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Dairy sector

1. Background and key issues

In many ACP countries, the dairy sector has the potential to make a major contribution to rural development and poverty alleviation. Income growth, rapid urbanisation and technological innovation are transforming the structure of demand for dairy products. In some ACP regions the supply of dairy products is increasing as a result of policy changes that have encouraged new entrants and supported improvements in dairy husbandry. This is creating new opportunities for both local dairy sector development and EU dairy sector companies.

Since dairy sector development does not necessarily require local milk supplies, expanding local milk production to meet growing demand is just one policy option: another policy option is to use imported milk.

Particular problems arise where major producers play a dominant role at the regional level (e.g. South Africa in the

Southern Africa region and Kenya in East Africa). These policy challenges are heightened by:

- the increasing globalisation of dairy company operations, linked to evolving patterns of global demand and milk production;
- the expansion of global trade in dairy products, particularly skimmed-milk powder (SMP);
- technological innovations, which are opening up untapped consumer demand in emerging markets;

Developments in the EU dairy sector are an integral part of these trends, with the EU's dairy sector reforms further complicating the situation. The dismantling of EU production quotas – in a context of stagnant EU demand growth – will see milk production expand. The EU's evolving 'safety net' policy, alongside

policy measures to strengthen the functioning of milk supply chains, is designed to insulate EU milk producers from the production consequences of global price volatility, while equipping EU dairy companies to capitalise on expanding global demand. This serves to strengthen the position of EU dairy companies within the globalisation process, despite cost competitiveness challenges.

During the 2008/09 EU dairy market crisis, EU safety net measures resulted in intervention buying of SMP in quantities double the level of the nominal ceiling (the upper limit for European Commission [EC] intervention buying), fuelling a major subsequent growth in EU SMP exports (64% growth in 2010, followed by 37% in 2011). By 2012, SMP exports were more than double the level of exports in 2009.

This has caused concerns among milk producers in regions that are seeking to develop intra-regional trade in dairy products, most notably in West and Central Africa. Illustrative of this is the rise in EU SMP exports to Nigeria and Ghana, which increased by 69% and 72% respectively in 2010. This occurred in a context where imports accounted for 50% of the market for dairy products in Nigeria, and virtually all commercially marketed milk products in Ghana.

EU policy appears to be supporting both innovation in the development of higher-value dairy products, while sustaining expanded levels of SMP production and exports. EU dairy sector reform, in line with similar experience in the sugar sector, is encouraging the globalisation of EU dairy sector companies, many of which are increasingly adopting externally oriented development strategies. Some of these are targeting well-developed markets for dairy products in Africa.

Given the EU's commitments to policy coherence, the question arises: how can EU dairy sector policy instruments be effectively managed to support poverty-focused dairy sector development in ACP countries that have the potential for commercially viable dairy sector development?

2. Latest developments

Global dairy sector developments

In 2011, global milk production rose by 2.5% as a result of higher milk prices. This reflected the rapid growth of dairy production in emerging markets – milk production in emerging markets is expected to exceed production in developed economies by the end of 2013. However, 2012 proved a more difficult year, with milk producers' margins squeezed by rising feed costs and volatile prices. Global dairy prices declined to their lowest level in 2 years by May 2012, but recovered to within 2% of their 2012 starting point by year end, and made a firm start in 2013. Overall, as noted by Rabobank in December 2012, it was considered that with "limited supply-side stocks in storage, any increase in import requirements in the first half of 2013 [would] substantially tighten the market", further supporting prices.

"By 2022, the EU is expected to account for 31% of global SMP exports"

Growing globalisation of the dairy sector saw world trade in dairy products increase by 10% to 58.2 million tonnes in 2011, substantially above the average annual growth of 4% experienced in the preceding 10 years. The largest increase was in trade in SMP (+19%).

Since 2010, the EU has played a major role in the expansion of the SMP trade. This is projected to continue until 2022, at which point the EU is expected to account for 31% of global SMP exports.

