

DAIRY REPORTER

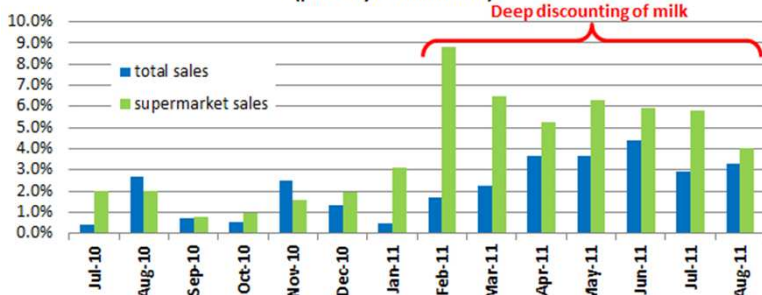
Milk sales holding up

Shift to grocery stores remains strong

Most states have reported growth in milk sales during the two months ending August as national sales were 1.7% up in total, according to latest data from Dairy Australia. WA was up 4%, Victoria 3.4% and Queensland 2.3%, but sales in SA dropped 1.6% for the first two months of this new financial year.

It is also interesting to see what has happened to trends for fresh white milk sales which continue to show consistently stronger growth since the inception of deep-discounting by major grocery retailers. About a third of the increased sales in the 7 months however could be explained by the loss in sales of UHT milk, previously pegged at a similar price-point to where private label products are now set. But milk sales isn't only about the white milk game – fresh flavoured milk sales are doing well for processors, up more than 8% in total since February this year.

Fresh white milk sales (monthly % growth year on year)
(per Dairy Australia data)



Industry puts final points to Senate

NSW survey claimed to show evidence of effects

Dairy industry participants had another crack at presenting their case to the Senate Economics Committee last week, but there was limited new material on offer. The Senate Committee is in its final stages of hearing the issues associated with milk price discounting instigated in January this year, after deferring its conclusion of the process several months ago when in May it issued a 2nd interim rather than final report. The Senate Committee is now expected to make its report on the 1st of November.

Terry Toohey, chair of the NSW Farmers' dairy committee, used the hearing however to release the results from a survey of 60 of their members which showed the average price paid to NSW dairy farmers for a litre of milk had dropped from 47.7 cents last year, to 46.3 cents this year. NSWF sheets home to the move by Coles to discount milk to \$1/litre, and says the average NSW dairy farmer could lose at least \$18,000 in revenue from the effects this year.

ACCC chair puts shot across retailer bows

New Chairman promises a tougher regime

Rod Sims, the newly appointed chairman of the ACCC has promised major grocery supermarkets a tougher time under his regime, including a tougher stance of the exercise of their existing market power. He said the ACCC would embrace the challenge to "keep the competition torch burning" to see competition launched in new areas. He specifically signalled the plight of suppliers to supermarkets who he claims often feel powerless to negotiate their supply agreements with their customers.

He said the existence of branded and private label lines required the ACCC to watch the misuse of power where there is such vertical integration within the supply chain.

Headlines

- Milk sales growth stays strong
- Senate Review is close to finish line
- Weather critical to NZ season
- Auction prices fall....again
- US processors want gov't out of dairy

Indicators	
Dairy export index	Index falls on lower prices
World dairy prices	All prices fall again
US cull cow prices	Prices firm with lower \$A
Grain futures	Wheat futures fall further

Bega bids to mop up Tatura

Offer launched to integrate the 70% subsidiary

The expected offer by Bega Cheese to absorb the 30% of Tatura that it doesn't own has commenced. Bega Cheese executive chairman Barry Irvin said a Merger Implementation Agreement had been signed and would be subject to approval by TMI shareholders and a court later this year. The merger will involve the issue of two Bega Cheese shares in exchange for each Tatura Milk redeemable preference share.

This will result in the issue of 24.1 million new Bega Cheese shares to approximately 320 current Tatura Milk RP shareholders. Once issued, these shares will rank equally with existing Bega Cheese shares including entitlements to dividends.

More UHT milk competition

Gippsland player fancies its hand at UHT

Longwarry Food Park is close to launching product from a new UHT plant, expanding its Gippsland-based factory. The company says the one-litre product is less than a month away from the marketplace, and will be sold both domestically and internationally.

CHOICE targets dairy desserts

The latest thrust in the war to achieve truth in branding

Consumer advocacy group CHOICE, has attacked chilled desserts, claiming that many ready-to-eat desserts with low-fat claims such as 'fat free', 'reduced fat' and '97 per cent fat free' are not as healthy as their labels suggest. CHOICE said it reviewed 31 chilled or frozen low-fat desserts and says it has proven that many so-called 'low-fat' products contain high sugar and sodium levels.

