

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



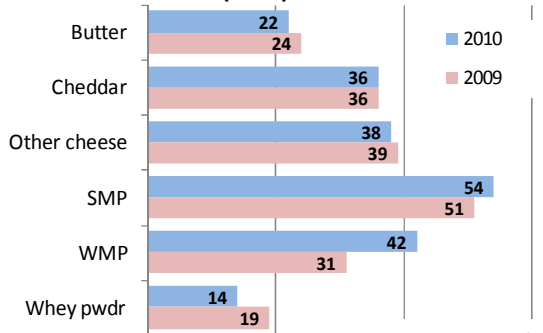
30 Nov 2010

## WCB steps-up

**Strong milk flows and stable dairy prices brings reward for WCB suppliers.**

Warrnambool Cheese and Butter suppliers received a milk price step-up last week. The processor said the rise would push its "current committed" average price to \$5 per kilogram of milk solids. The price increase was 10c/kg butterfat and 20c/kg protein and will be paid retrospectively with proceeds from this month in next month's milk cheque. In a letter to suppliers, WCB chief executive and managing director David Lord said it was pleasing to report that despite wet conditions milk flows had been strong and the year-to-date business performance was in line with expectations. WCB plans to review its farmgate milk price again in February.

**Australian output 3 months to Sept 2010**  
(000t)



Source: Dairy Australia

## O'Rourke gets stirring support at AGM

**Failure to disclose wife's payment – a genuine oversight, says O'Rourke.**

Strong support for outgoing Murray Goulburn managing director Steve O'Rourke was reported at last week's AGM of the co-operative. O'Rourke committed his company to continue the pursuit of Warrnambool Cheese which would be effected by participating in the pending rights issue and further purchases to keep shareholding up to the allowable limit prior to WCB's shareholding cap coming off in May 2011. He also strongly defended payments made to his wife as being part of a deal struck with the board 11 years ago and similar to that which was provided his predecessor Alf Leyson.

## Hopes fade for troubled Challenge

**Challenge dairy collapse worries unpaid farmers.**

Dairy companies in WA have been urged to help the suppliers of the Challenge Australia Dairy (CAD), which went into voluntary administration last month. Western Australia's agriculture minister Terry Redman has ruled out state government aid, but he said work was underway with the industry to ensure another company takes on Challenge's milk supplies. The company went into voluntary administration after attempts to find additional funding from shareholders, bankers and prospective investors were unsuccessful. A number of farmers have not been paid for their milk since August.

## Australia-Japan talks to resume in 2011

**New Year to bring in a fresh start on Japan-Australia trade negotiations.**

Australia and Japan will hold fresh negotiations on a free trade pact in January, Trade Minister Craig Emerson said after talks with Japan's foreign minister. Australia and Japan started free trade negotiations in April 2007, but talks have become bogged down over agricultural market access. Australia and Japan have held 11 rounds of FTA talks.

## Headlines

- WCB steps-up
- Westland peaks 3% higher in NZ
- Japanese FTA talks to restart in 2011
- DPA venture to extend to Chile
- Dispute halts US shipments to Russia

## Indicators

Dairy export index	Index stronger with weaker dollar
World dairy prices	Powder and butter steady, cheddar weaker
Australian cull cow prices in the US	Weak recovery in prices continues
Grain futures	Fall in US wheat and local grain prices

## Westland forecasts strong future payouts

**Upbeat dairy processor predicts solid returns in the new financial year.**

Westland Milk Products announced a record peak milk flow of 2.77 million litres in 2010/2011 at its annual general meeting last week, up 3 per cent from the previous season. Westland's payout in 2009/2010 was \$6.45/kgMS, the 2<sup>nd</sup> highest in record and a 41 per cent improvement on the previous year's payout of \$4.58 in 2008/2009. Chief executive Rod Quin credits a combination of improved sales and marketing initiatives and increased share holder productivity and processing capability. So far in the 2010/2011 season, Westland has processed on average 180,000 litres per day of DIRA (Fonterra) milk with ten 18,000 litre rail pods transported by rail from Rolleston in Christchurch to Hokitika each day. Westland predicts milk prices will remain above \$6.00/kgMS into the next season, with a caveat placed on volatility.

## DPA venture to extend into Chile

**Fonterra joins Nestle to make inroads into Latin America.**

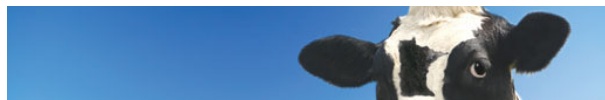
Fonterra and Nestle have confirmed a proposal to expand their Dairy Partners Americas (DPA) joint venture into Chile. Fonterra subsidiary Soprole and Nestle Chile today filed an application with the local competition authority in Chile, seeking approval for a 50:50 joint venture between parts of Soprole's and Nestle Chile's local dairy businesses. If approved, DPA-Chile will have sales of approximately NZ\$770 million per annum – with a large proportion of this coming from Soprole's business. Because Soprole is contributing a larger business, Fonterra will also receive approximately NZ\$300 million when DPA-Chile is established. Fonterra's dairy ingredients and export business in Chile – Prolesur – will remain outside DPA-Chile. Other parts of Nestle's dairy business in Chile; milk-powder, condensed milks and export products will also remain outside DPA-Chile.

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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.**

**Weaker \$A boosts index.**

All spot prices were steady this week ahead of another round of Fonterra's on-line auction, with the exception of a \$50/t fall in cheddar (for the 2<sup>nd</sup> week in a row). The index of export returns reversed last week's fall with the dollar more than 2 cents weaker, the index up to **125.1** after the \$A sank to **US96.43c**.

