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Editorial – Clawbacks, Cuts and Trade with China

This week in dairy there was finally a glimmer of positive news for beleaguered Aussie dairy company, the Warrnambool Cheese and Butter Factory (“WCB”). The company lost approximately 250-270 million litres in annual milk supply following its price cut announcement but has now clawed back around 35 million litres with the reversal of the price cut decision and with the reappointment of former Managing Director, John McLean. Meanwhile, dairy companies across the globe are continuing to cut costs in the face of the global economic downturn. Arla has axed 250 jobs in order to make savings in the order of DKK1 billion and two companies in the US – Dean Foods and Land O’Lakes will both close processing plants affecting a total of 400 employees. In other news Australian Minister for Agriculture, Tony Burke has recently been in China making it clear that any Free Trade Agreement between the two countries must include agriculture as part of the package. As pointed out by Australian Dairy Industry Council Chairman, Mr Allan Burgess, China and New Zealand have already been able to conclude an agreement which provides preferential access to the Chinese market for most dairy products. “In these difficult times it is just not possible to effectively compete against our largest competitor in the market when we are facing tariffs that they no longer have to pay” he noted. On that – Mr Burgess may be interested to hear that Fonterra is on track to increase its dairy exports to China threefold this financial year, to a total of around 160,000 tonnes. Check out the Exports and Trade section of this week’s issue to find out more.

Dairy Market Review

24 April 2009

NZX Agrifax Limited

USD per tonne

	24-04-09	17-04-09	10-04-09	03-04-09	27-03-09	25-04-08
Butter	1800	1800	1750	1650	1650	4150
Skim milk Powder	2000	2000	2000	1950	1950	3500
Whole milk Powder	2200	2200	2200	2150	2150	4600
Cheddar Cheese	2400	2400	2400	2400	2400	5100
Casein	5500	5500	5500	5650	5650	12300

NZX Agrifax Commentary: Dairy commodity prices tracked by NZX Agrifax continue to fluctuate somewhat, however an underlying seasonal firming remains prevalent. This trend has been noticeable in cheddar prices which despite displaying signs of movement each way, have stayed at US\$2,400/tonne for the past seven weeks. Prices for this week in USD remain unchanged on last week’s, with the NZX Agrifax Weighted Average Dairy Commodity price sitting at US\$2,420/tonne. Some relief was seen in the NZD this week as it slipped to around US55c; this meant all commodities gained around 4.5% in NZD terms and the weighted average price climbed to NZ\$4,350/tonne.

Dairy Companies

WCB Drama – Update

The Warrnambool Standard 15 April 2009 & 18 April 2009

Warrnambool Cheese and Butter Factory's ("WCB") share price plunged recently on the back of the resignation of its Chief Executive Officer, Neil Kearney and the announcement of a revised forecast predicting an AU\$10-12 million loss, reports *The Warrnambool Standard*. As reported in previous issues of Dairy Week, WCB's problems began when it cut its farmgate milk price, which led to many of its suppliers leaving the company, which then led to a complete reversal of the price cut decision, which then led to WCB dropping a AU\$105 million rights issue and debt funding package intended to finance the company's Australian Cheese Company joint venture. Former WCB Managing Director, John McLean has now been brought in to manage the fall out and restore farmer confidence. All this drama "forced the company's share price down to AU\$1.76 at one stage – its lowest level since the company listed in 2004" reports *The Warrnambool Standard*. WCB shares have at one stage peaked at over AU\$5. Australian Minister for Regional and Rural Development, Jacinta Allan has indicated that Government support for WCB is a possibility, saying: "We stand ready to provide assistance as required."

Full story:

<http://www.standard.net.au/news/local/news/general/chief-quits-mclean-takes-charge-as-wcb-heads-for-shock-12m-loss/1486477.aspx?src=enews>

In more positive news for WCB, although the company has lost approximately 250-270 million litres in annual supply of milk following its price cut announcement, it has now been able to "clawback" around 35 million litres, reports *The Warrnambool Standard*. Twenty of the approximately 130 suppliers that WCB lost have now returned after former Managing Director, John McLean was reappointed. Mr McLean said: "We're saying that we've got 100 million litres that people have said they are prepared to talk with us about. The biggest thing we've got to do is to try to retain some credibility and confidence." WCB also has in its favour a "three to four cents a litre advantage over competitors for April, May and June" reports *The Warrnambool Standard*.

