

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



16 Nov 2010

Bega buys into WCB

Bega makes a strategic play to align with WCB...

The dairy industry consolidation has taken an interesting direction with an alliance forming between two key players in the cheese and ingredients sectors. Bega Cheese has acquired a 15% stake in Warrnambool Cheese & Butter through a share placement at a price of \$2.90/share.

Bega's Chairman Barry Irvin will join the WCB board, and the two companies will be forming a strategic management group to "explore and evaluate opportunities for mutually beneficial cooperation". Bega and Warrnambool have formed a joint strategic management committee to evaluate opportunities to co-operate in areas such as milk handling, distribution, procurement and research and development. Both companies have ruled out a merger or takeover at this stage.

WCB raises \$37m from Bega, rights issue

... as part of WCB's \$37m equity raising...

The share placement to Bega is part of a total capital raising of \$37 million by WCB, with a planned one-for-six underwritten rights issue to WCB shareholders, at an exercise price of \$2.50 per share.

Shares in WCB jumped after the company said that it would announce the issue to shareholders to raise up to \$19.2 million. The company says that it also plans to refinance some equipment assets to release another \$11.1 million in capital. Warrnambool's chief executive David Lord and chairman Frank Davis will meet farmer suppliers to explain the rationale for the placement and rights issue. Warrnambool rejected suggestions that the rights issue had been priced too low, saying the \$19 million issue and a \$17.5 million placement to Bega Cheese had put Warrnambool "back on the radar" for institutional investors. WCB's share ended last week at \$3.37/share

MG ponders on next move

... while ex-suitor MG mulls over its next move.

The events come at lower prices than earlier action in the WCB share register, when Murray Goulburn made a merger proposal to WCB which was rejected as unwelcomed. The directors of WCB will be doing a bit of explaining why they've passed up \$4.50 per share earlier this year and settled for a cheaper price for these share issue.

Murray Goulburn paid \$4.50 a share for most of its almost 10% of WCB shares after its failed merger proposal, which was halted by a draft ruling from the ACCC that it was likely to find against the deal on the grounds it would reduce competition for milk supply in the region. MG is yet to indicate its response to the announcement and its participation in the issue. Warrnambool shares fell after Murray Goulburn withdrew its merger proposal and the co-op was forced to write down its holding to \$3.50 a share in its 2010 financial statements.

NatFoods plans to remove duplication

Reshapes operations to refocus on core hard cheese business .

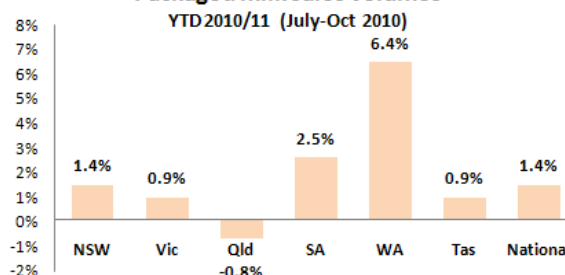
National Foods has announced plans of consolidating its Simpson production in a bid to remove duplication in its network for the manufacture of Swiss cheese and cut, wrap, and waxing operations at the site in Victoria. This business will allow the Simpson site to refocus on its core business of manufacturing hard cheeses for WIP stock, while transferring the manufacture of Swiss cheese to NatFoods' Burnie site in Tasmania and the cut, wrap and waxing operations to Campbellfield in Vic. NatFoods Operations Director Arthur Murphy has clarified that the decision does not form a part of the current, ongoing Cheese Manufacturing Review, which will be finalised in Feb 2011. The consolidation of the Simpson production will result in redundancy of 17 positions.

Headlines

- Bega takes 15% stake in WCB
- NatFoods set to remove duplication
- Fonterra taps into Indian potential
- Hopes pin on alternative to Doha
- "Climate of fear" in milk sales talks

Indicators	
Dairy export index	Index stronger with weaker dollar
World dairy prices	Powders strong, butter and cheddar prices steady
Australian cull cow prices in the US	Prices increase in \$A with weaker \$A
Grain futures	US wheat prices decrease, local grains flat

Packaged milk sales volumes



Fonterra taps into Indian potential

Fonterra agrees to study an Indian farm investment.

Taking the first step toward developing large-scale NZ-style dairy farms in India, Fonterra has signed a memorandum of understanding with the Indian Farmers Fertiliser Co-operative (IIFCO) in Auckland. In conjunction with another local partner, the research body Global Dairy Health (GDH), Fonterra will conduct a feasibility study into a pilot dairy farm in India, which will firm up key parameters of the project and is expected to be completed shortly. If it were to proceed, the pilot farm, in phase one, could have a herd size of around 3,000-5,000 cows.

Goodman scuppers Cargill deal

The \$240 edible fats and oil Cargill deal scrapped after regulators say no.

The proposed sale of the edible fats and oils business by Goodman Fielder to Cargill has been scrapped after the ACCC blocked the transaction a second time on the grounds that it will substantially lessen 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.

Dollar slips back under parity.

The only change in spot prices for dairy products this week saw a reversal of last week's fall in skim milk powder (SMP) prices, but the index of export returns was propelled to **125.1** after the \$A lost a couple of cents late in the week to finish below parity at **US98.6**.

Hopes pin on alternative to Doha.