**Cash settled futures contract underway.**

Seven weeks since its launch, the NZX Derivatives Market has traded 55 whole milk powder futures contracts. It has also appointed international bank BNP Paribas as a general clearing participant, settling and clearing trades on behalf of NZX participants. NZX says that 20 of those contracts traded up until November 2 went to cash settlement for the first time on November 4, which occasioned a lot less fuss and bother than if the contracts were physically delivered.

The Chicago Mercantile Exchange and the German Eurex exchange, began in May with physically delivered skim milk powder future contracts for the CME and a cash-settled one on the Eurex. The New York Stock Exchange Liffe launched a skim milk futures market, physically settled, in October.

## 100,000 fewer producers in the EU

**EU troubled by the trend of dwindling dairy producers.**

The number of active milk producers in the EU fell by about 100,000 over the quota year to April 2010, according to new figures published by the European Commission. But the rate of decline in the current year was actually slower than in 2008/09. In the 2009/10 quota year, some 830,000 milk producers were registered as quota holders across the EU-27, down by 11% on those registered in the previous year. The changes over the past 2 years show this is not only about Eastern EU producers coming to terms with change. In the former EU-15, the number of producers has fallen by around 10% over the last two years, while in the 10 countries new members that entered in 2004, the reduction was about 20% over the same period. Basket cases Romania and Bulgaria have seen numbers drop by as much as 30%.

## Dairy drinks in China melamine alert

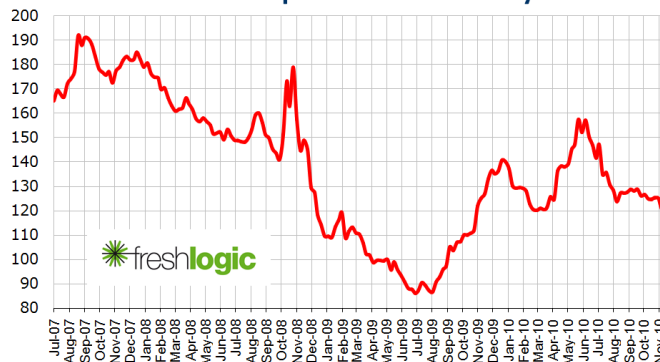
**Tighter controls inadequate to curb the resurgence of tainted products.**

The reappearance of melamine-tainted dairy products in central China has triggered alarms once again in China's dairy industry. Last week, regulators in the central province of Hubei, traced 50 packages of corn-flavoured dairy drink that are believed to contain melamine. Sample tests showed the melamine level in the beverage measured as high as 4.8 milligram (mg) per kg, suggesting that the chemical was deliberately added during the production process to fabricate higher protein content. Further investigations indicated that the drink was produced in a dairy firm in the southern Hunan Province.

### New Holland *DiscBine*<sup>TM</sup> Disc Mower Conditioners.

The range of New Holland *DiscBine*<sup>TM</sup> disc mower conditions feature the unique *MowMax*<sup>TM</sup> cutters bars with *ShockPRO*<sup>TM</sup> hubs. These hubs allow for quick and easy repair when an obstacle is hit in the field. Discbines are available in a wide range of sizes from the 8 disc models with a cutting width of 10'4" to 12 disc models cutting 15'7". 8 & 10 disc models are available with rubber chevron conditioning rollers or flail conditioners. All models are available with steel chevron conditioning rollers. There is a model to suit most applications so talk to your local New Holland dealer for a brochure and quote on your *DiscBine*<sup>TM</sup> requirements.

## 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.

## UK retail origin rules for dairy welcomed

**Clearer origin labelling to define UK dairy products.**

New voluntary country of origin rules for dairy and meat products have been agreed by the UK's major retailers. The COOL rules are to apply to milk, fresh cream, cheese and butter, and ensure that the term "British" can only be used for dairy products made from milk also produced in Britain. Many British grocers already use this approach to origin labelling, with the overwhelming majority committed to going one step further, providing country of origin information on "composite" products - such as soups and ready meals. The new "guiding principles", established by the British Retail Consortium (BRC), have government backing. The move was immediately welcomed by industry body Dairy UK.

## Dispute halts US shipments to Russia

**Russia resorts to strict measures as US fails to abide by trade rules.**

160 containers of dairy products from the US have been seized by Russian veterinary officials as part of their threatened crackdown by Russian authorities on non-approved dairy plants. The Russians say they resorted to this action because US veterinary bodies have not submitted lists of companies exporting their dairy products to Russia and could not guarantee their safety. The USDA had warned of the risk in October.

Russian regulators say they have written 10 unanswered letters to US veterinary authorities over the past two years urging them to send a list of US dairy factories complying with Russian production regulations and who are potentially interested in exporting them to the Russian and customs union markets. Russia said the US is the only country shipping food products to Russia that had not submitted either lists of its dairy producers or safety guarantees by July 1, when the customs union was set up. The US says (in the tit-for-tat exchange) it has been engaged in discussions with the Russians about a dairy certificate for several years now without agreement on language.

## Yoplait declines Lactalis

**Lactalis out, as Nestle emerges as Yoplait's favourite.**

A €1.3 billion bid by Lactalis for Yoplait has been rejected after the dairy giant pitched for a majority stake in the yoghurt maker, rather than the 50% on offer. The joint owner PA Partners is selling the stake it bought in 2002. But the other joint owner, French co-op Sodiaal, has once again reiterated that it is not interested in selling. The CEO of Yoplait has described Nestle as its "ideal" partner, given it has the "money, structures and people" and would be an "ally" to reduce the gap between it and rival Danone.

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