Dairy Policies and Politics

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Fonterra overview

- Co-operative owned by 10,500 supplier shareholders
- Largest dairy exporter in the world, but only 2-3% of global dairy production
- Leading global dairy ingredients provider, supplying safe, nutritious products to more than 100 markets
- Sells over 2.4 million tonnes of products annually
- 25% of New Zealand’s export earnings – one container exported every 5 minutes
- NZD 19.9 billion in revenue (~USD 14.3 billion for FY11)
- 16,000 staff globally (10,000 in New Zealand, 6,000 overseas)
Dairy production and consumption in the Asia Pacific and LAC regions

Dairy production in million tonnes (milk equivalent basis) (2011)
Dairy consumption in million tonnes (milk equivalent basis) (2011)

Sources: Fonterra analysis. Milk Equivalent (ME) basis. Note: Consumption values also include estimated inventory
Net dairy trade of countries in the Asia Pacific and LAC regions

Note: Indicates major dairy trading partner/s

Net dairy trade surplus in million tonnes of product (2011)

Net dairy trade deficit in million tonnes of product (2011)

Sources: Global Trade Atlas, Fonterra analysis.
Strong global growth in dairy consumption is expected. Both domestic production and imports will have a role to play.
Liberalisation of food and agricultural markets is critical to improving food security

- High tariffs are in place for agricultural goods such as dairy in many markets
- But non-tariff measures also have significant impacts on trade flows

**Tariffs on skim milk powder**

<table>
<thead>
<tr>
<th>Country</th>
<th>Tariff (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>250%</td>
</tr>
<tr>
<td>Canada</td>
<td>200%</td>
</tr>
<tr>
<td>Korea</td>
<td>150%</td>
</tr>
<tr>
<td>Mexico</td>
<td>100%</td>
</tr>
<tr>
<td>India</td>
<td>50%</td>
</tr>
<tr>
<td>USA</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: WorldTariff.com
Note: Tariffs are MFN or outside quota rates as appropriate. Specific and compound rates have been converted to ad-valorem at an assumed SMP price of USD 3,200 per tonne

- Add unnecessary costs to trade
  - e.g. non-standard testing requirements

- May practically ban imports
  - e.g. compositional standards

- May act as an outright ban on imports
  - e.g. registration of foreign factories
Key messages

• The food security challenge: provide improved nutrition to a growing global population with less impact on natural resources

• Strong growth in demand for agricultural goods, including dairy, is expected

• Both local production and imports will have a role to play in meeting demand

• But no country can efficiently be an ‘island’ when it comes to modern nutritional security

• Food security requires greater volumes of food to flow freely from areas of surplus to areas of need – and this requires liberalisation of agricultural trade

• Long term commercial relationships are a key component of food security, and can only occur when markets are open, and investment environments are stable

• Policies that restrict trade or distort agricultural markets mask price signals to producers, act as a disincentive to increasing agricultural production, and can increase food price volatility