



# ***IUF Dairy Division***

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**Report on the IDF World Dairy Summit held in Auckland, NZ, 8-11 November 2010**

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The International Dairy Federation (IDF) World Dairy Summit is held annually and this year (2010) was held in Auckland, NZ.

2,200 delegates from over 70 countries registered for the Summit and as far as I am aware I was the only representative of organised labour. There was one delegate from Greenpeace who was probably the only NGO representative.

Delegates were primarily representing dairy, packaging, engineering and financial services companies, research institutes, and government regulatory and monitoring authorities and a large number of mostly NZ farmers were also in attendance.

The theme of the conference was sustainability and had a number of conferences running simultaneously.

I attended the conference sessions on dairy policies and economics. Other conferences focussed on dairy farming, dairy science, nutrition and health, marketing, product integrity and manufacturing technology. It was a huge promotion of the dairy industry and of the benefits of dairy products.

It is claimed that membership of the IDF accounts for approximately 86% of the world's milk production and I suspect that any company and Government regulatory authority membership in a country is regarded as covering all the milk production of that nation.

Surprisingly, there were few delegates from Latin America<sup>1</sup> with the exception of Chile and at least in the sessions I attended, very little comment on the industry in the countries of South or Central America.

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<sup>1</sup> In Latin America, only the countries of Chile, Brazil and Mexico have membership in the IDF.

The achievements of the last year were dominated by the establishment of a common carbon footprint approach for dairy with the publication of “The IDF guide to standard lifecycle assessment methodology for the dairy sector” (Bulletin of the IDF No 445/2010) The guide establishes consistency on the quantification of the carbon footprint for dairy and identifies practices which will further reduce greenhouse gas emissions. The document identifies key areas where there is currently ambiguity or differing views on approach while it recommends a science-based approach that can be inserted into existing or developing methodologies for practical application in developing and developed dairy industries. The Guide has been developed in close collaboration and active involvement of the FAO and the Sustainable Agricultural Initiative (SAI) Platform<sup>2</sup>.

This is certainly an important and useful development but the notion of sustainability in such industry conferences should be approached with a fair degree of scepticism. Sustainability of the global agri-business model was top of the agenda as was the push for more sustainable global markets, i.e., free trade. The free trade agenda was pushed strongly in the opening leaders’ forum by Fonterra CEO Andrew Ferrier and was backed up throughout the conference by NZ trade and other government representatives. NZ trade policy is identical to Fonterra trade policy and is single-minded in its focus of promoting the removal of all barriers to NZ agricultural products entering offshore markets.

At the beginning of the conference the Chair of the IDF, Richard Doyle, highlighted the work of the IDF across a “sustainability spectrum” and commented that while the IDF was undertaking comprehensive work on nutrition, climate change, environment, biodiversity, animal welfare and food safety, it had not yet begun work on labour standards and worker safety.

This is an opportunity for the Dairy Division of the IUF to influence the work of the IDF and I recommend we make contact to set up a formal engagement over these issues.

Decent work and the sustainability of rural communities did not feature in the conference proceedings I witnessed except for a presentation from the Indian Dairy Board which had a strong rural development theme and which is commented on further later in this report.

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<sup>2</sup> SAI’s Working Group on Dairy includes Danone, Nestlé, Fonterra, FrieslandCampina, Kraft, Unilever, General Mills and McDonalds.

## **World Dairy Leaders Forum**

Participants in the world dairy leaders forum on the opening day of the summit and their specialist topics were Alex Chu, Deputy Chairman and Executive Director of Dah Chong Hong Holdings Ltd based in Hong Kong (New Consumers), Andrew Ferrier, CEO Fonterra (Trade and Government Policy), Niels Graugaard, member of executive Board of GEA, a Danish engineering company (market volatility), Cees 't Hart, CEO, Friesland Campina (health), Jerry Kozak, President and CEO of the National Milk Producers Federation in the US (farming), Ken MacKenzie, Managing Director and CEO of Amcor (Sustainability) and Jacqueline Peters, Global Sector Head Dairy Rabobank, (Markets).

