

1st International Seminar (Ecuador)

Designing Profitable Dairy Businesses for the Next Decade



**1ER SEMINARIO
INTERNACIONAL**
DISEÑANDO NEGOCIOS
LECHEROS RENTABLES PARA
LA PRÓXIMA DÉCADA

International Competitiveness of Southern Hemisphere Dairy Businesses

David Beca

March 2019



Presentation outline

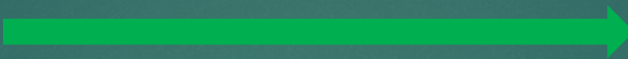
Look at performance of 4 major southern hemisphere milk exporters (New Zealand, Australia, Argentina, Uruguay) and South Africa

Review a couple of major 'new' northern hemisphere factors – growing USA exports & growing China imports


Develop some ideas of the challenges from these trends

Trends in Southern Hemisphere countries

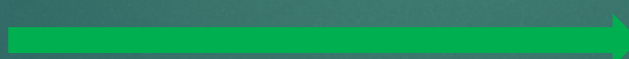
All the trend data is for the last 15+ years

New Zealand; good  great

Australia; good  terrible

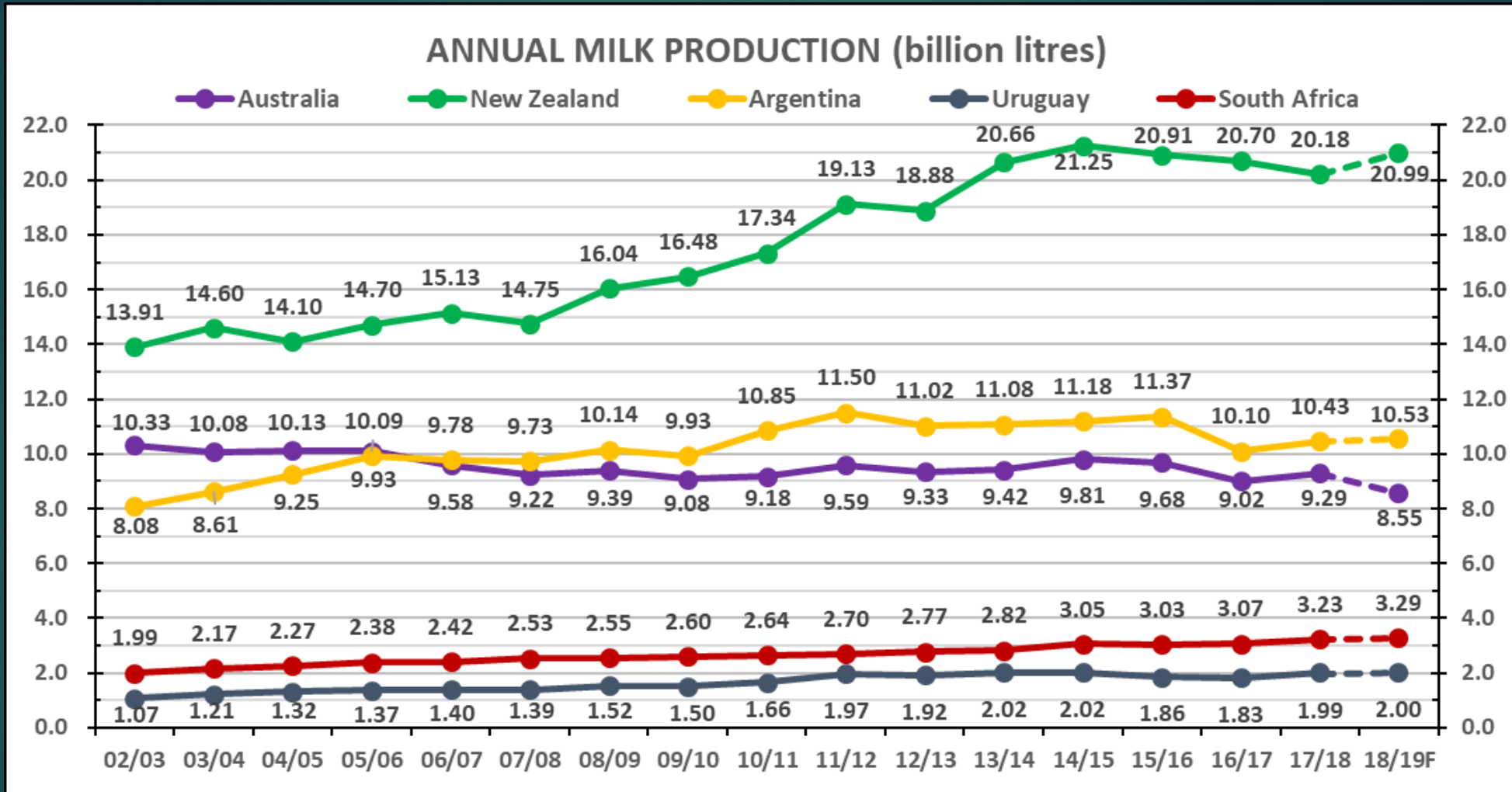
Argentina; excellent  poor

Uruguay; excellent  problematic

South Africa; poor  good

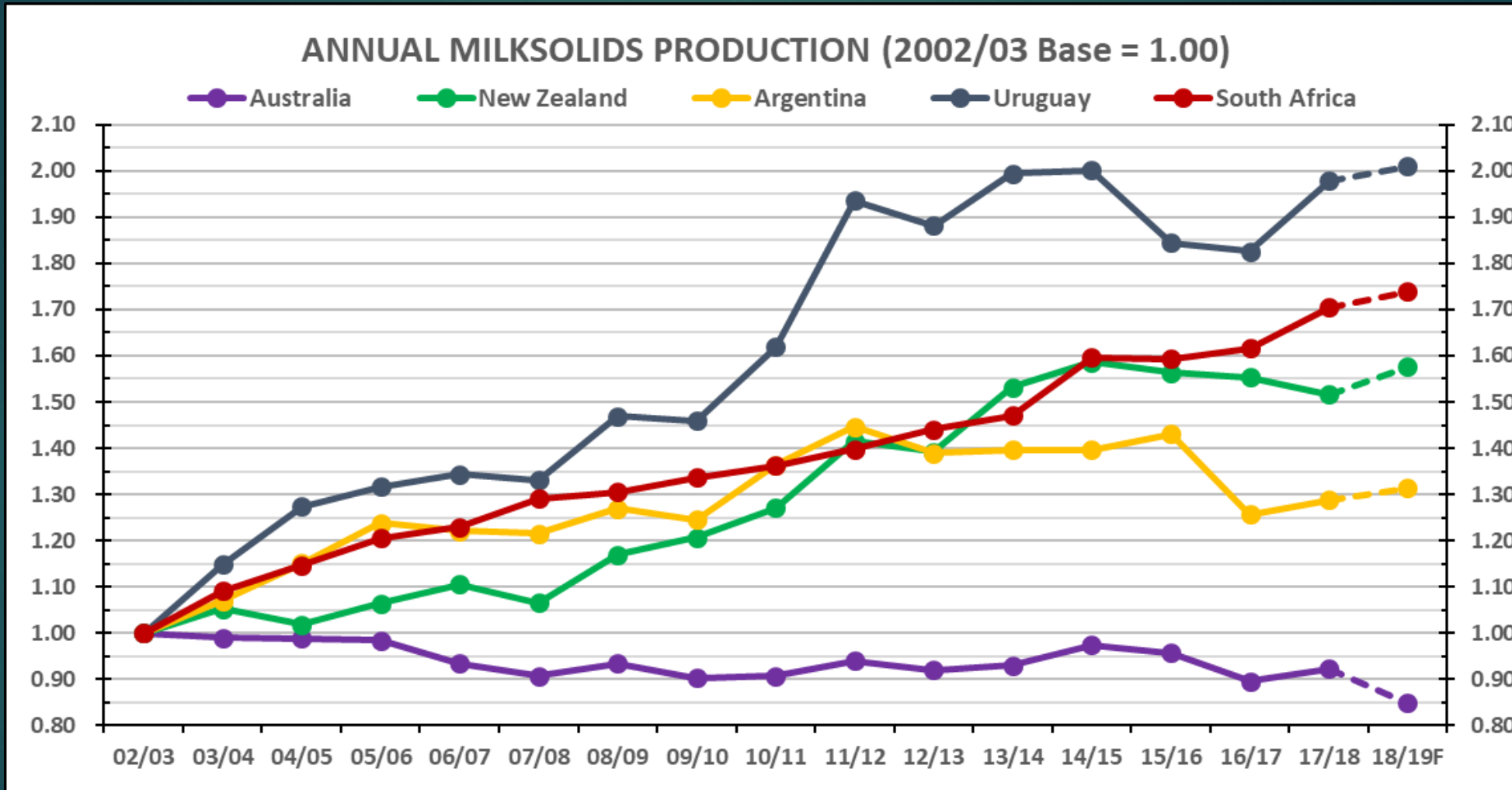
Ecuador; ?????

