

A Tale of Two Islands

New Zealand and Ireland share several similarities when it comes to their dairy industries. Both are island nations that tend to favor pasture-based dairying, making them relatively low-cost producers of milk. They are prolific exporters because their ability to



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produce milk far exceeds their populations' ability to consume the resulting dairy products. The dairy industries in New Zealand and Ireland are also significant contributors to their nations' economies. During the 2017-18 season, New Zealand produced 45.6 billion pounds of milk, nearly three times, or 29 billion pounds, more than Irish milk production. Although the gap stands wide today, the difference between milk output in New Zealand and Ireland in 1980-81 was just 2.8 billion pounds. Since the mid-1980s, however, the fates of the two industries have diverged—one benefited from the encouragement of dairy output while the other belonged to a region focused on controlling growth.

Responding to dairy product surpluses from the 1970s, the European Union implemented a quota system in 1984 designed to restrict the growth of milk production. At that time, EU countries with economies that did not rely heavily on agriculture wanted to limit the public dollars spent to support the agricultural sector, according to Teagasc—The Agriculture Food and Development Authority. Ireland felt the weight of the policy as the European Union established quota at 103.7 million metric tons, with a 2% annual growth rate. Some countries, like Ireland, were allocated a bit more annual production volume, but the limits were highly restrictive by design. Until quota was abolished in April 2014, Ireland's growth tracked its annual production allotment.

Over the last 35 years, New Zealand's milk

production expanded at a 3.4% compound annual growth rate. Milk production peaked in the 2014-15 season, when output climbed to 48.3 billion pounds. The amount of land available and the number of animals the land can sustain can limit pasture-based systems. To maintain an environmental balance, New Zealand recently slowed the number of dairy permits it issues. As a result, expectations

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Ken's Corner



*by Ken Meyers
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Pasture-based systems, while cost competitive, have limitations, including ceilings on output per cow and wide variations in output based on seasonal factors, weather, and environmental constraints. For instance, last year in Ireland, an unusually cold, wet winter led to

inadequate pasture development the following spring, requiring Irish producers to import forages.

This week, temperatures in Ireland are expected to rise into the 80° F. range as Europe struggles with a record-breaking, week-long heat wave, which is expected to send temperatures soaring to 104° in France. Irish producers are not prepared for extended periods of high temperatures. If weather extremes become more commonplace, pasture-based systems might not be as competitive as confinement systems, where cow comfort can be more easily controlled.

Output growth in New Zealand has stagnated, in part, due to increased environmental regulations focused on water quality and tourism. According to the 2018 Environmental Performance Index, New Zealand ranked as the 17th most environmentally friendly country out of 180. Ireland ranked 9th. Ireland's milk production growth will likely continue unabated for now, but a tripling of volume to match New Zealand's could prove difficult, especially if Ireland starts to experience environmental constraints. **MCT**

New Heights Possible for Spot Cheese

Until this month, CME block prices had not touched the \$1.80/lb. mark for several years. Block prices recently hit \$1.845/lb., the highest price since Nov.

28, 2016. Barrel prices have made a few forays above \$1.70/lb. this year, but prior to this year, the last time barrels reached those levels was in November 2016.

U.S. milk supplies that have fallen behind prior-year levels have erased the year-over-year stock builds—a market factor that has concerned buyers and sent futures prices skyward. While it is likely that markets will drop back in the near future, it is just as likely that prices could resume their climb, possibly even reaching new heights later this year. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jun	1.7875	1.6275	16.23	2.3900	16.93	0.3650	1.0450
Jul	1.8425	1.7250	17.33	2.4500	17.26	0.3575	1.0525
Aug	1.8275	1.7500	17.49	2.4875	17.71	0.3375	1.0875
Sep	1.8575	1.7650	17.55	2.5050	18.01	0.3250	1.1125
Oct	1.8275	1.7250	17.46	2.4550	18.03	0.3175	1.1400
Nov	1.7875	1.6350	16.89	2.4275	18.07	0.3200	1.1600

* CME prices.

**NASS prices.

...Ireland's resurrection

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for growth in cow numbers could slow considerably, forcing producers to double their efforts to increase output per cow.

Before the European Union implemented quota, Ireland had 80,000 dairy farms with 1.52 million cows, producing 12.2 billion pounds of milk (June 1983 through May 1984), according to Teagasc. That compared to New Zealand's 15,753 farms with between 2 million and 2.3 million cows, producing 14.8 billion pounds of milk (1983-84 season), according to New Zealand Dairy Statistics. Thirty-five years later, New Zealand has 11,590 dairy farms, with nearly 5 million cows producing 45.6 billion pounds of production vs. Ireland's 18,000 farms, with 1.34 million cows producing 15.5 billion pounds of milk. This stark contrast in growth demonstrates how quota successfully limited milk production throughout Europe, ultimately sidelining Ireland's industry for decades. The end of quota, however, could resurrect the Irish dairy industry.

Currently, New Zealand has 1.8 million hectares dedicated to dairying, while Ireland has 4.4 million

committed to all of agriculture, with most of the land suitable for dairying. Thus, under similar conditions, Ireland has considerable growth potential. Given its grass-based production system, Ireland ranks as one of the lowest-cost producers globally compared with Australia, New Zealand, Argentina, and other EU countries. The Irish government supports the country's dairy industry, and business and trade groups are focused on growing the industry as well. Overall, the benefits to the Irish economy, job creation, and the return to farms far outweigh the drawbacks, at least for now.

Ireland's potential to expand both milk and dairy product output before confronting environmental limitations similar to those that have slowed New Zealand's progress in recent years is tremendous. Ireland has a base of reliable processors, a solid reputation in the global dairy industry, and the country enjoys a considerable cost advantage on the products it produces, including infant formulas. Moreover, the Emerald Isle has likely taken the necessary steps to avoid the environmental pitfalls that have plagued New Zealand and other countries, including the Netherlands. Thus, for now, it appears nothing imminent is on the horizon to slow Ireland's surge in milk production. **MCT**



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