Full story:

<http://www.standard.net.au/news/local/news/general/farmers-return-as-wcb-claws-back-milk/1489489.aspx?src=enews>

Meanwhile:

The Warrnambool Standard 15 April 2009

Despite the resignation of WCB Chief Executive Officer, Neil Kearney, farmers are still demanding that Chairman, David Karpin goes too, reports *The Warrnambool Standard*. WCB supplier and shareholder, Andrew Anderson said: "Karpin was the Executive Chairman – he is responsible just as much as the managers were. He didn't act in isolation and he has no appreciation of the farmers' situation. If he [Karpin] had any understanding of it he would never have allowed the thing to have happened – he needs to go." Mr Anderson added: "The Chairman is just as guilty as the CEO. The board should move on the chairman and replace him." Mr Karpin responded to such calls for his resignation saying: "My view is that I and the other members of the board are putting their best efforts forward to advance the cause of the company. It is understandable that emotions are running high – our job is to get on with the business of the company in the interests of all our stakeholders, particularly the suppliers" reports *The Warrnambool Standard*.

Full story:

<http://www.standard.net.au/news/local/news/general/farmers-call-for-chairman-to-go/1486451.aspx?src=enews>

Arla Axes 250 Jobs to Save DKK1 Billion

Arla Release 16 April 2009

The global economic crisis has worsened what is an already tough global market for dairy products, putting Arla's owners the dairy farmers under huge pressure. As a result, Arla is now forced to make further savings of DKK1 billion in 2009, which will include 250 redundancies. The global recession is having a major negative effect on consumer demand and in certain markets consumers have given up buying milk altogether. "Three months into the year, Arla's budget is under additional pressure because of unfavourable exchange rates for sterling and the Swedish kroner. And the market is showing no signs of recovery. We, therefore, need to implement a savings programme which means we'll also have to resort to redundancies" said CEO Peder Tuborgh. "Savings are expected to amount to DKK1 billion and will mean a reduction in the number of employees. 250 colleagues will be made redundant and 50 positions not filled. As Arla's production is running at full capacity to handle the current volumes of raw milk, the redundancies will occur at the offices in Viby, Stockholm, Leeds and elsewhere. As a co-operative company, our aim is to maintain a good milk price for our owners, which has proved to be extremely difficult since the autumn of 2008" explained Peder Tuborgh. "On March 1, we reduced our milk price by more than DKK1 billion, which has put our owners in a difficult situation and there is now a risk that we'll lose future milk suppliers. We're now taking serious action. Our overriding aim is to re-establish our earnings and remain competitive. We must act decisively to ensure that, in financial terms, we remain on track."

Full release:

<http://www.arla.com/press/arla-must-save-dkk-1-billion-in-2009/>

Mengniu Results Marred by Melamine

Just-food.com 16 April 2009

China Mengniu Dairy Company ("Mengniu") recorded a loss last year as a direct result of the Chinese melamine milk contamination scandal, reports *Just-food.com*. The company booked a net loss of CNY946.8 million (US\$138.6 million) in 2008, as opposed to the net income of CNY938.8 million in recorded the year prior. Mengniu's revenues rose in 2008 to CNY23.86 billion, from CNY21.32 billion in 2007, but increased costs arising out of the melamine scandal such as disposing of raw milk and the write off of products recalled from retailer's shelves, negatively impacted the company's overall result. Mengniu said it expects 2008 to be a "turning point" for the Chinese dairy industry, reports *Just-food.com*. "Accelerated industry consolidation and elimination of inefficient small-scale enterprises are expected in future" said the company. "The group, as a market leader for years, is confident that it is capable to take the lead in the healthy and ordered development of the China dairy industry leveraging on its strong R&D capabilities, sizeable production and stringent quality control."

