

Bega Cheese to float

Bega will be the largest listed dairy company in Australia.

Bega Cheese Limited will float on the ASX, announced through a circular to its shareholder farmers outlining the changes. The company has set April 21 as a date for an EGM of shareholders to vote on the proposal. The floated company may be valued at close to \$400million when it comes onto the exchange, making it the largest listed dairy company on the ASX. The proposal also envisages Bega fully merging with Tatura Milk Industries, buying the remaining 30% of shares that it does not already hold. Bega paid just \$39million for Tatura in 2007.

The float proposal will feature a shareholding cap to preserve independence of the company. Bega plans to limit the number of shares any one shareholder can own to 5 per cent in the first two years following the offering and 10 per cent in the three years thereafter, helping to make it more difficult for the company to be taken over without shareholder approval. Bega Cheese is owned by up to 150 dairy farmer shareholders, including 35 "B-class" shareholders which are ex-dairy farmers. Chairman Barry Invin called the decision a chance to make "individualised" decisions about their future shareholding in the company. Bega also confirmed that the current Tatura Milk Industries chief executive officer Aidan Coleman has accepted the position of Bega Cheese CEO

Senate Review hears from all but Coles

ACCC faced a grilling over what it has done about low-cost milk.

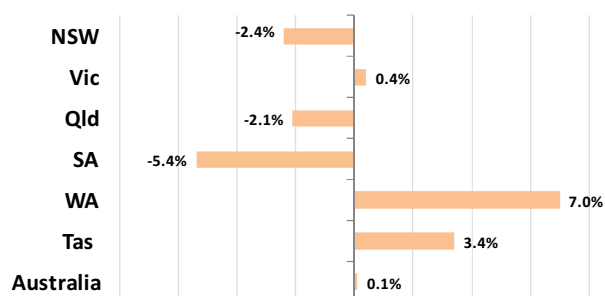
The public hearings as part of the Senate Review took most of the dairy headline space in the past week as parties providing large submissions and other evidence appeared before the review panel in Melbourne, Sydney and Canberra. Coles has yet to provide a submission to the Review and will appear before the Senate panel in what will be a lively session on March 22. The most interesting sessions came with the grilling given by the panel to the ACCC, which said it has had "communications" with Coles over the aggressive \$1-a-litre pricing strategy yet refused to provide details, but said it had "no evidence" that Coles was selling milk at below cost. Senators accused the competition regulator of giving a "nod and a wink" to the retailer as consumers were being given a good deal.

Production fall sharply in Queensland

West still in spectacular growth, while rain dampens Qld milk flows.

The big wet in southern Queensland took its toll on milk production in January as milk collections fell 20% from the same period in the prior year, to drag year to date production for the state to almost 5% below the prior year. NSW output was also lower – 7% down on the same month in 2010, with the north coast down 9%, and inland and southern region 12% lower in January. Despite this, national milk production was only down slightly by 1.3% to leave year to date deliveries a shade lower than the first 7 months of the 2009/10 year. Despite wet conditions, southern supplies rose to remain just ahead of the prior-year comparative. WA and Tasmania remain well ahead of last year's output, South Australian milk flows are well behind.

Australian milk output - YTD to Jan 2011



Headlines

- Bega to float
- Review hears from all but Coles
- Floods cut deep into Qld milk flows
- Fonterra opens GDT to others
- Details of the Crafar welfare charges

Indicators	
Dairy export index	Index stronger with unchanged dollar
World dairy prices	US\$50/t lift in Cheddar, others steady
Australian cull cow prices in the US	Market stronger with better US beef demand
Grain futures	US wheat prices plummet, local feed grain weaker

WA milk deal almost done

Iconic Brownes to be back in Australian hands.

The sale of WA's largest dairy business is expected to be completed on March 20, when private equity firm Archer Capital will assume full control of Brownes from Fonterra. DairyWest has bought the Brownes milk and yoghurt brands, the Chill flavoured milk and Yogo brands, and a three-year licence to use the CalciYum and SupaShake flavoured milk brands in WA. It has also bought Brownes' manufacturing sites in Balcatta and Brunswick, as well as existing contracts with farmers.

ACCC and Metcash in court this week

Long running stoush to be resolved in Federal court.

The court battle to decide whether the ACCC can block grocery wholesaler Metcash from buying 80 Franklins stores is being played out in the Federal Court this week. The ACCC is seeking a Court ruling to prevent the owner of IGA grocery stores from proceeding with the acquisition on the grounds it is anti-competitive. The case, which has been set down for two weeks, will be an interesting event in the soured relationship between the ACCC and Metcash, revolving around the definition of "the market" and the impact on competition if Franklins is sold to buyers other than Metcash.

A deal to buy the former Franklins stores would enable Metcash's independent retailer customers to increase their share of the NSW market from 11% to 18% which is similar to their share in other states. The ACCC has a problem with the limitations on choice of supply that the Metcash business model creates for independent retailers. In the first day of the hearing, Metcash said "...there is only one reason Coles is charging \$1 a litre for milk, and that is to get people to leave Woolies, to leave independents, to leave their convenience store, and make Coles their new preferred supplier, and it is evidence of this intense competition."

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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.

Little change.

Spot prices were steady this week with cheddar the only mover, up US\$50/t according to NZ quotes. The \$A closed unchanged at \$US1.014, taking the index up slightly to 143.8.