In the coming years, the strongest growth in demand for dairy products will be in developing countries.

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OECD/FAO analysis in their report 'Agricultural outlook 2012–2021' of 2012 suggests that consumption of all dairy products in developing countries by 2021 will have grown by 30%, compared to a base period of 2009–11. In recent years, strong growth in consumer demand has occurred in sub-Saharan Africa, with a 22% increase in the 6 years to 2012. With rising incomes, rapid urbanisation and low average per capita consumption, further potential for growth in demand exists in this region. Technological innovation, particularly low-cost packaging of liquid milk products (UHT milk) is critical to releasing untapped market opportunities. There is also potential for developing urban markets for processed dairy products.

According to the OECD/FAO report, up to 2021 "the majority (70%) of global milk production gains... is anticipated to come from developing countries, particularly India and China." However, sub-Saharan Africa is an exception to the global production trend: the OECD/FAO analysis suggests that in sub-Saharan Africa "productivity levels are very low and unchanging.". Milk production expansion in line with population growth is projected for the region as a whole, but with exceptions: in some sub-Saharan countries, higher prices have "encouraged greater par-

ticipation in the formal milk sector, thereby increasing milk pooling and milk quality needed for commercial sector growth”.

Overall, widely differing demand and production growth trends will increase the importance of African markets. These markets are particularly important for SMP exports, given the constraints faced in developing commercial milk production in Africa – such as poor herd quality, animal diseases, hostile climate, high cost of feed and poor animal husbandry practices.

The OECD/FAO analysis maintains that the international dairy trade is increasingly being driven by “strategic decisions of large international dairy companies”. Emerging corporate strategies in the EU dairy sector are wholly consistent with this trend (see *Agritrade* article ‘[End of dairy quotas leads to greater external focus of EU dairy companies](#)’, 4 March 2013).

EU dairy sector developments

The abolition of EU milk production quotas remains on schedule for 2015, and the EC maintains that quotas no longer limit milk production in most EU countries. Quota abolition is projected to lead to an annual 9 billion litres of additional milk production, mainly in Denmark, France, the UK, Ireland, Netherlands and Germany.

“EU quota abolition is projected to lead to an additional 9 billion litres of milk a year – 67% of this will need to find markets outside the EU”

Fully 67% of this expanded production will need to find markets outside the EU (see *Agritrade* article ‘[Dairy quota abolition on track but EU farmers concerned](#)’, 28 January 2013).

Prospects for the EU dairy sector are seen by the EC as favourable, given “population growth and interest for western diet in emerging economies”. However, price volatility remains an ongoing concern. In the first half of 2012, falling dairy prices placed a strain on the functioning of EU dairy supply chains. Sudden milk price cuts led the European Milk Board (EMB) to warn of a 2008–09 style milk crisis, with producers in Italy, France, Netherlands and Belgium facing price reductions of between 10 and 20%. This situation was compounded by rising input costs (20–22%).

In May 2012, EU farmers’ organisations called for a “robust code of practice for the dairy sector” to address ongoing imbalances in power relationships and promote a more sustainable dairy sector. The EMB argued at this time that “the only way to shift the increased volume of milk” overhanging the EU market was “to dispose of it on the world market in the form of butter and milk powder” (see *Agritrade* article ‘[Stress on EU dairy markets reveals shortcomings in functioning of supply chains](#)’, 18 June 2012).

According to the EC, overall price volatility in 2011–12 was less pronounced than in 2007–09, with higher average prices. A policy framework for managing price volatility is seen as being in place via the proposed expansion of the EU’s safety net policy (see *Agritrade* article ‘[EC proposals for the reform of the CAP leaked](#)’, 6 October 2011) and the entry into force of the EU regulatory framework for strengthening the functioning of supply chains. No further reforms are seen as necessary.

