

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



8 June 2009

ACCC queries Parmalat

After passing the sale of Dairy Farmers, the ACCC is asking whether the most logical buyer is fit for the purpose

The Australian competition regulator has said that as well as assessing the competition impacts of Parmalat's proposed purchase of NSW and SA businesses from National Foods, it is looking into Parmalat's "financial standing" and its long-term ability to be an effective competitor to NatFoods in the Australian milk market.

The ACCC is seeking input from industry participants and other interested parties on a range of questions, including whether Parmalat's Australian subsidiary is independent of National Foods. The questions put in a public letter from the ACCC includes one which asks whether parties think Parmalat will be able to "compete vigorously for private label contracts, and for branded milk markets in NSW and SA".

David Lord quits Parmalat

Parmalat has announced that the chief executive of its Australian operations has resigned from his position. Parmalat David Lord will leave the company on June 15, and will be replaced in the interim by Parmalat executive Fabio Genitrini will be responsible for the Australian operations following David's departure. Parmalat said that the already announced plan to strengthen Parmalat Australia as a strong second player in the Australian dairy market remains unchanged.

Headlines

- ACCC queries Parmalat's abilities, as the company loses its Australian CEO
- World market pain continues
- Victoria's water trading cap goes slowly
- EU sees long-term support for its farmers
- One of the UK's milk co-ops goes belly up

Indicators

Dairy export index	Down by nearly 3 pts
World dairy prices	Powder prices fall after subsidies rise
Grain futures	US quotes down 2 %
Cow prices (to US)	Down by 3% in \$US with the strong \$A worsening returns

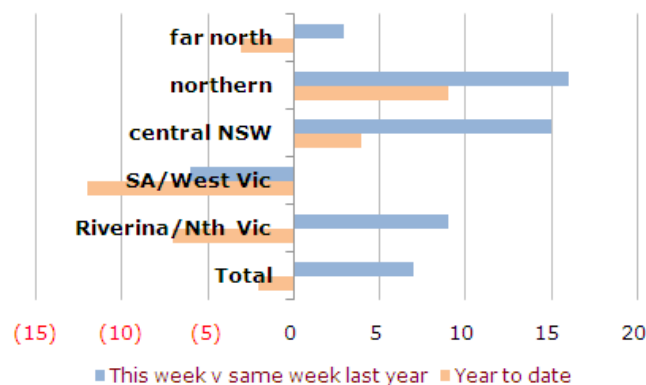
1cpl price cut by Pauls in Qld

Queensland dairy farmers supplying milk processor Pauls have accepted a reduction of about one cent a litre in the price they get for their milk for 2009/10. Chairman of Premium Milk Group, John Cochrane says its part of an agreement with Pauls, whereby the company guarantees a minimum price until 2013. He says prices now average around 57 cents a litre, the season is quite good, fertiliser and fuel prices are down on last year, so overall dairy farmers in Queensland are faring much better than their southern counterparts.

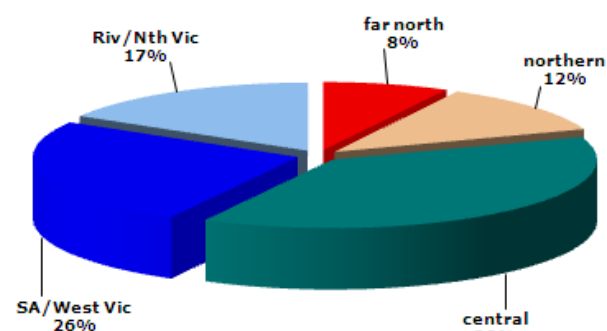
Victoria phases cap

Victoria has agreed to phase out its restrictive water trading caps. Victoria's water trading cap meant that only 4 % of a district's water could be permanently traded out of a region per year, put in place by the state government to protect irrigators from a mass sell-off of water. Under the new deal, the cap will be phased out from July 2011, with a view to removing it completely by 2014. In return, Victorian irrigators get \$300 million for on farm irrigation upgrades. South Australia has complained that the decision to abolish the cap by 2014 is too slow and will continue legal action.

DFMC milk intake – to mid May 2009 (% changes in milk volume versus last year)



Proportion of total DFMC milk intake over the past year – by region



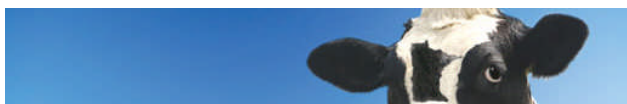
Dairy Situation & Outlook released

The annual industry situation & outlook package was released by Dairy Australia last week, outlining a rough road to recovery in dairy markets for Australia producers exposed to the world market. Some of the main points in its messages are:

- 2009/10 milk output for the Australian industry is forecast between 9.0 and 9.2 bn litres, heavily dependent on how Nth Victorian producers negotiate the next few months which could take up to 0.5bn off that outlook.
- Improvements in the world market are being seen but better product and farmgate prices may be slow in coming.
- The Australian milk production sector features several different stories, given the diverse weather and market access for dairy farmers. Farmgate price outlooks vary from 24-29cpl in southern states, to 54-58cpl in Southern Qld.

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Index sinks as powder prices fall

Each week, 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. It's a good time to have a milk contract with a domestic market processor with the index behaving as it is.