Items of interest and snippets of information that came from this forum include:

- 2.5% global demand growth predicted for dairy annually and this growth will be led by China and India and most of the demand will be met by local markets<sup>3</sup>. NZ, US and Europe will fill the gap in local supply.
- A trend of overall high prices for dairy is predicted for the medium term future but this is tempered by high levels of volatility.
- Retailers and consumers are increasing demands on environmental sustainability.
- Company mergers and acquisitions are increasing.
- Convenience and health will drive growth in developed countries, e.g., Greek yoghurt, speciality cheese.
- Be ready for opportunities as finance capital looks to cash in on 'protein'.
- Australia and NZ do not have the capacity to fill all the demand from Asian markets.
- Demand and supply will increase in Latin America.
- Demand in Africa will increase but development will be slow.
- India restricted by infrastructure needs, for example, the ability to transport refrigerated goods.

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<sup>3</sup> Rabobank has since changed this view, saying China and India will not reach self-sufficiency soon. <http://www.dairyreporter.com/Financial/Rabobank-changes-view-on-future-dairy-role-of-China-and-India?nocount>

- There is a big market in China for baby food products and food security is essential. Long term it is not possible to just export into China – companies must be in the market in full functional form.
- Amcor and other packagers are chasing contracts on the guarantee of supply chain product integrity. Brand owners are upgrading their packaging requirements.
- Portion control is a major factor in eliminating waste and reducing size and is a major factor in reducing carbon footprint.
- US farmers are facing price volatility and energy and labour cost increases. Milk Producers Federation are trying to build consensus for subsidy reform. There will be less \$\$ for agriculture subsidies in the next Farm Bill.
- European markets facing resistance to saturated fats.

### **Dairy in Oceania and the World**

The Policies and Economic Conference was held over 2 days and the first session was on “Dairy in Oceania and the World” and the NZ Speaker was Tim Mackle, CEO of Dairy NZ, an industry association.

NZ processes 16 billion litres of milk per year, 2.3% of world production and is responsible for 25% of NZ exports. The milk prices paid to farmers and charged to consumers are international market prices as there are no tariffs or subsidies (not overt ones at least but there are many hidden costs to the NZ taxpayer).

The supply of labour for dairy farms is a major issue and the industry needs 3-4000 new farm workers every year and migrant labour is increasingly important.

The Australian speaker, Chris Phillips, commented that dairy was the third largest rural industry in Australia producing 9 billion litres of milk per year. There is growing domestic demand for dairy and 45% of dairy is exported compared with 95% in NZ. Farm gate prices reflect international prices for dairy. 90% of milk in Australia is now produced by 6 large firms and only 37% of milk is now produced by local farmer cooperatives. There are a number of milk collection agencies which do not process milk but sell it on to the processors. An interesting development has been the establishment of collective bargaining for farmers

outside the cooperative system and 18 groups of farmers operate under a collective bargaining system to establish a price for mainly the fresh milk market.

Dr Adriaan Kruger from the Netherlands Dairy Board followed the Australia/NZ presentations with a presentation on global trends. Growth in dairy production slowed in 2009 but in 2010 demand has been steady, production moderate and prices still high.

In 2009 buffalo milk production, mostly in India and Pakistan, increased by over 3%.

Butter/oil production increased by 3.7% in 2009 and this was mostly due to increased ghee production in India.

The two main cheese producers remain the US and Europe. There was a decrease in Whole Milk Powder (WMP) in 2009 on the back of the melamine scandal.

NZ has resumed its leading position as supplier to the world with 27% of total world trade volume and milk prices in NZ have a tendency to increase. In 2009 milk producer prices in the US and EU reached a new low. In 2010 the international dairy market has been strong on the back of Chinese demand for milk powder.

### **World Dairy Situation Overview**

Dr Torsten Hemme spoke on developments in global milk production. 40% of the world's milk production is not processed. The world average herd size is 2-3 cows and 1 billion people could be said to be living on 'dairy farms'. 2009 saw a decrease in milk production in EU, US and Latin America. Dr Hemme discussed the production costs of different countries and commented that NZ production costs had tripled in the last 10 years and it was no longer a low cost producer. The milk feed price ratio is the critical factor in production costs.

Jurgen Jansen from the Dairy Board in the Netherlands spoke on trends in global trade.

Traditionally, cheese and WMP dominate global trade and the main exporting countries are NZ, Australia, US and EU. The major new exporter to emerge over recent years is Belarus, surpassing the Ukraine with now 5% of global trade and is diversifying exports beyond Russia. The contribution of Latin America to the global market is stagnant.

