

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



27 April 2010

ACCC negative to WCB-MG merger

ACCC is negative to the MG-WCB merger, claiming that the proposed takeover would adversely limit farmgate competition.

The competition regulator released a preliminary findings paper, which claimed the proposed takeover “would substantially lessen competition for the acquisition of raw milk from farmers in the relevant within South Australia and Victoria”. It added that “the potential effects in relevant markets include a significant reduction in farmgate prices paid to farmers for raw milk and reduced competition in the offer of non-price terms such as finance, field advice services and discounted grain and hardware supplies”.

The ACCC’s findings were based on a few curious factors that will no doubt cause a lot of discussion:

- Defining 3 separate “market regions” for the milk supply area relevant to the MG-WCB contest: South West Victoria, South East South Australia and Central South Australia. Many regard the effective economic supply region for Western Victorian plants as one which combines those three;
- Inferring that a major co-operative is not necessarily motivated to optimise its payout to supplier shareholders;
- Suggesting that Fonterra was only motivated to pay its suppliers as it does at present due to the existence of WCB in Western Victoria;

In addition, the rationale for the existence of sufficient competitors in each region sits interestingly alongside the ACCC’s passing of arrangements for milk supply to National Foods in central NSW, where it that company now has no effective competitors. The ACCC said it will take further submissions on the document until 7 May and will release a final opinion in early June. Both companies are said to be considering their next steps.

UDP to invest in a Nth Victorian plant

UDP is still keen on Northern Victoria and will invest in a 200 million litre plant in Shepparton, after buying it from NatFoods.

You could call this early confidence in the recovery of the Northern Victorian irrigation region, but milk handler UDP has been reported as planning to invest in a 200 million litre cheese plant in Shepparton after buying a milk plant from National Foods, which it says it will expand. UDP’s Tony Esposito says the plant will create 100 jobs in the town in manufacturing and logistics.

The company’s most recent foray into the region occurred when it made a bid for the mothballed Leitchville cheese factory, which was rejected by Murray Goulburn. At the time of the failed bid, Mr Esposito emphasised UDP’s desire to “get into northern Victoria”.

Strong cow demand says exporter

Austrex predicts a strong cow demand ahead for Australia, with 60,000 exports expected, up by 3% on the 58,300 of the previous two years.

Exporters predict that Australia could be expected to export more dairy heifers; however, they opine that still Australia would not be able to meet the increased worldwide, particularly from China and Russia, which will create openings for NZ and elsewhere.

According to Austrex, live dairy exports have risen significantly in the past six to 12 months compared to previous years, with exporters paying up to A\$1,150 for unjoined heifers and A\$1,400 for commercial pregnant heifers. A total of 60,000 dairy heifers and cows are expected to be shipped overseas to foreign breeders, up by 3 per cent on the 58,300 of the previous two years.

Headlines

- **ACCC negative to MG-WCB merger**
- **UDP to invest in a Nth Victorian plant**
- **EU boss: We will prevent another crisis**
- **Global dairy emissions**
- **Glanbia puts price tag on business**

Indicators	
Dairy export index	Slight fall with rise in \$A and minimal price change
World dairy prices	Small improvements in butter prices, all others steady
Australian cull cow prices in the US	Prices holding at strong levels
Grain futures	US and local futures prices steady

Coles’ food sales show slowing growth

Coles reports a slowing growth in its food sales falling to 3.8% with underlying price deflation still lowering prices in the 3rd quarter.

Wesfarmers Ltd says it is cautious on the outlook for the remainder of the 2010 financial year, after posting a 4.9 per cent rise in third quarter sales from its Coles business, with food and liquor sales lifting 3.9 per cent.

Same store sales growth fell in the 3rd quarter to 3.8%, with underlying price deflation said to be running at an average 1.0% in the quarter. This is a sharp fall in the underlying growth rate, coming down from 2 quarters around 6%, where it moved ahead of rival Woolworths. It will be interesting to see whether the recovery in Coles sales in late 2009 has faltered when Woolworths puts out its sales numbers later this week.

Emissions cost Fonterra NZ\$38m in 2011

The emissions trading scheme of the NZ Government will cost Fonterra \$38m next year, rising to \$104m in 2015.

According to Fonterra, its processing emissions costs from July this year under the Government’s climate change protocol will be \$25m, but increased costs of \$13m will be incurred in its share of ETS-driven fuel and energy price rises. From January 2013, when an ETS transition phase ends, Fonterra’s annual cost will be \$79m, says its general manager of sustainable production, John Hutchings.

This will be made up of \$53m in processing costs, and \$26m for on-farm fuel and electricity usage. In 2015, the year agriculture officially enters the ETS, Fonterra will pay \$107m a year to the ETS, Hutchings says. For a farm producing the industry average of 100,000 kilograms of milk solids, Fonterra’s 2010-2011 ETS costs represent 1.4c a kg. In 2015, that will rise to 7.3c a kg, he says.

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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.

Prices hold.

The increases in spot price quotes this week were limited to a small rise in butter. The index lost a little ground to **138.1**, as the A\$ rose a little to **US92.8c**.