Southern Hemisphere – Annual milk production



Source: Dairy Australia, DairyNZ, MAGYP (Argentina), INALE (Uruguay), MPO (South Africa)

Southern Hemisphere – Annual milk production



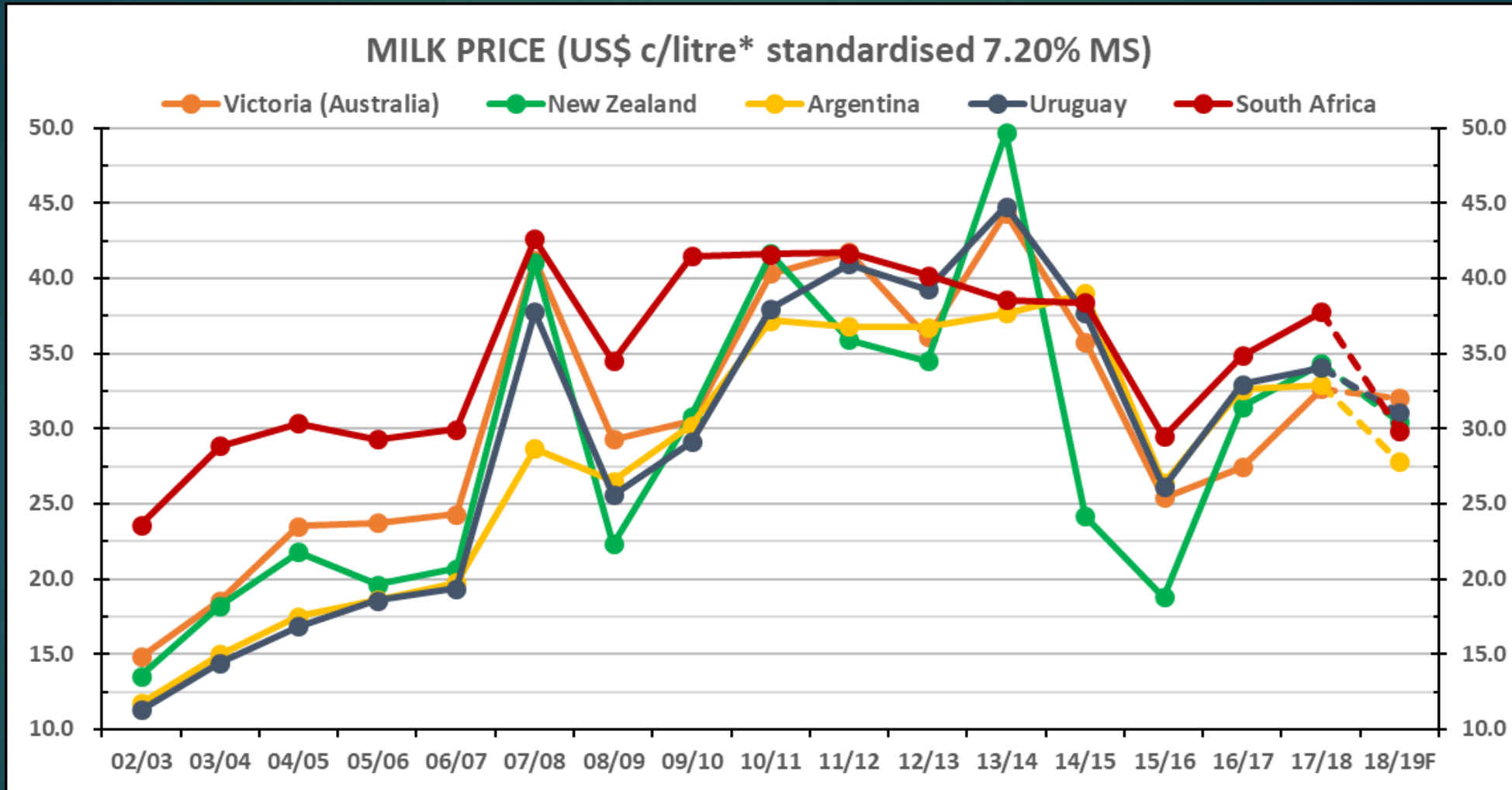
Source: Dairy Australia, DairyNZ, MAGYP (Argentina), INALE (Uruguay), MPO (South Africa)

Is milk price the 'problem'?

Australian dairy farmers are complaining that the milk price is too low

Argentinian dairy farmers also believe the price is too low...

Southern Hemisphere milk prices – US\$ c/litre



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase, MAGYP (Argentina), AACREA, INALE (Uruguay), MPO (South Africa)

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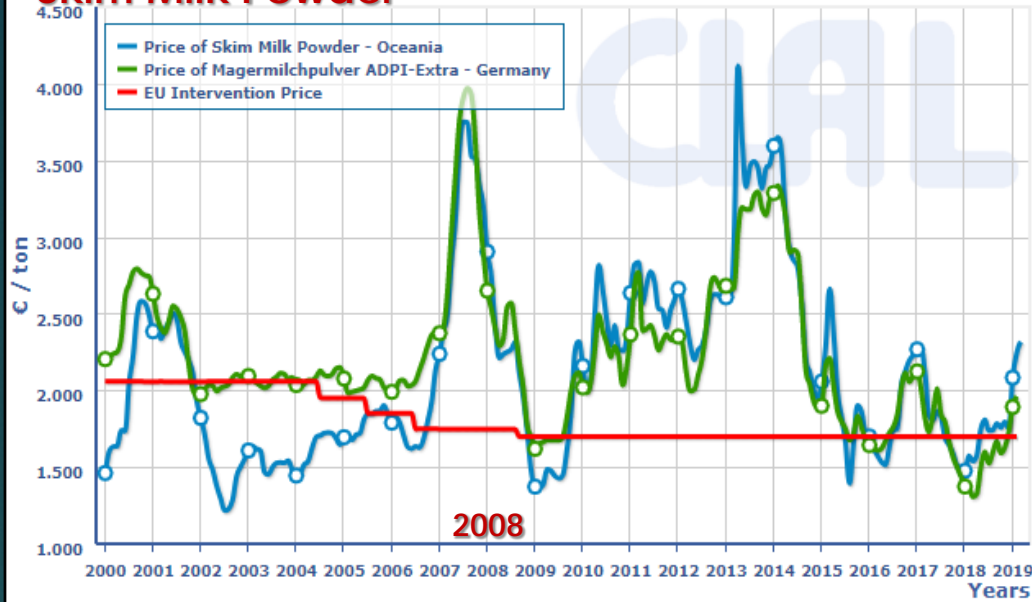
What might the situation be for non-exporting countries?

Might the 'premium' in milk price for fully domestic markets be disappearing?

Comparative historical overview between SMP market prices in Germany and Oceania and EU intervention price

Skim Milk Powder

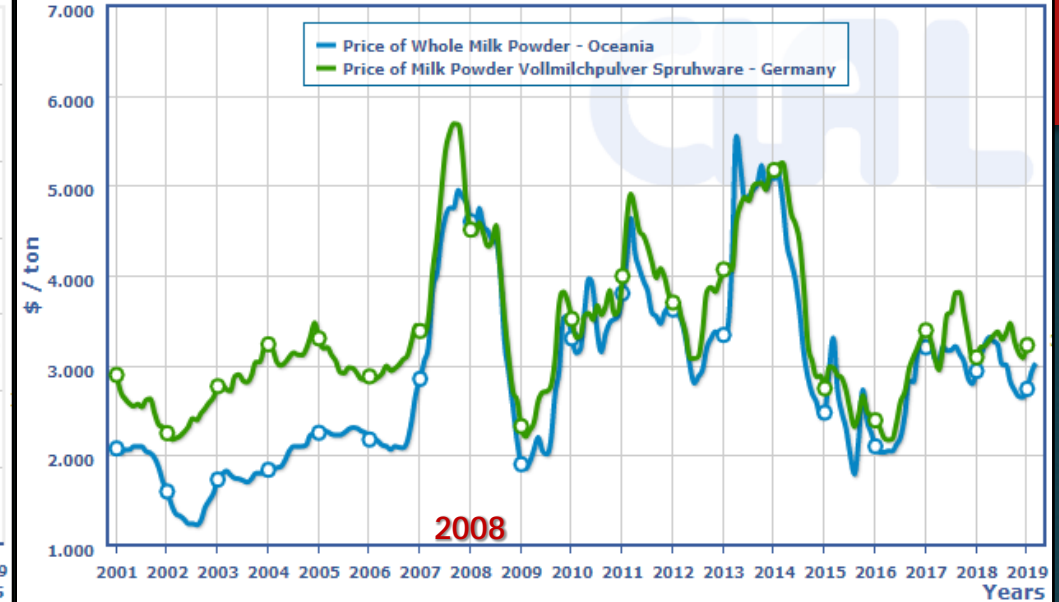
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Comparative historical overview between WMP prices in Germany and Oceania

Whole Milk Powder

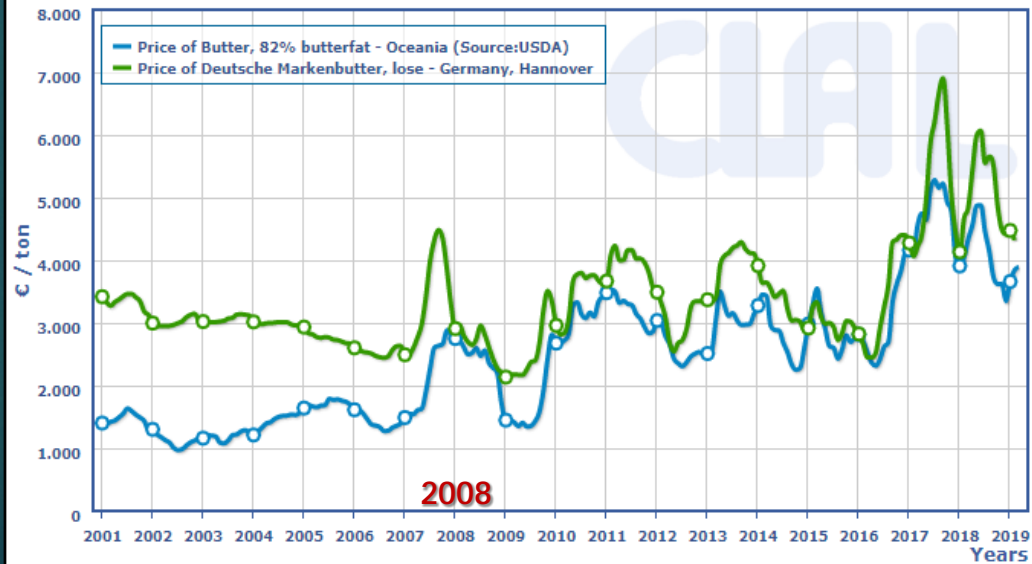
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Comparative historical overview between Butter prices in Oceania and Germany

Butter

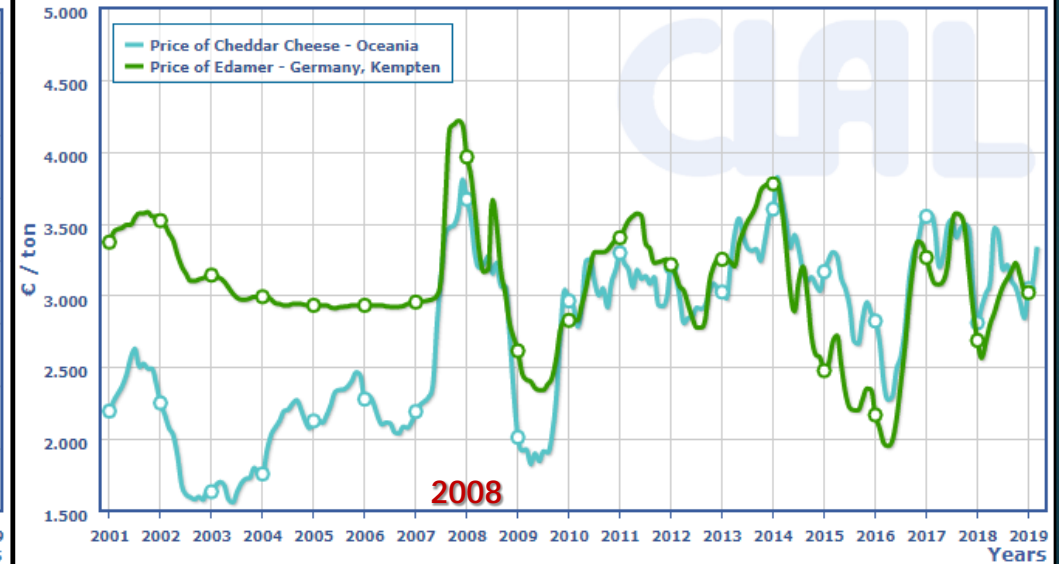
Processed by CLAL



Historical comparative overview of the prices of Cheddar Cheese (Oceania) and Edamer (Germany)