However, the EU regulatory framework has been criticised. In some countries, formal regulatory requirements have been established (e.g. in France), in others a voluntary code of conduct

applies (e.g. in the UK), while in some other countries little progress has been made (e.g. in Spain). Where stronger regulatory measures or voluntary codes have been established, prices paid to producers for milk have been supported: in the UK, for example, price cuts were withdrawn or reversed (see *Agritrade* article ‘[National moves to strengthen functioning of UK dairy supply chains](#)’, 28 October 2012).

The EU farmers’ and agri-cooperatives’ organisation Copa-Cogeca maintains that the current dairy package is “not sufficient” to meet the challenges faced by the sector, and has called for support to farmers’ organisations “to strengthen their position in the food chain against the buying power of a few retailers”, and for the maintenance of intervention and private storage measures (see *Agritrade* article ‘[Dairy quota abolition on track but EU farmers concerned](#)’, 28 January 2013).

No EU intervention buying has taken place since 2009, and by the end of 2012, publicly held intervention stocks of SMP and butter had been eliminated. According to the EC, this has been achieved “without disturbing the market”. However, EU exports of SMP since 2009 have increased nearly threefold (from 231,000 tonnes in 2009 to 618,000 tonnes in 2012).

“SMP exports are projected to increase steadily, reaching 678,000 tonnes in 2022”

A steady increase in SMP exports is foreseen, reaching a projected 678,000 tonnes in 2022, resulting from expanded EU production and stagnant EU consumption (see *Agritrade* article ‘[EU dairy sector developments and prospects](#)’, 15 April 2013).

The expansion of EU SMP exports from 2009 was initially based on stocks

bought into emergency intervention. These exports may well have disrupted specific milk supply relationships in third countries targeted by EU SMP exporters, including in West Africa.

The elevated levels of EU SMP available for export up to 2022 are informing EU corporate dairy sector strategies. In January 2013, the Danish dairy company Arla acknowledged that quota abolition was “the main driver behind [its] decision to revise and extend [the company’s] global strategy”. The Arla group commented that its milk farmers alone would produce at least 1 billion litres more of milk each year after quota abolition. With stagnating markets in the EU, this will require increased sales to new consumers in emerging markets. According to the Chair of the Arla Board of Directors, penetrating these new markets “will help to maintain a viable dairy business in northern Europe”.

In October 2012, a dairy sector workshop convened by the Danish Confederation of Industry identified export potential and investment opportunities in East Africa, given “increasing consumption of milk” and the modernisation of milk marketing channels. Opportunities for turnkey projects in West Africa have also been identified, particularly in markets where high-quality dairy products are seen as synonymous with EU dairy products (including the use of EU intermediate inputs such as SMP). While this can offer scope at the national level for expansion of dairy processing, it can pose challenges for the development of regional dairy trade policies and trade flows.

Arla’s increasingly outward-looking strategy mirrors that of rivals such as French-based Danone and Dutch-based FrieslandCampina, the latter of which has been extending its opera-

tions in Nigeria (see *Agritrade* articles ‘[End of dairy quotas to lead to greater external focus of EU dairy companies](#)’, 4 March 2013 and ‘[Expanding Dutch corporate involvement in local milk procurement in Nigeria](#)’, 15 April 2013).

“EU dairy sector reform is proving successful in positioning EU dairy companies to take advantage of expanding global market opportunities”

Various press reports observe that EU dairy sector reform is proving successful in positioning EU dairy companies to take advantage of expanding global market opportunities (see *Agritrade* article ‘[EU dairy sector corporate restructuring under way, with shifting global demand](#)’, 9 September 2012). However, EU companies face serious constraints in exporting. These include:

- the price gap between EU and world prices;
- the dominant role played by a limited number of companies in the global export trade (many of these with easier access to rapidly expanding Asian markets);
- growing milk production in developing countries.

While in the longer term a greater interest lies in developing high-value dairy exports, in the short term SMP is in the forefront of EU export growth. Technical know-how and the ready supply of milk powder for use in reconstituted dairy products could well facilitate the process of global expansion of European dairy companies (see *Agritrade* article ‘[Globalisation of EU dairy companies under way](#)’, 16 December 2012).

