

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



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WCB announces 2nd half lift

WCB boosts 2nd half milk payments.

The west Victorian manufacturer has announced a second half milk price incentive designed to keep it competitive with its rivals. The company will increase milk payments from 1 February to 30 June 2011 by 60c/kg protein and 24c/kg butterfat. The WCB CEO's letter to suppliers says the company will further review milk prices in November after a review of market conditions and business performance.

Watchdog re-authorises Pauls' bargaining for a decade

Farmers benefits kept in mind as ACCC gives another decade-long life to Pauls' collective bargaining arrangements.

Premium Milk has gained approval to negotiate on behalf of its farmer members with Parmalat Australia for a further 10 years. The Australian Competition and Consumer Commission (ACCC) re-authorised the collective bargaining arrangements on the basis that they were delivering benefits to farmers.

The watchdog made its draft decision in August, inviting submissions by September 6 from interested parties before making its final decision. Historically, Premium has represented dairy producers located in southeast Queensland, but the new arrangements will enable dairy producers in northern NSW to join the bargaining group.

However, Chairman of the Northern NSW based co-operative Norco, Greg McNamara, is not worried about ACCC's approval to the bargaining arrangements, as he believes that none of the Norco farmers will make a shift. He stated that the groups had been operating there for about ten years and that they had learned "to live together in some respects" and that "it's good for the farm base".

Farm R&D challenged in PC report

Productivity Commission recommends major shakeup of rural research.

Government funds are subsidising rural research that farmers should pay for themselves, a draft Productivity Commission report on rural research and development corporations has found. The 15 RDCs got about \$220 million from the federal government and \$248 million in levies paid by farmers in 2008-09, but the commission said this could be better targeted.

The PC proposes setting up a new government-funded RDC (proposed to be called Rural Research Australia – RRA) to conduct broad research that benefits all agricultural sectors and the community, receiving support scaling up to \$50 million a year. The industry-specific corporations – covering sectors including dairy, beef, pork, live exports, eggs, horticulture, grains, fisheries, sugar, grapes and wine – would receive fewer matched government funds.

The PC says amount of the government-matching of levies should be capped at 0.25% of the gross value of production, and that overall government funding would be maintained for five years and then drop to level about \$60 million below current annual funding within the next five years.

National Farmers' Federation CEO Ben Fargher said the government must increase rural research funding, if it was serious about a promised \$1.8 billion by 2015 for food security efforts overseas as part of its foreign aid budget.



Headlines

- WCB boosts 2nd half milk payments
- Farm R&D challenged in PC report
- Fonterra confirms 2nd highest payout
- EU tinkers with reform plan
- US milk policy reform talks

Indicators	
Dairy export index	Index weaker with a 2c lift in \$A
World dairy prices	Butter price rises, powders and cheese flat
Australian cull cow prices in the US	Prices lower in \$A as market weaker in US
Grain futures	Decreases in US wheat prices, local barley flat

Anxious watch on locusts

Australian farmers set to counter the worst plague of locusts in 75 years.

The expected major locust plague poses a major threat to feed supplies in the coming weeks, as the lush feed and pasture conditions pose a bittersweet outlook for milk producers by providing perfect breeding conditions for locusts, creating what is possibly the worst plague in 75 years. The Australian Plague Locust Commission is currently forecasting that locust hatchings will start this week in northwest Victoria, through to late October in other western and northern grain and dairy production regions. Farmers have begun spraying hoppers, hoping to kill locusts before they can on fly, and wreak havoc on crops and pastures. Strict protocols exist for treatment programs and the use of feed in food production.

Fonterra makes 2nd highest payout

A strong balance sheet helps Fonterra make a bonanza payout for 2009/10 season.

Fonterra has increased its final payout for the 2009-2010 season to \$6.70 per kilogram of milksolids. The only higher payout in Fonterra's nine-year history was two years ago when farmers received \$7.40 per kilogram. When the 2009/10 season started the payout indication was \$4.55/kgMS.

Fonterra also announced an after-tax profit for the year ended July 31 of \$685 million, up 12 per cent on the prior year. Fonterra chairman Sir Henry van der Heyden said farmers had shown their support for the co-op through investing in an additional \$459 million in shares recently. "As a result of that our gearing ratio has come down quite considerably from last year," he said. Fonterra says its balance sheet is in its best shape in the co-op's history with its gearing ratio down to 44.9 per cent from 53 per cent a year earlier.

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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.

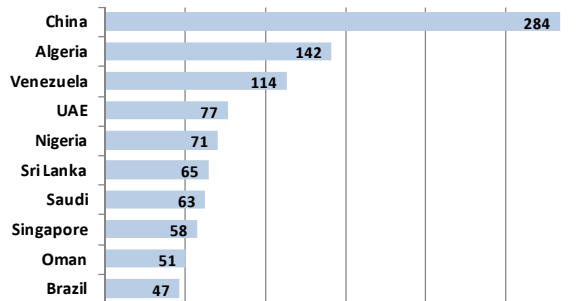
Dollar trims index.

