

Senate inquiry into milk prices

Supermarkets to soon face Senate grilling over effects caused by cut-price milk war.

Federal Parliament will again investigate the dairy industry – specifically the milk price war, on the basis of fears raised by the dairy farming sector that major supermarkets are attempting to drive out competition. Independent senator Nick Xenophon announced an upper house inquiry, stating that evidence was mounting that the "latest grab for market share" could have a devastating impact on the dairy industry and independent grocers. The announcement of the inquiry, set to begin on March 7, was made as Australian Dairy Farmers continued with its campaign against the supermarket giants, continuing to call for consumer boycotts of private label products and calling on Wesfarmers shareholders to call an EGM of the company.

Terms of reference for the inquiry have been released – effectively as an extension to the work of the Senate Economics Committee. It includes a question that the ACCC has also been asked about whether the pricing action has been anti-competitive, and whether the Horticulture Code of Conduct would be relevant. The release comes as Coles up the ante with TV adverts plugging the cheaper milk prices as part of their Down Down campaign.

DFMC accuses of predatory pricing

Dairy farmers appeals to ACCC over anti-competitive milk pricing strategy.

Dairy Farmers Milk Co-operative has met with the Australian Competition and Consumer Commission over supermarket milk prices, with the claim that supermarkets are using predatory pricing.

Situation & Outlook – February update

A succinct briefing on Australia's dairy climate and situation.

Dairy Australia has released its February 2011 update which carries major messages including:

- **Australian milk production** is on track for between 9.0 and 9.1bn litres in the 2010/11 full season – little changed from last year;
- The availability and cost of cows is the **significant impediment to significant expansion** offsetting gains from good milk prices and lower feed costs;
- **Export prices are firming**, driven by steady global demand and limited milk and product supplies in major importing countries. High prices are approaching buyer resistance levels;
- **Chinese demand** for milk powder – a key factor in a tight global market – remains strong and is expected to grow further;
- The **effects of floods** from current La Niña event disrupted milk production in South Qld and Northern Victoria. Production losses may be 50-60m litres in 2010/11 depending on farmers' ability to recover feed supplies and cow condition.
- The **price war in milk products** between major grocers may directly affect private label milk sales in grocery stores, but the extent of the aggressive pricing will affect branded lines in and out of supermarkets. The situation will result in greater political scrutiny of the milk sector, and – if it remains in place for several months – will affect supply chain returns for processors and farmers in Qld, NSW and WA.

Big winners at Grand Dairy Awards

Victoria's specialised cheesemaker earns another gong.

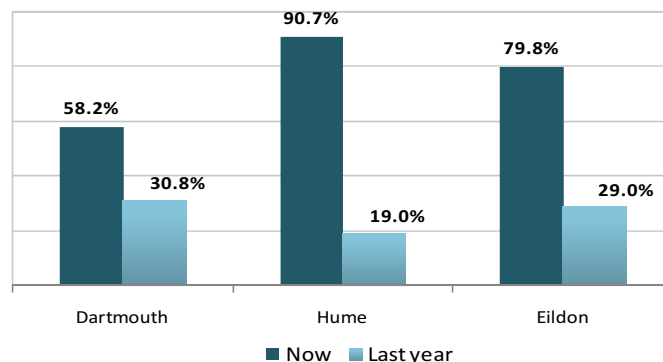
Jindi's Old Telegraph Road Fire Engine Red won the prestigious Grand Champion Award 2011 and Best of Category Award for Washed Rind Cheese. After earning many local and international awards, the cheesemaker said that this win has taken them higher in the cheese world.

Headlines

- **Extended Senate inquiry into milk**
- **Dairy Australia's S&O update**
- **New CEO for NatFoods**
- **NZ defends use of the palm kernel**
- **Mega farm gets industry support in UK**

Indicators	
Dairy export index	A slightly weaker dollar pushes index higher
World dairy prices	All prices steady
Australian cull cow prices in the US	US prices steady
Grain futures	Sharp lift in US wheat prices – local feed steady

Storage levels for Goulburn-Murray Water
9 February 2011



Ex-brewer to head NatFoods

Andrew Reeves is replaced by Peter Kean.

Peter Kean, currently Managing Director of Lion Nathan National Foods' New Zealand and Global Wine businesses, has been appointed Managing Director of National Foods, from 1 April 2011, replacing Andrew Reeves, who will leave the business to become CEO at ABF's George Weston Foods. Kean has been with Lion for almost 25 years, with the last six as Managing Director.

In 2010, his leadership responsibilities were extended with the integration of Lion's Global Wine business into Lion Nathan New Zealand. Rob Murray, CEO of LNNF said Kean's appointment is a reflection of his success in meeting EBIT targets in challenging and complex market environment. Murray paid tribute to the departing Reeves' achievements at Lion Nathan National Foods over eight and a half years.

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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.

