

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



6 April 2010

WCB: MG's rationale a "myth"

While MG continues to sell the potential benefits of a takeover, WCB slams MG's rationale, labelling it as a "myth" and of "little substance".

In an open letter to its shareholders, WCB has labelled the claims of MG of WCB milk suppliers gaining if the company became a part of its cooperative structure as "myth" and of "little substance".

WCB chairman Frank Davis said that MG in reality paid its milk suppliers less than WCB when bonus share payments were excluded. "It is clear that, far from being a standard setter for the industry, MG is consistently the lowest payer.... The reality of MG's underperformance on milk payments is exposed in their own annual report, where the bonus shares are reported in its capital account, not as part of milk payments."

Earlier MG had claimed that if the transaction on the takeover were completed, WCB suppliers would have higher milk payments and emphasised that profits not paid directly to the farmers would be reinvented in the cooperative's business instead of being paid to shareholders.

Water allocations reach 100% on Murray

Improvements in the upper Murray water availability and contributions from the Darling River floods have led to a 100% water allocation on Murray.

For the first time in several years, the water allocation in the Murray system in Victoria has reached 100 per cent. Goulburn Murray Water announced recently that the 22 per cent increase on the Murray system was the final one for the season.

According to G-MW resource manager Graeme Hannan, this increase in allocation was caused by improvements in the upper Murray water availability and the important contributions from the Darling River flows making their way through the northern part of the Murray-Darling Basin towards the Menindee Lakes. He said, "This season's Darling River flows are the highest in a decade. The Menindee Lakes will revert to Murray-Darling Basin Authority control in mid-April, thereby providing increases in water availability to Victoria."

Battle lines drawn on ADF v VFF offerings

VFF has dismissed ADF's latest proposal on national dairy representation, terming it as "not a viable option".

The battle over who can best represent Victorian dairy farmers has warmed up with state-based VFF dismissing ADF's latest proposal on national dairy representation, terming it as "not a viable option". Under ADF's proposal, all dairy farmers would become direct members of the national lobby group; in addition, ADF would provide funds to the VFF to advocate on general farming issues. The joust will carry on as ADF attempts to develop a sell a new model to represent the interests of dairy farmers, given the complexity of dairy-specific issues it sees ahead for the production sector of the industry.

However, VFF president Andrew Broad announced that this proposal for dairy farmers to resign from the United Dairyfarmers of Victoria (a part of the VFF) in order to sign up with ADF had caused concern for the VFF board and many UDV members. He said that the best way forward for farm representation was together as a state. Mr Broad added, "The government doesn't give a toss if you are a dairy farmer, grain grower, sheep-meat farmer; we're all farmers and all have the same issues."

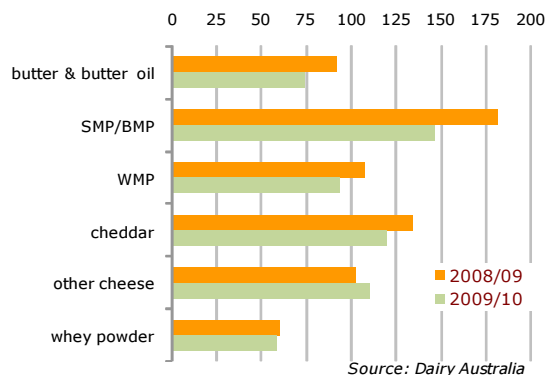
Headlines

- WCB: MG's rationale a "myth"
- The battle for future of farm advocacy
- EU Ag boss: no quotas, but new rules
- Fonterra's share-trade talks
- Rabo: Wheat stocks at a 10-year high

Indicators

Dairy export index	Lower with stronger \$A
World dairy prices	Only WMP went ahead this week
Australian cull cow prices in the US	Prices firm due to shortages in US supplied beef
Grain futures	US and Australian futures prices weaker

Australian dairy production – 8 months to Feb 2010 v prior year ('000)



Bega suppliers get pay rise

Bega Cheese Board has decided to pay Southern Bega cheese suppliers a step-up, as it continues to review its cheese price.

After a review of its cheese price, the Bega Cheese Board has decided to pay back a set-up worth 8c/kg butterfat and 20c/kg protein to southern Bega Cheese suppliers. Further, the board has announced its intention of continuing to review its cheese price. Executive chairman Barry Irvin has told suppliers that there was no question of them "seeing improving circumstances in the markets" for their products and that "some stability is returning to the industry."

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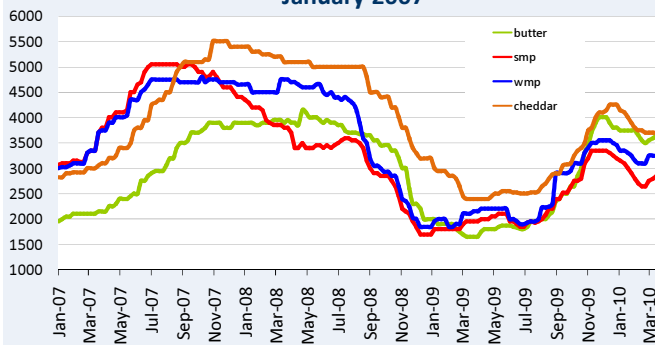
Index of export returns

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.

