

# DAIRY REPORTER



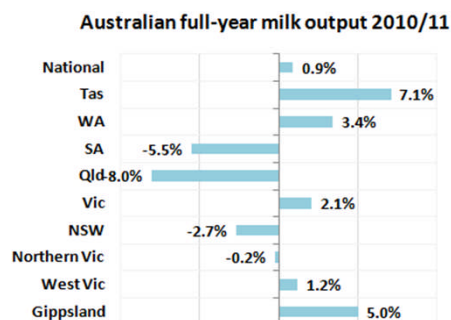
Weekly Dairy News for Members of DFMC

16 August 2011

## Australian full-year milk output

*Tasmania, Victoria, and WA helped lift milk flows 0.9% in 2010/11 season.*

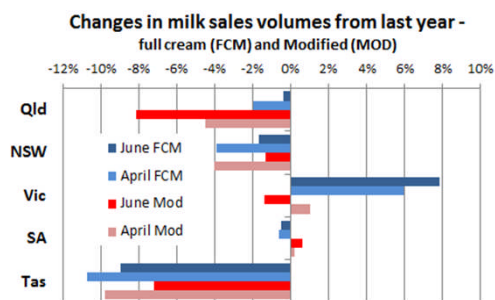
June data from Dairy Australia showed that national full-year milk production in the 2010/11 season was 0.9% ahead of the same period last year. The expansion in Tasmania continued in 2010/11, as the state surged 7.1% ahead of its prior year comparative, while output in WA and Victoria rose by 3.4% and 2.1% respectively, compared to the previous season. In contrast, full-year milk production dipped in other states, with Queensland posting the largest decline at 8%, with output significantly affected by the floods earlier in the year.



## Brands claw back milk sales volumes

*An overview of the changing landscape in the branded milk sales.*

June milk sales data from Dairy Australia showed that milk brands regained some ground against private label products in the past months in some states; however, comparisons show that they continued to lose ground to private label products in other states. While branded full cream milk sales had made some progress in all states for May and June, they lost ground in Victoria. Modified branded products also lost share in Qld, Victoria and to a small extent in South Australia.



## MG chairman to step down from his role

*MG chairman wants to spend time on farm and with family.*

In a letter to Murray Goulburn suppliers last week, Chairman Grant Davies announced he would not seek a renomination for a position on the MG board and therefore, retire as the chairman following the annual general meeting in November this year. Mr Davis stated that the demands of the role of chairman were significant and after spending seven years on the board, including two years as MG's chairman, he had decided to spend more time on his farm and family. Mr Davis has helped navigate the company through very difficult seasonal and market conditions and strengthened the company's position in the market. *Meanwhile*, Victorian Premier Ted Baillieu has announced that MG would be doubling the size of its operations at its Qingdao plant in China, with plans to construct a new packaging plant in the Shangdong province. The company is expected to increase its product line from one to six, to capture new opportunities generated by the demand for infant formula and adult nutritional products.

## Headlines

- Brands claw back some sales volumes
- MG chairman to retire
- NZ pollies support price inquiry
- ACCC OKs collective bargaining
- UK milk price collusion charges issued

Indicators	
Dairy export index	Index stable, as dollar falls
World dairy prices	Butter and powders down
US cull cow prices	Market improving
Grain futures	Sharp rise in wheat and local grain prices

## Australian full-year cheese production

*Fresh cheese output expands, while others contract in 2010/11.*

Dairy Australia reported that cheese production declined in the 2010/11 season, with milk powder output remaining the focus of manufacturers. While the production of fresh cheese varieties increased over the year, other cheese varieties, including Cheddar fell due to the higher share of manufacturing taken by milk powders. The total cheese output for the year to June 2011 was 313,550 tonnes, down 5% compared to the same period last year.



## ACCC extends collective bargaining

*Another 10 years of collective bargaining granted to dairy farmers.*

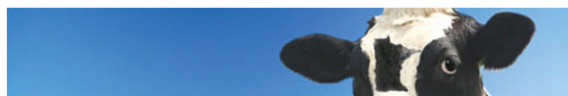
The ACCC has extended the exemption allowing dairy farmers to collectively bargain with processors for another 10 years. This represents the second time the ACCC has undertaken a comprehensive review of the ADF arrangements. Since 2002, when the Australian Dairy Farmers Ltd was first granted authorisation by the ACCC, dairy farmers have formed 18 collective bargaining groups, which represent about 500 farming families.

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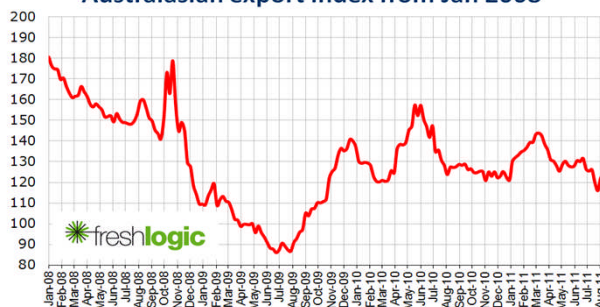
## Index of export returns

*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.*

**Market softer, with dollar down.** Butter prices weakened by US\$200/t and powders by \$25/t each, while cheddar stayed unchanged this week. The \$A closed the week a cent lower at **\$US1.0354**, and the index of spot returns stayed unchanged **122.2**.

