

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



23 March 2010

ADF to review its structure

ADF decides to review its national structure to strengthen state agricultural bodies.

With the aim of delivering enhanced national, state, and regional advocacy and representation, peak farmer organisation ADF has announced its intention to review its national structure and submit a proposal to the industry by mid-2010.

ADF has added that this move would also help in strengthening state agricultural bodies that offer a broad range of additional benefits and services. Preliminary discussions have been held with the state dairy and state farmer organisations, and Noel Campbell has been appointed as the chairman of the Restructure Committee. According to ADF, emissions trading, environment, animal welfare, trade and market access, national consistency in food safety and the relationships with Australian Quarantine and Inspection Services (AQIS) and similar bodies are some factors that drive a need for more co-ordinated and consistent national approaches and hence were an impetus for this review.

Changes ahead for DFMC suppliers

DFMC's revamp of milk pricing is coming - the media is giving it airplay

DFMC, with about 780 suppliers across Queensland, NSW, South Australia, and Victoria, is well-known to be planning to revamp its payment procedure to farmers for their milk. With the objective of simplifying its complicated milk payment model, it is planning to pay suppliers for the amount of butterfat and protein in their milk, rather than a "cents per litre" price that is then adjusted for components. But the biggest changes ahead of DFMC members would be the introduction of a supply management scheme reflected in two-tiered milk prices, which recognises the realities of their customer National Foods milk demands in different locations.

The rural media has taken notice of the issue, and DFMC's chairman Ian Zandstra talked to the ABC about the types of changes that suppliers will see in payments for milk. "Some will be better off, some will be worse off," he said. "But the milk solids payment scheme will align DFMC with virtually all other dairy companies, including Fonterra and Murray Goulburn." DFMC will start a new approach on July 1st.

Effluent management not good enough

The issue of waste management – and its effect on the perception of the ethical credentials of the NZ industry – has loomed large again this week as the latest scathing assessment is released by the NZ Gov't

Agriculture Minister David Carter has lashed out at dirty dairy farmers over a report showing "totally unacceptable" levels of effluent management. The Dairying and Clean Streams Accord report issued by the Agriculture and Forestry Ministry last week showed that while farmers are mostly doing well at keeping cows out of rivers and building bridges over waterways, their treatment of effluent wash-off has gone downhill. The average level of significant non-compliance of effluent treatment rose from 12 per cent to 15 per cent in the past year. Compliance also dropped four points to 60 per cent.

Fonterra has pledged to help dairy farmers' fix their effluent problems by committing to millions of dollars. The latest data published by the Clean Streams Accord revealed that about 15 per cent of the farms are significantly non-compliant with council rules. Fonterra now aims to halve these figures within 18 months. Spokesman Gary Romano opined that they will be checking effluent systems on every farm every year. "We will be piloting the programme in the Waikato effective immediately and we will then follow that up with a national roll-out which will start in the beginning of the new financial year."

Headlines

- ADF looks for a new structure
- DFMC suppliers to face change
- US cheese heads for our markets
- Choice wants to stop the "rip-off"
- Dutch co-op to cut commodities

| Indicators | |
|--------------------------------------|---|
| Dairy export index | Up slightly this week |
| World dairy prices | Small rises for skim milk powder, butter |
| Australian cull cow prices in the US | Prices remaining firm but slightly weaker in past 2 weeks |
| Grain futures | US and Australian futures prices remain weak & steady |

NatFoods keeps soy growth a priority

NatFoods investment in soy gets a kick with some capital

A joint venture between National Foods Ltd and Vitasoy International Holdings Ltd, Vitasoy Australia is investing \$18 million in the future of its soy milk factory in Wodonga, as it plans to expand the facility later this year with a view to doubling production capacity by mid-2011. This expansion will increase the size of the existing Baranduda Drive factory and warehouse to accommodate a new production line. General Manager Vitasoy Australia Nicolas Georges stated that this investment is a major vote of confidence in Wodonga as the site of the company's soy milk production. "We have experienced double-digit growth over the last five years and we are simply outgrowing our current facility," he said. By adding a new production line to our existing site we will be setting ourselves up for many more years of growth in the region. This is all about investing now for future growth as we continue to drive up consumer demand for our products."

Choice wants supermarket ombudsman

Choice urges Federal Government to take action for stopping the "rip-off".

Non-profit consumer group Choice has urged the Federal Government to appoint a dedicated supermarket ombudsman similar to the one being developed by Britain's Competition Commission in order to tackle issues of competition and fairness in the grocery sector. The ombudsman, as per Choice, would deliver leadership in the sector, enforce regulatory rules and suggest rule changes, research on the parts of the markets are not working, and support consumer education on unit pricing. Choice chief executive Nick Stace said, "There is a need for real leadership on resolving supermarket issues in Australia - rip-off prices, endemic unfairness and the lowest level of competition possible."

