**NZIAHS Forum**

**"Where do we want our dairy industry to be in 20 years time?"**

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# Are we meeting the imperatives of the framework for New Zealand's future dairy farming & industry 2005-2015?

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DairyNZ was created in November 2007 through the merger of Dairy InSight and Dexcel and has three key investment areas: productivity (feed, animals and farm systems); sustainability (environmental management, biosecurity, animal welfare and community impact); and people and business (farm business and human capability).

I was with Dexcel in 2004 when it mapped out a pathway for dealing with issues considered important for the industry from 2004-2014.

The main productivity target was 4% total factor productivity growth, a classic economic term that makes sense to economists but not at all to farmers. The industry has been achieving just over 1% total factor productivity growth, which is a measure of the gain in outputs over inputs. It may not seem a lot but the 4% was a target McKinsey believed the Dairy Board should adopt. They believed 2% was a good target for any commodity business and they wanted to add 2% to make up for a decline in commodity prices which hasn't happened.

But to be able to get a 1% increase in efficiency while increasing our outputs during that period is quite impressive.

At a research level the results are mixed. We have had some wins around being able to harvest an optimum amount of pasture under a completely automated system. We have some of those farms in the South Island and two new ones are being set up in the North Island.

We set an ambitious target – 25 tonnes of grown pasture – and haven't reached it. I wasn't around at the time but it was plucked out of the air as a good thing to aim for. I don't think much thought went into how we would achieve it. We need to put realistic targets in place, mapping out the timeframe in which we want to reach them and how we are going to achieve them.  The crop target at the time was 35 tonnes per hectare. We have achieved that in the Waikato - we got 52 tonnes last year on our own research farm from a mixture of cropping approaches.  Thus our results have been mixed.

For sustainability, too, we set lofty targets. Some good progress has been made with the Clean Streams Accord, keeping stock out of waterways, but we still have a way to go. There has been progress around nutrient budgets but we want to get into milk production plans and nutrient management now and go to the next level.

Non-compliance levels for effluent are still unacceptably high in certain areas. But we have made good progress in the last 12 months, dropping from 19% to 8% for serious non-compliance. The rate of total compliance for farmers has been pleasing and much of the non-compliance involves petty issues, such as a failure to have a certificate on the wall. But we haven't made the progress we needed and again we probably set targets with not enough thought to how we would achieve them. All of them are 5-7 years targets rather than things that should be done now.

With regard to People in Business, the over-arching goal was to create an environment where dairying - and being near dairying - would become a career path of choice. Some progress has been made particularly around leadership but we probably haven't improved the work environment enough.

Capability around business needs to improve. A big effort through the Primary Growth Partnership is going into forming a centre of excellence for farm management. That will help address the capability we all know has been in decline. We have got to reverse this trend to deal with the complexities of farming over the next 20 years and beyond.

Just after DairyNZ was formed we refreshed the industry strategy in partnership with dairy farmers. Five main objectives were set. The first is about profit, not from the milk price but from being more efficient. Attracting talented and skilled people is our second objective.  We don't want New Zealand to be a one-trick pony and we want other industries to do well. But – our third objective – we must make sure we are competitive *vis-à-vis* other land uses and overseas dairy industries. At the moment we export about a third of the world's traded dairy products and we enjoy about two thirds of the world's dairy profits on that traded market.

Fourth, we want our industry's reputation to be enhanced both locally and globally. The way our dairy companies are positioning themselves overseas is excellent. But we must further enhance our reputation at home.

Fifth, we must strive to achieve success in partnerships - whatever the goal- between the industry and the regulators and with government and with the community more broadly. This means determining which issues should be handled at a national level and at a regional level so the industry survives and everyone benefits. Greenhouse gases are an example of such an issue, along with nutrient issues and water.

The philosophy underpinning the strategy is that we have to take a farming-systems approach. Cows and grass are at the centre – farm-production and resource-use efficiency is intertwined closely with the people who run and support the business. But farms don't operate only within a boundary fence – they operate in the big wide world and there are many other drivers. Consumers are the people who ultimately support the industry.

Milk solids production over the past 20 years has increased from about 570 kg of milk solids to almost 1.5billion kg, an impressive performance. But at the same time our environmental footprint has become bigger – water use, fertiliser use, nutrients, greenhouse gases and so on. We can't keep on the pathway we have come down.

At Dairy NZ we argue strongly nevertheless that we need to need to push on in the next 10 years to increase the contribution we are making to New Zealand exports, both in value and volume terms. But because we cannot continue on the same path, some key issues must be addressed. Among them, we have to produce our milk to higher standards and keep positioning our milk above everybody else's globally.

We must be mindful that our share of world dairy profit is under threat. We are no longer the lowest-cost producer. Argentina and Ukraine have that honour. We are the lowest-cost producer in terms of scale, or profit compared with volumes exported, but the gap between world prices and our costs is closing. Our concern must not simply be more value for our milk or more volume; we must be cost-competitive.

But we must address the issue of the environmental footprint while we are trying to generate more value for milk and more milk volumes in regions where it is appropriate, producing to higher standards and being more cost-competitive.

I often hear the question "can the dairy industry continue to grow?" But that is not the right question. We should be asking "how can New Zealanders continue to benefit from growth in the dairy industry and how do you do that?" The opportunity globally is huge. In countries like China and India hundreds of millions more people can now afford to buy our products. We can capture that opportunity.

But effluent is our Achilles heel and we have to grapple quickly with it over the next couple of years to resolve the issues it raises.

Another challenge is to connect better with the New Zealand public. We have initiatives such as Fonterra's kids' start programme in low-decile schools in conjunction with Santitarium. Federated Farmers' farm days are another great initiative, although there have to be results on farm as well. We are developing a warrant of fitness concept for dealing with effluent and we are working with Environment Canterbury on the issue of land-use intensification.

Research will be the key to our future, which is where science and scientists come in. Gene work is going to be vital for us, finding productivity traits and traits that help us with sustainability. And farm-systems research will be crucial.

We have a gap to close with the adoption of new technologies, a gap between the best operators and the average ones. This is significant. Take pasture harvest for example. If all farmers could optimise their pasture harvest we would probably get at least 100 kg per hectare more milk solids from existing farms. That would fetch more than $1 billion, under the current payout.

Significantly, our research through the Go Dairy project has found 71% of New Zealanders surveyed had a generally favourable or very favourable view towards dairying. Moreover, 91% believe our export industry is critical to our economy although a lesser 70% believe the success of our exporting industries affects their standard of living and 57% believe the success of the dairy industry affects their standard of living. So a disconnection is forming in terms of what dairy means to people and their lives.

A smaller percentage - 47% - believe New Zealand dairy farms strike a good balance between economic success and environmental responsibility (compared with 56% for general New Zealand businesses. There is an issue there.

But Kiwis love being world best, and when it comes to dairy we are number one, the All Blacks of the economy. So our challenge is to use our world class credentials to try to inspire some pride in Kiwis about dairy and show them we have another big team we can be proud of.