

## CURRENT CHARACTERISTICS OF NZ DAIRY INDUSTRY

In reviewing the development of the New Zealand dairy industry since 1892, the following features stand out:

- Continual political lobbying and involvement by central Government;
- Centralised and compulsory mechanisms to manage business risks (such as price fluctuations, price falls, costs of remoteness, and overseas selling);
- Heavy focus on increasing production and farm efficiency;
- A guaranteed buyer for all the milk a farmer could produce (the rules of a dairy co-operative require it to buy all production from its members);
- Technical excellence on-farm;
- A predominance of family farms, with relatively limited access to capital;
- Most farmers with 'all their eggs in one basket' (the dairy industry);
- A strong traditional cohesion built around 'co-operative principles'<sup>1</sup>;
- A traditional community of interest within the dairying district;
- A deep distrust of 'outsiders';
- A real fear of becoming 'peasant farmers' to predatory corporates;
- Very limited awareness by farmers of overseas buyers' needs;
- Except for a brief period in the 1920s<sup>2</sup>, exporting of dairy products from New Zealand has always been managed by the Government or a producer board.
- Prices and costs for dairy farmers have always been 'averaged', 'stabilised' or 'supported' – by a producer board and the Government. True signals from consumers have been 'softened' for farmers.
- Exports comprising mainly commodities and ingredients, which are relatively low value;
- High levels of trust by farmers in their producer board;
- Real control of the producer boards held by senior managers, not directors;
- Rigorous monitoring of the producer boards at a 'political' level, but much less so at a business level;
- Limited flows of meaningful information between the Dairy Board, the co-operatives and farmers<sup>3</sup>;

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<sup>1</sup> The key co-operative principles are set out in an accompany paper on cooperatives.

<sup>2</sup> Except for a brief period: 1921-23; 27-35. See the accompanying paper on the hhistory of government involvement

<sup>3</sup> For example, many co-operative directors have never seen the McKinsey Report on the proposed merger. Most farmers have not seen it.

- Highly geared public relations machines which constantly reinforces old industry beliefs, particularly in relation to the Dairy Board's performance and its claimed market power overseas;
- Recurring political power struggles, particularly for directorships and senior management positions; and
- Over recent years, serious (often debilitating) power struggles between the co-operatives to gain dominance in the industry, particularly over the Dairy Board.

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