Cheese

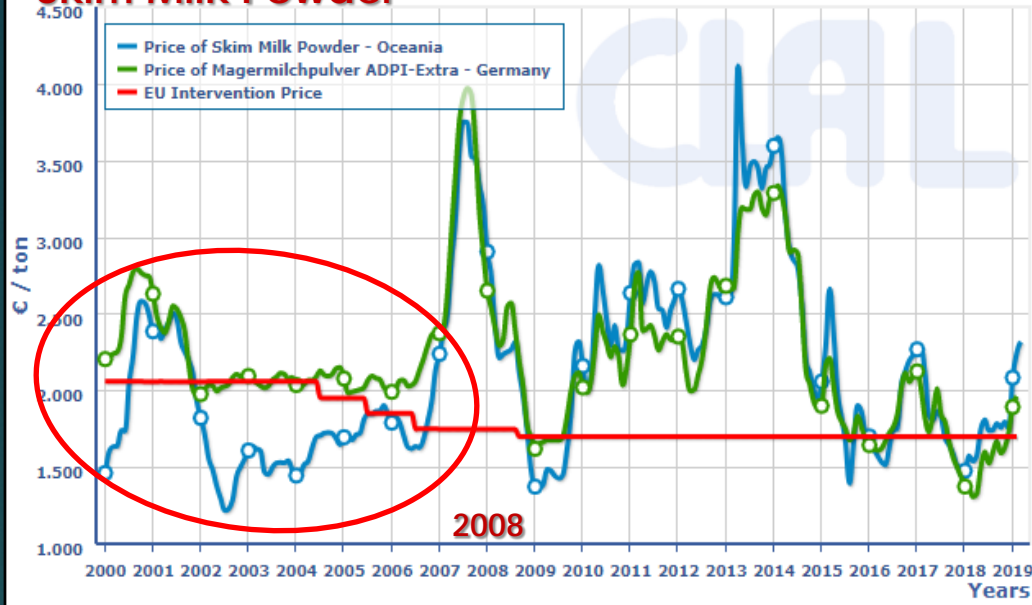
Source: USDA



Comparative historical overview between SMP market prices in Germany and Oceania and EU intervention price

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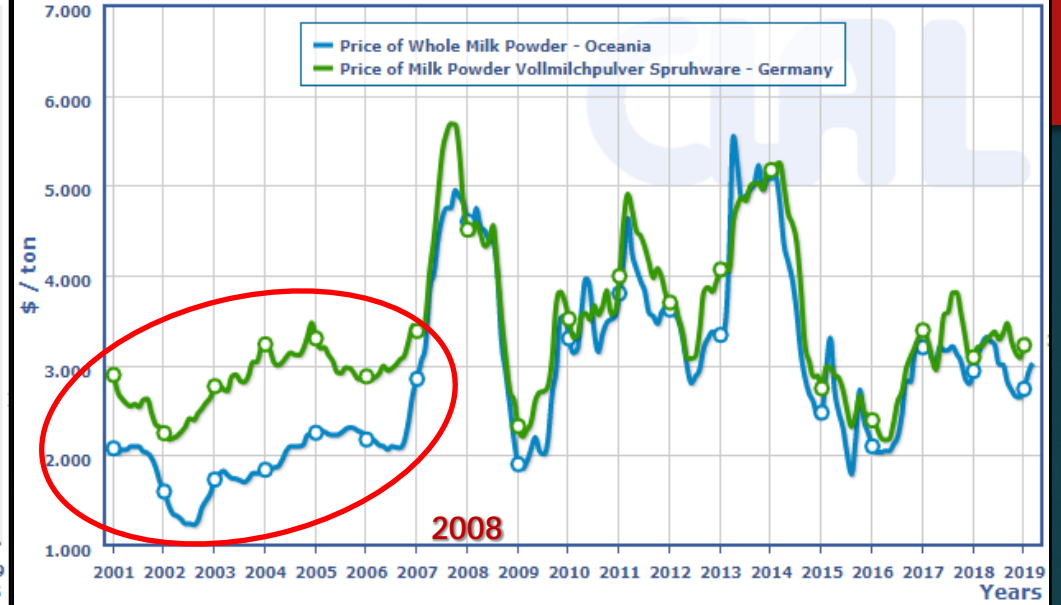
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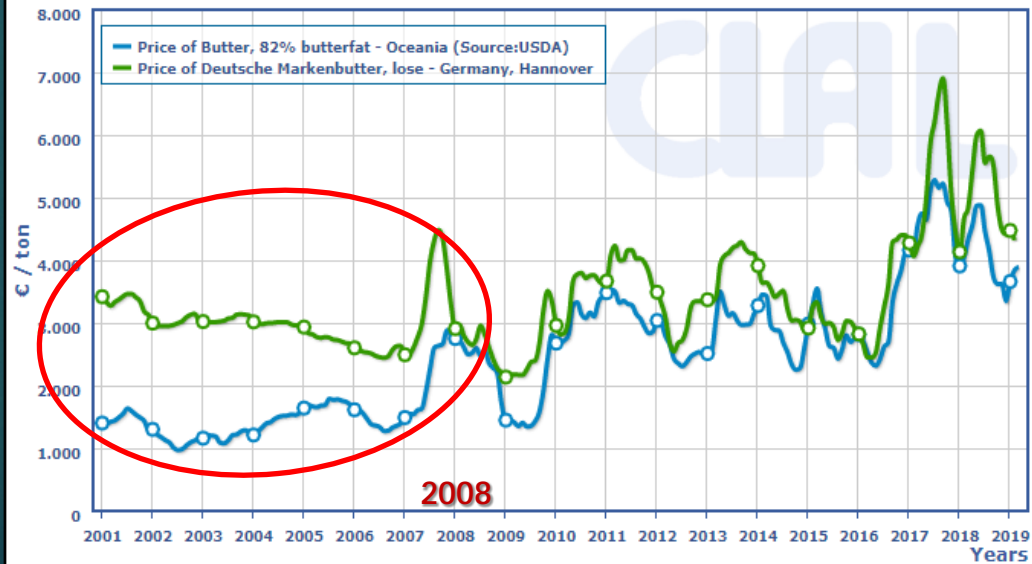
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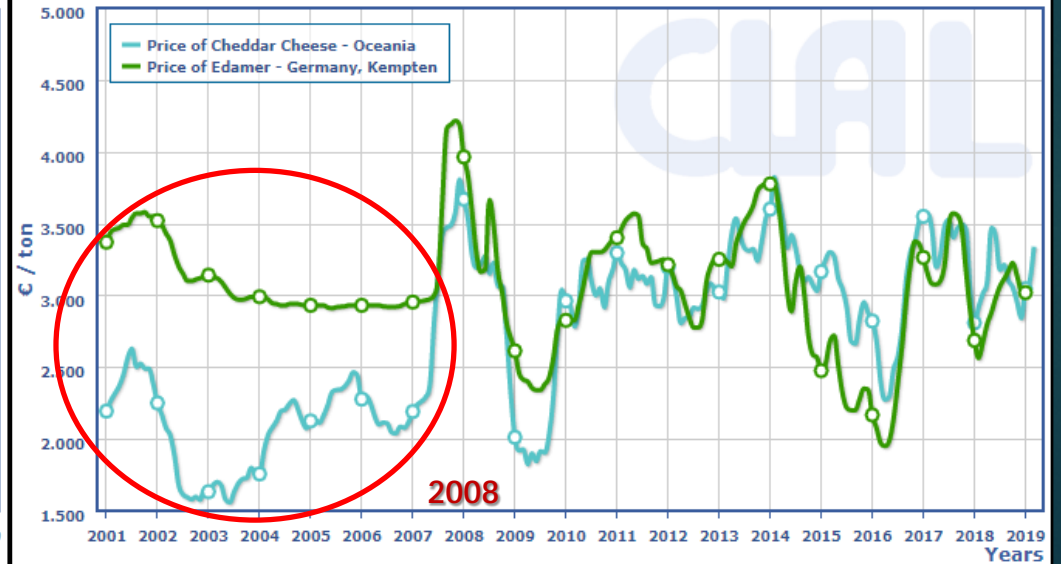
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What might the situation be for non-exporting countries?

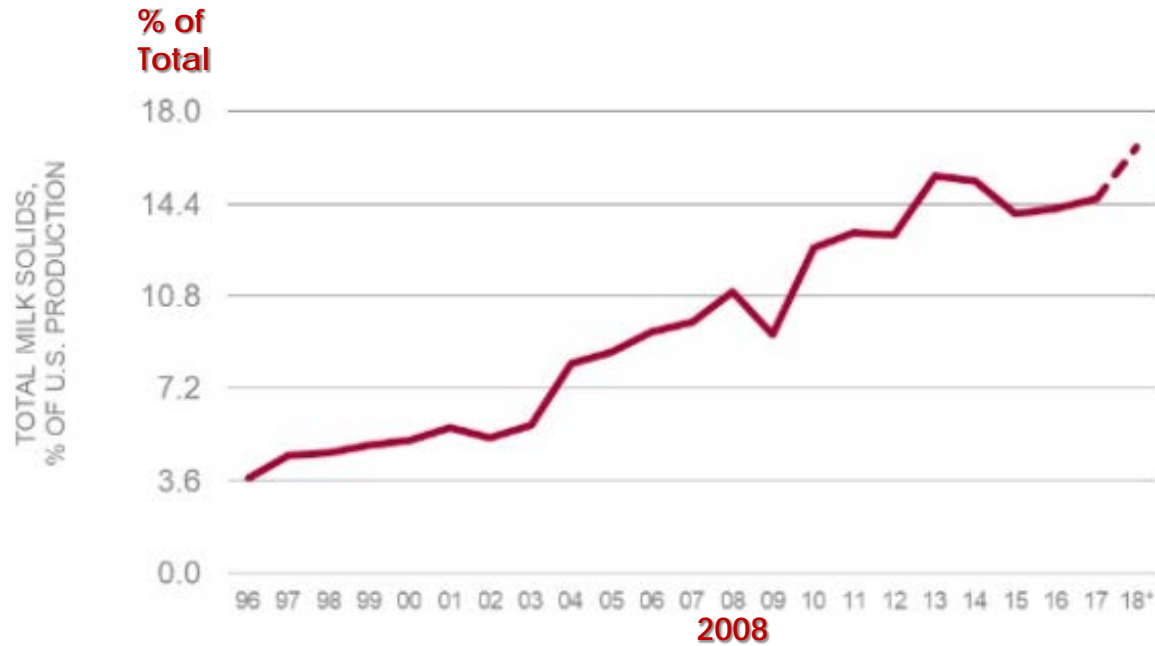
Might the 'premium' in milk price for fully domestic markets be disappearing?