Spot price quotes out of NZ for milk powders fell sharply this week as the market weakened after the imposition of US DEIP subsidies and fears of further EU subsidies and higher intervention purchases. SMP dropped US\$150/t and WMP crashed US\$200/t. The \$A surged past US82c during the week but fell back to end the week at **US79.3c**, leaving the export index down at **90.85**. The Freshlogic export index in its current form hasn't been this low since April 2004!



WMP prices fall in latest Fonterra auction

In the latest online auction of whole milk powder by Fonterra on its globalDairyTrade platform, average prices across all three contract periods fell by 12.0% to \$US1886/t. The August contract period fared the best, down 7.7%, but the September-November and December-February contract periods were down 12.4% and 14.2% respectively. After seeing peak-season delivery contracts fall in the last auction, the co-op placed more product on the floor in this event, with the result affected most likely by caution about the amount of product in the market in a few months time, and the effect of EU and US powder subsidies.

EU increases export subsidies ... again

It seems we may be in for a tit-for-tat game of protection of dairy farmers by the US and the EU, after the EU firstly revived its export subsidies earlier this year and 2 weeks ago the US activated its DEIP subsidies.

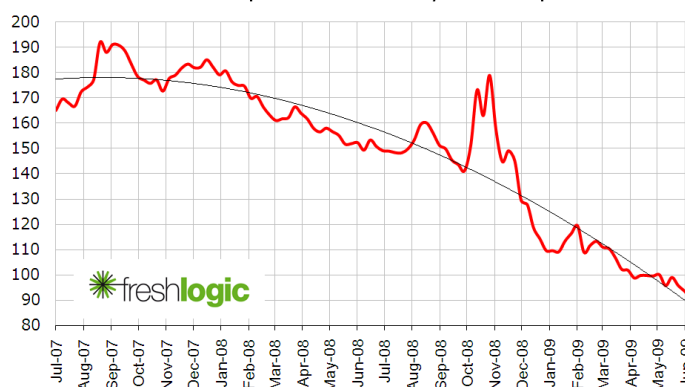
The EU has increased export subsidies for main dairy commodities, with the exception of cheese and fresh products. SMP products rise by €20 to €210/t, WMP products rise by €20 to €310/t, 82% butter products increase €100 to €650/t, while butteroil rises to €787/t from €660/t. The news is a major setback for exporters, worried about the effect this has on the prospects of a rebound in export prices in 2009/10.

EU discussing the role of long-term aid

Europe's farm chief has asked EU agriculture ministers to decide whether agriculture subsidies should exist in future to provide "public goods" or bolster incomes, particularly at times of financial strain. "Public goods" potentially refers to both the security of foodstuffs and environmental stewardship. EU Agriculture Commissioner Mariann Fischer Boel said at a time of volatile commodity prices, Europe requires the right support for its farmers so crises do not lead to disaster for Europe's agricultural production base, when the world needs to produce more food and guarantee supply, she said.

Ironing out the huge farm payment disparities between EU countries after 2013, a major concern for "newer" member states that mostly do worse in this than the old EU-15, was also a priority, the ministers decided at their meeting. "I am convinced that in the future CAP we should go on keeping a common system of direct payment which provides an income safety-net for farmers," Fischer Boel told the ministers. Earlier in the same week, Boel said food security was another reason to maintain a certain level of farm payments, otherwise land could be abandoned in regions with poor soil quality. Fischer Boel plans to issue a menu of general reform options in the second half of 2010, followed by formal legal proposals for discussion and negotiation by EU ministers in mid-2011.

Australasian export index - July 2007 - 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.



UK co-op goes belly up

The evolving UK dairy industry has taken another casualty.

Dairy Farmers of Britain, the UK milk supply co-operative supplying 10% of the country's milk, has become the latest victim of the UK economic downturn and the slump in value of dairy commodities. DFB went into receivership last week after a long slow death, and has already received expressions of interest from potential suitors for its processing assets. DFB processes about 60% of its own milk, but was at the mercy of a weak market for the rest.

Fierce competition led DFB to cut prices to suppliers and was a factor in the loss of a key contract to supply UK retailer The Co-operative Group.

Half of the farmers supplying Dairy Farmers of Britain (DFB) have quit the troubled co-op since it called in the receivers. 900 farmers had signaled their intention to deliver their milk elsewhere, after it became apparent that the co-op had in many cases broken its contracts by not honoring its May milk cheques. Another major co-op, First Milk, confirmed to Dairy Markets that it had already signed up 100 departing DFB members, mainly in the North and Midlands.

Kiwi analysts query farm finances

Is NZ growth on shaky ground?

NZ dairy analysts are querying whether Fonterra can hold its current milk price forecast for 2009/10, with the NZ dollar rising 4% against the US greenback in less than the past week and powder prices weakening. This will add to the worries that the Reserve Bank of New Zealand expressed in a recent Financial Stability Report about the growing level of dairy debt - now \$26.8 billion and accounting for 65% of all agricultural debt. RBNZ said dairy debt levels were highest among new entrants and expanding farms and said it was worried that fluctuations in rural incomes were a major source of risk to borrowers and lenders. That comment was made on the basis of last season's \$5.20/kg payout, before the 2009/10 number was known.

Milk powder futures?

New Zealand stock exchange operator NZX Ltd plans to launch a cash settled futures contract that will enable dairy participants worldwide to hedge price risks in the whole milk powder (WMP) market. NZX says it will consult with NZ dairy farmers and processors, global participants in the dairy supply chain regarding the details of the product. The intention is to open a new clearing house on November 20. The milk powder contract will sit alongside Fonterra's globalDairyTrade online sales platform.