Dairy Trade and New Zealand

The EU Dairy Sector and EDA

The European Dairy Association (EDA) is the voice of the milk processing companies, cooperatives and privately owned dairies, at EU level.

With 12,000 milk and dairy processing sites across Europe, our sector represents the economic backbone of rural Europe and the industrial basis in many so-called less favoured areas. We partner on a daily basis with more than **700,000 dairy farms**, accounting for 14% of the whole EU food and drinks industry[1]. Together with over **300,000 industry employees**, we all guarantee the high quality of our raw material and our dairy products, which are an essential part of our culinary heritage and of our European cultural treasure. **Self-sufficient at 114%,** milk and dairy consumption in the EU is expected to remain stable while global demand will increase by 2% per annum over the coming decades[2]. While 5 out of the global TOP 10 dairies are headquartered in Europe, the European 'lactosphère' is characterised by a tissue of SMEs (small and medium sized enterprises) comprising **more than 80% of the total number of dairies** in most of the EU Member States. More than €6 billion were invested over the last years into milk processing capacities in the Union to prepare for the end of the milk quota regime and to be best placed to answer the growing global demand. We do support the EU Commission's efforts to enhance global trade and – as a dairy sector – we are proud to add nearly **€10 billion to the EU positive trade balance**.

In our dynamic, trade oriented spirit, we contributed to the EU Commissions' work to revise the European trade strategy and we map and monitor the progress of trade negotiations of the EU with the main dairy importing countries as well as the negotiation process with these countries made by our main competitors on the global world markets.

We really acknowledge both the efforts of the EU Commission to support our dynamic sector and the limited resources of the EU Commission to implement a broader trade strategy and to engage in trade negotiations with more countries. **In this context, the market access efforts must be focussed on trade negotiations with countries that have a real market (access) potential, like China and other markets in South-East Asia.** The dairy sector is one of the sectors of the European economy that has undergone the deepest structural and policy reforms over the past months and years. While the EU dairy sector, the milk producers and their milk processors, have achieved huge progress in terms of global competitiveness towards most of our competitors around the globe, the New Zealand dairy export has – also because of its concentration and its favourable trade conditions with China – a competitive advantage and its dairy sector is far from having already exploited its full production potential.

[1] FDE 2012
[2] EU Commission Outlook 2015

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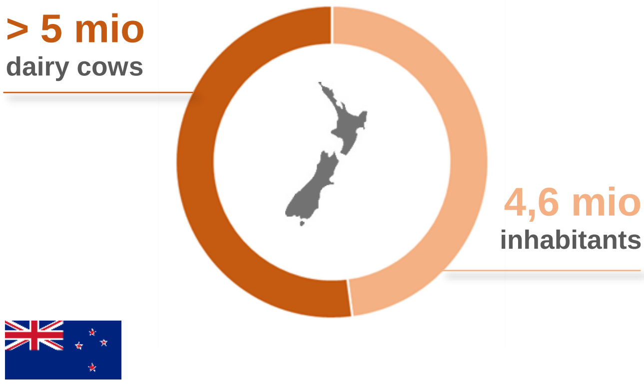
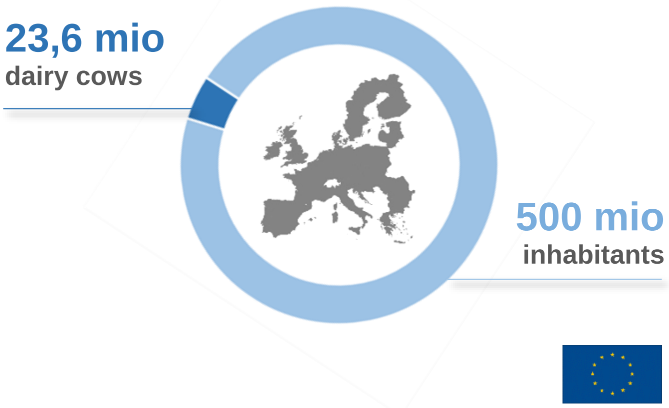
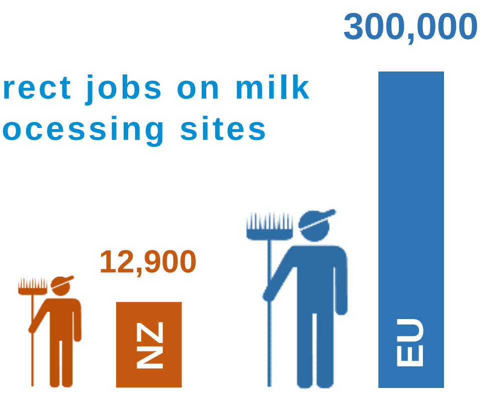
New Zealand & EU dairy in figures





