

Agribusiness

The coming dairy revolution

Rising dairy prices over the last nine months have given dairy farmers a pulse of optimism. This has followed more than two years of terrible prices with most farmers requiring support from their financiers.

I too am optimistic about the long-term future, but only if the industry can recognise the need for fundamental change. Otherwise, the developing scenario threatens to be a repeat of what the wool industry has experienced over the last 50 years: a slow but ongoing decline, with the occasional price surge being just enough to sustain false hope.

Our current pickle is a consequence of history. Decisions which seemed justifiable to many at the time, now, with hindsight, look decidedly flawed. The consequence is that we have the wrong cows, the wrong dairy systems, the wrong product mix, a raft of environmental issues, and too much debt. Perhaps most important, is dairy has lost its social licence from the broader community.

All the above issues can be successfully addressed. But only if the industry has strong leadership and sheds its defensive shield. I do have nagging doubts as to whether that will occur, because it will be perceived by some in the industry as eating a very unpalatable meal of humble pie.

In recent weeks, I have been in Holland, trying to understand what makes their dairy industry tick. What I saw was a science-driven industry focused on exports of value-add products and an industry with a social licence. The Dutch industry is very different from how European dairying is typically perceived from here.

Apart from what I call "bovinophobes", who hate everything to do with cattle, the main urban community in Holland likes what it sees. On warm summer days, the cows are grazing on green pastures. The rest of the time in that inclement climate they are inside. The nitrogen leaching issue, which arises from concentrated urine patches deposited by cows in autumn and winter, has been largely solved – it is simply no longer an issue of concern, with tight laws on effluent management. However, there are remaining tensions around new phosphate allowances, with some farmers feeling very aggrieved.

This overall situation of community acceptance has not happened by chance; it has taken a lot of work.

There is so much that needs to change within our own dairy industry it is reasonable to ask whether dairy should indeed be part of our New Zealand future. That question is easy to answer.

New Zealand needs its agriculture industries. Without agricultural exports, our economy would look mighty sick. In general, our climate and soils are much more suited to pastoral agriculture than horticulture. We use about 120,000 hectares of land for horticulture, led by kiwifruit, wine grapes and apples, supported by myriad other crops. Hopefully our horticulture industries will expand a lot further, but the notion that most of our more than 10 million hectares of pastoral land and more than two million hectares of dairy land could be used for horticulture is greatly flawed. The climate, soils, logistics and economics simply do not stack up.

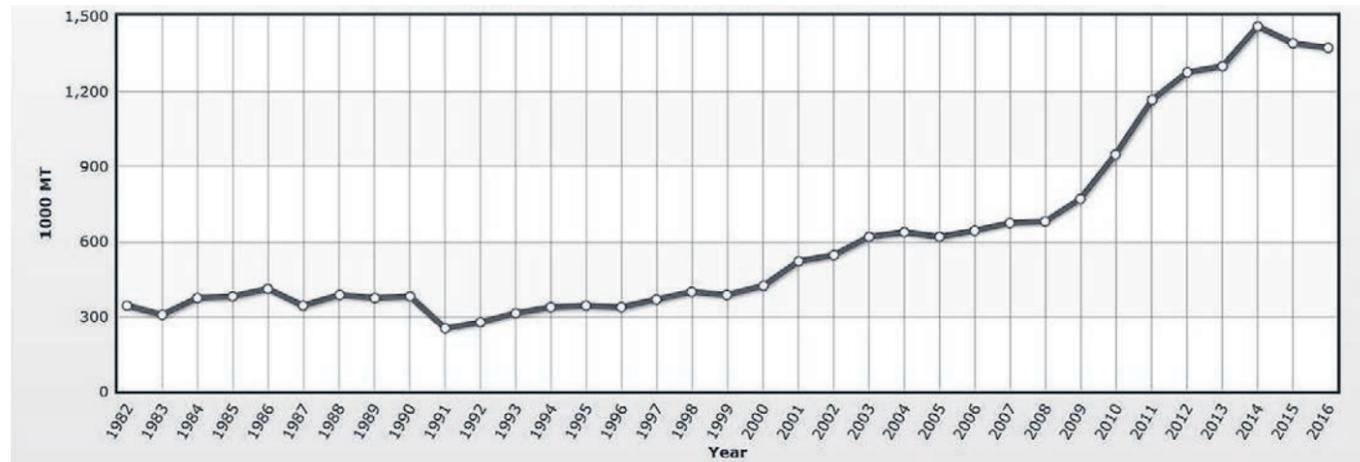
Compared to the rest of the world, dairy is where New Zealand has a competitive advantage. Climate, scale and well-developed quality assurance systems are in our favour. Scale, at both farm and industry level, is the one that is least recognised.