**Big WMP volumes again on offer.** A total of 38,360 tonnes across all product ranges will be offered at the upcoming GDT auction this week. WMP total offerings will stay unchanged from the previous auction at 22,000 tonnes, while SMP volumes will increase to 8,000 tonnes at the next auction. A total of 667,045 tonnes of product are forecast to be available on GDT over the next 12 months.

Australasian export index from Jan 2008



**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.

## NZ politicians support price inquiry

*Parliamentary select committee to shed light on milk pricing complexities.*

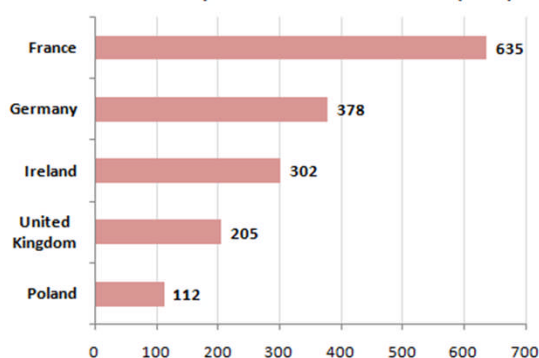
National MPs have agreed that the Parliamentary Commerce select committee will inquire into the pricing of milk, after the Commerce Council announced that there was no basis for milk price controls. The committee is expected to have "sweeping powers" and is expected to examine all pricing points between the farmgate and retail shelves in order to determine if New Zealanders are paying a fair price for their milk set against an international benchmark. The milk price has reached \$5.60 for 2 litres in some dairies and many New Zealanders are concerned about the high prices. Agriculture Minister David Carter stated that he is unable to assure consumers that they are not paying too much for milk.

## EU's milk output up 2.2%

*EU dairies stepped up milk deliveries in first half of 2011.*

EU milk production for the first half of 2011 was estimated to be 2.2% higher than the same period in 2010, with EU factories processing 1.5 million tonnes more milk this year. France continued its strong milk delivery expansion, posting the highest absolute gain in production for the first six months of the year. Other top contributors are shown in the chart. This increase in milk flows was reflected in expanded product output. SMP output was up 8.7%, followed by butter (2.6%) and cheese (1.7%) in the first five months of the year compared to the same period last year.

EU milk production Jan-June 2011 (000t)



## Brazilian imports rising

*High domestic demand ups Brazilian dairy imports in 2011.*

According to latest customs data, the total volumes of dairy products imported by Brazil in the first six months to June had already reached 74% of the volume imported for the full year of 2010, driven by a surge in domestic demand for dairy products. Milk consumption per capita in Brazil now amounts to 160 litres per year, up from 143-147 litres in the period between 1994 and 2009.

## UK watchdog confirms heavy fines

*Retailers and dairy processors found guilty in dairy price-fixing probe.*

UK's competition watchdog – Office of Fair Trading (OFT) - has announced that it would be imposing fines totalling €56.7 million (US\$81 million) on four supermarkets and five dairy processors. Following an investigation into dairy products retail pricing investigation, the OFT found that Arla, Asda, Dairy Crest, McLelland, Safeway, Sainsbury's, Tesco, the Cheese Company and Robert Wiseman infringed the Competition Act 1998, as they co-ordinated increases in the prices consumers paid for certain dairy products in 2002 and/or 2003. The OFT stated that supermarkets indirectly exchanged retail pricing intentions with each other through the dairy processors, which is termed as "A-B-C information exchanges".

It estimates that this caused UK consumers to pay an extra £270m or 3p extra for a pint of milk, 15p extra per quarter-pound of butter, and 15p per half-pound of cheese.

## New CAP reform proposals

*Special measures for farmers in less-favoured zones in CAP reform plans.*

According to the provisional plans for the reform of the CAP, approximately 30% of the total annual Single Farm Payment of dairy farmers will be made dependent on compliance with mandatory environmental measures from 2014 onwards.

As part of the reform, special measures will also be provided to support incomes of farmers in upland areas and other "less-favoured" zones, with national governments having more flexibility than at present to create tailor-made schemes to support particular types of dairy farming. However, the largest farms, receiving more than €150,000 a year in direct payments, would see their aid subject to "caps", with no farm to get more than €300,000 a year. High-yielding individual recipients have gained plenty of profile in recent years in criticisms of EU CAP measures.

## Glanbia agrees for 3-year milk deal

*Liquid milk deal sealed offers suppliers a premium over a 12-month period.*

Glanbia has launched its first three-year deal on milk price for its Irish suppliers, which introduces payments for milk solids for the first time and gives suppliers a premium over the manufacturing price over a 12-month period. This equates to a 3.83c/l premium on a monthly basis, which will be paid on milk supplied when the manufacturing price is between 27-32c/l. If the base price goes above or below this band, liquid milk suppliers will only receive half of the resulting milk price increase or decrease.

The deal also offers Glanbia the freedom to reduce contracts in line with any reduction in sales volumes, but only two years after the actual sales decrease. Representatives of the 960 liquid milk farmers voted in favour of the deal.

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