

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



20 April 2010

WCB and MG await ACCC's views

Despite the ongoing battle between WCB and MG about their relative performance and future offering, merger chances exists as the companies await ACCC's ruling on the proposed takeover.

Murray Goulburn and Warrnambool Cheese are engaged in an advertising war with regard to who offers the best farmgate milk price, share equity, and ownership structure.

The contest awaits a major event this week with the release on Thursday of the views of the ACCC on the proposed takeover. Warrnambool Cheese believes MG is unlikely to achieve a clean, all-clear for its proposed \$180 million takeover from the competition regulator this week. Rather WCB reckons the ACCC will release a statement of issues highlighting areas of concern about the consolidation of milk supply in Western Victoria in a dominant co-operative, rather than issuing a green or red light on Thursday.

The companies have been trading slaps in recent weeks about their relative performance and future offering. MG chairman Grant Davies has termed WCB's remarks as "unjustified" that give "misinformation about MG". He said that MG has "led the milk price to record levels in 2007-08." He also stated that he was disappointed to respond to "such negative and potentially misleading information"; but since the "integrity and professional capability of MG" had been raised, MG did not have any choice except "to respond in public." However, Mr Davies stated, "We will not be shaken in our resolve of continually striving towards a stronger co-operative." Watch this space...

Mixed response to ADF restructure plan

The national peak dairy farmer body's plan for restructuring dairy representation is heavily dependent on Victorian industry support.

ADF's plan to shift dairy representation away from the states and form a national lobby group depends entirely on support from the Victorian industry, yet has received generally supportive responses from state dairy affiliations. At this stage the plan runs counter to the views of the VFF, which does not consider the proposal a viable option. Nor is the VFF without a dairy section!

The groups that are part of state farmer organisations are non-committal on the proposal; however, stand-alone dairy farmer organisations in SA and Queensland are more supportive, as they have faced falling memberships which stress their funding models.

SADA president David Basham called the current dairy farmer representation system "unsustainable" and hoped that the ADF proposal would provide a better service to the South Australian members. Queensland Dairyfarmers' Organisation president Brian Tessmann suggested that efficiencies could be gained with a national lobby group by sharing resources and staff. WAFF president Mike Norton wants assurance that WA dairy farmers would get adequate assistance with state-specific issues.

Costco to further warm retail market

The US wholesaler-retailer gets a nod for its 2nd store.

The New South Wales State Government has approved a new \$60 million Costco development in Sydney's west. The new store will be located on the busy Parramatta Road, in Auburn. According to the planning documents, the Auburn store will have about 14,000 square metres of shopping area and about 800 car parks. The selling space is about four to five times the size of an average Coles or Woolworths supermarket but the chain has a much smaller range of high-turnover groceries and merchandise.

Headlines

- MG and WCB await ACCC's ruling
- NZ drought curbs output
- US starts its own HGL
- Nocton's "giant dairy" plans deferred
- Mixed bag for Argentine exports

Indicators	
Dairy export index	2pt rise with a slight fall in the \$A
World dairy prices	Small improvements in powder prices
Australian cull cow prices in the US	Prices remain firm
Grain futures	US wheat futures rise, local prices steadied

National Foods hits back at Libs

NatFoods hits back at Libs' milk accusations and clarifies that farmers will not find the new system a "dramatic change to the current arrangements".

Following claims by Queensland's shadow minister for Primary Industries and Fisheries Ray Hopper that the reduced quotas at NatFoods' new Malanda plant will end in "death by a thousand cuts" for farmers, NatFoods pledged to collect all milk above the proposed 55 million litres of contracted volumes, describing its new system as a more transparent version of the way milk is already priced; it has further stated that "farmers should not find this a dramatic change to the current arrangements". According to NatFoods, under the new system, contracted volumes will be processed at Malanda, while it will collect over-contract milk for processing it elsewhere and in non-milk products.

Chinese look at NZ South Island farms

Hong Kong-listed Dairy NZ is appraising Southland farms for buying existing factory to produce infant milk formula for China.

Hong Kong-listed Dairy New Zealand, which aims to attain Overseas Investment Office approval for buying 29 North Island farms, formerly a part of the Crafar dairy empire, has announced that now it is seeking to buy farms and a dairy milk processing plant in Southland.

A spokesman for the company Bill Ralston stated that the purchase of Southland farms would be subject to OIO approval. He added that they planned to buy an existing factory that would produce infant milk formula for the Chinese market; however, they could also consider building on, if required. He also clarified that the company did not want to enter into long-term supply contracts with the likes of Fonterra as it "wanted to be masters of their own destiny".