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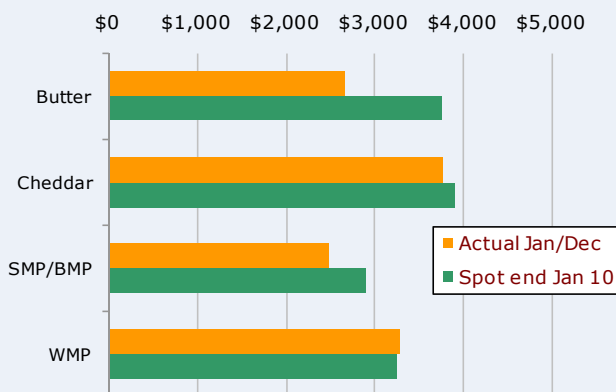
Index better as prices rise

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.

Prices firm slightly

Again there were small improvements in spot prices – again only for butter and skim milk powders. The \$A value of the apparent export return looked like it was in for a beating as the \$A, spent most of the week above US92c but ended slightly down at **US91.5c**, leaving the export index at **121.3**.

The \$US unit value of Australian dairy exports – last 2 months v spot prices



FrieslandCampina less dependent on commodities in future

The big Dutch co-op FrieslandCampina takes up the challenge to depend less on commodities that have been the biggest victims of recession.

After the release of the financial results in which FrieslandCampina reported a 14 per cent drop in total revenue to €8.2bn as selling prices and volumes came under pressure in a weakened global dairy market, it is seeking to become less dependent on milk powder, casein, and basic cheese.

FrieslandCampina's CEO Cees 't Hart said that the company would be looking to steer away from these categories, as these have been the biggest victims of the recession. He stated, "The poor selling prices of such products as milk powder, casein and basic cheese put the result under pressure. We face the challenge of becoming less dependent on those product categories."

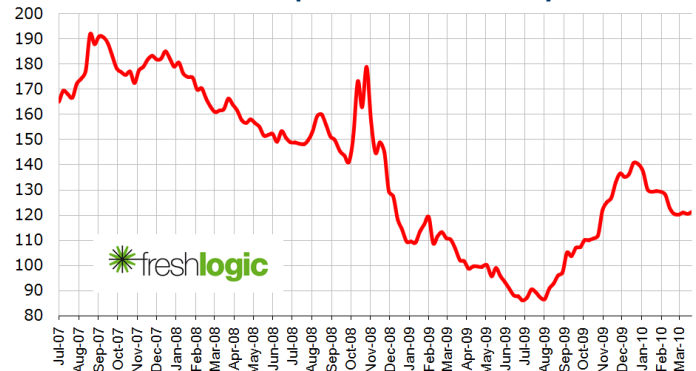


Brazilian exports plummet

The world demand contracts, and so does the Brazilian dairy export earnings

With the contraction in the world demand, Brazilian dairy export earnings have plummeted in the past year. The latest customs statistics have revealed an 80% plunge in export earnings to US\$86m in year to the end of November down from \$440m in the previous 12-month period. The export volumes of 41,220t was 60% lower than the previous year.

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.

US production on the way up

US dairy production finally crawls its way up.

After spending a few months below the comparative and dropping as far as just 1.25% below the prior year in October, milk production during February 2010 was slightly above the level of February 2009. There are fewer cows in the herd than a year ago but a big rise in milk per cow (2.7%) has stabilised production despite signals of a weak rally from the market and margins well below theoretically profitable conditions.

Cheese export support reactivated

US plans to resume CWT support with added incentives for key Australian markets.

The Cooperatives Working Together has announced that it is reactivating its Export Assistance program, effective immediately, to boost sales of US cheddar cheese. CWT is a farmer-funded assistance program based on voluntary levies paid to the peak farmer lobby NMPF.

The CWT program was last used in 2008, but the program has, in the past, exported whole milk powder, butter and butterfat, the focus in the short-term will be cheddar cheese, as this is thought by the NMPF to have the most scope for impact on farm-level milk prices. CWT is advising its members that it will provide additional incentives for sales to the target markets of Japan, Algeria, Egypt, Saudi Arabia, and Australia.

UK gets £26m in EU cash

Government finally agrees to pay UK farmers their much-awaited dues.

After a consultation with the dairy industry, the Government has finally agreed to distribute the much-awaited £26 million allocated to British farmers by making flat rate payment to farmers of roughly 0.2p per litre of the milk they produced between October 2008 and September 2009.

This fund is a part of the £273 million EU Dairy Fund, which was set up last year following high-publicised mass street protests by French and Belgian farmers, with the aim to help farmers severely affected by changes in demand and prices over the year, while keeping administrative costs to a minimum and supporting a competitive dairy sector. In order to keep administrative costs low, the qualifying threshold for payments will be 50,000 litres, which means that the minimum payment from the fund will be roughly £100.

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