In the past decade trade has grown more than production but is still only 7% of global dairy volume.

## Trade and Agricultural Policy

A panel on trade and agricultural policy was made up of Mariann Fischer Boel, former Minister of Agriculture in Denmark and former European Commissioner of Agriculture, Joe Glauber, Chief economist for the US Dairy Assn and Crawford Falconer, NZ lead trade negotiator.

By the end of March 2015 the quota system in Europe will be completely phased out but there is likely to be a safety net against market failure. The EU will address 'imbalances in the supply chain and abuse of market power' but there was no strategy explained by Ms Fischer Boel about how this might be approached. The future policy outlook in Europe will include country of origin labelling and the development of mechanisms to improve the bargaining power of producers.

The US Administration contributes \$5billion a year in direct payments to farmers and a further \$5billion in crop failure payments. Because of the huge budget deficits there may be cuts in these subsidies. Dairy production in the US is moving west with states such as Idaho and California producing a surplus of milk. The National Milk Producers Federation policy is to remove price support and replace it with margin protection – that is, ensuring a fair margin between the price of feed and the price the farmer receives for the milk.

New Zealand's Crawford Falconer painted a 3-option scenario for world agricultural trade. The first was an orderly scenario where the Doha Round is completed, there is further EU and US market reforms and then a further trade round follows these reforms. The second option was a 'considerably disordered scenario' where there is no WTO round, economic recovery does not go well, there is inability to reach multi-lateral agreement on climate change, there are many disputes on trade, more litigation and major developing economies move to a North Asian model of protection. The third scenario is the 'jackpot scenario' where the Doha Round is completed and current engagement in free trade ignites liberalisation in unlikely places such as Japan. The focus will change from Government trade policy agendas to a much more private sector-driven process. Governments and the private sector will come together to mitigate the climatic effects of increased food production.

The writer of this report found this session rather depressing. I asked a question of the panel about replacing price supports by intervening in the market with standards – labour, food

safety, environmental, animal welfare, and health and safety. The response from the panel was one of bewilderment and there was muttering about creating more barriers to trade and consumers deciding those things.

### **Sustainability: Policy and Economic Options for Dairy**

The session on policy and the economic implications for dairy of sustainability requirements was led by Dr Hans Johr, Nestlé's head of agricultural policy. Nestlé have a sustainable agricultural initiative which brings together appropriate resource use of land, water, energy, climate and people and Nestle are now more engaged with working with farmers. Nestlé is a key player in the Sustainable Agricultural Initiative Platform (SAI) with Danone, Fonterra and others. I understand that SAI has an office in Geneva. The whole presentation emphasised that Nestlé was working hard to link the two key players in the supply chain – farmers and consumers.

At the end of the session I approached Dr Johr with a question about the other key players in the supply chain – workers - which he completely ignored in the presentation. I challenged him about Nestlé's use of precarious work to deny workers rights. He suggested that Nestlé would only use temporary workers because of the seasonal nature of some industries. When I corrected him on this he was rather dismissive and quickly moved on to converse with someone else.

Tim Bennett from Dairy Co, a statutory levy body for dairy farmers in the UK, noted a drop in confidence in UK dairying over 2009/10 but domestic confidence may improve with concerns about food security following the Global Financial Crisis. Most of the industry confidence is coming from farmers who sell direct to retailers in the UK.

### **Managing Market Volatility Or Creating Market Volatility?**

The session on dairy futures markets was titled "Managing Market Volatility". The audience were told that futures markets are a hedging tool to manage exposure to price volatility. It allows investors to be exposed to the price of the asset without getting their hands dirty owning the asset.

Existing dairy companies need to make the markets work first and then outside investors will enter the market to influence but cannot affect the underlying fundamentals. We were told

that “the removal of the price floor and a healthy dose of volatility” is what makes futures markets take off.”

The most extreme free market speaker in this session was Fiona MacKenzie of the NZ Stock Exchange (NZX), a New Zealander recently returned after experience with the New York Stock Exchange and it seems a key driver in the establishment of the dairy futures market in NZ. A dairy futures market has existed for some time in Chicago. We were told that speculators have had bad press recently which is unfortunate because they put much needed short term liquidity into the market. Speculators and investors are very focused on food commodities with protein as countries scramble to ensure enough protein in their food supply. Other ‘eyebrow raising’ comments included: “futures will not replace forward market purchasing but provides more choice” and “all the clever people in equities markets bring together transparent price discovery mechanisms.” As an aside it was pointed out that one of the biggest risks to futures traders is that if you buy it, you might have to actually receive 20 metric tonnes of product!