Direct jobs on milk processing sites



Average dairy herd size

New Zealand

419 cows

(Source: New Zealand Dairy Statistics 2014-15, LIC & DairyNZ)

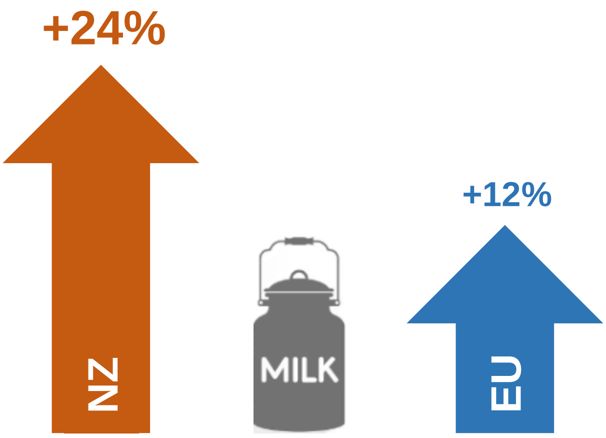
European Union

36 cows

(Source: EDA Survey)

Milk production Increase
2010 to 2016

(Source: CLAL)



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New Zealand

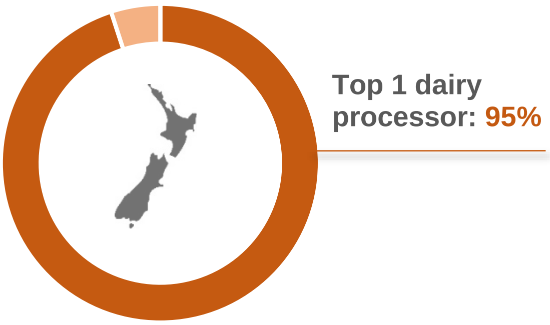
The NZ dairy exports of 17.7 mio tonnes of milk equivalent (88% of total NZ milk production) accounts for **37%** (in 2013-14) of the total value that NZ earns from its **merchandise exports**.

(Source: Dairy NZ Economics Group July 2014)

European Union

The EU dairy exports of 16 mio tonnes of milk equivalent accounts for **14%** of the overall EU milk production.

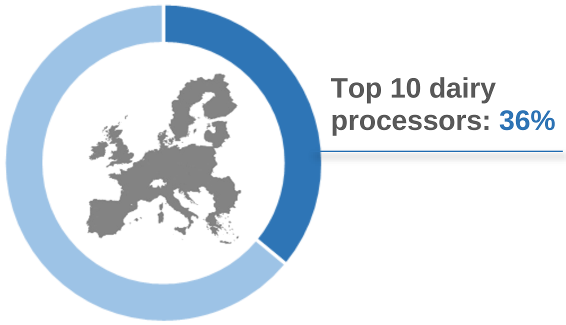
NZ Milk collection



More than 95% of the NZ milk production is collected by one company ('near-monopoly dairy processor').

(Source: The New Zealand Herald, 28 August 2015)

EU Milk collection



The TOP 10 dairy processors in the European Union collect about 36% of the total EU milk volume.

(Source: EDA Survey)

New Zealand & FTAs: In Free Trade Agreements (FTAs), agriculture and dairy is the key priority for the NZ government which has concluded FTAs with most major dairy importing countries:

- **2008 China** (Concluded)
- **2009 GCC** – *Cooperation Council for the Arab States of the Gulf* (Ratification)
- **2010 ASEAN-ANZ** – *Malaysia, Indonesia and Thailand* (Concluded)
- **2015 South Korea** (Concluded)
- **2016 TPP** – *Canada, Japan, Peru, Vietnam, Singapore and Chile (pending)* (Ratification)

Concluded

Ratification

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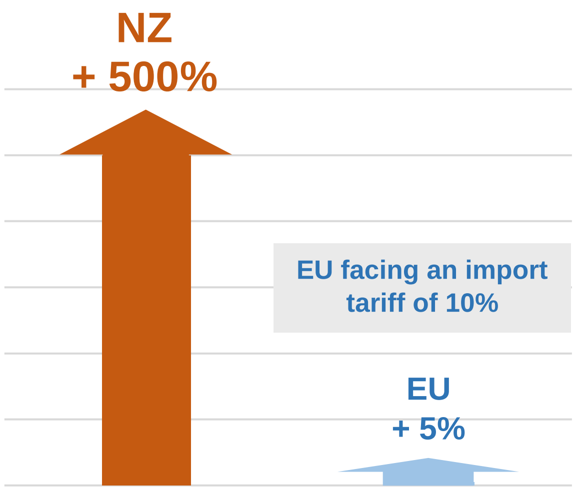
Therefore, it does not come as a surprise that NZ has negotiated in its FTAs favourable market access conditions especially for dairy with its main trading partners ***(cf. Annex: Main exporters to China)***.