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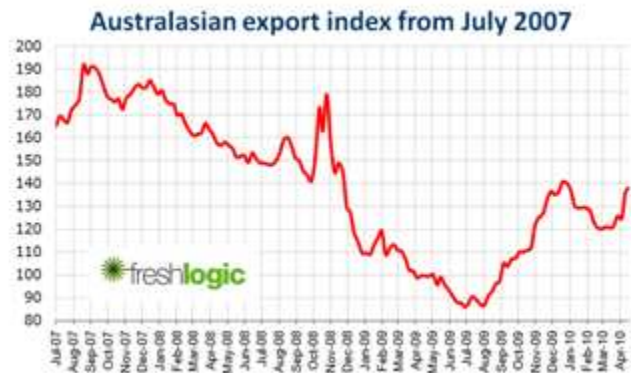


Index of export returns

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 stays firm.

The increases in spot price quotes this week were subdued after last week's rush led by the surge from Fonterra's GDT auction. Smaller rises this week in powders ensured that \$A value of export returns stayed in positive direction, only due through to a late fall in the value of the \$A last week. The index rose 2 pts to **138.4**, while the \$A lost ground to **US92.4c**.



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.

USDA schedules its first meeting of Dairy Industry Advisory Committee

Following EU's footsteps, the USDA had its first meeting of its think-tank to cater to dairy's short-and long-term requirements.

USDA had its first meeting of a newly established Dairy Industry Advisory Committee in Washington, D.C. as it attempted to follow a similar path to Europe which formed its HLG think-tank last year. The Dairy Industry Advisory Committee, which had been chartered to review farm milk price volatility and dairy farmer profitability, will make recommendations to the secretary on how USDA can best address these issues to meet the dairy industry's short- and long-term requirements. In addition, it will also provide feedback on how the dairy industry has been affected by USDA's recent actions.

Chinese GDP growth, retail sales growth

Chinese GDP experiences its fastest growth for 3 years by 11.9 per cent, with an unbelievable decrease in inflation at 2.4 per cent.

Reporting its fastest growth for almost 3 years, Chinese GDP has grown by 11.9 per cent in the first quarter, up from the 10.7 per cent gain reported in the last quarter of last year, and faster than the market expectations of 11.5 per cent. Retail sales showed an increase of 17.9 per cent in March compared to 16.5 per cent in the last quarter of last year, industrial production grew by 18.1 per cent, and fixed asset investment has decreased to 26.4 per cent for the first quarter.

Despite the GDP growth, inflation has decreased to a tiny (almost unbelievable) 2.4 per cent after reporting 2.7 per cent in the January-February period. Analysts remain divided with regard to whether the economy is growing too quickly and the potential of a resultant property bubble punching a hole in the national economy – a story that has found spreading coverage and speculation in global financial media.

Mixed bag for Argentine exports

A surge in cheese, whole milk powder, and whey products sales and a sharp decrease in butteroil, yoghurt, and skimmed milk powder for Argentina's exports.

According to the latest trade figures from the Argentine ministry of agriculture, Argentina has experienced mixed results for its exports. Compared with 2009, cheese exports increased by almost 50 per cent, while whole milk powder (WMP) deliveries surged by 42 per cent to reach 145 104 tonnes. Further, whey products export sales increased by 4.4 per cent. However, there were sharp decreases in shipments of butteroil at 66 per cent on 2008 to 2 497t, yoghurt at 23 per cent, and skimmed milk powder (SMP) at 11 per cent less compared with a year earlier.

The \$US unit value of Australian dairy exports – last 8 months v spot prices

\$0 \$1,000 \$2,000 \$3,000 \$4,000 \$5,000



Drought to curb Fonterra's volumes

Fonterra's general manager milk supply has announced that Fonterra is likely to miss the forecast milk production growth due to the prevailing drought conditions in several key production areas in North Island. Mr Deane stated, Fonterra "will certainly not get anywhere near the 2% to 3% forecast growth." However, Mr Deane stated that the present situation was not as bad as the 2007/08 drought season, which saw more than NZ\$1 billion being slashed from the economy. He said, "We are dropping at the same rate as we dropped in 2007/2008 drought. The difference is this drop started a few weeks later. We are on the same trajectory now."

Nocton's UK "giant dairy" plans deferred

Nocton's controversial giant dairy proposal has been deferred after drawing criticism from environmental and animal welfare organisations.

Nocton dairies has announced the delay in the plans to establish the large-scale milk production facility in Nocton Health, Lincolnshire, which would have housed 8000 cows and produced 250 000 litres of milk per day, due to unresolved technical issues. Nocton stated, "The technical issues involved will take more time to address than we have available to meet the requirements of the planning authority and consultees."

Although Nocton insisted that the dairy would have produced "high-welfare, low carbon" milk, its controversial proposal attracted expected criticism from the environmental and animal welfare organisations which have aimed at political support to block the development. A spokesperson for Compassion in World Farming has stated that the pressure group's campaign against the dairy had attracted "considerable support" with 172 Members of Parliament signing its Early Day Motion to block the move.

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