

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC

**Dairy Farmers**  
Milk Co-operative

5 October 2009

## NatFoods to close Hexham

*A strategic review results in a decision to close an ex-Dairy Farmers facility but to also bolster regional distribution assets*

National Foods has it will phase out production at its Hexham NSW manufacturing plant next year, The company advised that no firm date has been set for production to cease at the Hexham site which employs 78 people as different options are being pursued for different product lines. NatFoods manufacturing operations manager, Arthur Murphy, said the decision to close the thickened cream, sweetened condensed milk and cottage cheese processing site, follows a strategic review. Thickened cream production would transfer to another site and the company would explore third party manufacturing options for sweetened condensed milk and cottage cheese. The Hexham site would be used for milk storage until early 2011.

The company also announced plans for a new distribution centre to be located at Hexham, which will employ 19 people, and is scheduled to open in November 2009. This operation will feature in a restructure of regional distribution facilities.

## Improved allocations in Nth Victoria

*The regional irrigation authority declares the best allocations for the past 4 years, but the outlook for rainfall and temperatures remains troubling.*

Goulburn-Murray Water's latest seasonal allocation and outlook for the 2009/10 season which was announced on 1 October 2009, said the Murray system now has an allocation of 29% and the Goulburn system has 30% - well above last year's 13% and 9% respectively at this time - and the highest 1 October level in four years. The news is expected to give a boost to the confidence to milk producers in the region who have also been enjoying better news about grain and fodder prices in recent times as the seasonal conditions have been kinder and other markets weaker.

The irrigation authority said the allocation improvement came from the significant rainfall recorded during the last weekend of September.

September was a generally positive month for rainfall. All the southern dairying regions received average to above average rainfall - much more like a 'traditional' early-spring which hasn't been seen for a number of years. However, the coast of NSW and Queensland received below average rainfall over the month.

But the national weather forecaster says the outlook for rainfall over the December quarter [October to December] shows a moderate shift in the odds favouring a drier than normal season across parts of north-eastern and south-eastern Australia, offering a less-than-promising outlook for key dairying regions.

## Smallest NZ co-op pays the best

*Size is not always the most important issue - Tatua posted a better price than Fonterra in 2008/09.*

NZ farmers supplying the Tatua Co-Operative Dairy Company, near Morrinsville in the Waikato, will receive New Zealand's highest dairy payout for last season's milk. Tatua's suppliers were told they would get NZ\$5.38 per kg of milk solids - 18 cents more than Fonterra's NZ\$5.20 payout, and well down on the NZ8.00/kgms. Because of tough financial conditions on farms, the board said the company, which posted earnings of \$66.1 million before tax, would pay out all its earnings without making any retentions.

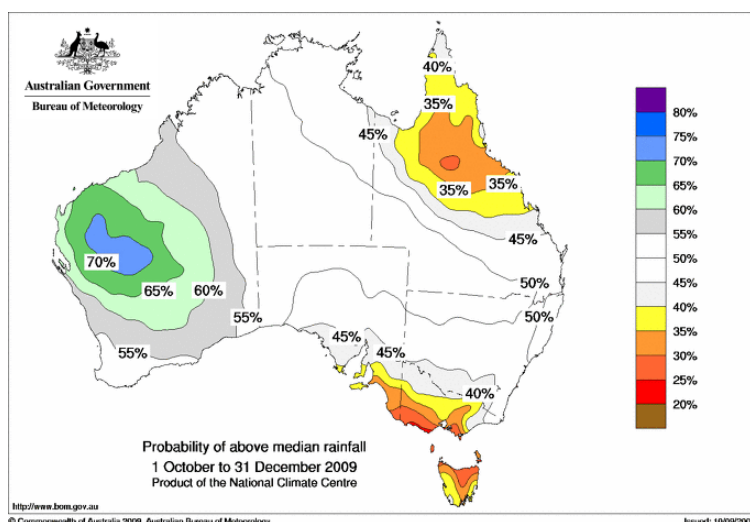


## Headlines

- NatFoods' plant closure
- Best GM allocations in 4 years
- NZ animal welfare fiasco
- Spot prices continue to improve
- US Government looking to top up aid

## Indicators

<b>Dairy export index</b>	<b>Up by close to 3 points</b>
<b>World dairy prices</b>	<b>Prices up in all groups, butter strongest</b>
<b>Grain futures</b>	<b>Australian futures are sharply weaker as good supply builds</b>
<b>Cow prices (to US)</b>	<b>Continuing to fall in \$A's despite shorter US supply</b>



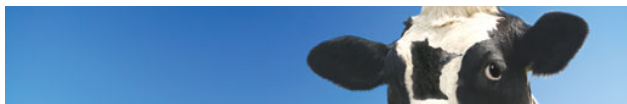
## ADIC calls for same deal as the EU, NZ

*With politicians brawling over the future of the CPRS, the dairy industry says we should not be disadvantaged against two big competitors in world dairy trade.*

Australian Dairy Industry Council chairman Wes Judd said both the European Union and New Zealand - two of Australia's main dairy competitors - were planning to provide full protection for their dairy processors in their ETS schemes, which would put Australia's producers at a competitive disadvantage. The EU had decided European dairy manufacturers who were exposed to cost disadvantages compared with other countries that were not imposing ETS costs on their producers would continue to receive free permits once the EU's ETS moved into its next phase from 2013.

