

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



12 Oct 2010

MDB plan guide cuts deep into irrigation volumes

MDB's landmark first-stage document spells out a major shakeup of the water industry.

Last week's highly-publicised release of the Murray Darling Basin's plan guide contained proposed deep cuts in the future availability of irrigation water allocations across the basin. The document has been released to serve as a basis for a further period of "discussion with the community" about long-term Sustainable Diversion Limits (SDLs), or the limits proposed on amounts of water that can be taken from the system in future to ensure the ecological health of the system. The Murray-Darling Basin Authority's proposal basically involves redirecting between 3000 and 4000 gigalitres of water a year from water users (including irrigators) to the basin, affecting both river and groundwater systems. On average this will mean a cut in water availability of 27-37%.

For dairying regions, the proposed cuts in future allocations vary from system to system within the Basin but are consistently significant, as shown in the table. The release of the plan gives irrigators and milk product manufacturers the reference frame for what the future looks like in some key regions, but a lengthy consultation and negotiation period lies ahead before the proposals are concrete, and absolute certainty is provided. The issue will be a political football throughout that period, made more interesting with the shaky alliance between ALP and Greens in Federal Government.

Some of the strongest criticism levelled at the document released by the MDBA was in relation to its assessment of the effects of reducing future irrigation allocations. The guide says the gross loss on business revenues for irrigated agriculture would be about \$800m per annum (or a 13% fall) at the lower end of the SDL ranges, about 800 jobs and peel just 1.1% of the GDP of the Basin itself. It says there will be a loss of 10% in the value of dairy production due to the cuts.

| System/catchment | Reduction in SDLs | | |
|-------------------|---------------------------|------------------------|-------------|
| | Irrigation (watercourses) | Irrigation (all forms) | Groundwater |
| Murray (Victoria) | 27-36 | 26-35 | N/A |
| Murray (NSW) | 28-37 | 26-35 | N/A |
| Goulburn | 28-37 | 26-35 | N/A |
| Murray (SA) | 26-35 | 26-35 | N/A |
| Lachlan | 15-23 | 7-11 | 18 |
| Murrumbidgee | 32-43 | 26-35 | 32 |
| Condamine | 28-39 | 21-28 | 20 or 34 |

Bega "not yet" to share float

Bega Cheese turns its back to float on stock exchange for now.

Chairman Barry Irvin was forced to deny industry rumours that the NSW cheese company was preparing to float on the stock exchange. About 140 shareholders own Bega Cheese, about 100 of these are current suppliers based in the Bega Valley in NSW. Admitting the idea of listing the processor was always under review, Irvin said Bega was concentrating on running a good business for its suppliers and shareholders, and that listing was "a while away for now".



Headlines

- MDB plan to cut irrigation water access
- Bega denies a float just yet
- Slight dip in latest auction prices
- NZX launches trade in dairy futures
- Plenty of milk in the EU at present

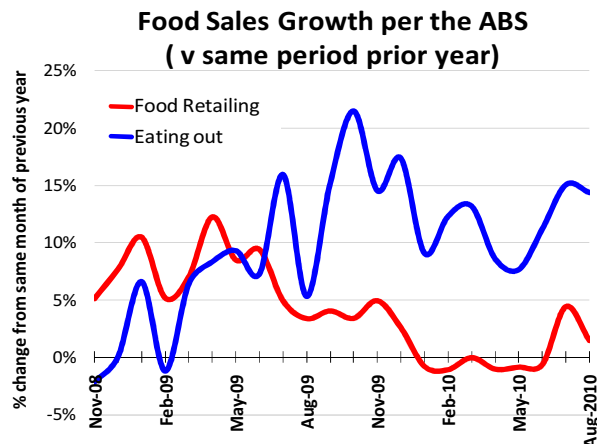
| Indicators | |
|--------------------------------------|--|
| Dairy export index | Index suffers as \$A moves towards parity |
| World dairy prices | Slight lift in butter, cheddar and powders flat |
| Australian cull cow prices in the US | Prices lower in \$A terms |
| Grain futures | Sharp lift in US wheat prices, local grains down |

Food sales slow, consumers still cautious

Food retail takes a hit as restaurant sales rise.

The latest retail sales estimates from the ABS suggest the economy is still being held back by cautious consumer spending. Figures from the ABS show growth in retail turnover slowed in August from a rate of 0.7 per cent in July to 0.3 per cent.

Most of the growth in turnover that occurred says the ABS was due to people increasing their spending on eating out. Restaurants and takeaway food outlets have boosted retail sales, which rose for the sixth straight month in August, though at the slowest pace since February.



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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 suffers as \$A heads towards parity.

Spot prices for butter improved but a little was pruned off the WMP quotes following the slight fall in gDT auction prices in the past week. The \$A continued its march towards parity with the US dollar, but lost a little value late in the week to close at **US98.48c**. The index of the \$A value of the basket of export products lost ground, down almost 2 pts to **124.8**.

Auction prices ease for WMP.

