Case Study on Dairy Industry of New Zealand

Background:

New Zealand is the eight largest milk producing country in the world and accounts for 2.6% of global milk production by producing 21.3 million tonnes in 2017. New Zealand produces a similar amount of milk to other temperate countries of a similar size (e.g. the UK, France). However, as it only has a small population (similar to Singapore), the excess is exported. The country is world's largest exporter of milk and dairy products, accounting for a fifth of the global total at $5.4 billion in 2018, according to the International Trade Centre. New Zealand is the world's leading exporter of butter, whole milk powder and products of natural milk constituents (such as the protein casein), the second largest exporter of skimmed milk powder, and the sixth largest exporter of infant formula. Dairy products from New Zealand are exported to over 140 countries with China being the largest market, followed by United States. The success of New Zealand in dairy is attributed to various factors. The dairy industry in the country is built around a natural environment conducive to agriculture. The dairy collection model is a natural monopsony with all milk collection and primary processing through farmer owned cooperatives. About 84% of New Zealand milk supply is controlled by Fonterra, a farmer-owned cooperative which was formed in 2001 in a megamerger of dairy cooperatives and the export dairy board.

Key Drivers:

The key drivers of New Zealand's dairy industry that have ensured success are:

- Conducive climate with ensuring low production cost: The temperate climate has allowed development of grass-fed production system at low cost
- Efficient people skilled in dairy management: With a long history of dairy production of over 100 years, the industry boasts of highly skilled personnel and strong dairy management system
- Location and proximity to global markets: The country enjoys a privilege in terms of its location and connection with East & South-East Asian market

The expansion of export markets required the dairy industry of New Zealand to strengthen its infrastructure, improve its processing capacities, transportation upgrading of port facilities, and the expansion of shipping provided by transnational shipping firms such as Maersk. These steps were taken alongside doubling the milk production over 15 years since 2000. Increase in milk production was done by increasing dairy farmland by 74% and dairy cows by 65%. Conversions of sheep and beef farms into dairy farms had to be done which required significant investment in re-construction. Alongside, fodder production had to be increased by planting maize crops as well as procurement of supplement such as palm kernel meal from Indonesia and Malaysia. Dairy farm being more labour intensive than sheep or beef cattle farms, employed migrant labour in the country's dairy industry. The successful dairy model of New Zealand showcases how dairy farming can leverage the opportunities presented by globalization by assembling several factors in the competitive environment. Being an export-oriented industry from the beginning, the industry explored new geographies to expand which was coupled with building Fonterra to support the humongous milk supply.

Learnings for India:

New Zealand dairy development model has some lessons for Indian dairy sector – global market oriented production and manufacturing facilities, emphasis on all aspects of the industry and not just production to bring efficiency across the value chain and explore appropriate low-cost innovations to tap export markets.

Source: https://www.dcanz.com/about-the-nz-dairy-industry/; https://www.gtreview.com/magazine/volume-15issue-5; https://www.gtreview.com/magazine/volume-15issue-5/milk-new-zealands-dairy-exports-conquered-world