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## Index gains 3 points as prices firm

*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.*

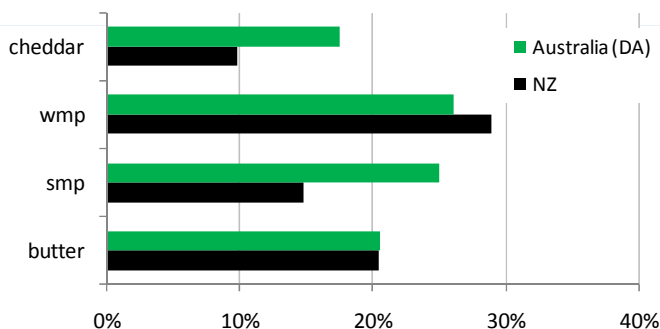
Export spot price quotes from NZ posted a mixed batch of gains ranging from \$US25-150/t this week with cheddar the weakest and butter the strongest. The export index posted an almost 3 point gain to **110.13** but only after the \$A weakened slightly over the full week to **US86.5c** after again rising in the middle of the week, this time touching US88c.

### Spot market continues to firm

Dairy Australia's spot prices report for September reflected solid across the board increases in export spot prices in the month as shortages of supply continue to cause buyers to commit to stronger prices.

The report shows spot prices had increased a little faster for cheddar and SMP compared to the experience of NZ exporters as in the chart on the right, while Fonterra posted a slighter better increase in the WMP price. All eyes are on this week's Global Dairy Trade event being run by Fonterra to see if WMP prices hold their ground.

**Increases in spot prices in September 2009**



## US Government doles out more support

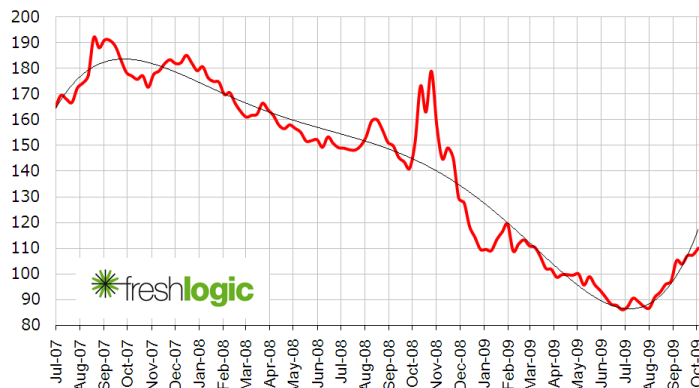
*More payments to farmers – the details yet to come – as Obama's team continue to stall on creating any direction for dairy policy*

US Congress is expected to vote final approval this week on an agricultural spending bill that earmarks US\$350 million (£239.3m) additional financial help for dairy farmers, split between direct payments to producers and more government purchase of cheese and other dairy products to boost market prices. US House and Senate negotiators approved \$350 million in special aid to U.S. dairy farmers on Wednesday to help them survive the lowest farm-gate price for milk in three decades.

Some \$290 million of the dairy assistance will be spent in direct aid to dairy farmers and \$60 million will be used to buy cheese and other products for use in U.S. nutrition programs. While that might sound a lot in our terms, it's only about \$5,000 per farm and will probably make no difference whatsoever to the substance of the issues facing those at the worst end of the price-cost squeeze in that industry.

The USDA will decide how to allot the money to farmers. The allocation of funds, which would more than treble USDA's traditional level of annual cheese purchases, was welcomed as "a responsible compromise" by the International Dairy Foods Association (IDFA). The processor group had urged Congress to adopt a formula that would not unduly impact dairy markets.

**Australasian export index - Jan 2008 - present**



**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.

## NZ's Crafars in deep welfare strife

*A furore over poor treatment of calves has dragged the dairy industry into a debate over welfare standards and the resourcing of farm inspectors*

High-profile NZ family farming group the Crafars have stayed in the headlines, not long after their recent losses in the courts over illegal effluent discharges, after revelations that dozens of calves on one of the Crafar Farms' operations farms were left to slowly dehydrate to death in September. The issue was brought into NZ households after a leading current affairs program ran a story which included a visit to the farm, and a popular national newspaper columnist stayed with the issue for several days. The issue brought criticism of the NZ government's MAF which has been accused of being far too lowly-manned to be able to effectively monitor the industry's activities, and also flared the debate about the role of the finance sector in allowing farms - which are as poorly run as the Crafar operations appear to be - to grow so large based on a continuous supply of debt.

Fonterra (which picks up their milk) responded to revelations of animal neglect on a farm owned by New Zealand's biggest privately owned dairy operation, saying that animal cruelty "will not be tolerated". Co-operative chairman Henry van der Heyden has issued a statement saying that if any case of deliberate mistreatment was proven by the authorities and appropriate remedial action not taken, Fonterra would "not hesitate to take the strongest action, including refusal to collect milk."

## US go for yet another subsidised cull

*After 3 programmed culling rounds in the past year, another round has been called as the US market continues to show some signs of improvement*

Cooperatives Working Together is implementing its third herd retirement in 2009, effective October 1, 2009, the fourth herd retirement that CWT has conducted in the past 12 months. The maximum bid CWT will consider is \$5.25 per hundredweight (US11.6 cents per litre) of milk, the same bid ceiling as the previous round. CWT will select bids beginning with the lowest bid with consistent milk production.

However, given budgetary considerations, there is no guarantee that every producer submitting a bid up to the maximum \$5.25 bid level will be accepted by the program. Cooperatives Working Together is being funded by dairy cooperatives and individual dairy farmers, who are contributing 10 cents per hundredweight assessment on their milk production through to December 2010.