Dairy commodity prices fell back slightly at the latest online auction. The *globalDairyTrade* weighted index for all four products - anhydrous milkfat, buttermilk powder, skimmed milk powder (SMP) and whole milk powder (WMP) - slipped 1.3% from the previous auction on September 15 to US\$3 591/tonne. Prices for WMP dipped 2.1% on average, with product for shipment in December down 2.7%. SMP prices eased back 0.9% while increases of 1.4% and 2.8% were reported for anhydrous milkfat and buttermilk powder respectively. There were 122 bidders participating in the sale, with 80 winners after 10 rounds.

NZX launches trade in dairy futures.

NZX launched its dairy futures market at 8am Friday with the hope that it would make one trade on day one....but the first day didn't attract any business. The exchange has been working on the futures market for two years. Futures contracts are tools for managing price and cost risks, which effectively enable companies to lock in a price. Whole milk powder futures were the first product to be launched by the NZX, with potential users including processors, manufacturers, dairy trading firms and farmers. Contracts ranged from one to 18 months, with buyers and sellers trading through a clearing house. For every buyer there must a seller to match and vice versa. The futures contracts would be settled in cash, rather than products, using Fonterra's online auction *globalDairyTrade* to determine price.

Intervention bids down to a trickle.

The EU has offloaded another small batch of skimmed milk powder (SMP) from community intervention, but rejected all bids for butter. At the tender on October 7, the dairy management committee agreed to fix a minimum selling price of €2116/t for SMP, releasing just 144t after receiving offers of 5 944t. Some 56,414t of SMP will be made available for the next tender on October 21.

US fears Russian trade barriers increasing

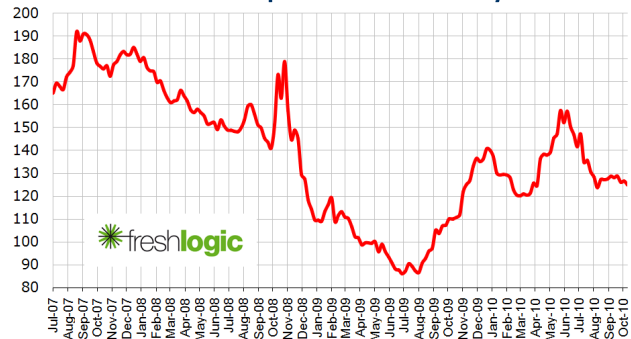
Strict requirements could create hurdles for US dairy trade.

The US Department of Agriculture (USDA) has raised fears of a dairy export ban, following Russian demands for a list of plants registered as meeting Russian requirements. There is no confirmation of the ban from the website of Rosselkhoznadzor, Russia's Federal Service for Veterinary and Phytosanitary Surveillance.

New Holland BOOMER T2000 Compact Tractors.

Boomer 2030 and 2035 tractors come in mechanical and hydrostatic transmission options, and can be specified with advanced features such as Supersteer™ front axle, that delivers industry leading turning capabilities. With 873 kg of rear linkage capacity as standard, and flow rates of 27 L.P.M, these tractors have sufficient power and lift for the most demanding attachments. Mid mount PTO is standard equipment on the Hydrostatic models. The 3 cylinder Tier 3 engine delivers a smooth and quiet package with high torque levels at low engine speeds.

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.

August milk flow surged in EU

Strong momentum as milk production delivers a positive result.

EU milk production for the 8 months to August 2010 was just 0.3% ahead of the output for the same period last year, but the month itself shows strongly positive output from major players and the total EU up 2.7%. The numbers from EU analysts ZMB suggest Germany was up 2.9%, France 5.4%, Netherlands 4.7% and the UK up 6.2%. It indicates the rest must have had a shocker, such as Poland which was only down 2% but smaller eastern countries fell in a hole to drag the total down to the recorded increase.

Dairy UK chief signals CAP challenge

Dairy UK foresees a challenge ridden future for EU dairy reform.

Industry body Dairy UK has spelled out the pitfalls ahead for EU dairy reform following the defeat of the 'liberal' states' approach at Farm Council. Speaking at a conference in Brussels, Jim Begg, director general of Dairy UK, predicted a changing role for the Common Agricultural Policy (CAP). The Commission's consultative feedback – with 5 700 public responses so far – indicated that the current direction would be maintained, with a more "consumer led" approach. Consumers wanted food to be safe and healthy, while being available at "affordable prices". Begg was also critical of the recommendations by the *High Level Group on Milk* (HLG) for more formal contracts between producers and processors.

Global milk demand could reduce poverty

FAO advocates for small-scale dairy production to alleviate poverty.

Encouraging small-scale dairy production could be way to alleviate poverty, raising nutrition and improving livelihoods in developing countries, says the United Nations *Food and Agriculture Organisation* (FAO). It is estimated that around 150 million small-scale dairy farming households, around 750 million people, are engaged in milk production, the majority of them in developing countries.

Globally, the mean dairy herd size is around two cows providing an average milk yield of 11 litres per farm per day. Throughout the world, there are around six billion consumers of milk and milk products, the majority of them in developing countries. Any dairy development strategy, the study recommends, must not exclusively focus on dairy producers but improve competitiveness throughout the entire dairy production chain, targeting farmers, input suppliers, milk traders, processors, retailers and others.

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