

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



5 Oct 2010

## Tatura and Bega lift milk prices

*Australian dairy processors step up after brighter market conditions.*

Two of processors have announced price increases to their milk suppliers on the back of improving market conditions. *Tatura Milk Industries* and *Bega Cheese* suppliers have received milk price increases of 8 c/kg of butterfat and 20c/kg of protein. In the case of Tatura, the payment represents a scheduled announcement of a promised loyalty payment. Both companies boast increased milk flows, each claiming to have gained about 50 million litres throughout Victoria since the beginning of the season. Mr Irvin said 30 million litres came from western Victoria.

## Heart Foundation attacks dairy on butter

*Growing demand for butter - a concern for Australian Heart Foundation.*

The Australian Heart Foundation has taken up an attack on the increased sales of butter saying butter has, on average, 20 times the trans fat levels of margarine. The Heart Foundation reckons it has cause for alarm, saying that popular television programmes, chefs and food magazines all giving butter a higher profile in their recipes has increased butter sales, which were up 9.3% in 2009. This comes as new studies from the US referred to in a health science magazine called *Lipids* have queried the direct causal link between saturated fats and heart disease. Papers from a symposium entitled "Saturated Fats and Health: Facts and Feelings," scientists specialising in fat research analysed the evidence between saturated fat intake and health, and overall agreed to reduce over-simplification when it came to saturated fat dietary advice. You can find more at [http://www.eurekalert.org/pub\\_releases/2010-10/gg-tsf100110.php](http://www.eurekalert.org/pub_releases/2010-10/gg-tsf100110.php)

Ironically the Australian Heart Foundation recently gave a large number of fast food products the "heart tick". But it has a thing for dairy at present and is seeking to get involved in a debate on product promotion, after earlier in the year attempting to get a discussion going on the way the industry prices and promotes low-fat milk product.

## Distributor sued over soy drink additive

*Bonsoy soy drink problems resurface as victims join in a multi-million dollar class suit.*

People who claim they were made sick by drinking Bonsoy soy drink are suing the distributor alleging unsafe levels of iodine in the product. Melbourne-based law firm Maurice Blackburn launched a class action for damages for 25 parties around the country. Food Standards Australia reported that consuming 30ml of the soy milk daily could expose people to unsafe levels of iodine. The iodine came from kombu, a seaweed product added to the milk. Bonsoy's website says kombu is known for its mineral content and used "not only for taste and texture but also for nutrition". The soy drink is made in Japan but distributor Spiral Foods is involved in its formulation. Bonsoy was voluntarily recalled by Spiral Foods in 2009. Between December 23, 2009 and March 15, 2010, there were 38 reported cases of thyroid dysfunction suspected to be associated with the consumption of Bonsoy soy milk, according to Food Standards Australia.

## Chinese to develop Australian hub

*China looks at Australian processors to quench its domestic dairy appetite.*

Chinese investors are putting funds into an Australian joint venture to produce and supply dairy products for their domestic market. A company is being set up by China's *Tianyi Group* to use factories in northern Victoria that have spare capacity. Discussions are reported with *Murray Goulburn* and *Tatura Milk Industries* about contract processing. On the supply side, five farms have been bought with the aim of producing organic milk. The company is seeking to buy more properties to reach its target of 10 hub farms milking 1,000 cows apiece. All the venture needs then....are the cows.

## Headlines

- Tatura and Bega lift milk pays
- Fonterra says 6% of shares "dry"
- NZ foreign ownership rules changed
- Rabo sees a stable end to the year
- Majority rules for EU reforms

Indicators	
Dairy export index	Index stronger with a lift in \$A
World dairy prices	Cheddar price rises, powders and butter flat
Australian cull cow prices in the US	Prices lower in \$A as market weaker in US
Grain futures	Prices decrease

## Chinese takeover approved, says Synlait

*China gets the go to invest in a slice of NZ.*

The Overseas Investment Office has given a tick to an \$82 million investment by huge Chinese dairy company Bright Dairy in Canterbury milk processor Synlait Milk. The OIO decision comes as the Government moves to tighten foreign investment rules after an 18-month review of the Overseas Investment Act. Bright Dairy, China's third-largest dairy company by production, is taking a controlling stake in Synlait's dairy processing operation but its dairy farms are owned by a separate company in which the Chinese company has no stake. Bright Dairy is injecting \$82m for a 51 per cent share of Synlait Milk, the processing company. The proceeds will be used to build a second milk powder plant, doubling Synlait Milk's processing capacity. That plant is scheduled to open next August. The plant will produce infant formula and other high-specification formulated milk powders, for consumers in China and elsewhere.

## NZ acts on selling the farm to foreigners

*New limits on NZ foreign ownership rules amid growing community anxiety.*

New Zealand will place new controls on overseas investors buying large landholdings amid growing public concern the nation is selling too many of its farms. Under the new measures, which assess the merit of foreign investment NZ cabinet ministers will be able to consider whether the country's "economic interests" are safeguarded. NZ's Overseas Investment Office has recorded 235 consents for foreign investors to buy more than 150,000 hectares of farmland in the five years to July 1, 2010. The recent bid by Hong Kong-based company Natural Dairy to buy 16 farms in the country has added to community anxiety.