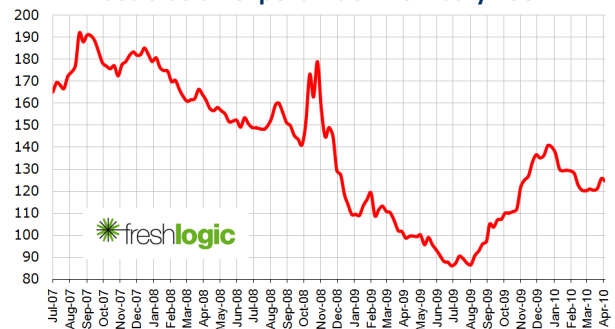
\$A prunes index

Increases in spot price quotes this week were limited to WMP, encouraging ahead of this week's Fonterra auction results. The \$A value of apparent export returns was hurt however by a rise of 1.5 in the value of the \$A to **US\$91.9c**, pruning the export index to **124.5**.

NZ export quotes in \$US/tonne - weekly since January 2007



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.

EU Ag boss: no quotas but new rules

New Ag Minister backs quota removal...

The new EU Ag Chief, Dacian Ciolos, has clearly indicated his support for removing restrictive EU dairy production quotas in 2015. In his speech to a Brussels conference on the future of the milk sector, he ruled out revisiting the decision to phase out quotas and said, "I do not think the solution is to revisit that decision. We live in a new situation and need to find appropriate solutions. The crisis has been one of a contraction in demand and it is clear that the quotas, which continue in place for now, did not provide a solution."

... But the Commission will propose new rules for the dairy chain.

Further platitudes to the farm sector were given by the Commission based on the apparent floundering of the HLG. After a year-long enquiry into the supply chain in the wake of a major price crisis in the EU dairy sector, the Commission is planning to present a package of legislative measures by the end of 2010 to increase dairy producers' bargaining power in the food supply chain.

Fonterra share-trade talks back on agenda

Fonterra's share trading among farmers will free the co-op from its current obligation to cash up the shares of farmers wanting to exit the company or reduce milk production.

Fonterra will begin its consultation about a key step in its capital restructure – share trading among farmers -- with its 10,500 shareholders via a special Sky television broadcast tomorrow (April 7); a series of farmer meetings around the country will follow. Details are under wraps until then. Share trading between farmers will free Fonterra, which controls 92 per cent of raw milk processing in New Zealand, from its current obligation to cash up the shares of farmers wanting to exit the company or reduce milk production. Share trading between Fonterra farmers will require a 75 per cent vote of shareholder support.

Rabo: Wheat stocks at 10-year high

Trade increases but grain stocks are historically high.

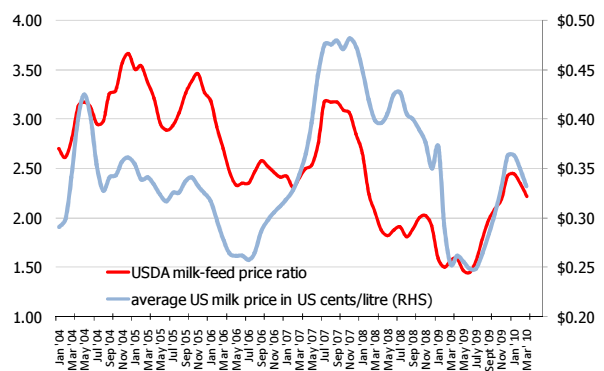
According to Rabobank Agri Commodity Market Research director Luke Chandler, there are emerging evidence that a grain shortage in India, France, Germany, and Black Sea states are forcing more wheat supplied to the global market. Wheat stocks are at their highest level since 2000-01 and 2001-02, growing by up to 200 million tonnes. The US department of Agriculture forecast world stocks to end at 197 million tonnes this financial year, compared to 121 million tonnes two years ago.

Dairy Crest sales on the rise

UK processor Dairy Crest reports "another strong quarter", justifying its strategy of brand investment, cost reduction, and cash generation.

Offsetting lower profits in its Spreads and Cheese operations, Dairy Crest has also shown a steady increase in its conventional milk volumes, with its sales of organic and flavoured milk increasing significantly. Further, its milk in bags through Sainburys, along with its five key brands Cathedral City, Country Life, St Hubert Omega 3, Clover, and Friij have all been a success. The company provide a good lesson in brand expansion in a private-label dominated market.

Milk-Feed Price Ratio since start of 2004



US Milk prices fall, margins weaken

The weakening of the US farmgate prices has worsened the milk-feed ratio.

US farmgate milk prices have weakened in the last month according to the USDA monitor of average prices, worsening the milk-feed ratio slightly from the prior month. Overhanging cheese stocks are keeping average wholesale prices down, while feed costs have also kept pressure on margins.

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