EU farm boss: We will prevent another crisis

EU Farm Commissioner Dacian Ciolos, while addressing MEOPs in Strasbourg, has stated that the Commission will not allow a repeat of the dairy crisis in other sectors and will deploy market support tools to prop up other sectors at risk. He said, "The Commission is watching the evolution of markets very closely in other sectors. Based on the intervention tools that we currently have at our disposal, used as a safety net, we will make sure we avoid a repeat of situations such as the one which afflicted the dairy sector." Further, Mr Ciolos vowed to learn the lessons of the dairy crisis and take them on board in the imminent dairy reforms and in interventions in other sectors.

However, while Centre-right Scottish MEP Jim Nicholson has criticised the Commission's dairy response as being "too little too late", French MEP Marc Tarabella has warned that the "hyper-volatility" of prices cannot continue and must be nipped in the bud.

Glanbia puts price tag on business

In a bid to dispose off its Irish dairy and agri-business to Glanbia, Glanbia plc has conditionally sealed a deal, which is estimated to be worth in the region of €343 million.

Glanbia plc's deal involves the co-op divesting its shares in the group (it currently owns 54.6%) and payment of a cash sum of €49.7 million. If the deal is finalised, then the co-op's farmer members will completely control Dairy Ingredients Ireland, Consumer Products and Agribusiness, together with Glanbia Estates, Group Business Services, and Irish Joint Ventures and Associates. This will enable the international nutritional ingredients and cheese group to concentrate on and develop its international operations and grow in the nutritional ingredients and cheese market. While the sale is expected to be completed no later than June 15, investors in Glanbia co-op have to first vote in favour of the acquisition at two shareholder meetings, with three-quarters of them required to approve the co-op's reduced stake in Glanbia.

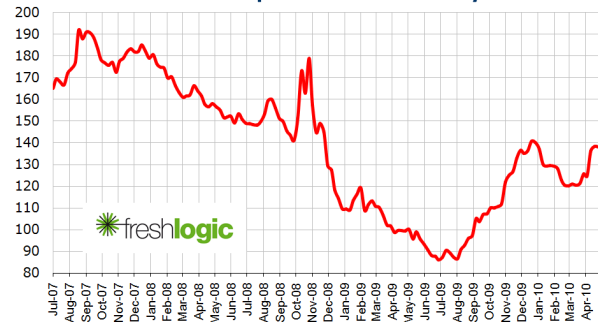
Global dairy emissions

As per the UN's Food and Agricultural Organisation's report, the dairy sector, as a whole, is responsible for 4% of the global dairy emissions.

UN's Food and Agricultural Organisation's report on "Greenhouse gas emissions from the dairy sector" has revealed that as a whole, the dairy sector is responsible for 4 per cent of the global greenhouse gas emissions with the vast majority coming from production. However, when it took meat production out from the equation and focussed only on emissions related directly to milk products, the figure was 1328 million tonnes or 2.7 per cent of global emissions.

According to International Dairy Foundation (IDF), the report would quantify the GHG emissions from the dairy sector and provide an informed basis to target emissions mitigation within the supply chain. Further, IDF President Richard Doyle said, "The global dairy sector and its partners are implementing a global Agenda for Action in order to reduce greenhouse gas emissions throughout the supply chain. Our sector is responsibly focused on providing consumers with the nutritious dairy products they want, in a way that is economically viable, environmentally sound and socially responsible."

Australasian export index from July 2007



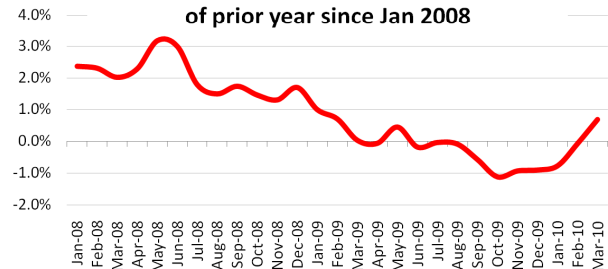
Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

US milk production was up in March

Per cow output has helped in raising US milk production for the first time in 7 months, lifting 0.7% above March 2009.

There were 193,000 fewer cows being milked in March compared to the year before, with the numbers indicating a sizable leap in per-cow output in March itself. USDA projects that total production in the US will be 0.2% up for the 2010 year – after the first quarter production has quickly reversed the slump of late last year to be line-ball with the first quarter of last year.

US milk production % change on same month of prior year since Jan 2008



Tainted milk fear in China again

Fears emerge, yet again, of tainted milk in China with 200 of its school students hospitalised after drinking milk.

Tainted milk fear grips China again as more than 200 students in the two cities in north-western China's Shaanxi province have been affected by drinking the milk provided at their school breakfast. At least 27 students have been hospitalised while 20 more have been treated with intravenous drips. Shaanxi Renrengao dairy company has delivered the milk to the schools; the company's products have been sealed off by the authorities for investigation.

UK milk output at a 40-year low

UK reports its lowest milk output by hitting a 40-year low in the recently ended 2009/10 milk.

According to the Rural Payments Agency's (RPA) provisional figures, wholesale milk deliveries (without butterfat adjustment) were pegged at 12.819 billion litres, a massive 1.314 billion litres short of quota. Thus, production was 39 million litres lower than the 2008/09 level of 12.858 billion litres by 39 million litres.

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