

**Draft Discussion Paper**

Formation of a Sheep Dairying Collective Entity

**For discussion by the Sheep Dairy Steering Group**

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## Introduction: Sheep Dairy industry Challenges

In her 'Business Plan for the Sheep Dairy Industry' (2015), based on a sustained six month investigation of six international sheep dairy markets, Nuffield Scholar Lucy Griffiths recommended that interested parties establish a *collective body* to act as a collaborative vehicle for developing the New Zealand industry.

Griffiths recommended that this body (1) communicate best practice for the industry (2) assist farmers wanting to get into the industry, and (3) collectively market NZ sheep milk products off-shore. It would also act as an information portal for consumers, chefs, health specialists and food writers, and develop a policy and advocacy function for the industry. In support of this, such a body would likely also prepare funding bids, assist in new product development and coordinate research across all aspects of the Sheep Dairy channel (2015: 7).

Since the conference, potential new entrants to the industry have been confronting three key challenges: sourcing rams and ewes of suitably high genetic worth to begin building dairy flocks, beginning to work on regulatory compliance processes for producers, processors and exporters, and identifying and developing relationships with potential sheep milk products buyers.

Many of these determined new entrants will no doubt succeed individually; as the industry's current five operators have done before them. However the challenges they confront are, to a significant degree, *collective* in nature. As such, there are opportunities to collectivize and share the costs and benefits involved in addressing these challenges. In particular the industry collectively confronts the need to rapidly increase the size of the New Zealand dairy flock and at the same time to increase the per ewe milk performance.

## A Collective Response to Key Challenges

This short paper proposes the formation of a producer-funded collective entity, a cooperative company, which would address one or more of the industry's key challenges. The proposed entity could, for example, **(1)** invest in the purchase and importation (where necessary) of best possible genetics **(2)** facilitate, develop and establish an agreed breeding methodology for the national dairy flock, **(3)** establish a streamlining process by which new entrants quickly achieve compliance with regulatory requirements (e.g. the collective entity could for example hold the risk management plans for new sheep dairy producers) **(4)** identify and foster relations with product buyers, gather market insights, and support product development, and **(5)** develop funding bids for human trials to test the claim regarding the health and nutritional value of sheep milk products. In taking on these kinds of activities such a collective body would inevitably also act as an agent in guiding and stabilizing the price per litre (\$/L) or price per kilogram of sheep milk solids (\$/kgms) for new and existing manufacturers<sup>1</sup>.

## Collective entities

Agricultural cooperatives tend to develop in industries comprising large number of similarly sized producers, where economies of scale offer advantages, and where small producers confront significant imbalances in the market power<sup>2</sup>. While these are common conditions, the particular characteristics of

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<sup>1</sup> As such, a collective entity would thus play some kind of role in protect the industry at a whole from destructive pricing practices. The fledgling industry's five current producers have avoided such practices to a large degree by focusing on different markets and consumers groups. However, there are, sadly, examples of such practices occurring during earlier attempts to establish sheep dairying in New Zealand and examples in the early history of New Zealand's dairy goat industry.

<sup>2</sup> Researchers also suggest that while there is no clear evidence that cooperative outperforms investor owned firms, political and symbolic characteristics of cooperatives have spurred their development and resilience.

such entities vary. What is consistent is that they are organized, owned and controlled by the users of its services and are funded through a relatively modest initial investment. This funding is then used to developing, for example, relationships, alliances, joint ventures or simply purchasing relations with other organizations in order to address some or all of the shared challenges confronted by existing and new entrant producers. The aim of such activity being to reduce the overall cost, increase the speed and raise the quality of response to the challenges.

In order to facilitate discussion on the scope of activities of such a producer-owned entity (identified here as 'Sheep Dairy NZ'), I have briefly outlined below three scenarios. These are simply hypothetical and a basis for considering the initial scale and scope of activities of the proposed collective entity. Once the steering group has discussed the initial the scope of activities of the proposed entity, it might then call for a more detailed business plan for the entity's activities. This might then lead to the development of prospectus seeking investor (producers) funds to support the entity's activities.

### **Scenario 1. Genetics and breeding focus**

*Scope:* The collective entity invests owners/shareholders' funds in tendered programmes to develop protocols, importation of genetic materials, and establish a national breeding worth programme.

*Price:* Estimated investment of \$0.5m-\$1m (\$10K each for 100 producer owners) with further funding support from public entities.

*Benefits/returns:* Shareholder/owners can purchase the genetic material and participate in the genetic improvement programme. Steeper genetic-based production gain would ensue (milk quantity, quality and lactation length) and the scheme would aim to be self-supporting and return a modest return to the producers on the initial investment.

### **Scenario 2. Genetics, Regulation and some market development.**

*Scope:* The collective entity invests producer funds in genetics gain programmes, holds and administers risk management plans for producers and processor and invests in product and market development programmes.

*Price:* Estimated investment of \$1m – 1.5m shareholder/producer funds (\$15k for 100 producer owners) plus support from public entities.

*Benefits/returns:* Genetic gain, reduce costs and improved quality assurance across industry, and ongoing market and product development work. A small financial gain to investors but overall reduction in cost of genetic improvement, the quality responses to regulatory compliance standards and product development.

### **Scenario 3. Genetics, Regulation, Supply, Brand and Market development, Health and Nutrition Research**

*Scope:* Genetics, Regulatory Compliance, Buyer network development, brand development, marketing, product development and health and nutrition research.

*Price:* Estimated investment of \$2.5m ( \$25K for 100 producer owners) plus support from public entities.

*Benefits/returns:* Reduced cost of genetic gain, quality assurance, brand and market development and long-term investment in health and nutrition research – a larger potential return on initial share investment.

### **Possible Next steps**

1. Draft a comparative analysis of NZ agriculture cooperative structure, governance arrangement and relative performance and recommend possible structure and governance arrangements for Sheep Dairy NZ.
2. Draft a detailed business plan and prospectus for agreed scenario including costs for Activities 1-5, returns to the cooperative from each activity (and return to owners) and other sources of funds to support 1-5