CHOICE wants Australian governments to end selective use of nutrition claims by introducing a nutrient profiling system, which it says would ensure all products carrying nutrition claims comply with a specified level of overall healthiness. Nutrient profiling it said is already in place in the US and is soon to be introduced in the EU, and was one of the recommendations handed down by the Independent Food Labelling Review Panel in January 2010.

Proudly sponsored by



DAIRY REPORTER

Weekly Dairy News for Members of DFMC



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 falls as all spot prices lose ground. Spot prices for each of the major four commodities lost varying amounts of ground again this week, and to make things a little sadder, the \$A picked up some value against the US currency as financial markets assumed a little more confidence in the future of the world! The \$A closed the week higher against the US dollar at **\$US0.9769**, pulling the index of spot returns down almost 4 points to **123.1**.

Auction results again weaker. The reports of booming NZ milk output (*see below*) may have helped the latest GDT auction held on 4 October achieve another fall in average sales prices.

Whole milk powder prices slid 0.7% to US\$3,309/tonne from the previous auction, but shorter term delivery contracts were below the average, at \$3,263/t, but later deliveries, starting in April 2012, averaged \$3,635/t, suggesting that buyers suspect that prices might rise again and are keen to ensure supplies.

SMP was also down on average by 0.3% on two weeks ago, to US\$3,193/t, as this week's sale included product offered by Dairy America, which achieved below the SMP average with prices between \$3,035/t and \$3,085/t. Anhydrous milk fat fell 3.5% to \$3,703/t and cheddar fell 4.9% to \$3,800/t.

NZ flush worries world market

Great conditions at the start but weather may curb the enthusiasm

A good autumn followed by a reasonable winter generally throughout the country has meant that last week Fonterra exceeded last year's peak three weeks early. Milk collection was on average up more than 15% on a daily basis throughout the country compared with last year. In the lower North Island, 19% more milk was collected last week than the same time last year.

Fonterra said if the strong spring continued, it would mean one of the biggest year-on-year increases in milk production for "a number of years". In cases where supply volumes exceeded estimates, it meant more partial collections and Fonterra was "very conscious" of the disruption that was causing on-farm.

Fonterra isn't revising its forecast of a 2.5% increase in milk production for the season at this stage, because it's still early in the season and it's received only 20% of its expected production so far. Fonterra will have focus on the weather in leaving this prediction unchanged. The national climate centre NIWA has released its predictions through to the end of 2012 which suggest the North Island and the top of the South Island can expect warmer, less rainy weather than usual. Temperatures for October-December are likely to be average or above average in the North Island and northern South Island, and near average in the rest of the South Island.

This comes as August and September rainfall across the Waikato were well below long-term averages. The SOI has leapt back above the La-Nina line of 8.0 where it sat last spring and summer.

Australasian export index from Jan 2009



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.

"Get out of our industry"

Processors want no regulation.

The debate over the future structure of US dairy regulation is on in full flight in Washington. As farmers push for a reform of "safety net" protection, processors want no bar of it. The International Dairy Foods Association (IDFA) has launched a television and print advertising campaign to educate US consumers about the negative economic impact of the Federal Milk Marketing Order system that gives the federal government control over setting milk prices.

Connie Tipton, president and CEO of IDFA, said: "It is time consumers learned that the price of their milk is being artificially inflated by a maze of government regulations. Our campaign is about encouraging consumers to tell government to get out of their milk."

The television commercial, which calls for the elimination of the current pricing system, shows a tiny government bureaucrat enjoying a swim in a glass of milk, much to the dismay of the woman about to take a drink.



EU dairy: Let us self-regulate contracts

Industry rallies against mandatory contract inclusions in the EU

Costly proposals for EU regulations that would have oversight on future EU contracts between milk producers and dairy companies should be dropped in favour of a 'code of principles' promoting good practices, according to senior European dairy industry leaders speaking at last week's World Dairy Forum.

Trade and political representatives said such a code of good practice would be in the interests of retailers and processors when setting milk prices with farmers. A spokesperson for the EDA - representing the dairy industry - told Dairy Markets that guidance for contracts "could be useful," but insisted that any mandatory approach to drawing up contracts "should be avoided" at EU and especially national level.

The rejection came as EU member state governments were reported to be edging towards consensus on an EU-wide approach to regulating relations between dairy farmers, processors and retailers. Self-regulation also appears to have the support of some MEPs, who are due to vote on Parliament's response to the Commission's legislative proposal on milk contracts at its November plenary session.

Proudly sponsored by