Full story:

<http://www.just-food.com/article.aspx?id=106233&lk=dm>

Parmalat Settles With Carige Bank Group

Parmalat S.p.A. Release 17 April 2009

Parmalat S.p.A. has reached an agreement with Carige Bank Group (Banca Carige S.p.A. and Cassa di Risparmio di Savona S.p.A) settling all claims related to the period prior to Parmalat's insolvency in December 2003. In consideration of the agreement, Carige Bank Group agreed to pay to Parmalat S.p.A. €5,400,000 in consideration of Parmalat's withdrawal of all claims and actions vis-à-vis Carige Bank Group. Parmalat S.p.A. expressed its satisfaction for the settlement reached.

Full release:

<http://www.parmalat.com/en/>

Small Aussie Dairy Company is Growing Fast

FOODweek/Lyn White 17 April 2009

A small dairy processor in Victoria, Longwarry Food Park (“LFP”), has been revealed as one of Australia’s fastest growing companies, reports *FOODweek*. The company has achieved top place on BRW’s Fast 100 list with an impressive 423% average growth over the last three years. LFP is the only privately owned milk powder company in Australia and manufactures mainly for export. Owners, Rakesh and Sunita Aggarwal bought the abandoned milk plant in Gippsland from Bonlac Foods in 2001 and began processing milk on 1 July 2005. The company’s achievements are particularly remarkable given the recent plunge in dairy commodity prices in conjunction with drought in Australia, reports *FOODweek*. Mr Aggarwal said: “For example in 2007/08 milk powder prices went up sharply from around US\$2,000/MT to US\$5,000/MT and within six months fell again to below US\$2,000/MT. Historically this is unprecedented market volatility. Such rapid market movement has seen the whole culture change in customers’ buying habits and mind set. The instability has meant customers have become much more cautious in their decisions and subsequently the trade has become more complex and difficult.” He added that despite such challenges LFP is pushing ahead with confidence: “LFP’s milk price [is] competitive although it was necessary to review prices during 2008/09 in line with other companies in response to the unprecedented market fall. Our confidence in our business has not dwindled at all. In difficult economic conditions food consumption tends to be less affected than other consumer products. Longwarry is increasing its production capacity in the next three months and a further 100% in the next 18 months” reports *FOODweek*.

Danone Sales Hit by Dairy Downturn

Danone Release 16 April 2009

Summary:

- Total sales up 1.0% despite challenging market conditions and difficult comparables.
- Total volume growth of 1.1%.
- Dairy sales down 1.2%; underlying country performance mixed.
- Waters sales down 3.9%, reflecting continued challenging conditions in Western Europe
- Baby and Medical Nutrition sustain double-digit growth track at 10.5% and 10.8% respectively.

Commenting on the results in the first quarter of 2009, Franck Riboud, Chairman and CEO of Groupe Danone said: “The performance in the first quarter is in line with our expectations, reflecting the impact of a deteriorating economic environment on consumption behaviour as well as a very high base of comparison in the first quarter of 2008. In this context, the Group’s sales continued to grow in the first quarter, both in volume and in value terms. Baby Nutrition and Medical Nutrition continued to show their potential and resilience, and so did our Waters businesses in the emerging markets which continued to deliver strong growth. On the other hand, the ongoing market deterioration has weighed – as anticipated – on the performance of the Fresh Dairy division in various regions. The initiatives that we have started to implement since the end of 2008, in order to rapidly adapt our proposition, are starting to deliver results in various important markets where volumes and market shares are starting to rebound since the beginning of this year. We will extend these initiatives in the coming months. The tight management of our growth and market shares, country-by-country, gives us confidence in our ability to achieve growth in the short and the medium term and to reach our objective to increase our underlying earnings per share by 10% on a like-for-like basis in 2009.”

