New Zealand, Canada and the Future of the International Dairy Industry

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Take Home Message

- Fundamental reforms have led to an increasingly efficient and innovative New Zealand dairy industry with the ability to supply consumers with quality products at low cost. While New Zealand (like Canada) is only a medium-sized producer of milk by world standards, 95% of New Zealand milk production is exported. New Zealand trades more dairy products internationally than any other country.
- World demand for dairy products is forecast to grow at 1-2% per annum over the medium term – more so in developing countries. Three-quarters of that growth will comprise value-added processed dairy products. New Zealand producers can meet this demand outlook confidently based on their efficiency, innovation and integrated supply chain.
- However, the international dairy market is heavily distorted and thin – only around 7% of world production is traded globally. These factors impinge on New Zealand's ability to benefit from its comparative advantage.
- Therefore, New Zealand requires rules-based, open and non-distorted world markets – the reduction of market access barriers and trade-distorting domestic support, and the elimination of export subsidies during the Doha Round of World Trade Organisation negotiations are critical to the success of the New Zealand industry.
- The Cairns Group of agricultural exporting countries has submitted proposals that seek to realise significant improvements in world agricultural trade. The US has also tabled an ambitious proposal, while the EU's contribution is modest and its internal policy deliberations are a complicating factor. In this context Canada and New Zealand work closely together to ensure the Doha Round fulfils its mandate. There are differences in approach, notably on market access and aspects of domestic support – but fundamentally our outlook is the same.

- New Zealand producers look to the Doha Round (as they did to the Uruguay Round) to deliver a more open, accessible international trading regime. As an outsider looking in at Canada, I suspect your dairy sector views the Doha Round with more trepidation. A New Zealander finds the supply managed industries puzzling to say the least. But what a country like New Zealand seeks from Canada is trade access and fair competition. These objectives are the same whether the trade is in manufactured or agricultural products. We look at Canada and see that the domestic dairy market has been protected for Canadian producers by high import barriers and managed supply, complemented by subsidised exports. New Zealand does not criticise the Canadian system. But where Canadian policy intersects with the international community – be it through your dairy export subsidies or your restrictions on access to your dairy market, it is absolutely reasonable for your trading partners to take issue with your policy.
- Should the Doha Round fulfil its negotiating mandate, within the next few years it is likely that the Canadian dairy industry will have to deal with increases in tariff rate quota volumes, reductions in out of quota tariff rates, and – quite separate from the recent conclusion of the WTO case on illegal Canadian export subsidies - no export subsidy entitlements.
- In the face of these challenges, the response of Canadian dairy producers will be of interest to New Zealand and other dairy producing countries. Some groups appear willing to forego exports and to concentrate on shoring up the domestic market. However, there may be an alternative future on offer, one based on proactive reform more open to opportunities that exist or may be created in the United States or other dairy markets of potential interest.