Dairy sector developments in Eastern and Southern Africa

According to the South African Milk Producers’ Organisation (MPO), 2012 was a “tough year” for the South African dairy sector, with rising input costs and consumer demand expanding faster than production. Milk production in the country continued to become more capital intensive, while milk producers’ share of the final retail price continued to decline (from 45% in 1998 to 30% in 2011).

South Africa applies a differentiated import tariff regime, with low tariffs for liquid milk (including UHT) and higher tariffs for milk powders and butter and cheese (although with some tariff preferences for imports from the EU). The implementation of this differentiated tariff regime is facilitated by close collaboration between the South African authorities, the MPO and its affiliated company Agri Inspec, which undertakes forensic investigations of dairy sector trade flows.

Between 1997 and 2008 the trade regime applied in South Africa saw dairy imports decrease from 12 to 4% of total milk-equivalent supplies. Since 2009, imports have been rising, with UHT milk from South American suppliers landed at below South African prices in 2012.

“The South African dairy industry has been effectively integrating milk powder imports into its Africa-focused export strategy – with exports growing faster than imports”

However, the South African dairy industry has been effectively integrating milk powder imports into its Africa-focused export strategy, with exports growing faster than imports (see *Agritrade* article

[‘Trends in South Africa dairy trade highlighted’](#), 18 March 2013).

This expansion of South African exports has given rise to complaints from Namibian milk producers of ‘dumping’ (largely based on non-inclusion of real distribution costs in retail prices), following the ending of infant industry protection arrangements in 2010 (see *Agritrade* article [‘Addressing dairy product predatory pricing practices within customs unions’](#), 9 September 2012). This has led to calls for milk to be declared “a protected product”, whereby licences would be used to manage imports in ways consistent with local dairy sector development (a similar regime is applied in the horticulture sector). However, to date no decision has been taken on this request. Differences in the standards applied to milk products also undermine Namibian price competitiveness, as the feed supplements and antibiotics used in South Africa are banned in Namibia, due to requirements on beef export markets.

These concerns exemplify some of the difficulties faced in building regional markets, when the producers of one country overshadow other regional producers. Such a situation often gives rise to considerable protectionist pressures on national food security grounds, and is further complicated by divergent production standards.

“SPS and food safety concerns in the region have provided the basis for import restrictions”

Elsewhere in the region, notably Zambia, SPS and food safety concerns have provided the basis for import restrictions. Zambia is looking to develop its dairy sector, with only 15% of the country’s dairy potential currently being exploited. However, serious productivity and competitiveness chal-

lenges are faced. There is significant competition from South African and Kenyan exporters, which has generated pressure for import restrictions. Such restrictions, however, can only ever be a temporary solution. Across the region, major investments in the reduction of dairy sector production costs are required, including through the development of backward linkages to feed producers.

“In Kenya, dairy farming is the fastest growing agricultural sub-sector”

In Kenya, dairy farming is reported to be “the fastest growing agricultural sub-sector”. A significant expansion of commercial milk production has been under way since 2002 (+150% by 2011). The entry of private players and the formation of smallholder cooperatives have seen significant advances in both production and value addition in the dairy sector. Currently there are many successful dairy cooperatives that are increasingly processing their own milk and selling products in urban areas. However, there is a need for greater investment in “simple technologies that can boost milk conservation at farm level”, and in processing capacity to convert seasonal surpluses into milk powder. In July 2012 a proposal was tabled for the creation in Kenya of “a strategic reserve to cushion against fluctuations in production” (see *Agritrade* article [‘Strengthening the Kenyan dairy sector and seeking regional markets’](#), 6 August 2012).