Full release:

<http://phx.corporate-ir.net/phoenix.zhtml?c=95168&p=irol-newsArticle&ID=1276930>

Emerald Dairy Reports Profit Drop for 2008

Just-food.com 14 April 2009

China's Emerald Dairy has recorded a 34.8% drop in full-year net income for 2008, reports *Just-food.com*. The company's net income fell from US\$3.6 million in 2007 to US\$2.3 million in 2008, largely due to a one-time penalty charge of US\$986,699 in liquidated damages incurred for "failure to satisfy certain registration requirements." Emerald Dairy's total sales revenues rose by 49.7%, from US\$29.6 million in 2007, to US\$44.3 million in 2008. "The increase was due to the company's market expansion into 20 provinces and over 5,800 retail outlets; the increasing popularity of the products due to sales and marketing efforts, and an increase in the average selling price of 34.9%" reports *Just-food.com*. The company's Chief Financial Officer, Shu Kaneko, said: "We are extremely pleased with our results for 2008, which exceeded our initial expectations and which support our decision to expand our production capacity in the coming year. Due to our reputation for high quality and our continued sales and marketing efforts, we have experienced growth well above the industry average." Emerald Dairy is currently constructing a new production facility which will have capacity to produce an extra 9,000 tonnes of milk powder each year, doubling the company's current output. It is anticipated that production at the new plant will commence in the third quarter, reports *Just-food.com*.

Full story:

<http://www.just-food.com/article.aspx?id=106196&lk=dm>

Fonterra to Supply McCafés in Aussie and NZ

Fonterra Release 21 April 2009

This month, Fonterra's The Pastryhouse business will begin supplying premium pastries to McDonald's McCafés across Australia and New Zealand. This builds upon a 25 year partnership between Fonterra and McDonald's, which has seen both businesses innovating alongside each other to create dairy-based products for McDonalds in 30 markets worldwide. René Dedoncker, Global Director Fonterra Foodservices, said supplying pastries to McCafés across Australia and New Zealand further embeds the strong working relationship between Fonterra and McDonald's. "We currently supply McDonald's with slice-on-slice cheese in 25 markets in the Asia Pacific Middle East and Africa region, as well as milk, yoghurt, parmesan, cheddar, butter and shake and sundae mix to its Australian business. Fonterra will in conjunction with McDonald's supply chain partners, Fresh Start Bakeries (Australia) and North's Bun Company Ltd (New Zealand), supply 470 McCafés in Australia and 50 McCafés in New Zealand with great tasting sweet and savoury pastries, and to meet these increased volumes, we have increased The Pastryhouse's production capabilities and moved to a 24 hour production cycle." he said. Mr Dedoncker added that over a period of 25 years, Fonterra has established itself as a preferred supplier to McDonald's thanks to its global dairy expertise, consistency in quality and investment in dairy innovation. In late 2008, Fonterra became a McDonald's global Target Capable Supplier for slice-on-slice cheese – used in McDonald's burgers – in the Asia-Pacific/Middle East-Africa ("APMEA") region. Fonterra joined only two other McDonald's suppliers in Australasia to have ever achieved this status. Attaining this status means Fonterra's slice-on-slice cheese, produced at our Eltham site in New Zealand, is now the benchmark standard of quality for anyone supplying slice-on-slice cheese to McDonald's within the APMEA region. "Fonterra has a lot to offer McDonald's as our quality controls ensure we provide consistent, high quality products across the world, and our dairy knowledge ensures we're at the leading edge of dairy innovation" said René. "We take great pride in being a valued trusted partner of McDonald's."

Full release:

<http://www.scoop.co.nz/stories/BU0904/S00396.htm>

Farmgate Issues

Irish Dairy Farmers Protest Against Price Cuts

Just-food.com 15 April 2009

Over 2,000 Irish dairy farmers have been protesting against a milk price cut announced by dairy company, Glanbia, reports *Just-food.com*. The company announced a March manufacturing milk price of 21.04 cents per litre, inclusive of VAT, a move that generated much anger amongst its suppliers. Irish Farmers Association (“IFA”) National Dairy Committee President, Richard Kenny said: “Glanbia is the largest, most efficient milk processor in the country, with a high value added product mix, the benefit of large scale and international businesses which make a significant contribution to profits. The company cannot credibly justify a price of 20 cents when other smaller co-ops, some reliant on commodity products alone, are paying up to three cent a litre more for March, 2009.” He added that the cut would mean that average supplier would be €18,000 (US\$23,714) in debt this year, saying: “This is intolerable and unsustainable. Glanbia must remember that, if viable incomes cannot be made from milk production, the very existence of Glanbia, primarily a milk processing company, will come under threat.” Glanbia has responded that it is “mindful” of its “social responsibility” to its suppliers, reports *Just-food.com*. The company has also highlighted the point that it has helped its farmers find ways to improve efficiency in their production, saying: “Glanbia has worked intensively with farmers in providing advice on how to maximise efficiency and maintain their competitive position.”

