

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



7 December 2009

NatFoods moves on in Tasmania

The storm over milk supply in Tasmania isn't quite over, but NatFoods has moved on to work with suppliers who took up its recent offer

The stand-off involving National Foods and the collective bargaining group representing its Tasmanian suppliers might continue but after the latest ultimatum from the company, it seems there might be a few uncontracted farmers in the state. In a letter to all of its Tasmanian suppliers National Foods gave a November 30 deadline to sign contracts at a guaranteed minimum 36.8 cents a litre which NatFoods said was "by far the highest offer available to Tasmanian dairy farmers." The NatFoods Collective Bargaining Group continued to reject the offer and called for prices that were "closer to the money paid to National Foods suppliers in northern NSW".

Tasmanian Farmers & Graziers Association got back into the issue after riling the farming community in the state and said it would seek to demand a one-month extension to the 30 November deadline for milk price negotiations with the collective bargaining group to be completed. TFGA also said it would request National Foods "refrain from entering supply contracts with non-existing National Foods farmers during this one-month extension." However, in response, National Foods said: "The deadline by which National Foods suppliers had exclusive access to the milk price offer has expired. National Foods is taking increased volume commitments from current suppliers and making its offer available to other farmers in Tasmania."

Unit pricing now mandatory

More information for consumers on shelf labels will make private label price differentials more apparent

Unit pricing became mandatory in supermarkets across Australia on 1 December, with the country's competition minister suggesting the move will see the average family save at least \$96 a year. Unit pricing, a recommendation stemming from the Australian Consumer and Competition Commission's grocery inquiry, is where grocery items are priced by reference to common units of measure such as per 100 grams and per 100 millilitres. The Unit Pricing Code became law on 1 July and supermarkets larger than 1000 square metres have been implementing the new measure. Smaller supermarkets can participate voluntarily, but if they decide to do so they must comply with the code.

UDP opens its books again

After working through some cash flow issues, UDP is back in the market for more milk

Milk handler and major supplier to NatFoods United Dairy Products' managing director Tony Esposito said the company was on the hunt for an extra 50-million litres of milk to supply the domestic market and would re-open its books on 1 January. Esposito said the extra milk volume would allow 10-20 new suppliers to join the company, depending on their size.

Wholesaler up in tense market

The major supplier to the independent retail food sector is still managing to grow its bottom line in a tough retail climate

Metcash, the owner of the IGA franchise and wholesale supplier to the independent grocery retail sector in Australia, reported a 12.3 per cent lift to normalised profit after tax in the first half of its financial year. It said the result was driven by a 6.6 per cent rise in wholesale sales "despite intense competition in the grocery sector, lower levels of inflation and price deflation in the produce sector". Comparable store sales grew by 6.4%. The number of new branded stores rose by 31 during the half year, with 63 openings forecast for the full year, well above previous forecasts.



Headlines

- NatFoods moves past standoff
- CPRS beaten for now
- Kiwis include dairy in their ETS
- Fonterra unveils restructure numbers
- World market steadies

Indicators

Dairy export index	Lost more than a point
World dairy prices	All prices steady
US market for Australian cull cows	US market again weaker
Grain futures	US wheat, Aust feed barley 1-2% weaker

Carbon plan beaten, on hold until March

After a huge week in politics for the Liberal Party, a renewed leadership team rallies to defeat the CPRS and push the issue into 2010

The Opposition controlled Australian Senate has voted down the Australian Emissions Trading scheme for a second time - 41 votes to 33. New Opposition Leader Tony Abbott said his alternative means of reducing emissions would meet the same targets for sharp reductions in emissions proposed by Labor. Abbott plans to fight a climate change election using other measures to slash greenhouse emissions instead of an emissions trading scheme or a carbon tax. The Acting Prime Minister said Labor would introduce a new CPRS bill, including amendments agreed to by the Coalition under ousted leader Malcolm Turnbull, to parliament in February in the hope that "calmer heads" within the Coalition would shift positions.

New boss for Parmalat Australia

A replacement for David Lord finally selected

Parmalat has announced the appointment of Craig Garvin to lead its business in Australia. The Italian dairy giant unveiled Garvin's appointment and said he would start in the role on 11 January. In a short statement, Parmalat said only that "within the Australian marketplace, Mr Garvin has a strong FMCG background in well-known branded companies and hospitality industry".

Burke calls review of levy-funded RDCs

The Productivity Commission will review Dairy Australia and other RDCs to ensure the bang for buck from levies is worth it for Government

Federal Agriculture Minister Tony Burke accused some research and development corporations of wasting farmers' levies on executive pay and agripolitics, and ordered a Productivity Commission review of Australia's RDCs. The review will examine whether the \$460 million of government money and farmer levies are spent appropriately by the 16 corporations, which include Dairy Australia, Meat and Livestock Australia and Australian Wool Innovation. Burke says he raised the issue of executive salaries, duplication of resources and agripolitical activity with the corporations earlier this year, but says he is yet to see any progress.

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Export prices stall

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.