Of interest was the newly established NZ Pasture Growth Index, a joint venture between NZX and NIWA (state funded weather forecasters) which will predict NZ milk production 15 days forward to support futures contracts.

Between 1998 and 2008 dairy was second only to wheat in terms of price volatility on international markets.

### **Dairy in Asia**

The final session I attended was on Dairy in Asia which contrasted the different approaches in China and India. A representative of the Chinese State, Song Kungang, spoke to the conference of the regulatory developments in China since the melamine “frustration”. (I hope the translation was somewhat understated.) The audience received a list of national and local regulations which have ensured the safety of dairy products in China. It was received with some scepticism despite the speaker’s assurance that ‘the future was bright with optimism.’

In contrast, Deepak Tikku, Chairman of the Dairy Board in India, gave a very interesting presentation of a developmental approach to dairy in India which was village and community focussed. The Dairy Board is assisting small holder production with financial and



management systems. Dairy in India is seen as important in developing more inclusive economic growth as the village-based cooperative model is a low input/low output model which does not compete for land use and is environmentally friendly through the use of crop residues and the recycling of dung for fertiliser and fuel. There are 14 million producers in 140,000 village co-ops. The cooperative sector produces mainly liquid milk and the private sector produces processed milk products and exports. Half of India's milk is consumed in the villages where the milk is produced. It is estimated that production will need to grow by 4% per annum to keep up with growing demand and it is realised that by and large India will have to produce its own milk. The Dairy Board has a 15-year plan to increase production and this plan includes investment in processing facilities, expansion of the number of village collection centres, the establishment of electronic milk testing equipment, semen stations, disease diagnostic laboratories and expansion of a refrigerated supply chain. The Dairy Board is focussed on maintaining the dominance of the cooperative sector which pays a higher price for milk than the private sector. The regulatory framework should not favour the private companies over cooperatives.

### **Conclusion**

The summit was very well attended and contained in-depth information and analysis on a range of industry issues. I did not attend science, technology, farming or environment sessions and concentrated on dairy policies and economics and trade issues.

It was discouraging that workers rights were not on the agenda of the leaders nor delegates to conference and the industry perspectives were almost exclusively employer and market perspectives although there may have been a range of views in the farmers' conference.

The mood was buoyant and it was if the GFC and resulting global debt and employment crises were just a blip in the necessary and relentless progress of market liberalisation. The misery imposed on millions of the world's people by reckless financial markets was viewed as an opportunity for dairy TNCs as it would attract finance to protein-based food commodities in a competitive price rising scramble to secure food supply.

"Sustainability" is a term captured by the industry to secure the longevity of the agro-business model albeit with large investment in technology to reduce carbon emissions and aggressive marketing of which this Summit was an integral part. Environmental sustainability

measures are essential to the industry but in this structural framework, such measures are only triggered by the market signals of consumers rather than by any concern for the sustainability of ecosystems and communities.

### **Recommendations**

1. The IUF should make a formal approach to the IDF to enter into meaningful dialogue on the establishment of IDF-endorsed labour standards, including health and safety.
2. The approach by the IUF to get a discussion on labour standards in the dairy supply chain at the ILO is very timely and all possible influence should be brought upon the ILO to agenda the discussion.
3. The work of the ILO in rural development for poverty reduction should be cognisant of developments in the dairy industry as the industry is both an opportunity and a threat to increasing incomes in rural areas. In this regard, the developmental approach undertaken by the Dairy Board of India has much to commend it and should be noted by the ILO and FAO.
4. Nestle, Fonterra, Danone, Friesland Campina and Arla are critical companies in the global dairy supply chain and this should be considered by the dairy division of the IUF in establishing priorities. Some US Dairy companies such as Dairy Farmers of America and Schreiber are sleeping giants in the global supply chain and should be carefully monitored for expansionist moves.
5. The push towards financialisation of the dairy industry is a major threat to producers and workers rights and incomes and the IUF should carefully monitor the actions of speculators in global dairy markets and alert affiliates to actions which have the potential to destroy parts of the industry which people rely on for their livelihoods.