Full story:

<http://www.just-food.com/article.aspx?id=106224&amd=7643>

Meanwhile:

Agra Informa Limited 16 April 2009

The Irish Department of Agriculture has announced plans to attract more new entrants into milk production, reports *Agra Informa Limited*. The Department plans to allocate one quarter of the first additional milk quota (equating to 13.5 million litres of milk), introduced as part of the CAP health Check agreement, to an initiative aimed at attracting new farmers. The remaining quota increase will be allocated as a 0.75% increase to every producer active on 1 April 2009. Irish Farm Minister, Brendan Smith said: “The extent of the quota increases in 2009 presents a real opportunity to allow new entrants to get a start in dairying on a scale that is immediately viable. I don’t think we should let that opportunity pass.” However, the real question is, whether at the present milk prices, new entrants will view getting into the dairying business as a viable opportunity, reports *Agra Informa Limited*.

Full story:

<http://www.agra-net.com/dairy>

And:

Dairyreporter.com/Neil Merrett 17 April 2009

German dairy farmers have followed the lead of their Irish counterparts and protested outside dairies to voice their concerns over the recent slashes in milk prices, reports *Dairyreporter.com*. The European Milk Board (“EMB”) which represents dairy farmers across the bloc said many dairy farmers cannot currently cover their production costs and is seeking further assistance from processors. The EMB stated: “We have a common problem in the milk market – we can solve this together – we as future orientated dairy farmers are ready to do so” reports *Dairyreporter.com*.

Full story:

http://www.dairyreporter.com/Financial/Dairy-farmers-renew-processor-profit-assistance-calls/?c=xaxQPussIa9c0c%2BNSx4Wjg%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily

Industry Stakeholders

Danone Withdraws Probiotic Health Claims

Foodproductiondaily.com/Shane Starling 20 April 2009

Danone has withdrawn claims from the EU nutrition and health claim process, stating that it is awaiting procedural guidance from the European Food Safety Authority (“EFSA”) on article 14 and 13.5 claims, reports *Foodproductiondaily.com*. The three withdrawn claims relate to the dairy company’s spoonable probiotic yoghurt – Actimel and its drinkable yoghurt – Activia. They are:

- That Activia improves digestive comfort.
- That Activia improves slow transit.
- That Actimel helps to strengthen the body’s natural defences.

“Danone said companies were still in a ‘learning stage’ about the ‘new and complex procedure’ and that, while it remained confident about the strength of its claims, it decided it was better to remove the claims from the process until further guidance was issued by EFSA, due by mid-May” reports *Foodproductiondaily.com*. Groupe Danone Corporate Communications Director in Health, Nature and External Communication, Agnès Berthet-d’Anthonay, said the regulation concerned was unclear, noting that it was “better to know the rules before playing the game.” She clarified that: “We will not change the studies that are in the dossiers but it may be that the way the information is presented needs to be changed and the wording may have to be modified. It is a difficult thing to find the correct wording and that has contributed to the fact no article 13.5 claims have as yet been accepted by EFSA. But we are very confident about the strength of our science.” Danone said that it has 24 scientific publications supporting its Actimel claims, and 16 for Activia, all published in “highly reputed scientific journals” reports *Foodproductiondaily.com*. The EFSA said in a statement on its website: “In the light of the experience gained with the evaluation of health claims applications, EFSA will provide further guidance to applicants for the preparation and presentation of applications for Article 14 and 13.5 claims in the form of a document outlining answers to FAQ.”