What has changed in international dairy markets around 2006-2009?

US has become a significant exporter

U.S. Dairy Exports - Percent of Production

1996-2018



2018 through August. Source: U.S. Dairy Export Council, U.S. Bureau of Census.

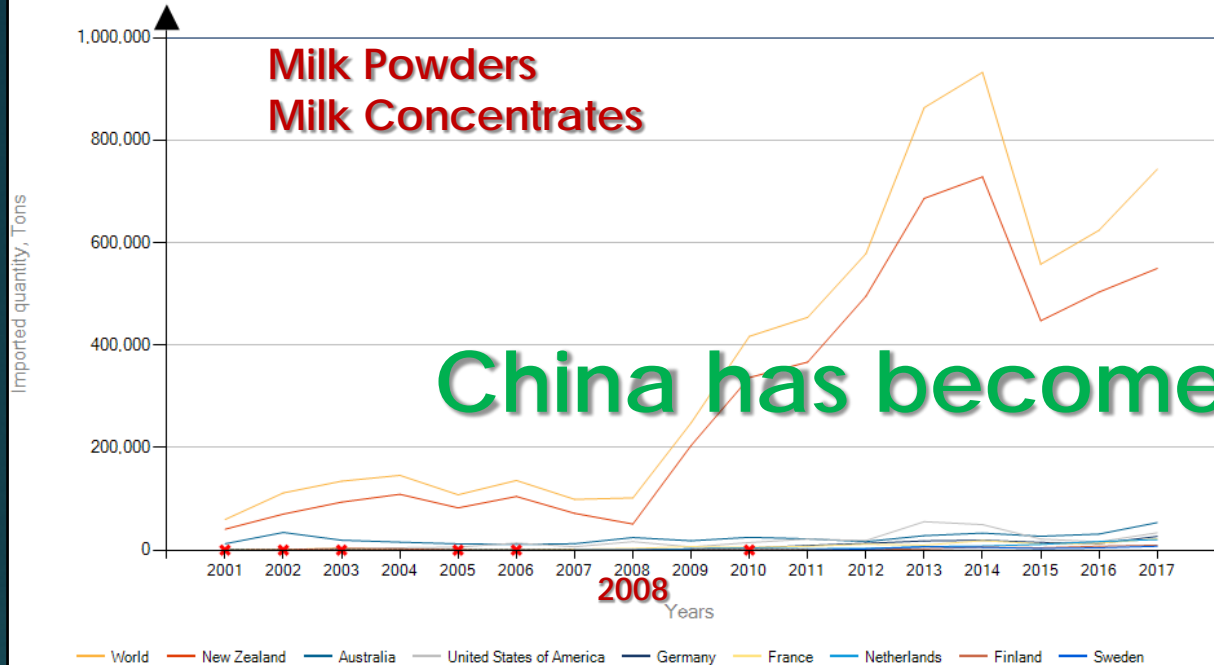
U.S. Dairy Exports - Volume and Value

2003-2017

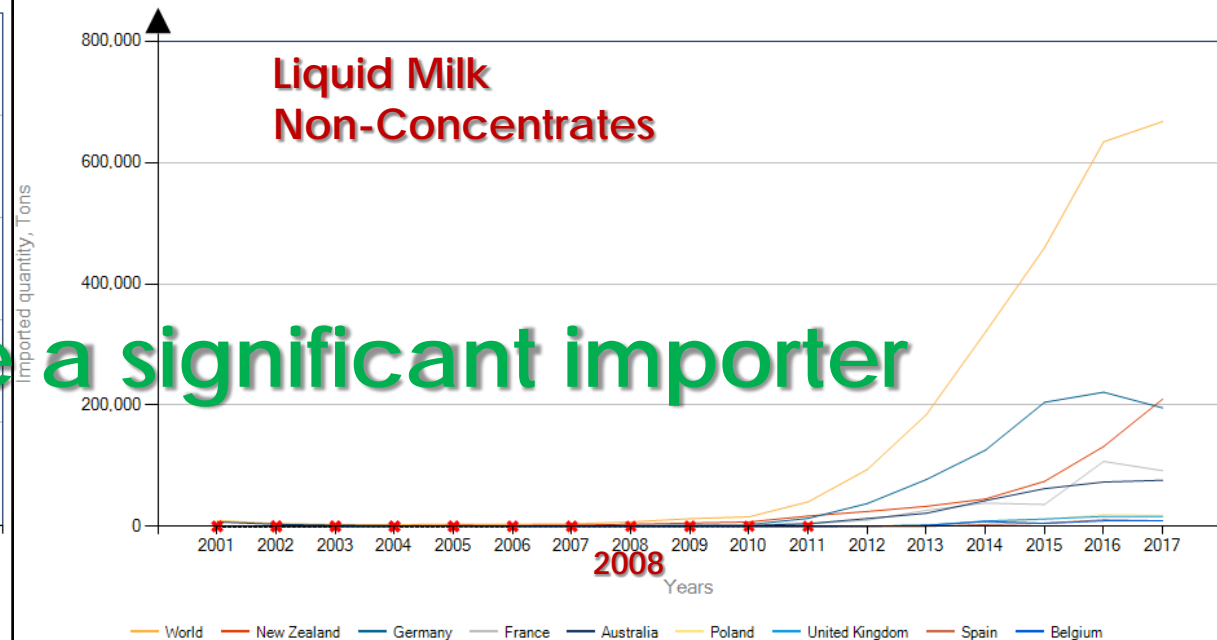


Source: U.S. Dairy Export Council, U.S. Bureau of Census.

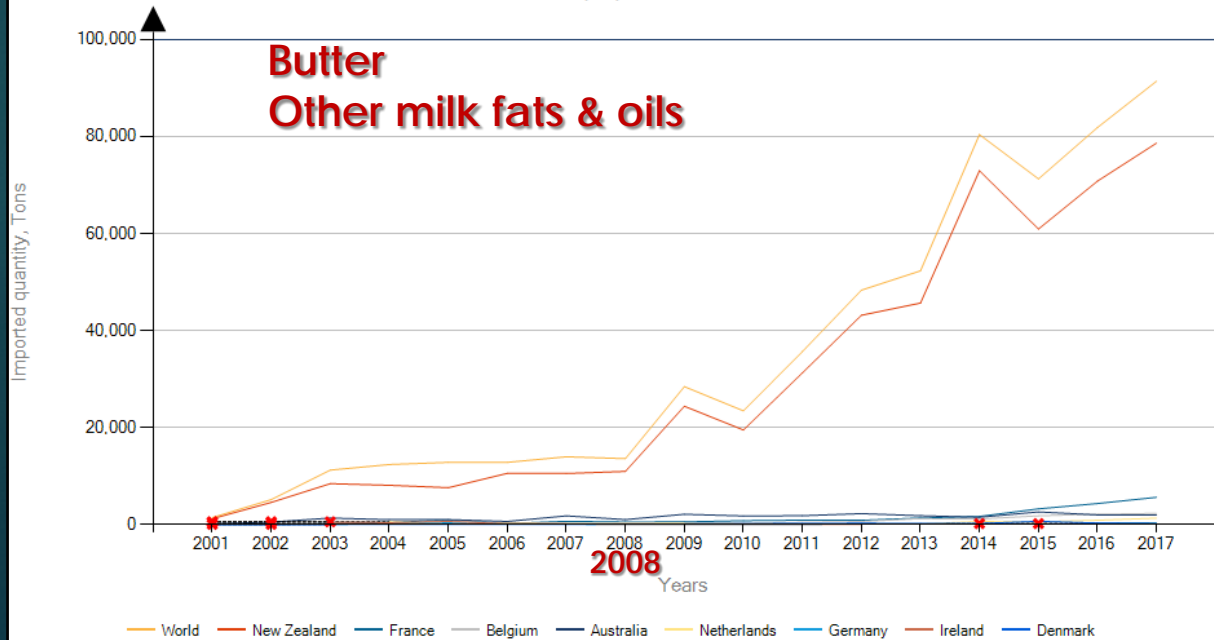
Product: 0402 Milk and cream, concentrated or containing added sugar or other sweetening matter



