

DAIRY REPORTER



Weekly Dairy News for Members of DFMC

18 October 2011

Dairy poll in 2012 will give 3 options

Marketing for a levy increase will continue

All Australian dairy farmers will be asked to take part in the Dairy Poll 2012 to decide whether to continue an investment of a levy and if so, how much it will increase. Next year's poll will offer three options for farmers to vote on: a 15% increase, a 10% increase (each will be spread over 5 years) or a "no-levy" option. A 10% increase spread over five years is well below CPI and either increase option would be the first levy increase for 15 years. The options were decided upon by a Dairy Poll Advisory Committee chaired by ADF President Chris Griffin, comprising 20 members drawn from all industry sectors and a wide cross section of dairy farmers.

Dairy Australia CEO Ian Halliday said the board fully supported the 10% increase although there will be a need to draw down reserves to support the activities of Dairy Australia during the next five years. He said the dairy industry's peak bodies – the ADIC, the ADF and the ADPF – had agreed to the Dairy Australia five-year strategic plan as part of the levy vote process. All dairy farmers will receive their voting entitlements in December, followed by a voting pack containing their ballot paper in February 2012. Ballot papers must be returned by March 16, 2012.

The levy currently generates about \$30m a year, to which is added about \$17m from Federal Government to fund the budget of Dairy Australia.

Fonterra claims big growth in exports

Value-added powder helping line farmers pockets

Fonterra Australia announced a record year of year growth in export volumes of nutritional milk powder products from its Victorian manufacturing sites. It says this has helped solidify the company's position as the dairy exporter of choice to consumers in Asia. Since 2009, Fonterra said it has shipped more than 100,000 tonnes of nutritional powder products from Victorian plants, 37% more in this export category over that time. The company said the nutritional powder category played a key role in enabling delivery of its second highest closing price ever at last season's close.

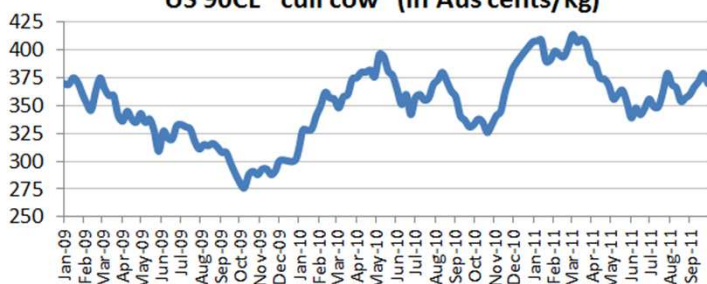
New rotary makes global debut

NZ system aims at higher throughput

DeLaval debuted the world's first automatic milking rotary system at World Dairy Expo. Ron Mulder, DeLaval AMR specialist based in New Zealand, said the system is geared for farms that want a high throughput of cows being milked. The company's other robotic milking machine, the Voluntary Milking System, is for farmers who would rather put more focus on giving cows individual attention. The AMR can hold 24 cows on its rotary platform. Herds with 500 to 600 cows can be milked three times daily or those with 600 to 800 cows can be milked twice daily.

The system can work with two robots, one for teat preparation and one for cup attachment, to achieve a milking rate of 50 cows per hour, or additional robots may be added to reach the system's fastest rate of 90 cows per hour. As many as five robots can be attached to the rotary.

US 90CL "cull cow" (in Aus cents/kg)



Headlines

- Strong \$A slashes export index
- Marketing the 2012 dairy poll
- EU's CAP reform not so popular
- US passes three FTAs
- ASDA releases "low-emissions grass"

Indicators	
Dairy export index	Index falls heavily on \$A
World dairy prices	All prices steady
US cull cow prices	Prices weaker on \$A rise
Grain futures	Wheat futures steadying

AFGC assesses carbon hit on dairy

Dairy one of the worst affected food manufacturing sectors

The peak food manufacturing organisation dairy manufacturers' costs will rise by about 11 per cent under the carbon tax. Research for the Australian Food and Grocery Council shows the average cut to operating profits for food manufacturers would be 4.4 per cent. The council's analysis, conducted by consulting firm AT Kearney, found the direct impact of the \$23-a-tonne carbon tax on profits was just 0.9 per cent. But the indirect cost, through the purchase of electricity, heat and steam, was 3.5 per cent in the first year of the tax. A.T. Kearney said the research found most companies in the Australian food industry already have some form of energy reduction plan in place, but they are limited in their ability to manage cost increases in the inputs and services they buy, such as electricity, fuel, transportation and packaging.

Tatura suppliers reported happy with deal

Early reaction to Bega offer is favourable

There has been "overwhelming support" from Tatura Milk Industries suppliers for Bega Cheese's takeover offer. TMI deputy chairman Rick Cross said although it was early days, suppliers appeared positive about Bega's two-for-one share offer. "There has been overwhelming support with a positive feeling towards the offer at this stage," Mr Cross said. Bega Cheese shares closed down at \$1.71 last week, pricing the Tatura shares at \$3.40/share.

