

How Europe's Blockade of Russia Skimmed the Cream off New Zealand's Milk Exports to China

A Keynesian black swan capsized the European/Asian Milk Balance

NAPIER, HAWKES BAY, NEW ZEALAND, July 4, 2015 /EINPresswire.com/ -- MSCNewsWire's Peter Isaac continues his series on "Milk - An economy changer?" from his base in France . . .

The long milk bull run equalled gold mining in the mid 1800s and wool in the 1950s in terms of being a shot in the arm to the New Zealand economy. Nobody convincingly contradicted premier John Key's value judgement that the nation had a "rock star" economy.

The milk run safely covered the last general election. Setting the procurement pace was China.

Now comes the mystery.

Why did China continue as procurement pacemaker when it knew that early this year the EU milk quotas would dissolve, and that they were the only ready-cash buyers available to stand in line for the surplus that would result?

Why was China's milk ordering at full bore from New Zealand when its centralised buyers knew that there was going to be a 20 percent jump in Europe's milk production starting this year?

Now the mystery deepens.

It is now clear in Europe that China possesses milk stockpiles of strategic proportions and that it built these up at a time when its own production was rising at around five percent a year.

Still the plot thickens. China knew that Europe's own milk consumption was falling steadily under the pressure of new and more fashionable beverages, especially those in the health sphere.

So why was China continuing to acquire milk as if demand for it out stripped supply? China's procurement agencies knew that in the course of 2015 Europe would be flooded with milk. Which is what happened.

The solution to this puzzle is hiding now in plain sight before the very eyes of EU and Westminster sphere producers.

It is Russia.

The unexpected blockade by the EU of Russia turned off the milk tap to Russia and simultaneously turned upside down China's strategically defensive global milk procurement planning.

Before the embargo of Russia there had been in existence a broad scheme in which Russia would exchange its gas for agricultural output from Western Europe.

Russia's historic horror of famine pretty much balances several Western European nations' more modern fear of farm surpluses and the resulting discontent among farmers of the type that is now manifest all over France.

Until the embargo was slapped on Russia, the governments of Germany and France both with their powerful Green parties saw Russian gas as a rare combined solution to their doctrinal problems as well as in France's case its economic ones too.

With their power stations nearing retirement age these countries could now appease both troublesome and divisive ends of their political spectrums.

Russian gas for European farm produce solved two governance problems at once. The one on the left and the one on the right. Ideology and economics would both be served by bringing in Russian gas.

Then came Moscow's intervention in Ukraine. Compounding this was the fact that Ukraine was then being eyed up by Brussels as an EU candidate, if not actually being wooed.

Then came the embargo and with it the milk bottleneck backing up all the way to English Channel.

The Chinese saw what was happening before their major suppliers saw it. The Russian blockade was the game-changer. What their planners had always envisaged as a being sellers market had suddenly turned into a buyer's market. It had in a very short time tilted sharply in their favour and become their market.

Chinese forecasts of EU agriproducts for Russian gas had vaporised overnight. EU agriproducts, notably milk ones, would stay in Europe. They would not now be traded for Russian gas.

Economist John Maynard Keynes stated that in any economic plan, even in the most expertly and meticulously designed, there was the likelihood that there would land disruptively in the midst of it, what he described as a black swan.

The black swan in the form of the EU embargo of Russia now flapped into the European milk lake and did so with almost immediate results.

- * It filled up to overflow point what had previously been a lake of manageable depth
- * It shifted the Chinese milk procurement strategy from one of acquiring on scarcity to one of acquiring on plenty.
- * It put a sudden end to the most sustained New Zealand commodity boom of recent times.

As Keynes understood in planning. One thing can always be expected. It is the unexpected.
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