The need for investment in milk powder facilities was illustrated by the role played by the release of stocks of milk powder by New Kenya Co-operative Creameries (NKCC) in March 2012 in dampening down rising milk prices (see *Agritrade* article [‘Dairy processing and the East African regional market’](#), 7 May 2012). In the course of 2013,

Brookside Dairies will have a milk powder plant in operation alongside the long established NKCC milk powder production facility. However, milk powder production capacity will still be below requirements, with milk going to waste during peak periods and substantial imports taking place during low production periods.

The East African Community (EAC) is seen as having major potential for growth in production and markets. Regional production is almost 15% lower than consumer demand, which is growing strongly (at +3.5% per annum). Tetra Pak sees this growth as being driven by low-income consumers. Product development and low-cost packaging innovations are seen as essential.

Kenyan dairy sector companies are not only expanding domestic production for export, but are also investing regionally. Brookside Dairies, for example, has set up operational branches in Uganda and Tanzania and is planning to establish operations in South Sudan. Establishing processing plants locally is seen as a more viable strategy than simply exporting Kenyan products.

Alongside international imports, rising imports of milk products from neighbouring African countries are a source of concern in some countries. According to the Tanzania Dairy Board (TDB), “between 25 and 27 million litres of milk are imported yearly”, equivalent to national commercial milk production. A significant downsizing of the Tanzanian dairy sector has occurred over the past 15 years, with Tanzania’s remaining dairies operating at less than 27% of installed capacity. The TDB has announced ambitious plans to “increase milk production and processing, marketing and promotion of consumption of milk and dairy products in the country”, including the establish-

ment of a UHT facility. However, the Tanzania Milk Processing Association (TAMPA) maintains that major policy and regulatory reforms to end multiple testing, inspection and licensing requirements will be required if these ambitious plans are to be realised.

Efforts are taking place, as part of Kenya's dairy export strategy, to harmonise sanitary and phytosanitary (SPS) and quality standards, in order to remove non-tariff barriers to trade across Eastern and Southern Africa. However, this is by no means a straightforward process. Which production standards should be used? How will small-scale producers be affected by these new standards? And what can be done to support compliance with the new standards? These are highly charged issues.

In addition, any process of harmonisation of standards will require substantial investment in quality improvements and ensuring the regularity of supply of safe dairy products. Currently Mauritian importers, for example, favour EU and US sources of supply on the basis of considerations of SPS, quality and reliability of supply.

Trade restrictions such as poor infrastructure, import licences and low levels of harmonisation of standards continue to seriously inhibit trade in dairy products across Southern and Eastern Africa. The aspirations of governments across the region to expand both domestic milk production and dairy processing in response to growing demand suggest that dairy sector trade policy is likely to remain an area of contention within regional integration initiatives.

Dairy sector developments in West and Central Africa

Dairy product imports remain a matter of concern in West and Central Africa. However, analysis published by the US Department of Agriculture (USDA) has put these concerns in context, highlighting Ghana's "near total dependence on bulk milk imports" and the dependence of the Nigerian dairy sector on imported inputs – 75% of dairy products and dairy-related processed food products in Nigeria "rely almost entirely on imported powdered milk", while over half of demand is met through direct imports (see *Agritrade* article '[Nigerian and Ghanaian markets offer further growth potential for EU dairy exports](#)', 2 February 2013). In both instances, imports from the EU (Netherlands and Denmark) dominate the market for both intermediate and final products, partly linked to the high level of consumer confidence in the safety of European dairy products.

"Imports from the EU dominate the market in Nigeria and Ghana for both intermediate and final products"

While demand for value-added dairy products is rising rapidly, USDA maintains that outdated technologies, rising input costs and underlying competitiveness challenges mean that the local dairy sector is poorly placed to meet rising consumer demand. However, in the course of 2012 FrieslandCampina WAMCO, a subsidiary of the largest dairy cooperative in the world, continued to roll out its Nigerian milk procurement programme. The short-term aim is to procure 10% of milk locally, with a 10-year vision of 50% local procurement. This could prove ambitious, since even in livestock-based economies such as Mauritania, 65% of dairy demand is met from imports.