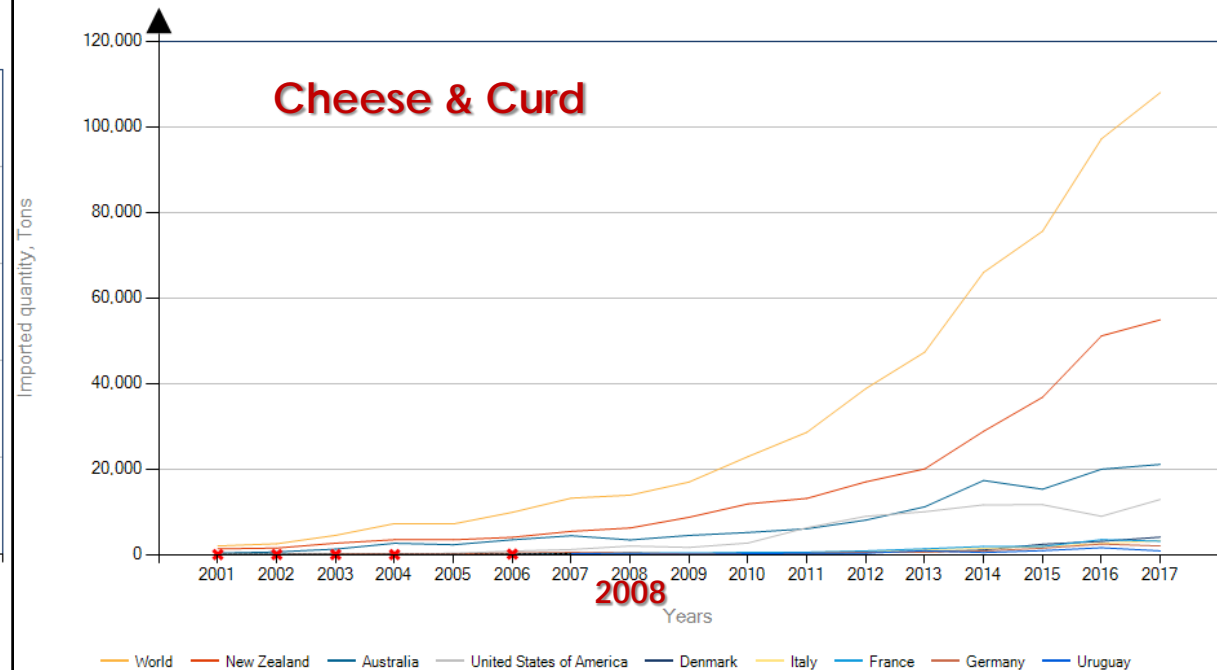
Product: 0401 Milk and cream, not concentrated nor containing added sugar or other sweetening matter



Product: 0405 Butter, incl. dehydrated butter and ghee, and other fats and oils derived from milk; dairy spreads



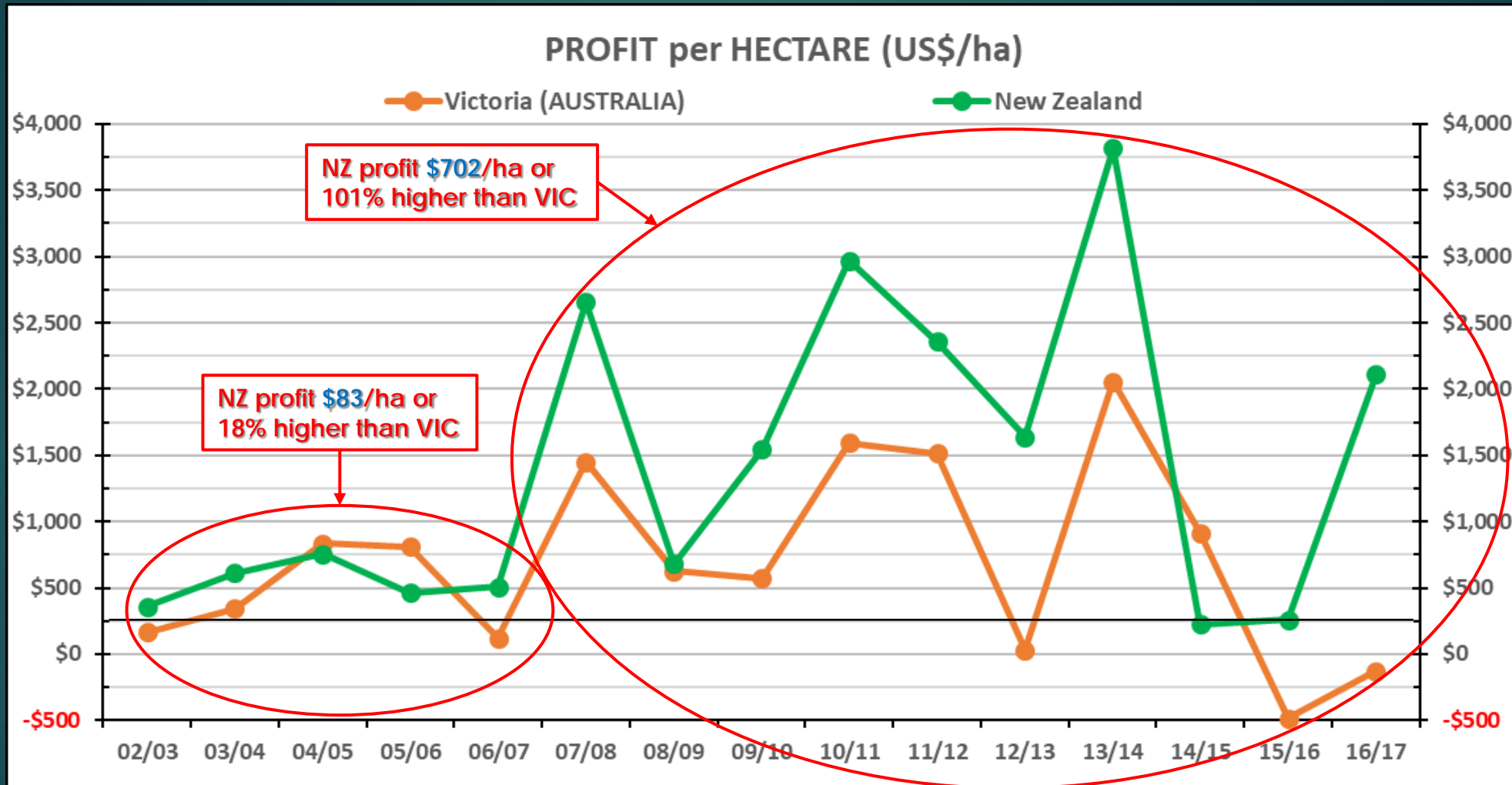
Product: 0406 Cheese and curd



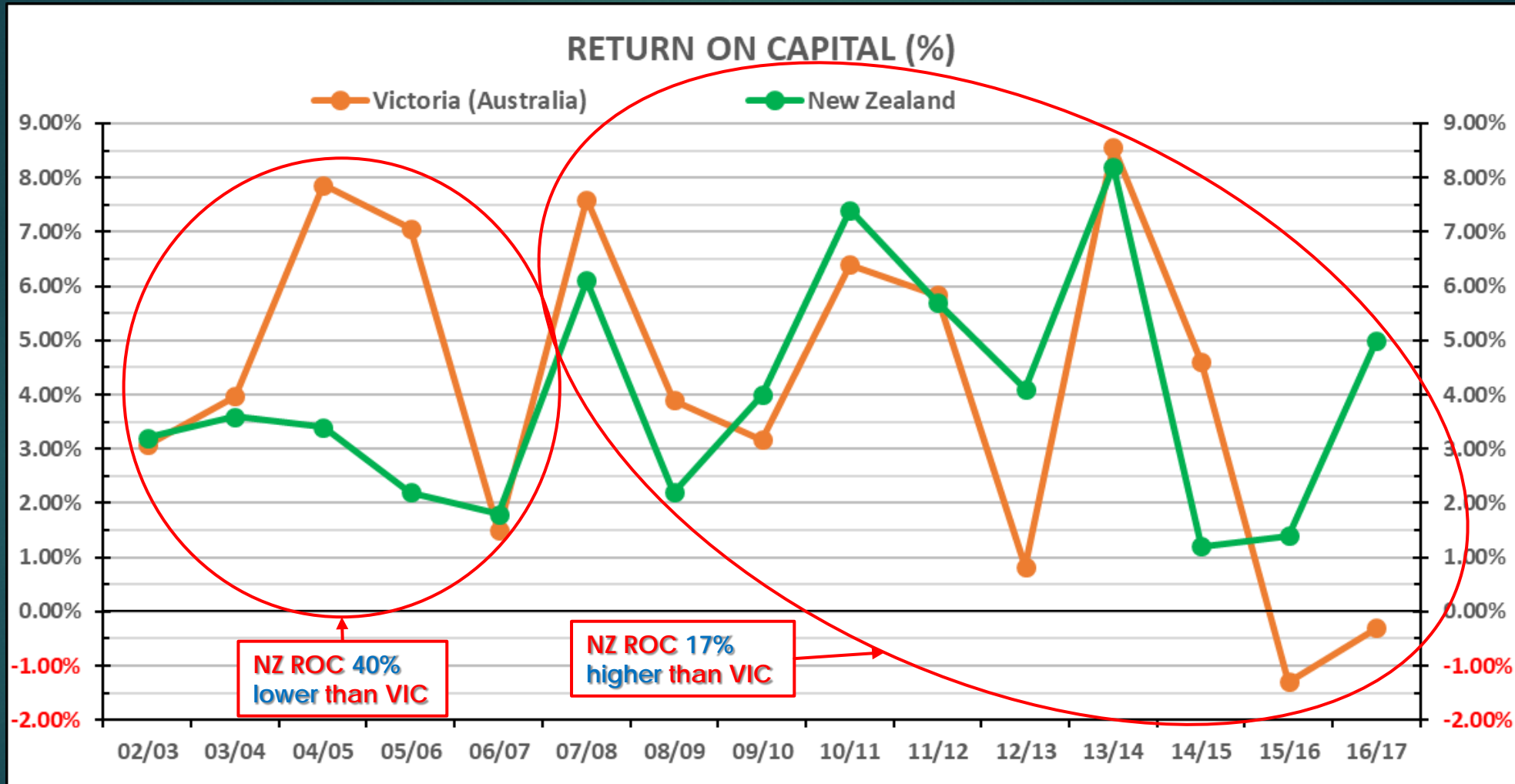
What is changing within these countries?

For New Zealand vs Australia it is changes in profitability...

