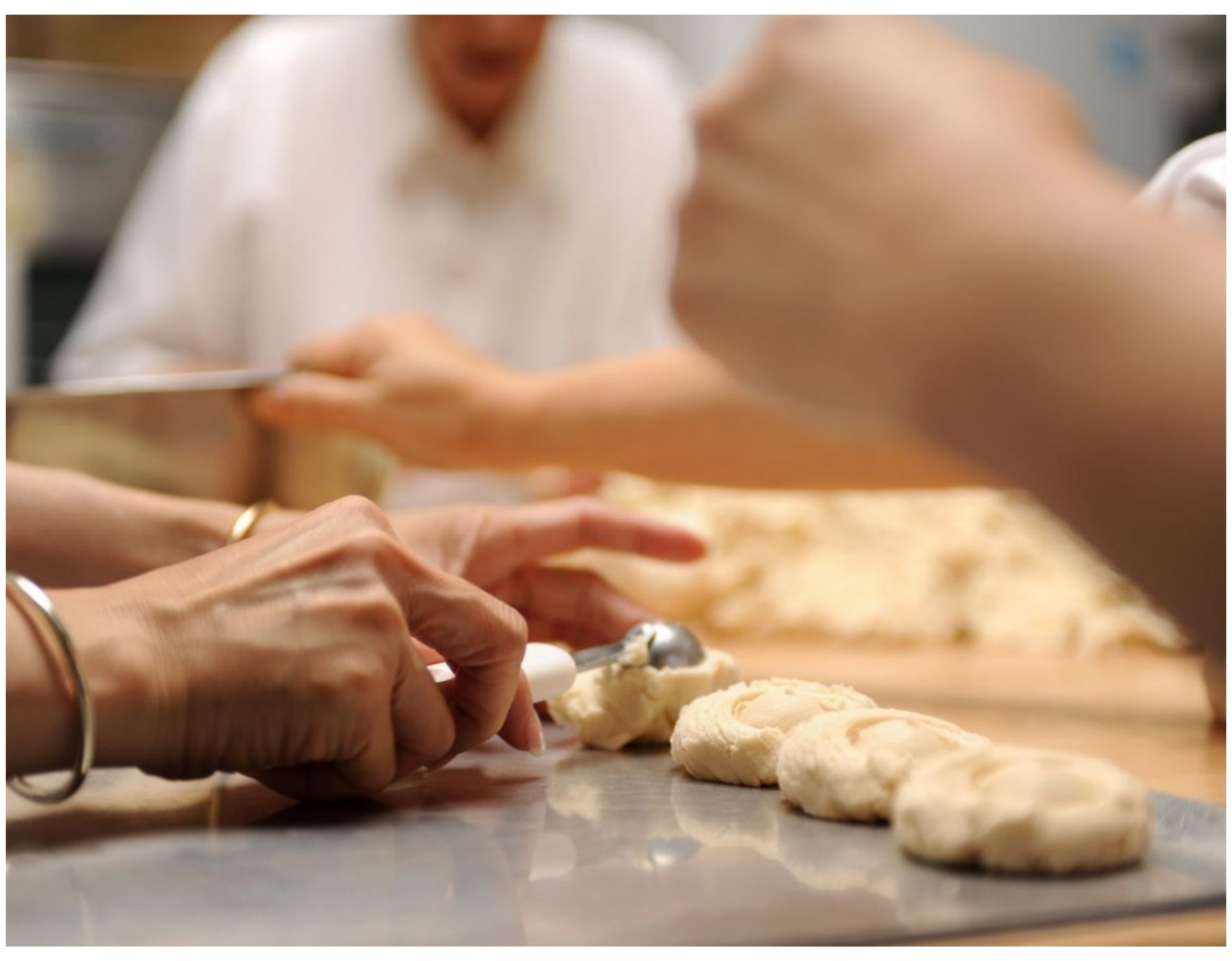

A kitchen shot of Mary Macleod's Shortbread's butter-rich cookies at the company's retail location at 639 Queen Street East in Toronto, Ont.