Ghana is seen by USDA as "a key access point for entry into the West African region market". According to Indexmundi.com, around 12.5% of total Ghanaian milk powder imports are re-exported. In 2010, some 12.3% of Nigerian milk powder imports were re-exported. While the percentage is similar, the volumes from Nigeria are ten times higher than those from Ghana. The EU milk powder exports are increasingly finding their way onto inland markets, where they directly compete with local milk products. This raises questions regarding the tariff treatment of these re-exports under the ECOWAS trade liberalisation scheme, since they are not eligible for duty-free treatment.

Efforts continue to develop commercial dairy production across West and Central Africa, with the regional farmers' organisation ROPPA calling for increased tariff protection for milk products. The majority of governments in the region are seeking to implement policies to promote local milk production in order to strengthen local food availability, create employment opportunities, reduce their trade deficits and promote structural development.

"The regional farmers' organisation ROPPA has called for increased tariff protection for milk products"

As the majority of dairy farmers are smallholders, there are deliberate efforts to invest in smallholder dairy value chains as a long-term solution. In Senegal, for example, a dairy genetics project has been launched to improve herd quality and milk yields.

Across the region, smallholder-based dairy systems continue to face efficiency and quality challenges. This suggests that the development of commercial dairies linked to global supply

chains may offer the most immediate prospects for meeting growing consumer demand for safe, high-quality dairy products.

Given the success enjoyed in East Africa in promoting the commercial production of milk by smallholder farmers, it appears premature to discount the potential for small-scale producers in West and Central Africa to meet growing consumer demand. However, dairy sector development based on local milk production will continue to be seriously disadvantaged if wider economic challenges are not addressed. Such challenges include poor transport and energy infrastructure, informal barriers to the development of reliable supply chains, and policy constraints on promoting investment in the sector.

Dairy sector developments in the Caribbean and Pacific

“Across the Caribbean local production of dairy products falls short of domestic demand”

Across the Caribbean, with the possible exception of Barbados, local production of dairy products falls short of domestic demand. However, a primary policy objective remains to secure and expand markets for domestically produced fresh pasteurised milk, in addition to building capacity for a mix of other dairy products, including milk-based drinks, cheese and yoghurt. The major commercial regional producers continued to be Barbados, Belize, Dominican Republic, Guyana, Jamaica and Trinidad & Tobago.

In the Dominican Republic, Jamaica and Trinidad & Tobago, Nestlé International continues to be an essential pillar for industry development, partnering with the government and dairy

farmers’ associations to invest in farm productivity improvements and product development.

In September 2012, Nestlé invested US\$8 million in a new production line at its factory in Jamaica. On 7 March 2013, in Trinidad & Tobago, the company signed a Memorandum of Understanding to improve the quality and quantity of the country’s dairy stock, based on imports of the Jamaica Hope breed, for which there is growing demand across the region.

Guyana is currently focusing its efforts on improving its genetic stock, with a genetic laboratory commissioned in October 2012. These efforts are complemented by plans to develop pasteurisation capacity in order to reduce the importation of dairy products by 10% by 2015. While some countries such as Guyana still depend on imports of bulk milk powder for repackaging and reconstituting to meet local consumption, such imports severely compound the challenges faced by other producers in maintaining industry profits and optimising returns to investment.

In Barbados and Belize, the dairy industry is dominated by lone national companies Pine Hill Dairy (PHD) and Western Dairies respectively. With increasing inputs costs and competition from imported yoghurts and evaporated milk, at the end of 2012 PHD reported a very challenging financial situation, which saw the closure of its yoghurt plant on 31 December 2012. This followed the reinstatement of a milk production quota system from 1 July 2012, after a 1-year suspension. PHD has, however, agreed to absorb increases in the cost of processing and not institute any further quota reductions before 31 December 2013. Producers for their part agreed to a temporary reduction in the farm gate milk price until 30 April 2013, as part

of efforts to bring local milk to market at more affordable prices.