AUS vs NZ – Profit per hectare



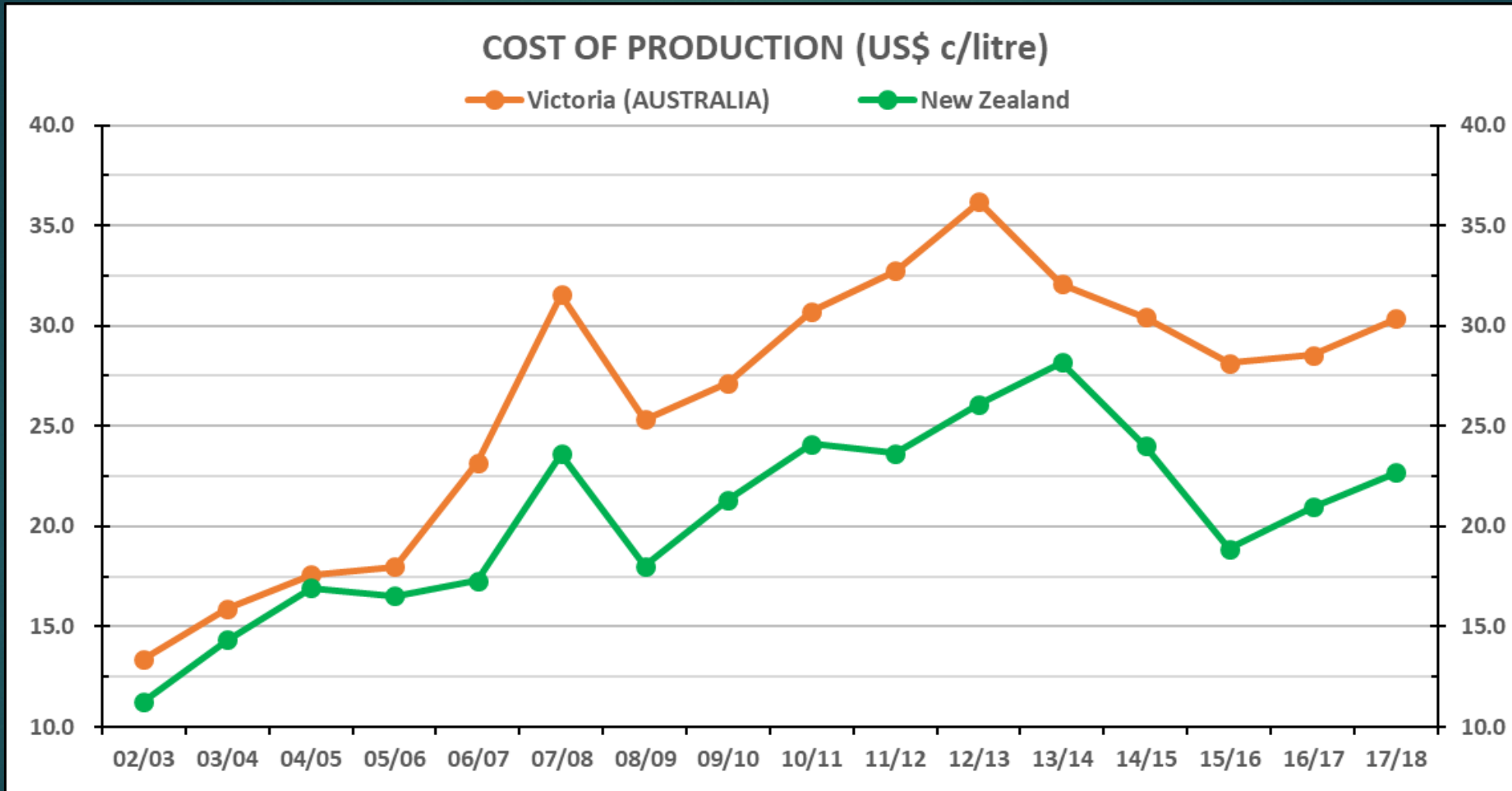
AUS vs NZ – Return on capital (ROC)



What is changing within these countries?

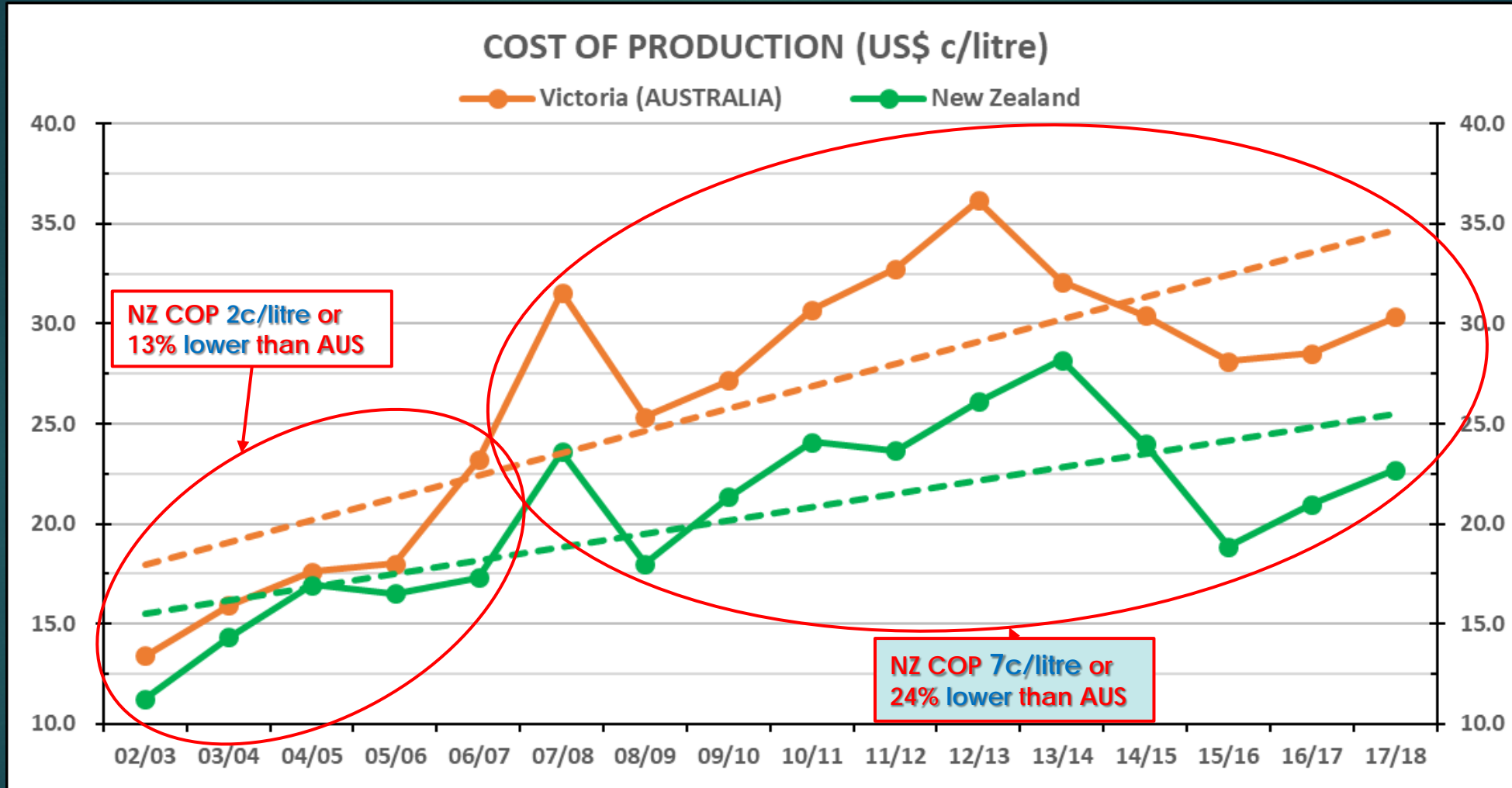
For New Zealand vs Australia it is changes in profitability...
...based on changes in cost of production

AUS vs NZ – Cost of production (COP)



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS vs NZ – Cost of production (COP)



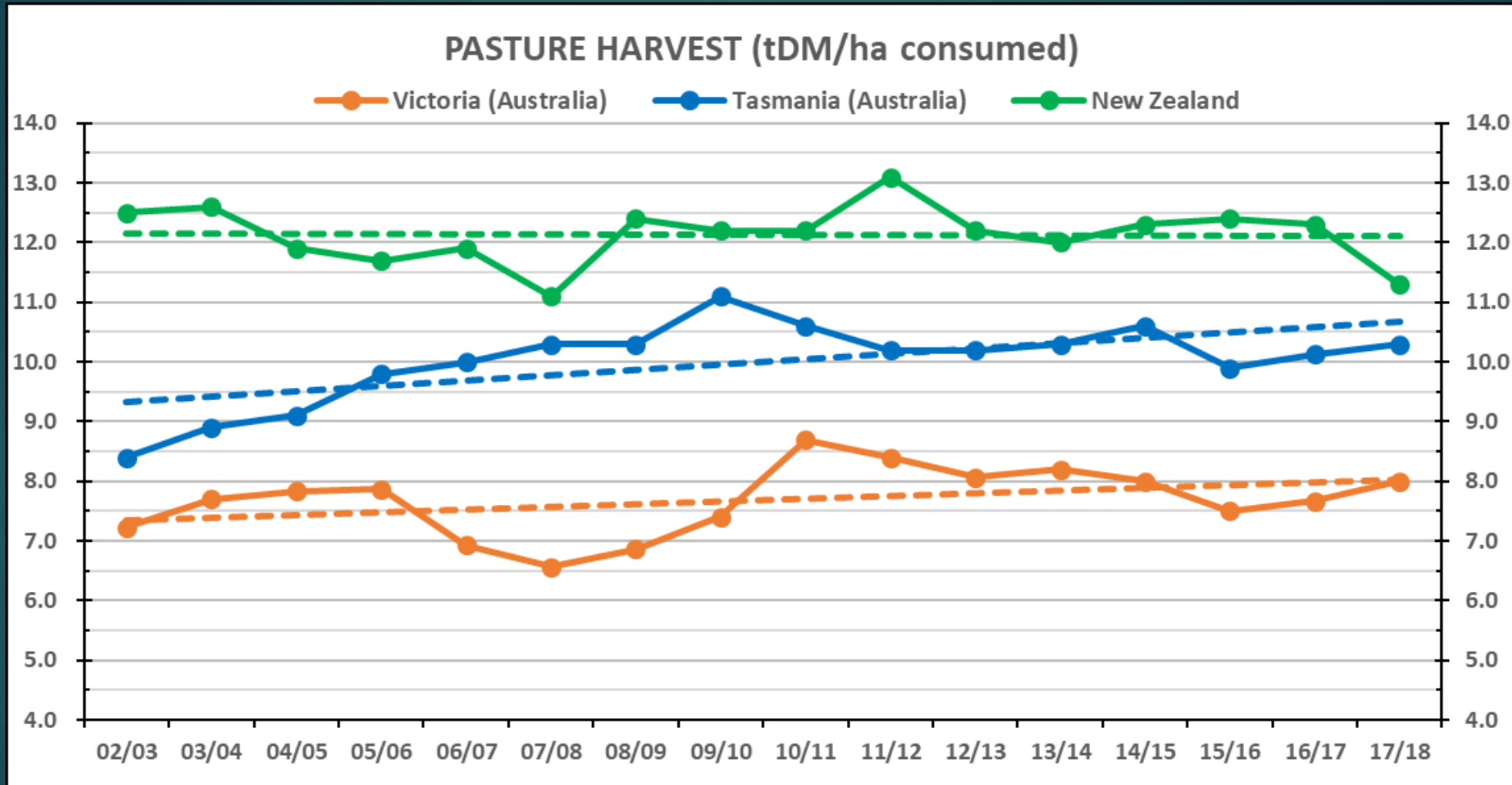
What is changing within these countries?