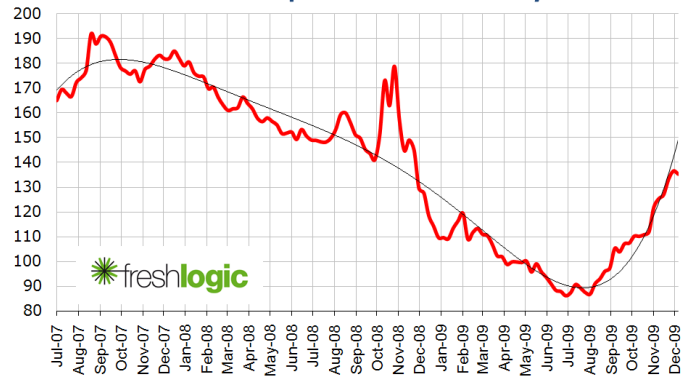
Export spot prices per NZ quotes for all major dairy commodities were unchanged this week, after many weeks of strong gains. The \$A ended the week stronger against the US currency at **US91.56c**, pulling the lower to **135.2**.

Fonterra's auction shows a steadied market

Whole milk powder prices rose 3.6% on average at Fonterra's December globalDairyTrade auction as the market continues to be underpinned by tight supply conditions. CRA International, advised Fonterra that the average price achieved across all contracts and contract periods for WMP was US\$3 560 per tonne FAS. Paul Grave, globalDairyTrade manager, said: "However, the economic outlook is still relatively fragile. A sustained recovery is reliant on strong consumer demand. WMP prices have risen by 95% since July. While the outlook remains positive, we expect more volatility as a result of supply and demand responses to this large price increase."

Fonterra's auction prices provide some useful indicators – forward contracts included in this auction round show that customers were prepared to commit to prices for delivery in the 3rd quarter of 2010 at just 5% higher than the current levels of pricing.

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.

Fonterra releases key numbers



The capital restructure of Fonterra is proceeding

The capital restructure of Fonterra has taken another step forward with directors announcing a future dividend policy, retained earnings policy, and a range of share revaluations. The fair value share price for the 2010-11 season is \$4.52, the prevailing season share price and equal to the base price set out in capital restructure changes approved by shareholders last month.

Fonterra said it would target a **dividend payment ratio of 65-75 per cent of its distributable profit**, payable in two instalments in April and October. For the current 2009-10 year, directors are forecasting a distributable profit of 35-45 cents per share. This translates to an annualised return of 7-10 per cent based on a share price of \$4.52 per share paid in February 2010 and dividends paid in April and October 2010.

Kiwis only ones to put dairy into an ETS

NZ has the only proposed ETS in the world that includes agriculture

The NZ Government has passed an amendment Bill for an NZ ETS that offered concessions of a longer phase-in period before agriculture meets the full cost of its emissions. The proposed NZ emissions trading scheme (ETS), which is to include agriculture from 2015, will cost Fonterra and its suppliers \$115 million a year by 2015 and potentially much more by 2030.

Under the revised ETS passed in Parliament last week, dairy processing will not be eligible for allocations of emissions units, which the Government is providing to some emissions-intensive firms to enable them to remain internationally competitive.

US farmgate prices on the way back

Milk prices rising but margins for producers remain thin

US farmgate milk prices continue to recover, and the December levels are likely to be the highest in a year. But based on USDA's latest milk-feed price ratio, improved milk prices are being matched to a large extent by higher feed prices. October's milk-feed price index, which is an indicator of milk income over feed costs, was 2.19, up from September and the highest since February 2008. The skinny margins over feed costs will keep milk production under pressure, which will hopefully keep large volumes of surplus US output out of the world market for longer periods.

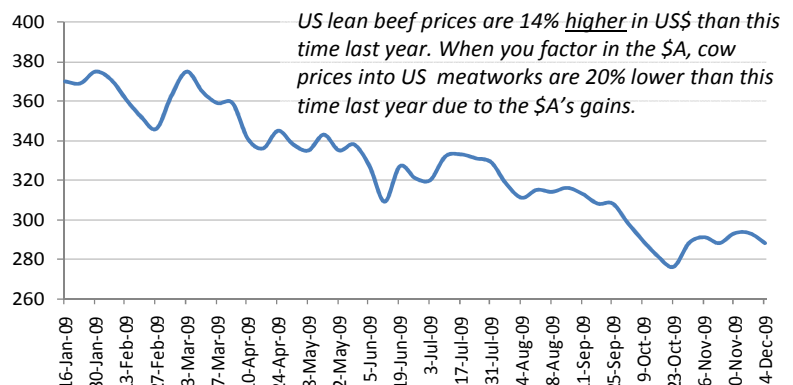
Tetra Pak see caution in market

The largest packaging supplier has a bit of insight into the trends in the market – they see cautious consumers being a factor in the market for some time

According to Tetra Pak, the consumption of liquid dairy products in developed markets is expected to fall 1.2% from 2008 to 2009 mainly due to the negative consequences of the worldwide economic recession on consumer spending. Worldwide consumption of LDP is expected to reach 263 billion litres, up 1.5% from 2008, but this increases to 284 billion litres when soy milk and other dairy alternatives such as rice, nut and seed-based milks are included. Tetra Pak expects that total global LDP consumption will grow at a compound annual growth rate (CAGR) of 2.2% from 2009 to 2012. Dennis Jönsson - CEO of the group – said in the forecast report that he believes the recession has permanently changed consumer behaviour and that value for money will remain critical for shoppers. He claimed that consumers will not simply switch back to old habits when the recovery emerges. "I don't think there's a way back. This is here to stay," he said.



US 90CL cow prices in Aust cents per kg



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