PHD has resolved its market access issues with Trinidad and has resumed exports of its products, as well as initiating exports for the first time to Jamaica in 2012. The company has also set September 2013 as its target date for complying with four international ISO and OSHAS standards. This is expected to significantly boost PHD’s capacity for international trade.

In Belize, Western Dairies is facing intense competition from imports from Mexico: the Belize market is dominated by imported dairy products (which are valued at Bz\$5.18 million - €1.97m – compared to local production valued at Bz\$2.42 million - €0.92m). The lack of a national dairy policy and trade policies that encourage imports continues to disadvantage the local dairy industry. Rising input costs compound the problems faced, with little active government support in easing input costs.

Nevertheless, Western Dairies is investing in expanding its processing facility and upgrading its equipment in line with food safety requirements. The company is in the final stages of HACCP certification, an important pillar of its marketing strategy.

Despite the challenges at the level of farm production (in terms of low volumes, high costs, and trade challenges arising from increased imports and intra-regional trade barriers), continuing efforts are being made to develop the Caribbean dairy sector. However, more integrated government policies are considered to be necessary to support the local industry, from farm to market. Barbadian stakeholders are currently engaged in a process to develop a strategy paper for the sustainability of the local dairy industry, Trinidad and Tobago is also in the pro-

cess of articulating a national livestock policy, including development support to the local dairy industry, while in Guyana a consultancy study is under way to develop a national livestock policy and a strategic plan, aimed at consolidating and expanding current and planned dairy industry development initiatives. For the countries in which it operates, Nestlé, the major buyer of local farm fresh milk, will continue to figure prominently in these national dairy development initiatives.

“Increasingly the future in the Caribbean dairy sector lies in vertically integrated and efficient milk/dairy enterprises, targeting clearly identified market components”

Increasingly the future in the Caribbean dairy sector is seen to lie in vertically integrated and efficient milk/dairy enterprises, targeting clearly identified market components. This requires the right mix of:

- domestic policies to reduce rising input costs and improve the efficiency of dairy supply chains;
- trade policies to manage SMP imports;
- technological innovation in processing and packaging, within the framework of clear marketing and sector development strategies.

In the Pacific region, the major dairy sector development in 2012 was the sale in August of government-held stock (80%) in Fiji's sole dairy company, Fiji Dairy Ltd, to Southern Cross Foods, a subsidiary of a multi-sector company with food procurement and distribution operations across the Pacific and parts of Asia. A number of conditions of sale were included in the privatisation agreement, linked to

a government commitment to establish “concessionary duty rates... to ensure growth in local production” (see *Agritrade* article ‘[Privatisation raises hopes for Fijian dairy sector but issues remain](#)’, 25 March 2013).

The privatisation process builds on the restructuring that has been in train since 2010, which led to the separation of the milk production and milk processing arms of the majority government-owned company. The government hopes that the privatisation process will provide a basis for overcoming past problems that have plagued the sector, including “mismanagement, corruption, inefficiency and outdated infrastructure and technology”.

A variety of dairy sector support measures were announced in Fiji in 2012, including a 20-year tax holiday for new dairy farms and direct support to boost production. Currently domestic production accounts for less than 13% of consumption in Fiji. In November 2012, Fijian milk producers complained about the milk pricing policy of the newly privatised company, which were seen as yielding farm gate prices below the average in the pre-privatisation period. This suggests that a voluntary code of conduct approach such as that adopted in the UK could be relevant in Fiji (see *Agritrade* article ‘[More details of UK dairy code of practice emerge](#)’, 4 January 2013).

3. Implications for the ACP

The key policy challenge faced

“African dairy markets are of growing interest for EU trade and investment”

African dairy markets are of growing interest for EU trade and investment. Corporate interest could take the form of takeovers of existing companies, joint ventures or entirely new investments. A critical question for African governments and regional dairy sector strategies will be how to use the evolving global dairy sector trade dynamic to boost both local milk production (especially by small-scale farmers, with important poverty alleviation implications) and local value-added processing of dairy products.

