

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC

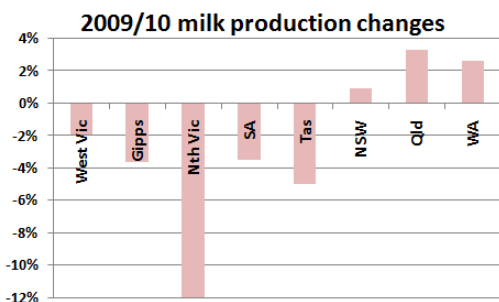


17 Aug 2010

## 2009/10 production was down

*Annual numbers down but 2010/11 is off to a strong start.*

Official full-year milk production numbers were released by Dairy Australia showing total output for the year was 9.023 bn litres, down 3.9% on the previous year. The result was a partial turnaround from the result 7 months into the year when volumes trailed 2008/09 by 6.5%, but the better season, lower supplementary feed costs and increased optimism about 2010/11 prices lifted output – the last quarter has been 4% higher than in 2009. June output was up 4.6% - in southern regions up 5.2%. Western Victoria was the largest production region in 2009/10, with 2.07bn litres or 23% of the total. Northern Victoria finally finished 12% lower at 1.67bn and now speaks for 18.6% of the total. 5 years ago, the north posted 25.3% of the national total with 2.57bn litres.



## NatFoods & suppliers opt for mediation

*The path of mediation remains the last thread of hope for suppliers.*

Following the breakdown in negotiations between National Foods and Progressive Dairies collective bargaining group, the parties sought mediation to resolve the dispute. The group maintains the average base price offered by National Foods would be 42c/litre - a figure National Foods' disputes and says is more like 46.5c/litre. Progressive Dairies also disputes the decrease in volume and price of its tier-one milk, considering retail prices have not dropped and the Queensland market continues to grow. National Foods spokesman Geoff Lynch said the company was happy to proceed down the path of mediation and was corresponding with Progressive Dairies to agree on a mediator.

## Dairy CRC launched

*CRC rises from the ashes of the previous attempt at long-term collaboration to seek pasture and genetic improvement.*

The \$128 million Dairy Futures CRC was launched by Victorian Agriculture Minister Joe Helper and will focus on pasture and genetic improvement from its headquarters at La Trobe University campus at Bundoora. The CRC will operate as a partnership between 16 organisations and agencies including dairy companies, government, education and research sectors. Dairy Futures CRC managing director David Nation said thanks to the CRC work, farmers would start to see the commercialisation of higher-yielding and higher-energy ryegrasses within a decade. He said field trials had been conducted for three years and the next step would be to select the elite line of ryegrass, followed by agronomic trials.

## BSC delivers 7c share dividend

*Timely dividend payment shows financial boost on farmers.*

Bonlac Supply Company (BSC) announced that its 1,300 dairy farmer shareholders in Victoria and Tasmania would get a dividend of 7 cents per share fully franked. Tony Marwood, BSC Chairman, said BSC was in a position to pay the dividend after receiving \$4 million interest income on Unsecured Capital Notes the company has invested in Fonterra Australia. The dividend will be paid as part of Fonterra's milk pay on 15 September 2010.

## Headlines

- 2009/10 production nearly 4% down
- The revival of dairy CRC
- A new Chinese milk powder problem
- India to stockpile NZ milk
- Bid to outlaw "fresh" milk ruled out

Indicators	
Dairy export index	4pt increase with a sharp fall in \$A
World dairy prices	No changes in all commodity prices
Australian cull cow prices in the US	Prices higher in \$A as US beef supply shortens
Grain futures	Small decreases in wheat and barley prices. World prices have retreated from recent peaks.

## Tassie local grown supported by Woollies

*Woolworths goes up and close with Tasmanian grown produce.*

Woolworths and the Tasmanian Government launched a new 'Tassie Grown' initiative to identify Tasmanian-grown produce on local supermarket shelves. Woolworths said the new shelf labels, stickers and signage would start appearing immediately on packs, on shelves and in the deli department across 28 Woolworths supermarkets in Tasmania.

## No abnormal hormones in milk products

*China still struggling with milk powder nightmares.*

China's Health Ministry has said an investigation has found no contamination of milk powder made by a company whose suppliers include NZ dairy giant Fonterra. It had ordered food safety authorities to investigate hormone imbalances in infants allegedly caused by being fed a formula drink, after tests were carried out on samples of milk powder made by Synutra International Inc., and it was claimed that the formula had led to infant girls developing breasts. But a Chinese ministry spokesman said that the probe found the hormone content of the milk powder was within normal standards.

Fonterra's chief executive Andrew Ferrier had earlier stated that he was "100 per cent positive" that it can protect its reputation in food-scare-prone China in future. He believed Synutra had drawn New Zealand dairy product into the debate to give Chinese consumers confidence, not because it blamed it as the product source. Ferrier did not believe Fonterra's reputation would suffer in the latest milk scare.

