

HISTORY OF GOVERNMENT INVOLVEMENT IN NEW ZEALAND DAIRY INDUSTRY

1892-1914: GETTING STARTED

- Legislation to regulate grading, export quality, milk payments.
- Government finance to build dairy factories.
- Legislation to regulate dairy co-operatives.

1914-1920: WWI BOOM – SINGLE BUYER

- Single buyer system. 'Imperial Commandeer' by British Government.
- Minimum guaranteed prices for total production.
- Special deals for dairy on shipping lines.
- Extremely prosperous period.

1920-24: FREE-MARKET FLING

- 'Imperial Commandeer' controls lifted.
- Prices drop and shipping costs rise (due to market surpluses).
- Farmers worry.

1925-1935: BACK TO EXPORT CONTROLS

- Legislation to control exporting.
- Dairy Export Control Board established¹ and assumes absolute control over all dairy exports.
- Board tried to regulate prices in UK market.
- Put in place a guaranteed minimum price for NZ farmers (price stabilisation scheme only lasted 12 months).

1935-40: TOTAL GOVERNMENT CONTROL

- A Government department took over control of all dairy exporting

¹ With 12 members: 9 farmers, 2 Government + 1 private processor. Only 40% of farmers in favour of it. Interestingly, it was opposed by many Taranaki co-ops. This Control Board was the precursor to the present Dairy Board.

1940-54:
WWII BOOM – SINGLE BUYER

- Return to 'Imperial Commandeer' type of system, where the British Government purchased all dairy exports under a Bulk Purchase.
- Dairy Export Control Board is still in place, with powers extended to give total control over NZ production².
- NZ Government froze some export receipts in 'farm stabilisation accounts'.
- 1947 – Dairy Products Marketing Commission established to take exclusive control over all dairy exports and set prices (based on cost of production).

1955-1996:
PROLIFERATION OF CONTROL BOARDS

- 1954: End of British 'bulk purchase' scheme. Weak market in Britain. NZ Dairy Products Marketing Commission retained exclusive control over exports, but lowered the guaranteed minimum price for NZ farmers.
- Resulting in 1955 Government Committee of Enquiry. Price setting powers are taken off the Board and given to a new body, the Dairy Products Prices Authority.
- So from 1955-1961, there were three 'producer boards':
 - The Dairy Export Control Board, which (ironically) had absolute control over domestic production (but not domestic marketing or exporting).
 - The Dairy Products Prices Authority, which had absolute control over export prices paid to NZ farmers.
 - The Dairy Products Marketing Commission, which had absolute control over exporting, but not prices paid to NZ farmers.

1961-1999:
CONSOLIDATION OF CONTROL BOARD

- 1961: Legislation to merge the Export Control Board and the Dairy Products Marketing Commission into a new body called the NZ Dairy Promotion and Marketing Board.
- From 1961: Government approved prices paid to farmers and provided an income stabilisation fund with discount interest costs.
- 1966: NZ Dairy Promotion and Marketing Board renamed the NZ Dairy Board
- 1988: Government ends discount interest rates for Board's income stabilisation and exporting activities.

² This structure in 1935 is similar in effect to the Global Co proposal in 2001.

1996 TO PRESENT:
CO-OP WARS

- 1996: Legislation to define dairy co-operatives as the shareholders of Dairy Board.
- Co-op wars – since 1996
- Insert McKinsey's report with graph on co-op aggregations.

IMPLICATIONS

- For 100 years, new ideas in New Zealand dairy exporting have been tried and controlled by a small, select group – those in charge of the 'single desk' producer board.
- But we now know that no individual or group has a monopoly on new ideas. The demands and opportunities from millions of different overseas consumers are so diverse.
- We also now know that the 'real money' comes from in marketing, **not** commodity production.
- Make no mistake: a huge bulk of our dairy exports go to third world countries. Milk-powder is not 'white gold'. It is not like oil. No, it is a relatively low-value third-world export.
- Our problem is that wide-spread innovation and confidence in marketing New Zealand dairy products has **not** been nurtured. It has always been too complex – "someone else's job – a farmer politician can make sure it's ok".
- Against this backdrop, it is not surprising that many dairy farmers find it unsettling that firms may compete for NZ exports. Many farmers fear they will become 'peasant farmers' for overseas corporates. This need not be so.

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June 2001