For New Zealand vs Australia it is changes in profitability...

...based on changes in cost of production

...unrelated to pasture harvest

AUS pasture harvest improving more than NZ



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

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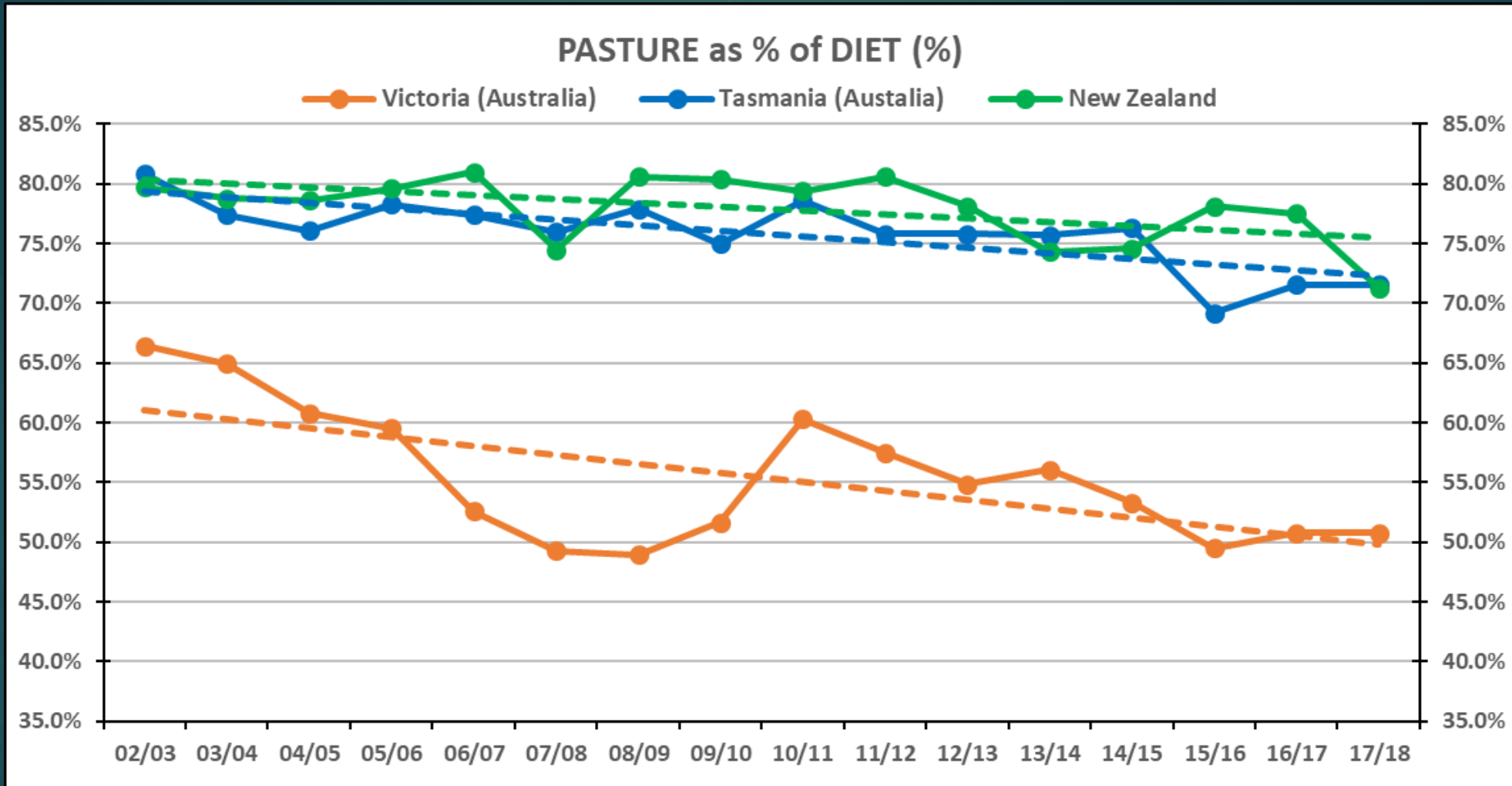
For New Zealand vs Australia it is changes in profitability...

...based on changes in cost of production

...unrelated to pasture harvest

...due to changes in farm systems

AUS vs NZ – Pasture as percent of diet



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

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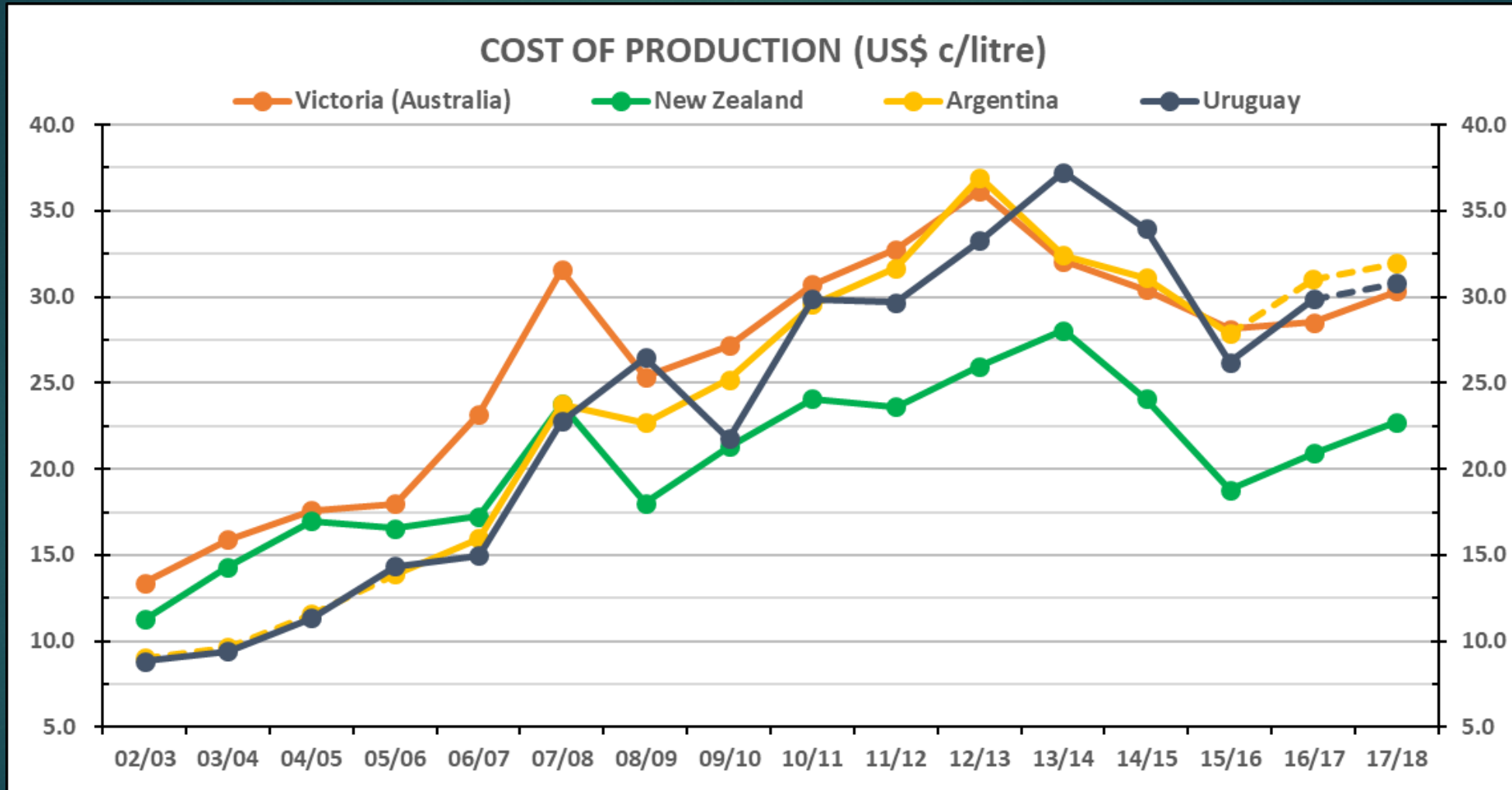
...unrelated to pasture harvest

...due to changes in farm systems

...related to larger US-type cows, higher concentrate feeding rates, and all the impacts related to these changes

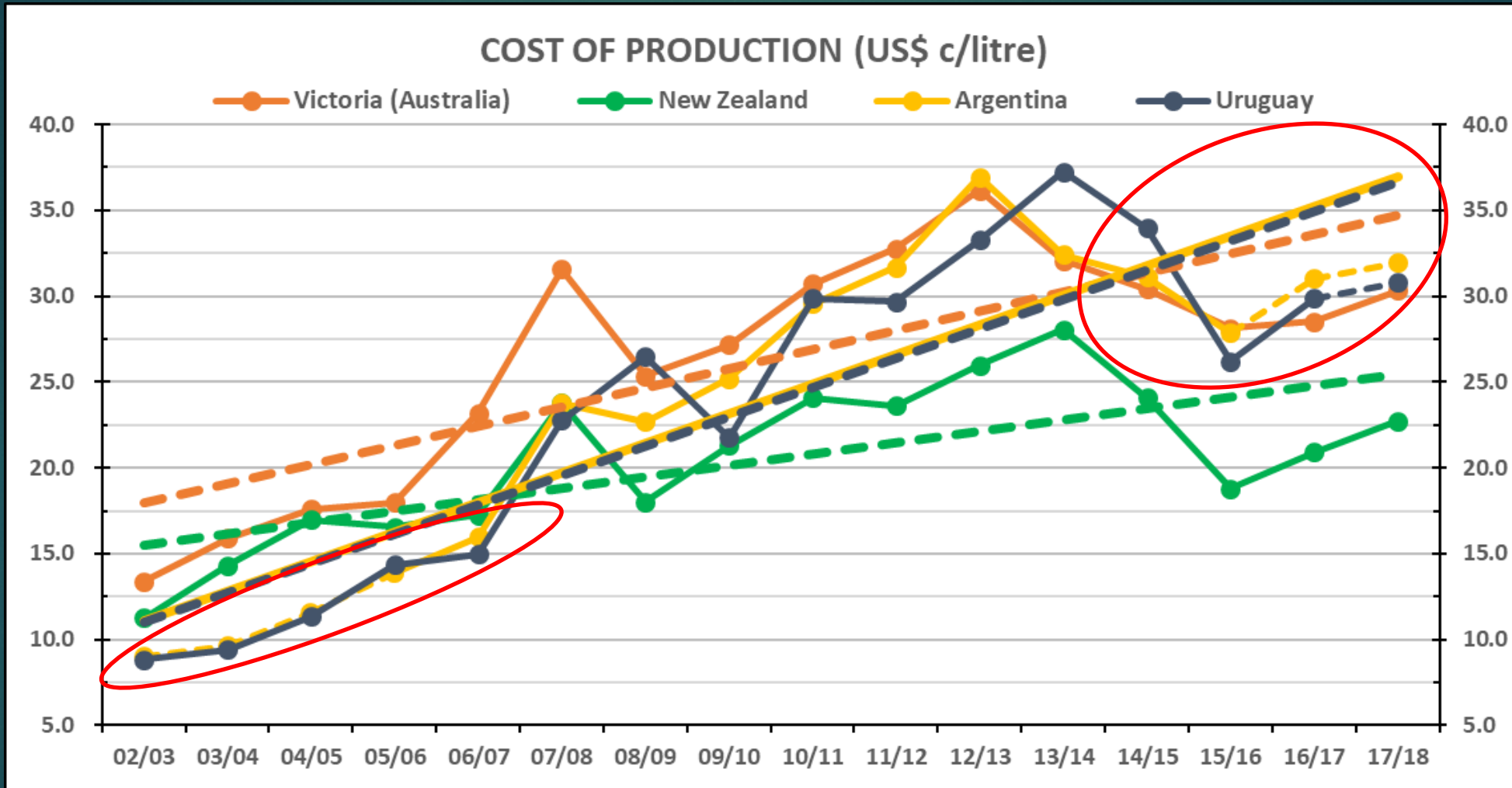
What about Argentina and Uruguay?