Fonterra expanding globalDairyTrade. Fonterra is to allow other dairy companies to sell their products on globalDairyTrade, and will widen the range of Fonterra products for sale. Major manufacturers Arla Foods and FrieslandCampina from Europe; California Dairies and DairyAmerica from the USA; and Murray Goulburn have provided input into the development of a draft set of market rules that will govern multiple sellers using the platform, although no company has yet committed to offer product on the platform. Fonterra will offer Milk Protein Concentrate (MPC) and Rennet Casein from the 17 May Trading Event of the gDT. Since globalDairyTrade launched in 2008 it has made sales totalling US\$3.2 billion. It currently trades around 600,000 metric tonnes of Fonterra products a year and has more than 300 registered bidders from 58 countries.

Fonterra share-trading “anti-competitive”

Competitors' wrath create serious hurdles for Fonterra's TAF proposal.

Open Country Dairy has slammed Fonterra's plan for share trading among its farmers, describing the scheme as yet another display of anti-competitive behaviour from the dairy giant. In a submission to the Agriculture Ministry on the Trading Among Farmers (TAF) proposal, Open Country also says the scheme is "unduly complicated" and designed to further restrict competition in the domestic processing by exchanging farmers' "right to redeem" their shares with "right to trade". It says TAF is intended to perpetuate Fonterra's control of the country's raw milk supply, which it estimates to be 88 per cent.

Open Country says in inviting submissions on TAF, the Agriculture Ministry is asking whether Fonterra's proposal will ensure farmers continue to enjoy rights of open entry and exit. Open Country says since 2001 Fonterra has behaved anti-competitively, from denying new market participants access to raw milk until ordered to do so by the Commerce Commission, to disputing the price of raw milk all the way to the Supreme Court.

Details of the Crafar welfare charges

Animal abuse charges land Crafar farm managers in court.

Alleged ill-treatment of cows and failure to provide for sufficient food and water, is at the core of hundreds of court charges which the NZ Ministry of Agriculture is bringing against parties involved in the management and operation of a Crafar farm. South Island-based sharemilking company MilkPride, its directors and two employees are facing a total of 714 charges connected to their management in 2009 of the then Crafar family-owned Taharua Farm in Rangitaiki in the Taupo district. The prosecution follows a MAF investigation on the 1750 hectare Crafar family farm shortly before the Crafar family's banks and financiers called in receivers in October 2009.

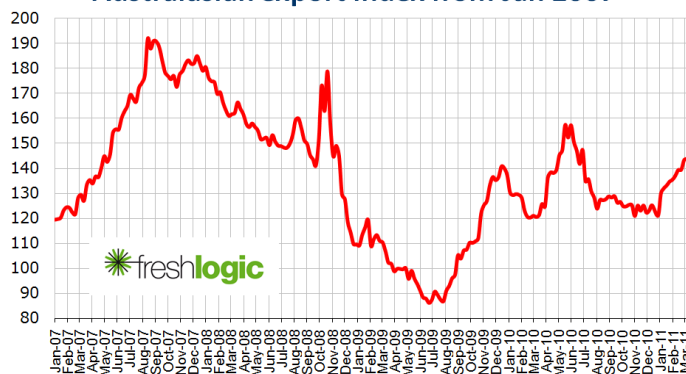
Bargaining must be tightly limited

High collective bargaining power seen as a threat to free competition.

The collective bargaining power of producer organisations should be limited to 20% of total national production of raw milk, according to a new European Parliament report. Responding to a European Commission proposal on reforming the dairy sector, the report argues a 20% limit - as opposed to the 33% proposed by Brussels - is less likely to disrupt the internal market. This backs the view of the “free-agent” EU states. UK, Dutch, Danish, Swedish and Czech farm ministers warned EU Ag Commissioner Ciolos that the proposed threshold was too high, and could pose a threat to free competition on the internal market.



Australasian export index from Jan 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.

Domestic preference proved expensive

Latest report reveals returns from UK dairy commodity markets do not flow through to farmgate milk prices.

The annual health check of the UK's corporate dairy sector on behalf of dairy farmers (DairyCo's 2010 Company Strategy and Performance Report) concluded that major UK milk buyers benefited from improved returns from dairy commodity markets in 2009/10, but many missed out on getting more from those markets. Several companies who might have been able to divert milk supplies to commodity markets chose not to do so, instead honouring long-term relationships with current domestic customers - major retailers. DairyCo's report said at the same time there was intense competition for retailer private-label milk shares and in branded Cheddar markets, which are having a post-private label revival.

This cut processor margins and the ability to pay their milk suppliers higher prices. DairyCo criticised the lack of transparency in UK milk pricing practices which creates uncertainty for producers. A situation of long notice periods on milk supply contract contracts combined with short notice periods for price changes hampers the ability of milk producers to adjust business practices to market conditions or take advantages of business opportunities.

A new process for waste to energy

Revolutionary fuel cell to convert waste into electricity and bio-gas.

Arla Foods in the UK has developed a microbial fuel cell (MFC) which it predicts will revolutionise energy generation on farms. The cell, which converts both farm effluent and dairy by-products into electricity and bio-gas, has been developed by Nottingham University and successfully trialled at the university's dairy farm. Arla supplied dairy by-products, some equipment and assisted in the design. The one cubic metre capacity pilot plant converts farm slurry and dairy waste into electricity and also produces hydrogen gas which creates further renewable energy. A larger-scaled cell could either supply a farm with all its annual energy needs or provide 10% of a large dairy's annual energy requirement. The cell is now poised to become a commercial reality, said Richard Laxton, Arla's sustainability manager.

Canadians fail to change cheese standards

Canadian processors defeated as court upholds cheese-making standards.

An attempt by Kraft and Saputo to overturn Canadian government standards on the composition of cheese was dismissed by the Federal Court of Appeal. The case relates to 2008 standards introduced with the aim of ensuring that cheese products meet consumer expectations and interests., but companies complain that they are uncommercial and served to protect dairy farmers interests.

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