The achilles heel of the current New Zealand dairy industry is that it is structured predominantly for the manufacture of whole-milk powder. This whole-milk powder is the cheapest, easiest form of long-life product to produce. Since 2000, our milk production has increased by 75 per

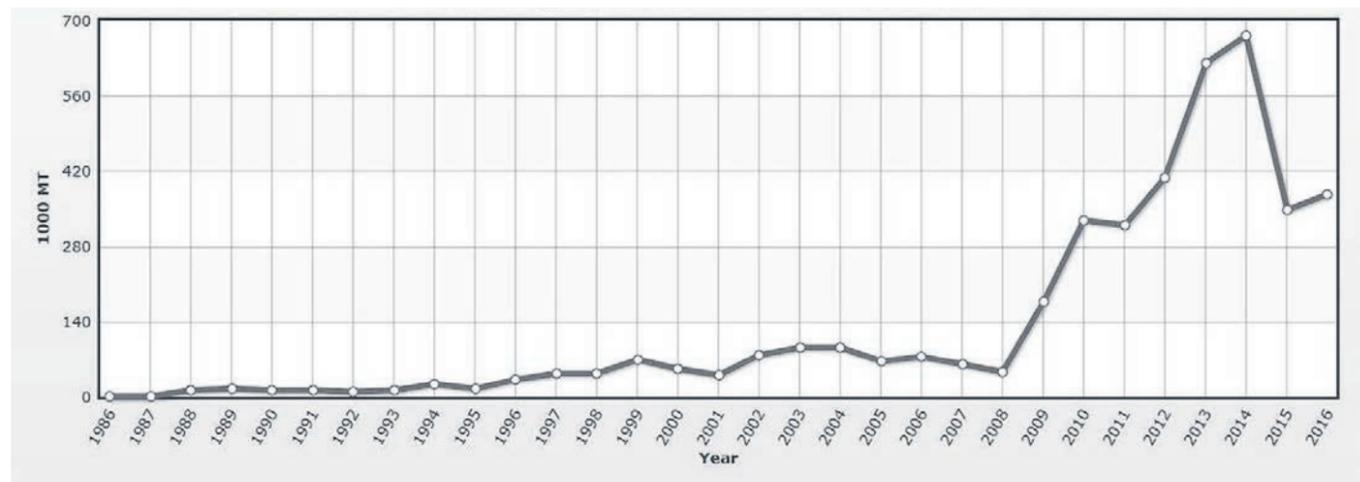


The industry needs to recognise the need for fundamental change to avoid a demise similar to that of wool, writes **Keith Woodford**

NZ Dairy dry whole milk production by year



China Dairy dry whole milk imports by year



cent, but whole-milk-powder production has more than tripled. Its production fits perfectly with our seasonal production systems. The only problem is that only developing countries use big quantities of it.

For the past 20 years, our dairy wealth has come from selling whole-milk powder, much of the time at very good prices, initially to the oil-rich countries and more recently to China. Go back about eight years, and Venezuela was our largest market.

However, with lower oil prices, plus social and political dislocation, Venezuela is now no more than a blip on New Zealand's whole-milk-powder horizon. Other oil producing countries are also struggling to find the funds to purchase our powder.

The Chinese demand came just at the right time for New Zealand. China has been hugely important to the New Zealand dairy industry and will continue to be so. However, the evidence is that whereas overall Chinese demand for dairy products continues to increase, with infant formula being the standout, the demand for whole-milk powder has jumped up and down and is now no higher than it was five years ago.

The lack of growth in Chinese demand for whole-milk powder should come as no surprise. It is what happens in developing countries as they get more sophisticated logistics and move to more sophisticated dairy products. So, if we are going to depend on whole-milk powder, we need to work out where we are going to sell it. Maybe it could be Iran – after all, go back some 40 or so years, and we did export a lot of pastoral products to Iran – or somewhere in



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Africa where we need to focus? It won't be India – they can produce all they need and keep high barriers against New Zealand products.

Another big problem for the New Zealand industry is that it has chosen to ignore the threat posed by A2 milk, i.e. milk that is free of A1 beta-casein. I have been promoting the notion of milk free of A1 beta-casein for more than 10 years, and it has been a bruising experience.

However, the tide is now turning and I work with groups and companies in many countries who are quietly getting themselves organised, largely below the radar, for the coming A2 revolution.

In Australia, A2 milk is well above the radar. It is the largest selling brand nationally in supermarkets, at double the price of standard milk. The premium-priced "a2 Platinum" infant formula has moved from a standing start just over two years ago to now having more than a 30 per cent market share in Australia, with much of that on-sold to China.

Over the next few months, I expect to have a lot more to say about milk free of A1 beta-casein, given the

amount of relevant research emerging from the scientific pipeline. It is ironic that the science about A1 and A2 beta-casein actually began in New Zealand. However, the mainstream industry here chose to defend the status quo, with what history will show were "alternative facts" rather than to embrace the challenging opportunity. There is a real risk that history will tell a story of an industry that allowed itself to be left behind.

Environmental and related social licence issues in New Zealand mean farmers will have to move increasingly to getting cows off-paddock during late autumn and winter. There is no other way to solve the nitrogen leaching issue. Once we move to environmentally friendly cow houses with padded cow beds to complement our pastoral systems, then new opportunities arise for 12-month milk as is produced almost everywhere else in the world.

At that point, we can seriously engage in value-add branded products.

There is no doubt that the journey ahead is going to be challenging and indeed too challenging for many New

Zealand dairy farmers. There are big questions about where the finance required to make changes will come from. In many cases, farmers are too indebted to be able to make the necessary changes. For some it will be case of moving from the land and letting new operators come in. Hopefully, those changes can occur so that all retain their personal dignity.

There are many other parts of the dairy puzzle beyond what I have touched on here as to how the New Zealand dairy industry will transform itself. Some of the necessary steps will evolve over time, as new opportunities arise and new issues arise.

Emerging restrictions limiting the use of PKE to 3kg per cow per day are going to impact North Island production, particularly in drought. The potential for greenhouse gas levies may add further complications.

The one clear starting point for New Zealand dairy is to recognise that the industry does indeed have to change. Some farmers and some operators along the value chain can see that future and will find the pathways to success.

But right now, there are still far too many who are focused on the past, and without the personal and financial resilience to find pathways forward. And there lies the nub.

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