Tinkering with tanker limits

A small lift in volume helps cater for a record peak

Fonterra has been given permission in New Zealand to increase the loading limit of its milk trucks to cope with an extraordinary spring flush. A good autumn and reasonable winter in New Zealand has resulted in record spring milk flows. The co-op has been allowed to increase the operating weight of its tankers from 44 to 45 tonnes until the end of year. That mightn't seem a lot but the tweak will enable Fonterra to collect an extra 1.2 million litres of milk a day for the next three months.

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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.

Index hammered by higher \$A. Spot prices for each of the major four commodities were steady this week. But the lingering positive mood in financial markets pulled the \$A sharply against the US currency, closing the week at **\$US1.0342 - almost 6 cents higher**. This slashed the index of spot returns by almost 7 points to **116.3**.

Some light on NZ exports. The booming NZ milk output is mostly going into powder exports but the dependence on China isn't as much as people are talking. The data on dairy exports for New Zealand from January to August 2011 showed a changing mix of product and country markets.

The dominance of the Chinese demand for whole milk powder (WMP) has been well documented but while NZ is the dominant supplier to China, that market took just under 30% for the first 8 months of the year, which is almost identical to the percentage share of NZ exports for the same period in 2010. Algeria jumped into 2nd place for purchases of that product group, while Venezuela, Sri Lanka and the UAE all moved higher than 40,000t to improve the mix of customer countries and regions supplied.

Cheese export volumes fell 14% in the first 8 months of the year as more milk has been diverted to powder plants. NZ lifted sales in Japan to make it the largest market for export cheese but cut volumes supplied to Australia. There may be more of this trimming of sales to this market in future, as Fonterra has opted to commit lower volumes to supermarket private labels. NZ has also supplied lower cheese volumes into Europe and the Middle East in 2011.

Butter exports are slightly up as more product is available from powder plants, lifting sales to its biggest customer Iran, but losing volumes into Europe and North Africa.

EU proposes reforms for CAP

Big news out of Europe but little change to the effect

The European Commission said its CAP proposal is "a new partnership between Europe and its farmers in order to meet the challenges of food security, sustainable use of natural resources and growth". The most criticised proposal in the package is that all farmer payment entitlements will be re-allocated after 2013, with 30% reserved for the 'greening' or environmental component. 40% of the remaining payment will be levelled out between countries immediately, with the remaining 60% to be levelled over the next five years.

The reforms aren't completely reformist – the future policy would not see complete removal of market support instruments for the dairy sector which will continue to be available post-2014 if market conditions require them to be activated. Intervention buying will remain available as at present for butter and SMP up to set annual limits, while private storage aid will continue for butter.

Reforms would formally abolish grant aids for the incorporation of SMP into animal feed and casein. These schemes have long been effectively obsolete, not even used during the dairy price crisis of 2009, with the Commission claiming at the time that the operation of the schemes would not represent an 'efficient' response to the needs of the market at that time.

The peak farming lobby, COPA-COGECA, doesn't like the reform package affecting farmer payments, arguing that the Commission's own impact assessments show that greening reforms "will impose yet further costs on farmers". It would be "illogical" to make farmers set aside 7% of their land as an 'ecological focus area' from 2014 against a background of growing world food demand. Making 30% of farm subsidies conditional on these 'greening' targets was too much, they say. The measures should rather be voluntary and economical viable for producers.

Australasian export index from Jan 2009



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.

US passes 3 FTAs

Korea packs the biggest punch for US exporters.

US peak dairy buddies National Milk Producers Federation (NMPF) and the US Dairy Export Council (USDEC) have applauded the passage by the House and Senate of three free trade agreements (FTAs) between the US and each of South Korea, Panama and Colombia. The export gain for dairy from the Korea FTA in the first few years after implementation will be approximately \$380 million per year, on average, while Colombia and Panama FTAs will add another \$50m.

USDEC president Tom Suber pointed out that the agreements will not only help expand export sales for such products as cheese, whey, skim milk powder, and other dairy products, they also will prevent foreign competitors from taking market shares that the US industry has developed in each of the countries in collaboration with USDEC.

The industry pitch for support of the deals estimated that as many as 10,000 additional jobs, on and off the farm could be created by the Korea agreement alone, which may prove a stretch!



Retailer leads on grass

Innovation in pasture comes from an unusual source

UK subsidiary of Walmart, Asda, is claiming to be the first retailer to introduce a revolutionary new grass for its beef, lamb and dairy supply herds. The supermarket aims to reduce the carbon dioxide emissions from cows and sheep by 186,000 tons, which it says is the equivalent of taking 78,000 cars off the road. Laboratory tests have shown the new high sugar grass can cut methane emissions by 20% per animal, the retailer said.

Asda has teamed up with British Seed Houses to introduce Aber High Sugar Grass (Aber HSG) and Aber clovers to its 13,500 farmers across the UK. Aber HSG significantly reduces methane emissions and also minimises bought-in feed costs, one of the biggest farmer financial outlays, improving production efficiencies and animal yields. In partnership with British Seed Houses, Asda has been trialling the new grass at demonstration farms to assess performance in a variety of systems. It is also offering its direct supply farmers one free acre bag of high sugar grass seed for every 10 acres purchased which equates to a saving of £55–60 per 10 acres, ensuring significant cost savings.

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