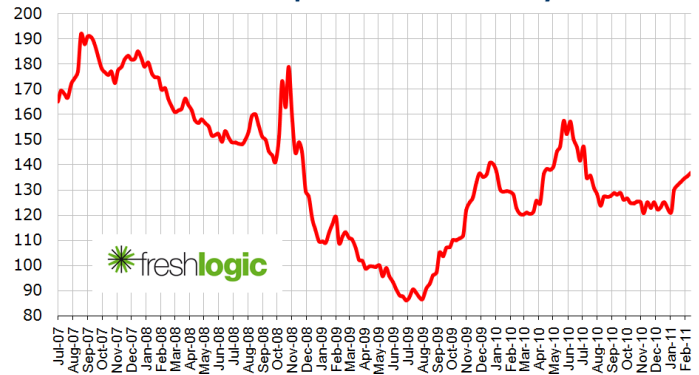
Dollar back to parity

Spot prices were unchanged this week, after several weeks on a roll. The statement by the RBA that interest rates would stay where they are "for some time" helped shave a bit of value off the \$A, taking it back to parity, close at \$US1.0018, allowing another small rise in the index to **137.1**.

More WMP to be sold through the gDT auction in 2011. The total volume of dairy product forecast to be traded on *globalDairyTrade* over the next 12 months is expected to increase by 9% compared with the total actual trades over the past year. In the 2010 calendar year 948,431 tonnes of whole milk powder (WMP) was exported from New Zealand, of which the gDT accounted for about 40%.



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.

Little progress in WTO talks

WTO talks struggle again as leaders fail to break through impasses.

Agriculture negotiators at the WTO made no progress in two days of consultations on a future draft Doha agreement. Despite a renewed push to reach an agreement in the long-running Doha Round of global trade talks by the end of the year, negotiators had spent most of their time repeating well-known positions in the discussions.

Dairy UK backs mega-farm

The peak body says farms like these are needed by the industry.

The peak UK dairy body, Dairy UK has come out strongly in favour of plans for a 3 770-cow dairy farm unit at Nocton, Lincolnshire. The director-general Jim Begg said that the UK needed farms like Nocton in its "repertoire" in order for the sector to survive in the new global dairy marketplace. This comes after the farm plans had been under a well-organised series of attacks from green and welfare groups. Begg said that dairy farming in the future would be based on a variety of production systems: "Some will be large-scale, like Nocton, and we believe we need farms like this in our repertoire."

Ultimately, he added, it would be up to the consumer to decide whether farms like Nocton were acceptable. Educating the consumer in the realities of modern farming would help. The Nocton Dairies' scheme is currently in the process of consultation. Planners are scheduled to come to a final decision on March 8.

UK farmers lose 3p for a litre produced

Rising UK milk flows questions credibility of production cost data.

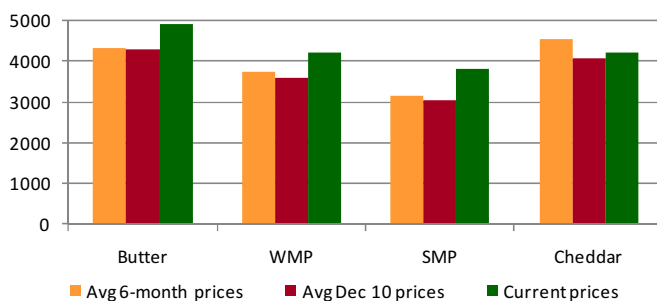
A report from the NFU shows that dairy farmers lose an average of more than 3p for every litre of milk that they produce. According to the union's report, about 11bn litres of milk are produced annually on dairy farms across the UK, meaning that farmers are looking at a £330m funding gap. The NFU report shows that the costs of feed and bedding have increased by 16.6pc and 13.8pc, respectively, over the past year. The price of blended fertiliser rose by 50pc between November 2009 and November 2010.

You have to wonder about the credibility of the production cost information – UK milk production is currently firmly on the rise (ahead more than 5% in the latest month and by close to 4% over the past 10 months). So if farmers are losing money on every additional litre, they either don't understand their costs or – more likely – the costing analysis isn't representative of the issues driving production growth at present. UK producers rely heavily on year-round fresh dairy and cheese markets, and don't tend to follow the old adage that if prices are weak, you produce more.

GDT futures
tonnes offered 2011 vs tonnes sold 2010



Avg Australian export prices
6 months to dec 10 vs dec 10 vs spot



In defence of the palm kernel

Greenpeace labelled "mischievous" as Government defends the imports.

A government minister has defended Fonterra's use of palm kernel-based feed in the face of renewed protests by Greenpeace. Agriculture minister David Carter said that the feed "plays a useful part in New Zealand's dairy industry. Fonterra said in a statement that it shared the activists' concerns about tropical deforestation and accordingly had ensured that its supply is sustainable. Greenpeace has called on the New Zealand government to put a stop to Fonterra suppliers' expanding use of palm kernel. But the minister accused Greenpeace of being "mischievous". If the kernel was not shipped it would be burned, and buying it did not give indirect support to the industry, he said. Greenpeace NZ said the 1.4 million tonnes of palm kernel shipped to New Zealand last year was not just being used in drought situations.



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