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## Index of export returns

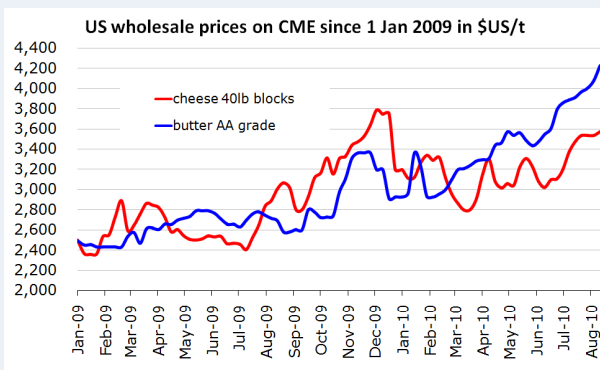
**Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.**

### Dollar slides.

Export spot prices for butter and both powders were unchanged this week after few weeks of weakness, while the fall in the value of the \$A by the weekend boosted the value of the export index. The \$A closed at **US89.28c**, to lift the index to **127.3**.

### Butter, cheese head upwards.

Both butter and cheese maintained their upward trajectory in the US, but expectation is that butter will meet resistance at these levels and start to weaken. USDA is more hopeful that these prices will hold for a while and has butter averaging \$US4,000/t this year, where it has so far this year averaged less than \$3,400/t.



## NZ imports held as buffer after protests

**India stockpiles NZ imports to make peace with domestic dairy processors.**

India's National Dairy Development Board says it will stockpile skim milk powder (SMP) and butter oil it has bought from Fonterra until next dairy season. The NDDDB signed contracts for the import of 30,000 tonnes of SMP and 15,000 tonnes of AMF, but is now facing flak for buying the imports amid a developing domestic glut. The board will now only hold the controversial dairy imports as buffer stock to be carried over to the next lean season. It might have been a very bad call by the local board - Fonterra shipment will land during the "flush" season when buffaloes, in particular, tend to produce more milk. Domestic dairy processors fear the imported material would depress their product prices.

## Kraft aims to revive Nth America sales

**Kraft to push brands harder to remain afloat in tough tides.**

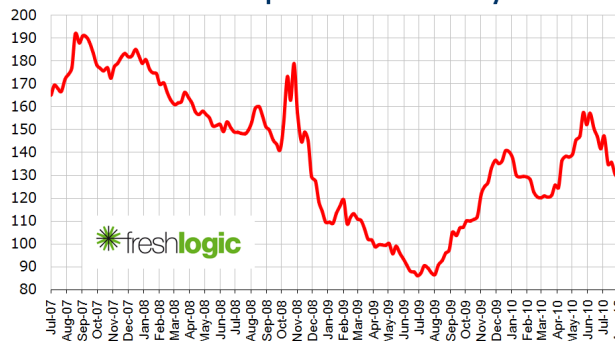
Kraft Foods has said it will increase advertising in the second half of the year in a bid to restore sales growth in North America. Net revenues grew 25.3% to \$12.3bn; Cadbury contributed 22.8% of that growth. Organic net revenue from Kraft's "base" business was up 2%. However, in North America, organic net revenues on a combined basis fell by 1.3%, reflecting a 1.9% decline in organic net revenue from Kraft Foods' base business and 7.5% organic net revenue growth from Cadbury.

### New Holland Pull Type Bale Wagons.

For the farmer or contactor who uses small rectangular balers, **New Holland** offer the model 1037 pull type bale wagon. This automated bale wagon will pickup and stack up to 104 bales in a single load. Full hydraulic operation makes carting those small bales less arduous and quicker. Talk to you local New Holland dealer for a brochure and quote on your requirements.



## 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.

## Danone sells Wimm-Bill-Dann foods stake

**Danone offloads shares to capture cross-continental fresh dairy market.**

Danone has sold its shares in Russian dairy group Wimm-Bill-Dann, after the French food giant joined forces with a second dairy group, Unimilk, in June. Danone will sell its 18.4% stake for US\$470m. The deal will close once Danone gets competition approval in the CIS for its venture with Unimilk. Danone has plans to merge its Russian fresh dairy business with Unimilk to create a business that generates annual sales of €1.5bn and spans Russia, Ukraine, Kazakhstan and Belarus.



## US official faults dairy trade barriers

**Strict dairy certification requirements create hurdles for US trade.**

Chinese and Indian certification requirements for US dairy exports are among "our most pressing concerns on agricultural non-tariff measures," Ambassador Ron Kirk, the US Trade Representative (USTR), told the Senate Agricultural Committee last week. Along with "unjustified barriers on beef, pork, and poultry products" mostly in Asia, the dairy trade barriers were a priority for his negotiators, Kirk said. Ongoing discussions with China over health certificates for dairy products and India's de facto ban on US dairy products through inappropriate dairy certificate requirements have been singled out by the US industry as impediments to dairy export growth.

## Strange Greens' MEP bid to outlaw "fresh" milk ruled out

**Left field suggestion gets howled down by EU industry.**

The European Commission says it has no intention of outlawing use of the term 'fresh milk' when it is *drinkable for more than seven days*. A proposal, in the European Parliament, tabled by Green MEPs, came under fire from the dairy industry and consumer groups in the UK this week. They proposed to amend a draft food information law, stating that "denoting milk as 'fresh' when its use-by-date is more than seven days after the filling date" should be considered "misleading" – and unacceptable – as a food retail practice.

Commission sources cautioned that MEPs, in their bid to redefine fresh milk, are opening up "a technical and complex issue", and are referencing scientific standards set for the microbiological treatment of milk "which need to be considered in an extensive way in order to protect innovation and new technologies".

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