DYLAN MACLEOD/DYLAN MACLEOD

Canada's food-service industry is facing tough choices after the Canadian Dairy Commission announced it is raising the price of butter fat and raw milk by 4.1 per cent. The hike, which goes into effect on Sept. 1, is the first in two years and caught dairy processors and food producers off guard.

Sharon Macleod's business, Mary Macleod's Shortbread, used 30,000 pounds of butter last year to make its gourmet cookies. So when she heard about the price hike, Ms. Macleod felt sick to her stomach.

"Our biggest cost outside of labour is butter," said Ms. Macleod, who took over the Toronto-based family business eight years ago from her mother-in-law, Mary. "Having the cost go up is really significant for us. We're already looking to try and get costs down this year with the minimum-wage increase and everything else hitting small businesses."

Announced on July 20, businesses have about a month and a half to prepare for the higher costs of milk and butter. While price increases usually happen in February, the CDC, a Crown corporation that co-ordinates milk production, said it raised prices because of higher interest rates and higher prices for fuel and feed, which increased dairy farmers' costs by 5.1 per cent. The Dairy Farmers of Canada asked for a price review.

The CDC's last price adjustment to butter and raw milk – which is used to make cheese, yogurt and ice cream – was in 2016, when it raised dairy prices twice, over all by close to 5 per cent.

For many businesses reliant on dairy ingredients and products, the 4-per-cent increase is an unexpected headache. Blake Frazer, vice-president and general manager at Kawartha Dairy, a Canadian independent dairy processor well-known for its ice cream, understands the CDC's position and says price increases are unavoidable. But he says the timeline is tight.

"We have to look at ways to reduce our costs in other areas. That's tough too because energy costs are up, fuel costs, labour, trucks and all these things," he said. "It doesn't give a lot of time to work up all our new costs and then give our customers enough notice."

Chantal Paul, the CDC's director of corporate services, said the CDC tries to give businesses 45 days notice, but this time it was not possible. Although the CDC had the choice of making the 4.1-per-cent change effective Oct. 1, dairy farmers and the Dairy Processors Association of Canada agreed to the Sept. 1 date during early July consultations.

"We understand that it makes it a little bit more challenging for businesses. And it's unfortunate that it's one of the possible consequences of this decision but we felt there was sufficient need on the part of dairy farmers that we needed to make an adjustment for Sept. 1," Ms. Paul said.

Canada's dairy industry, which included 11,280 farms in 2016, has operated under a supply-management system since the early 1970s. The system governs virtually every aspect of production, including tariffs to block imports, strict quotas that determine how much each farmer can produce and fixed prices paid to producers.

The global spotlight has also turned to Canadian dairy as Canada, Mexico and the United States renegotiate the North American free-trade agreement. U.S. President Donald Trump has attacked Canada's supply management in recent months, pointing to the "unfair" 270-per-cent tariff on milk.

According to Sylvain Charlebois, a professor in food distribution and policy at Dalhousie University, the price increase could spur more restaurants and processors to move toward diafiltered milk and other protein-rich dairy ingredients that are used to make products such as cheese and yogurt. These products are exempt from NAFTA and can enter Canada duty-free. In 2016, Canada imported nearly $200-million in milk protein ingredients.

At the retail level, the consumer price index for dairy products fell 0.5 per cent between June, 2017, and June, 2018. But Mr. Charlebois says consumers may see an uptick before the year is over.

"Canadians should expect dairy products to be more expensive in late fall or early winter. If you visit a restaurant, you should expect to pay more for pizza or any other dishes that require dairy," he said.

Mary Macleod's Shortbread has already sent out prices to its big customers for the Christmas season – its busiest time of the year. Ms. Macleod, whose company has 15 employees, with 10 more seasonal workers joining at Christmastime, said the cost will likely be passed on in higher prices for her retail clients, with a prize freeze for consumers who order directly through her website.

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