Butter (CN code 0405100) **exports to China since the implementation of the FTA between China and NZ (2008)**

On the global dairy markets, the EU dairy sector does therefore not compete on a level playing field. In its 'Trade for All' strategy, the EU Commission has stated its intention to request an authorisation to negotiate a FTA with New Zealand, "*taking into account EU agricultural sensitivities*" [3].

The European Parliament has already underlined in its 2016 Resolution on a EU-NZ FTA that *"agriculture is a very sensitive sector and that a final, balanced outcome in the agriculture and fisheries chapters must give due consideration to the interests of all European producers, e.g. meat, dairy, sugar, cereal and, textile producers and those in the outermost regions, for instance by introducing transitional periods or appropriate quotas or not making any commitments in the most sensitive sectors"* [4].

The latest work of the European Parliament's Committee on Agriculture and Rural Development on that very topic pursues this approach and underlines the importance of the interests of all European producers, especially those facing seasonal cycles like dairy.

While the global trade landscape for dairy has been perfectly shaped by the NZ government for the NZ dairy exports, the EU is lacking behind negotiating comparable market access conditions for EU dairy in most major dairy importing countries. As long as we cannot compete with NZ dairy products at a level playing field on international markets, a strengthening of the NZ dairy sector by granting any further access to the EU markets with its 500 mio citizens would bring 'fatale consequences'[5] for the European dairy sector.

In challenging market conditions like today, a reaction on price signals by the milk producers is a logical step to manage the supply – demand balance. With any further market access granted to NZ dairy products, this internal reaction on price signals would have no more effect.

[3] *'Trade for All - Towards a more responsible trade and investment policy'*, European Union - 2015
[4] Motion for a Resolution pursuant to Rule 128(5) of the Rules of Procedure on the opening of FTA negotiations with Australia and New Zealand (2015/2932(RSP)) (12 February 2016)
[5] Top Agrar 12/2015

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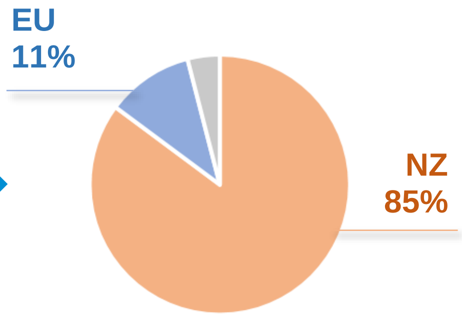
Annex

Main exporters to China *(Source: Global Trade Atlas)*
Quantity in tonnes

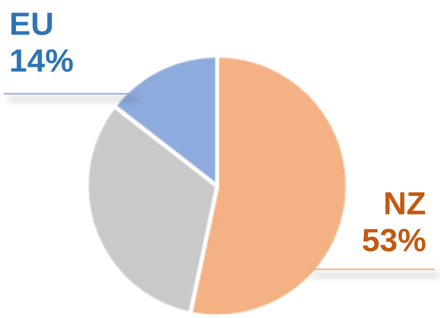
040510, Butter

Partner Country	Quantity (T)			% Share		
	2014	2015	2016	2014	2015	2016
New Zealand	**45,304**	**45,236**	**53,627**	**89%**	**83%**	**85%**
EU 28	**3,333**	**5,546**	**6,800**	**7%**	**10%**	**11%**
Australia	1,512	2,613	1,996	3%	5%	3%
Argentina	331	872	475	1%	2%	1%
Singapore	0	34	97	0%	0%	0%