Australia and the United States have begun discussing alternatives for pursuing trade liberalization despite renewed efforts by world leaders to revive the stalled Doha round. Global leaders attending the G20 meeting in Seoul and the APEC leaders' summit in Yokohama over the weekend tried to inject new life into the Doha round, on ice since talks collapsed more than two years ago.

Australian Trade Minister Craig Emerson, at an APEC trade ministers gathering, stated that that Canberra was pushing hard to have the world trade negotiations re-energised next year. He said that the Obama administration was also committed to giving the Doha negotiations "a red hot go" in 2011 – a year in which none of the major countries faced domestic elections and might be more willing to invest political capital in getting a new global trade agreement. But Emerson said that if no deal was reached in 2011, the key countries were likely to weary of Doha and of further efforts to save the round. The TPP comprises the US, Australia, Brunei, Chile, New Zealand, Singapore, Peru, Vietnam and Malaysia.

The key features of the "Yokohama Vision" declaration adopted by the APEC that was wrapped up on Sunday are as follows. The APEC leaders have agreed to:

- take concrete steps toward realization of a FTA for Asia-Pacific
- ensure that an FTAAP should be pursued as a "comprehensive free trade agreement" by developing and building ongoing regional undertakings, such as the Trans-Pacific Partnership and ASEAN-plus-three grouping
- seek to develop an APEC community in which trade and investment are freer and more open
- set a growth strategy that includes an action plan that encompasses such issues as structural reform, human resource and entrepreneurship development, and human security

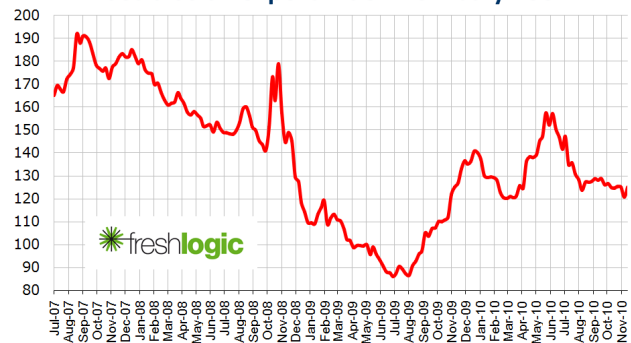
The next round of official meetings will be held in January and a meeting of TPP political leaders is being discussed. Emerson said that the key point about the TPP was that membership of the "new club" was conditional on a commitment to liberalising trade. Emerson stated that Australia would not want to give TPP higher priority than Doha, but said Australia, with a reputation of being a free trading nation, would want to embrace "whatever vehicle was likely to deliver trade liberalization".

New Holland BOOMER 8N EASYDRIVE Tractors.

Introducing the All- new, All Classic Boomer™ 8N from New Holland. It has the timeless look of the original 8N, but with the no shift operation of the award winning Easy- Drive™ Continuously Variable Transmission, and the power of 50 horses, its remaking history. You can load mulch, mow the lawn, clear a pasture, or complete a myriad of outdoor tasks in comfort, ease and style only imagined by classic 8N owners. With additional features such as Anti Stall, Cruise Control and clutchless forward/reverse shuttle these units combine state of the art engineering with the looks of a classic in the industry.



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.

Growth to slow, says analyst...

Analyst says water & environmental issues would hinder NZ dairy production by 2019...

New Zealand dairy production growth will slow to under 2 per cent a year in the run-up to 2019, curbed by water and environmental issues, an OECD analyst Pavel Vavra, from the economic organisation's trade and agriculture directorate, told the World Dairy Summit in Auckland. Vavra said that NZ, considered the "dairy capital of the world", would still be producing 20 million tonnes of product in the year in 2019, but the real production growth by then would be in India, Pakistan, Russia and China. The outlook for dairy imports by the biggest customers, Saudi Arabia, Mexico, Japan, China, Algeria, Russia and the United States, was very fragmented, Mr Vavra said. It was assumed Russia would increase production and reduce butter imports over the medium term, but its cheese imports would grow. The biggest consumption growth between 2007 and 2019 would be in cheese, driven by population and income growth, predominantly in Asia, he added.

...but Fonterra's chairman disagrees

... Fonterra's chairman sees huge growth potential in Sth Island.

Fonterra chairman Sir Henry van der Heyden responded to the OECD analyst's prediction suggesting that a growth forecast below 2 per cent was too conservative. Sir Henry, speaking at the MyFarm investment conference, said that Fonterra was still forecasting annual growth at 2.5 to 3 per cent, as had been achieved during the past 10 to 15 years. He stated that there is a possibility that growth could be more than that, particularly if there is the allocation of water through parts of the South Island, as "the land's there, the technology and know-how is there".

Union: "climate of fear" in milk sales talks

UK retailers alleged of undertaking unfair competition in milk market.

The UK's National Farmers Union (NFU) is "piling the pressure on retailers" with a claim that there is a "climate of fear" in sales negotiations between milk processors and major grocery chains. The union says that milk buyers have been forced to sign confidentiality agreements so that no details of negotiations with retailers can be disclosed. Milk buyers did not attempt to claim that farmers were getting their fair share of market returns; rather they said that the farmgate prices were "competitive", according to the banter out of the UK on the issue. This was despite, says the union, greater revenues from the manufacture of dairy commodities. It says that revenues are £322.7m higher this year than in the same period a year ago. This is the equivalent to 3.1p per litre, while average milk prices had increased by just 1.4ppl.

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