Spot prices for butter posted the only gains this week, with all other commodities marking time. The big action affecting the index was the value of the \$A however, which continued its recent march and was more than 2 cents stronger over the week to **US95.88c**. The index lost more than 2 points to **126.2**.

WMP trade is higher.

The overall global trade in whole milk powder (WMP) was up about 4% over the year to June/July in 2010 based on recent GTIS data on export volumes. NZ remains the tearaway largest exporter with volumes increased by 26% over the period, increasing its share of trade from 35.5% to 45.3% compared with the corresponding period in 2008/09. The EU has lost 5% of export volumes, while Australia and Argentina have each lost 20% of their prior year volumes.

Top 10 WMP importers for 2009/10



Olam in possible merger talks

Olam gets into merger talks with world's largest rice & cotton trader.

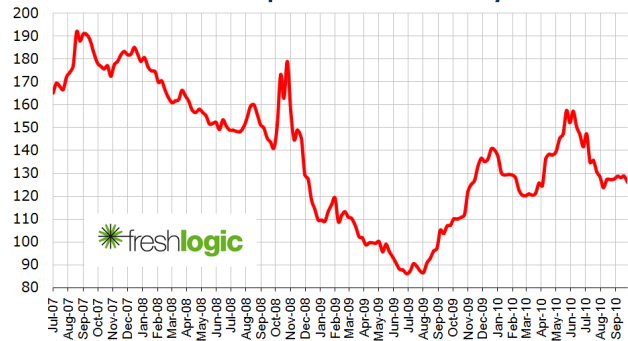
NZ Farming Systems Uruguay is now a subsidiary of Olam International, which has mopped up almost 78 percent of the company in a successful takeover offer to shareholders. The Singaporean commodities company, which itself is now in merger discussions with rival Louis Dreyfus Commodities, made an initial mid-July pitch to NZFSU shareholders at 55 cents a share, an offer that was lifted three weeks later to 70 cents a share.

At that stage Olam already owned or had acceptances for about 18% of NZFSU's shares, including an 11.5 percent Wrightson stake, and the offer to other shareholders closed on Friday September 24. The additional 59.53% of NZFSU shares purchased by Olam cost \$101.8 million, while its total investment to date to just over 190,000,000 shares has been \$120.3 million.

New Holland BOOMER T1000 Compact Tractors.

If your "little piece of heaven" comes with a long to-do list, a Boomer 1000 is for you. The Boomer 1020, 1025 and 1030 handle chores that ordinary lawn and garden tractors can't! You get two power take-off's (PTO) and linkage as standard equipment. The 2,200 RPM mid mount PTO powers the 60 inch mid mount, side discharge mower deck. The rear 540 RPM PTO and the 715Kg 3 point hitch capacity allows you use implements like slashers and rotary hoes. With separate steering and hydraulic pumps, there is plenty of hydraulic power to allow the fitment of a level lift loader to move materials such as gravel, and dirt, without compromising safety and productivity. The 1025 and 1030 models come with the Sensitrak™ option that allows four wheel drive automatically when extra traction is needed.

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.

Liberal states force EU dairy paper rewrite

Heightened disagreements leads to major dairy paper rework.

The Belgian Presidency of the EU has been forced to redraft a Council paper on dairy reform, as member states continued to disagree over the paper's wording, including the contents about market regulation. In the past week's meeting of the Special Committee on Agriculture (SCA) liberal member states raised concerns that their objections to new dairy regulations are being watered down in the Council paper. The presidency pledged to rework the paper again before presenting it to ministers at the September 27 Farm Council. A majority of member states are said to be satisfied with the latest drafts of the paper, intended to provide a Council mandate for the conclusions of the High Level Group (HLG) on milk, to give the Commission the go-ahead to act on the findings of the working group. Key disagreement remains over the future policy towards bargaining power, with majority support for amending EU competition rules to allow dairy farmers more freedom to collectively negotiate contract terms, including price. There is also dispute over the extent to which milk supply contracts are regulated as to form and content.

More EU milk & cheese, but less powder

Better scenario for EU milk flows, though powder is still lagging behind.

EU milk production for the 7 months to the end of July 2010 was level with the same period in 2009, but for the 4 months to July was up 0.9% on the comparative. The Commission's Milk Management Committee reported that the declines in powder production have slowed, but remain strongly negative compared to last year.

US milk policy reform talks

USDA hosts discussion on steps to curb dairy market volatility and improve farmers' plight.

The USDA convened its Dairy Industry Advisory Committee (DIAC) on September 23-24 in Washington to take the next step in recommending dairy supports to reduce market volatility and improve US farmers' income. The 17-member committee was due to receive a detailed analysis by economists of the two leading reform proposals. A coalition of milk co-ops and other dairy farmer groups commissioned them to project the impact of the NMPF proposal to replace price and income supports with a revenue insurance scheme, and a plan designed to discourage overproduction. The NMPF "Foundation for the Future" plan would allow the market to operate until the margin between the milk price and feed cost dropped sharply, while the "Dairy Price Stabilisation Programme" offered by MPC and the Holstein group would operate all the time, acting "more like a governor on an engine," he said.

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