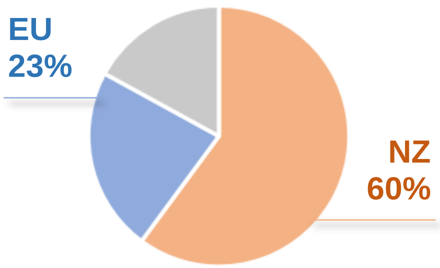
0406, Cheese and Curd

Partner Country	Quantity (T)			% Share		
	2014	2015	2016	2014	2015	2016
New Zealand	**28,825**	**36,779**	**51,116**	**44%**	**49%**	**53%**
Australia	17,336	15,277	19,968	26%	20%	21%
EU 28	**6,584**	**9,666**	**13,995**	**10%**	**13%**	**14%**
United States	11,635	11,658	8,956	18%	16%	9%
Uruguay	491	925	1,600	1%	1%	2%



040210, SMP

Partner Country	Quantity (T)			% Share		
	2014	2015	2016	2014	2015	2016
New Zealand	**115,210**	**115,375**	**111,416**	**46%**	**58%**	**60%**
EU 28	**67,303**	**42,723**	**42,098**	**27%**	**21%**	**23%**
Australia	17,155	19,873	15,766	7%	10%	9%
United States	49,290	21,020	14,664	19%	11%	8%



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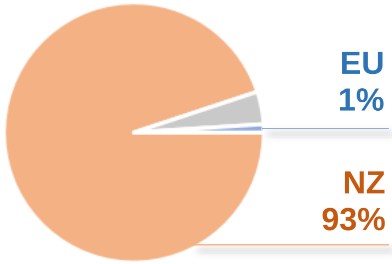
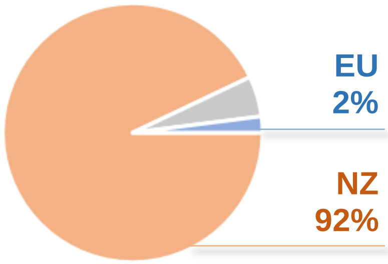
040221+ 040229, WMP

Partner Country	Quantity (T)			% Share		
	2014	2015	2016	2014	2015	2016
New Zealand	**613,228**	**332,396**	**392,146**	**91%**	**98%**	**93%**
Australia	15,840	6,737	10,930	2%	2%	3%
EU 28	**9,898**	**4,914**	**10,421**	**0%**	**1%**	**1%**
Uruguay	12,500	600	3,300	2%	0%	1%



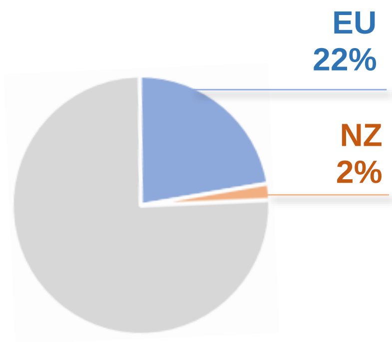
350110, Casein

Partner Country	Quantity (T)			% Share		
	2014	2015	2016	2014	2015	2016
New Zealand	**2520**	**3497**	**4514**	**83%**	**83%**	**92%**
EU 28	**360**	**358**	**142**	**11%**	**7%**	**2%**
India	111	294	134	4%	7%	3%
Ukraine	20	32	53	1%	1%	1%



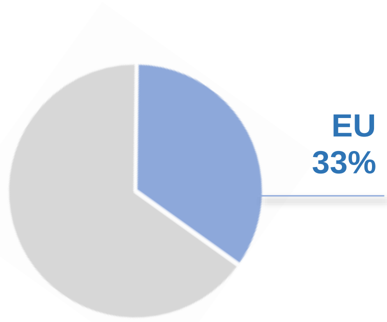
170211+170219: Lactose & lactose syrup

Partner Country	Quantity (T)			% Share		
	2014	2015	2016	2014	2015	2016
United States	62,777	70,185	62,094	74%	78%	71%
EU 28	**14,553**	**13,216**	**19,382**	**17%**	**15%**	**22%**
Australia	4,772	2,980	2,834	6%	3%	3%
New Zealand	**1,503**	**1,938**	**1,747**	**2%**	**2%**	**2%**



040410, Whey

Partner Country	Quantity (T)			% Share		
	2014	2015	2016	2014	2015	2016
United States	208,375	229,372	283,835	51%	53%	57%
EU 28	**160,038**	**161,027**	**165,148**	**40%**	**37%**	**33%**
Argentina	22,058	28,107	24,838	6%	6%	5%
Australia	3,606	5,134	7,281	1%	1%	2%
Uruguay	2,500	4,725	3,850	1%	1%	1%
Ukraine	0	925	3,700	0%	0%	1%
Chile	1,250	1,425	3,675	0%	0%	1%
New Zealand	**600**	**2,159**	**1,800**	**0%**	**1%**	**0%**



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