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'Looming wave of European milk' no threat to New Zealand dairy – visiting expert

The New Zealand dairy sector has little to fear from an estimated nine billion additional litres of milk expected to 'flood' the global market once European dairy quotas are fully lifted in 2015, according to a visiting expert in European dairy.

Kevin Bellamy, senior global dairy analyst for Rabobank, covering Europe, told New Zealand dairy producers and exporters that the staged lifting of quotas – which have historically capped dairy production in European countries – that is due to be completed in 2015 is unlikely to have an adverse impact on the New Zealand industry.

"While there will be some increase in European dairy production as a result of the quotas being lifted, it is unlikely to be the tidal wave that some people are fearing, and continued strong medium-term growth in world demand for dairy is set to absorb the additional supply," Mr Bellamy said.

Rabobank forecasts indicate that when quotas are fully lifted, an additional nine billion litres of milk will be produced annually out of Europe.

"Of this additional production, it is estimated that 3.6 billion litres will be absorbed by additional demand out of the EU," he said. "While the remainder will likely find its way on to export markets, it will be to destinations such as the Middle East and Russia, not into New Zealand's main export markets of South East Asia and China."

Mr Bellamy said the role of quotas in suppressing EU milk production had been somewhat over-stated.

"Quotas are not currently a constraint in most EU regions, with many areas producing below the quota amounts anyway, due to other limiting factors," he said.

These included limited availability of agricultural land, high cost of finance, environmental restrictions and retail price wars (shrinking farmer margins) which have lowered the price of milk.

"There's no reason this will change as a result of quotas being lifted," Mr Bellamy said.

"What we will see though is dairying moving from the less-efficient production regions in the south and east of Europe to the north and west, where production will increase if price incentives remain high enough."

The countries with the most potential to increase their dairy supply include Denmark, France (western), the United Kingdom, Ireland, the Netherlands and Germany (northern).

Mr Bellamy said the cost of producing milk in Europe should reduce as milk supply moves from less favourable areas and consolidation of farms achieves some economies of scale.

Based in Rabobank's global head office in Utrecht, the Netherlands, Kevin Bellamy has more than 25 years' experience in the global dairy sector.

Mr Bellamy was in New Zealand as part of Rabobank's Visiting Experts program, which brings international agricultural specialists to New Zealand and Australia to share their global expertise with Rabobank clients.

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Media contacts:

Denise Shaw
Head of Media Relations
Rabobank Australia & New Zealand
+61 (0) 2 8115 2744 or +61 0439 603 525
denise.shaw@rabobank.com

Jess Martin
Media Relations Specialist
Rabobank Australia & New Zealand
+61 (0)2 8115 4861
jess.martin@rabobank.com