

NZIAHS Forum
“Where do we want our dairy industry to be in 20 years time?”
Friday 3rd September, 2010 – Lincoln University

Opening Address

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In many ways the dairy industry is at a crossroads. With an ever-growing, and increasingly prosperous, world population, there will be huge demand in the future for the protein that our dairy farmers are simply the best at producing. At the same time, the environment in which we farm is changing. Consumers are increasingly expecting the sector to practise the highest standards of environmental management, animal welfare and food safety.

This pressure to deliver on those expectations will only increase over the next two decades.

The challenge for our dairy industry is clear: is it able to expand production, and with it profit, to meet the growing surge of demand, while at the same time reducing its environmental footprint and maintaining the integrity that consumers expect?

The world's population is 6 billion people. Most commentators agree that over the next 20 years this important number will grow to around 8 billion. We know it will be a huge challenge to feed that many mouths, so while we grapple with the issue of climate change, it is food security that will become the world's biggest challenge.

So how will New Zealand fit into the global picture in 2030?

First, we have to focus on economic growth. New Zealand's tradeable sector went into recession in late 2004, a full five years before the global economic crisis. The Prime Minister has charged all Ministers with economic portfolios to reverse this trend and deliver growth.

Our primary sector can, and must, perform better. It is responsible for 67 percent of our export earnings and therefore is the engine room of our economy.

The fact we are very much an export-dependent nation won't change. We will continue to produce far more food than our population requires. But that doesn't mean we will be offloading this excess food as a low-value commodity product as we have done in the past. We are no longer a low-cost producer, and we never will be again.

Instead we produce a premium product, backed by integrity and commanding a top price. This premium position is underpinned by strict environment regulations, food safety standards, and animal welfare codes. These are the three components we trade on, and the three things that guarantee our international reputation.

New Zealand's reputation around food safety - one of the best in the world - is the result of years of science, systems, and international negotiation. The SanLu incident in China taught us a lot. Young mums in China no longer trust domestic production. They continue to buy infant formula, but from countries like New Zealand and Denmark at a higher price because they know it is safe.

Equally, when we are asking our customers to pay more, we must take seriously their concerns about the environmental impact of our food production systems. New Zealand's position around climate change and the Emissions Trading Scheme is part of this story. Repeatedly, when travelling overseas, I am reminded by people - from politicians to retailers to farmers - that New Zealand is well regarded and respected for its Emissions Trading Scheme and our stance in general on climate change.

The other component of the integrity story is animal welfare. It is an emotive issue. The majority of New Zealand farmers do a great job but any animal welfare incident has the potential to do huge damage to our reputation. We must be mindful that practices that are acceptable now may definitely not be in 2030.

Fundamentally, we must concentrate on markets where we can get a premium for our high quality and reputable products.

Responding to the Government's goal of growth as Minister of Agriculture, I want to get the primary sector performing better. Water is one of the levers we can use to achieve this. It is an obvious creator of wealth, growth and productivity for the primary sector, and therefore for the country's economy.

New Zealand irrigates 600,000 hectares, but there is potential to irrigate more than a million hectares if we can find a way to use our water resource more wisely. The Government wants better allocation, efficient distribution, and - most importantly - water storage. A huge amount of work is going on in collaboration with local government, with iwi, with electricity generators, and with other users to find solutions.

It will not be irrigation at all cost. A careful balance must be struck, and there must be benefits for all water users: irrigators, environmentalists, recreational users, and the community.

That's why the challenge of how to best manage New Zealand's freshwater resources was put to the Land and Water Forum, a group of around 60 stakeholder representatives who talked through the issues and potential solutions over the past year and come up with a raft of proposals in their report.

Innovation is the second lever to delivering growth in the primary sector. Farmers have been able to increase on-farm productivity around three to four times higher than the rest of the economy over the past 15 to 20 years, but much of the research that has led to these gains is decades old.

We needed a substantial commitment from both government and industry to research and development which is why last year we announced the Primary Growth Partnership, an innovation fund specifically for agriculture, horticulture, aquaculture, and forestry. So far a combined total of \$366 million has been committed for projects over the next five to seven years. The dairy industry's successful \$170 million bid was led by DairyNZ and Fonterra. With the involvement of DairyNZ, the entire industry will benefit as all farmers will have open access to the on-farm developments of this programme.

Funding from the Primary Growth Partnership is also being used for research and innovation focused on emissions research in the agricultural sector. Short of reducing stock numbers, few options are now available to reducing emissions, so we have established the New Zealand Agricultural Greenhouse Gas Research Centre. This is a partnership between all scientific organisations in New Zealand, both public and private, with an interest in agriculture. It is critical farmers have access to technology that reduces greenhouse gas emissions but doesn't compromise productivity.

The Government has also led the formation of the Global Research Alliance, an international research effort on agricultural greenhouse gases.

The Government has committed funding to these programmes because - second to food security – a major challenge the world faces is producing more food with less emissions.

The third lever is trade. New Zealand exports to 233 countries. More important, we have repositioned our export industries to the next generation of powerhouse economies. China is now our second largest trading partner and offers so much opportunity. Of China's 1.3 billion people, 250 million are earning the same or more than the average New Zealander. These people can afford our premium products. We just need to make sure they get a taste for our cheese, our wine, and our lamb.

The Government is also striving to develop free trade agreements with Korea, Russia, the Gulf States, India, and we are in negotiations for the Trans-Pacific Partnership, which includes better access to the United States. But when it comes to agriculture, free trade negotiation is never easy. In particular, dairy is one of the most heavily subsidised and protected sectors in the world. But we must continue the march forward, gaining access to new markets and improving the quality of access we have to existing markets.

Again, this is where our environmental credentials, our biosecurity system, our food safety and our animal welfare standards stand us in good stead.

New Zealand's future is primary production. The primary sectors are critical to our economy in terms of exports, the number of people they employ and the domestic businesses they support.

Long term, we have good reason to be confident about the future outlook for dairy prices. The development of emerging markets is expected to continue to provide strong demand and healthy prices. But in a world where competition is intensifying, we also need greater

productivity. We need to increase the number of farmers and growers achieving best practice, and to increase the value of the products and services that we sell internationally. Every New Zealand producer should be looking at how they can add to our reputation - not free-ride on it.

This Government is putting in place a long-term plan for growth and economic prosperity. The dairy industry is a big part of this plan. But I don't want to see our export economy overly dependent on dairy. Remember, a significant part of the industry is dairy beef. We all have more to gain if every primary sector is booming and the meat sector in particular can, and must, do better.

And while our dairy sector is world-leading, let's not be complacent. New competitors, new consumers, new expectations and new regulations are all challenges the sector faces over next 20 years. The industry will need to be smart, innovative and flexible to retain its world-leading status and take advantage of the opportunities on offer. The Government stands ready to help.