Adding Argentina & Uruguay – COP



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase, AACREA, FUCREA

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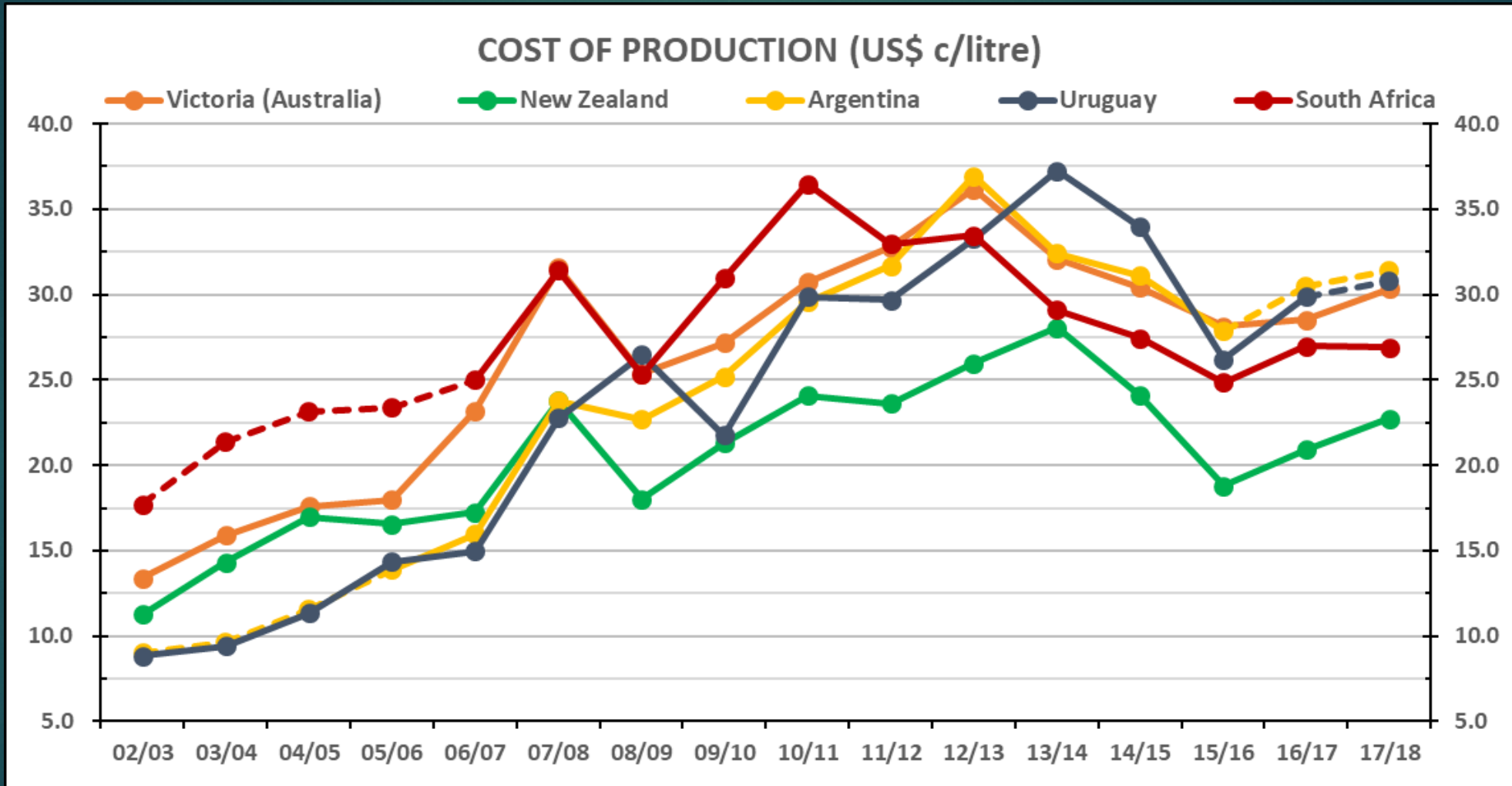
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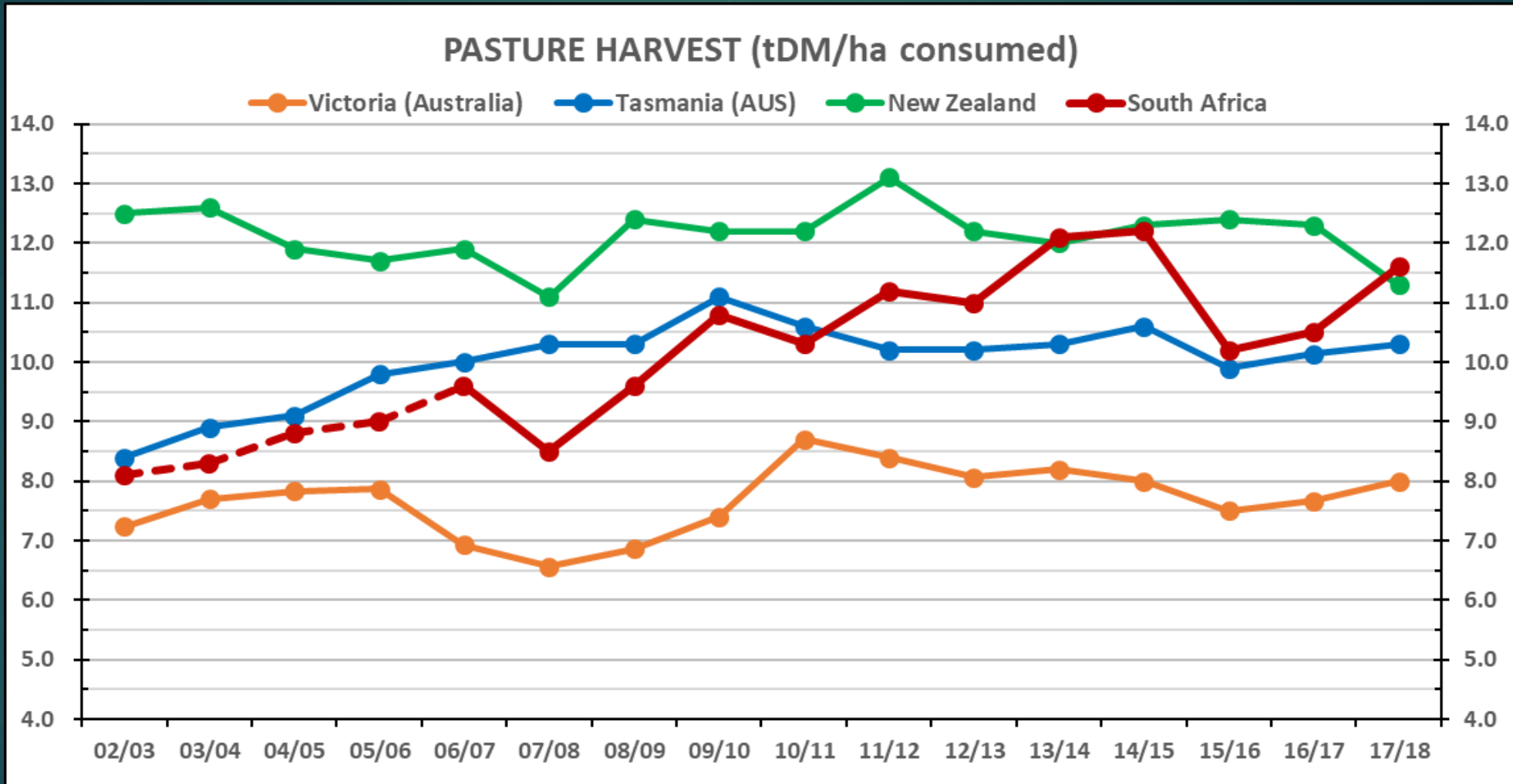
Might South Africa show some other countries the way to recover?

Now adding South Africa- COP



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase, AACREA, FUCREA

AUS vs NZ vs South Africa – Pasture harvest



What did South African dairy farmers do

Some leading farmers determined that:

1. Cost of production must be driven down
2. Farming system must match the conditions (financial and environmental)
3. Pasture harvest must be increased
4. Operating costs must be decreased

Total focus required on these issues to change farmers pattern of behaviour

Over a 10-12 year period the industry was transformed

Summary...

Major disparities in dairy industry performance and growth evident across the Southern Hemisphere

All countries need to focus on internal comparative advantage and external international competitiveness if they want to secure long term success and sustainability

Huge opportunities for individual dairy farmers anywhere to develop low cost of production, high profit businesses IF temperate pastures can be grown and consumed



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MUCHAS GRACIAS !