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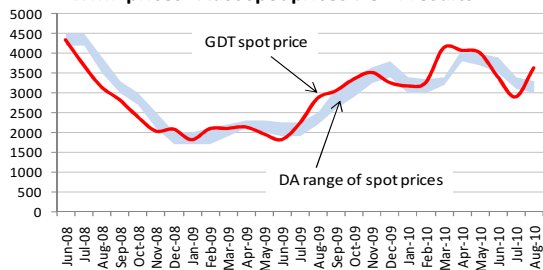
## Index of export returns

**Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.**

### Index steady despite surging \$A.

Spot prices for cheddar posted the only gains this week, providing the first solid upward movement in cheddar spot prices for some time. Again the \$A continued its surge and was more than 1 cent stronger over the week to **US97.16c**. Despite the increase in the \$A, the index actually gained ground, up slightly to **126.5**. Another GDT auction is held this week.

WMP prices - Aust spot prices v GDT results



### Rabobank sees a stable end to the year.

Rabobank's quarterly report says product prices should hold their ground, despite "ample supply availability", with a strong Southern Hemisphere season, and recovery in EU milk flows and growth in United States exports. Rabo says the effect of the "twin giant importers Russia and China" remaining extremely active will offset the increased supply. Rabo further states that the US dairy industry's production "momentum" puts international markets at risk, with the risk of a slowing US economy potentially creating higher exportable surpluses.

Rabo expects good seasons and improving prices would ensure that for rest of this year EU milk production will stay higher than a year ago. But rising feed costs are expected to rein in production and keep the increase modest. The report says, "With profitability far from exceptional in most countries, supply growth below one percent is likely for the second half of the year." Rabo says New Zealand's milk flows are expected to show growth of up to eight percent over the season, "but not spectacular, double-digit increases."

## Fonterra says 6% of shares "dry"

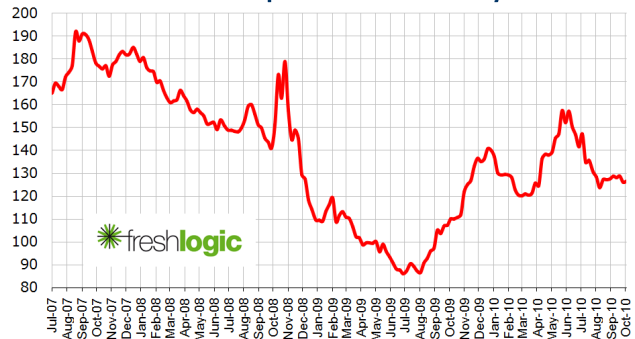
### Farmers see value in shares as an investment.

Fonterra's farmer-shareholders have applied for \$61 million of additional Fonterra shares this season, lifting the total number of "dry" shares to 6 per cent of shares on issue. Farmers had applied for 13.5 million shares, worth a total of \$61 million (at the current share price of \$4.52), at last week's deadline for buying additional shares for 2011. The additional shares are also above those farmers are required to hold to back their recent or expected milk production. More than 70 per cent or 7500 Fonterra farmer-shareholders are now holding dry shares.

### New Holland BOOMER T3000 Compact Tractors.

The Boomer 3000 series offers 3 Transmission choices, the Easydrive™ Constantly Variable Transmission (CVT), Mechanical Synchro Shuttle or Hydrostatic Transmission. With a choice of two front axles, Standard 4WD or Supersteer™, for areas where turning circle is critical the Boomer 3000 series delivers! The 4 cylinder naturally aspirated engines are Tier 3 compliant. Exceptionally rugged and economical to run. The optional Super suite™ Cab, features a unique hi visibility roof window, slim line cab pillars, flat floor and curved glass. This ensures excellent noise suppression further boosting operator comfort.

Australasian export index from July 2007



**Take note:** The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

## Majority rules for EU dairy reform

### Consensus overrides small bumps, gives go-ahead to EU dairy reform.

Four member states refused to sign off a Council dairy paper on September 27, forcing a downgrade from Council Conclusions to Presidency Conclusions - but their objections did little to stop the growing momentum towards EU dairy reforms. After the Agriculture Council, farm Commissioner Dacian Cioloș pledged to press on with his dairy reform package based on the HLG findings by the year end, with the implicit backing of 22 member states who signed up to the Presidency Conclusions. The UK, the Netherlands, Denmark and Sweden refused to give the paper their blessing, preventing its adoption as a Council paper, while the Czech Republic abstained, on the grounds that its objections had not sufficiently been taken into account. The member states who refused to sign off the paper did so in opposition to the conclusions on market measures and origin labelling - despite the rewrites - as well as in objection to the call for an adjustment (or "clarification") of competition rules, sources at the Council said.

A last-minute rewrite from the Belgians had called for improved "bargaining power" rather than "negotiating power" in sections referring to the possibilities of amending competition law. One of the most contentious paragraphs was adjusted to read that existing market instruments "should be retained and when necessary adapted", in place of the initial wording, which stressed the need for more "efficient" measures. A further adaptation was made on origin labelling. With member states still at odds over the matter, the final draft could only invite the Commission to "consider the feasibility of different options for obligatory/voluntary place-of-farming labelling of basic primary dairy products".

## Dairy Crest "not for sale"

### Dairy Crest determined to retain independent status amid strong growth.

German yoghurt maker Theo Müller prompted takeover speculation by disclosing that it had built a substantial stake in the UK cheese, butter and milk group Dairy Crest. Speaking after the company behind Müllerlight and Müller Corner disclosed a 3.04% stake in Dairy Crest, Mark Allen, Dairy Crest's chief executive, said he planned to keep his company independent as he announced that strong sales of cheese had boosted the group's first-half sales in the face of a competitive milk market. In a trading update, Dairy Crest said sales of its Cathedral City cheddar brand had shown "strong growth" in the first half. Furthermore, its four other biggest brands - Country Life butter, the Clover and St Hubert Omega 3 spreads and the Friji milkshake - also recorded higher revenues this year than last, the company said.

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