

## Global Shortage of Dairy - The gap between supply and demand is increasing.

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**We are living in a fast-changing world and raw milk production is suffering under current circumstances. This was the starting point for the two-day interactive workshop organized by Eucolait and IFCN, which brought together more than 70 participants from more than 50 different companies and institutions.**

Under current dairy market conditions, a shrinking global milk supply is meeting steadily increasing demand, and farm profitability is under increasing pressure with milk and feed prices at unprecedented levels. The economic challenges are accompanied by rising uncertainty about future political stability, environmental regulations, and trade agreements. Is the dairy industry in a phase of fundamental change?

### **The dairy outlook looks bearish from a supply-side**

It became clear during the event that there are a lot of uncertainties and market disruptors facing the dairy industry: there is a general shortage of food and difficulties in securing global food production. Participants even went so far as to speak of a “fight” for milk in the future. At the same time, price elasticity may not be as important as it has been in the past. Consumers are willing to pay more for dairy products. But who will cover this supply in the future is unclear as the major dairy producing regions are facing increasing amount of problems e.g. climate change, environmental regulations, lack of labour or lower margins.

For 2023, IFCN expects milk prices to remain high compared to previous years in the face of current uncertainties and in general the shortage of milk as the gap between milk production and demand for dairy is getting bigger and leading to an increasing unsatisfied demand for dairy products especially in emerging markets. Yet even at these high levels, the milk price still doesn't compensate for the extreme increase in agricultural input costs, which is why farmers' margins are under pressure and leading to lower milk production volumes. But not only the agricultural input costs are foreseen to stay at accelerated levels, also “the energy prices will remain at high level compared to previous years”, which was mentioned by Lucia van Geuns from The Hauge Centre for Strategic Studies, “and will directly impact the commodity market due to higher milk processing costs”. This means that changes in commodities volumes will be observed, which will impact especially commodities with lower market margins.

### **Dairy is in the middle of a “trilemma”**

The challenge to solve is how to secure a needed raw milk pool to ensure the availability of dairy products at affordable levels and on top of that – producing milk in a sustainable environment. Sustainability and the transformation of dairy will add extra costs and more uncertainties to the already volatile dairy market. And that is why it is critical to anticipate future developments, mitigate risk and understand the new rules governing dairy farming,

processing, distribution and sales of dairy products. John Allen from Kite Consulting was talking about „Sustainable dairy nutrition - how to create value?“ and one of his conclusions was that if the European dairy industry what to be transformed an investment of about 15-20 billion Euro is needed. Only those market players who are willing to act have a chance to succeed in the future. The findings from the workshops, in which the participants looked at various challenges and opportunities for the European dairy industry until 2030, also reflected these results and, moreover, highlighted the importance of taking an in-depth look at the requirements of the changing dairy world.

## **Understand market economics to predict the future**

At the end the conclusion of the participants was that there is a plenty of reasons to have an optimistic view for the future and that everyone should take the current and upcoming challenges as an opportunity to show the society that the dairy industry is willing and able to act on time. The activation of the entrepreneurial thinking as the dairy sector was and is innovative to overcome all previously faced challenges successfully - so there is bright future ahead of us. In this sense let us keep the milk moving.

The IFCN Outlook offers up to 12-months forecasts for dairy commodity prices, farm-gate milk prices, feed prices, dairy farm margins and raw milk pool sizes for 65 countries, accounting for 92% of global milk production. IFCN and Eucolait will continue to monitor developments and are happy to take on the challenge of continuing to connect dairy stakeholders and thank everyone for their active participation. If you want to keep an eye on this development and are interested in dairy market forecasts or workshops, please feel free to contact us.

About IFCN: IFCN is a global research and consultancy network for the dairy industry based in Kiel, Germany. Founded in 2000, IFCN now brings together more than 100 researchers and makes its unique knowledge available through data services to more than 140 companies in the global dairy supply chain. Customers use IFCN analyses to adapt to the rapidly changing industrial landscape and new requirements, as well as to connect with industry colleagues.

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