Making use of trade policy tools and nuanced approach to investment

European dairy companies can play a role in expanding production and improving the quality of milk and dairy products across East Africa. However, important lessons can be drawn from experiences elsewhere in Africa.

In the 1990s two distinct patterns of investment emerged in the South African dairy sector in the face of the huge new market potential. In KwaZulu-Natal, a joint venture was initially established, focusing on developing markets for new value-added dairy products. This saw demand for locally produced milk increase and sustained higher average milk prices than elsewhere in South Africa. In the Cape region, a process of acquisition of local dairy companies by a European dairy company

took place. This focused on securing access to distribution channels and integrating local dairy processing into global sourcing chains for dairy ingredients controlled by the European parent company. This saw the closure of the Cape region's largest milk drying plant, which introduced greater milk price volatility to the Cape market and subsequently saw a significant decline in the number of dairy farmers in the Cape. These takeovers occurred following a large-scale expansion of illicit 'imports' of milk powder into South Africa, which undermined the financial position of many locally established dairies.

This experience highlights the need for a nuanced approach to foreign direct investment in the dairy sector, if the policy aim is to commercialise milk production to alleviate rural poverty. It suggests that careful management of imports of milk powders and other dairy sector ingredients are required, within government efforts to promote local commercial milk production.

Reconciling producer and processor interests

In West and Central Africa, difficult choices are faced in the short term over whether to prioritise the strengthening of local milk procurement and value-added processing or to push for a more rapid expansion of local value-added dairy processing based on imported raw materials.

"How can the existing dependence on dairy imports be better managed to create space for local dairy sector development?"

The question arises: how can the existing dependence on dairy imports be better managed to create space for local dairy sector development, where

this is technically and commercially viable?

Experience elsewhere in the ACP suggests that the future of ACP dairy sectors lies not only in technological improvements to enhance productivity, and better organisation and management of dairy supply chains, but also in careful targeting of clearly identified dairy market components. Coherent policies on dairy product imports, including the role of milk powder imports in supporting the strengthening of local milk supply chains, will be a critical component of any such regional dairy development strategies.

Promoting managed and transparent regional dairy markets

Across the ACP, if regional markets are to be created that are capable of attracting investment in local milk supply chains and value-added processing, ways will need to be found to manage protectionist pressures and ensure the transparent and accountable use of dairy sector trade policy tools. These may need to include the development of regional policies for strengthening the functioning of dairy supply chains, within managed moves towards regional trade integration. The process is also likely to give rise to considerable debate over both the product standards to be applied to regional trade and the rules of origin to be applied to processed dairy products.

Balancing imports and local milk production development

Recent developments in the Fijian dairy sector need to be seen against the background of Fiji's dominant role in commercial milk production (90%) among Pacific Island Countries (PICs)

and the past practices in the Fijian dairy sector of import-based product distribution.

"If the aim is to increase local milk production, a more coherent policy on the role of milk powder imports within the overall milk procurement profile is needed"

If the aim is to promote increased local milk production, then a more coherent policy on the role of milk powder imports within the overall milk procurement profile will need to be established. In addition, a clearer and transparent system on milk pricing appears necessary in order to ensure that tariff concessions provide incentive prices for expanding local milk production.

The extensive procurement and distribution network of the parent company of the newly privatised Fijian dairy company potentially raises important regional dairy sector trade policy issues (particularly related to rules of origin) for other Pacific countries that may be seeking to promote increased local milk production and dairy sector development.

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About this update

This brief was updated in September 2013 to reflect developments since August 2012. Other publications in this series and additional resources on ACP–EU agriculture and fisheries trade issues can be found online at <http://agritrade.cta.int/>.



The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint ACP–EU institution active in agricultural and rural development in African, Caribbean and Pacific (ACP) countries. Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management.

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