Full story:

http://www.foodproductiondaily.com/Publications/Food-Beverage-Nutrition/NutraIngredients.com/Regulation/Danone-awaits-EFSA-guidance-on-probiotic-health-claims/?c=xaxQPussIa%2Bn668D8GZxyQ%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily

Italian Supreme Court Rules on Milk Quota Fraud

Dairyreporter.com/Caroline Scott-Thomas 15 April 2009

The Italian Supreme Court has made a final ruling that a scheme set up by Italian dairy farmers to avoid paying milk superlevies under CAP milk quota rules is fraudulent, reports *Dairyreporter.com*. “The case centred on a frequently practised fraud in which milk producers set up several co-operative companies to which, on paper, they sell their milk. This makes the co-operative companies responsible for paying the levies for ‘extra-quota’ milk. In reality, however, the producers sell directly to the dairies and no business is conducted by the co-operatives. This means that the co-operative companies rack up large debts for non-payment of levies, but when government officials attempt to claim them, there is no income with which to pay and no assets to sell.” The Court’s decision sets an important precedent and is final and not open to further appeal, reports *Dairyreporter.com*.

Full story:

http://www.dairyreporter.com/Publications/Food-Beverage-Nutrition/FoodNavigator.com/Legislation/Italian-Supreme-Court-issues-final-ruling-on-milk-quota-fraud/?c=xaxQPussIa%2BsKvsSliDMSQ%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily



Exports and Trade

Australia and China FTA Negotiations

Queensland Country Life/Lucy Skuthorp 15 April 2009

Australian Minister for Agriculture, Tony Burke was in Beijing last week making it clear that any Free Trade Agreement between China and Australia must include agriculture as part of the package, reports *Queensland Country Life*. Mr Burke said China is Australia's second-biggest agricultural trading market, with total agriculture, fisheries and forestry exports to the country accounting for approximately AU\$3 billion a year. "Australia is a leading exporter of food to the world, so any global strategy to address concerns about global food security depends on our ability to supply food freely" Mr Burke said. "Our trade interests are strongly aligned with the solution to global food security. As major agriculture-producing nations, Australia and China have a shared interest in reducing barriers to international trade." An FTA between the two countries has been in the pipeline for many years, but shouldn't be expected to be finalised any time soon, reports *Queensland Country Life*.

Full story:

<http://qcl.farmonline.com.au/news/nationalrural/agribusiness-and-general/general/agriculture-must-be-part-of-china-free-trade-deal-burke/1487451.aspx?src=news>

Comment:

Australian Dairy Industry Council Release 21 April 2009

Australian Dairy Industry Council Chairman, Mr Allan Burgess, has welcomed the stance being taken by the Australian Government on progressing negotiations with China to conclude a FTA. Australia and China commenced negotiations on a FTA in 2005. At the 13th Round of negotiations at the end of last year there was still very little movement on improving access to the Chinese market for Australian dairy products. It is now nearly four years since the negotiations started and in that time China and New Zealand have been able to conclude an agreement which provides preferential access to the Chinese market for most dairy products. That Agreement came into force at the end of 2008. "Already we are seeing the impact on our trade with China" Mr Burgess said. "In these difficult times it is just not possible to effectively compete against our largest competitor in the market when we are facing tariffs that they no longer have to pay." Mr Burgess emphasised that concluding an agreement of a similar quality to the one New Zealand has with China is a key priority for the Australian dairy industry's trade policy objectives. "We are very pleased, therefore, to see reports that the Australian Minister for Trade, the Hon Simon Crean, has put the Chinese on notice that we are looking for a similar outcome for Australia and that we need it to happen quickly before our position in the market is further eroded by New Zealand." The Australian dairy industry does not see any significant threat to the Chinese dairy industry coming from a Free Trade Agreement. The Chinese dairy industry is now the world's third largest. It is more than three times the size of the Australian industry. "Australian exports to China already support the development of the market and we have for a number of years worked closely with the key players in the Chinese dairy industry to help them to develop in parallel with a fast growing demand for imported dairy products. The Chinese market has developed much faster than local production and there is a place in the market for both local product and Australian imports" Mr Burgess said. "An FTA will provide us with an opportunity to work closer together to build on those opportunities for our mutual benefit."

Fonterra to Boost Dairy Exports to China

The New Zealand Herald/Fran O'Sullivan 20 April 2009

Fonterra appears to have put the melamine contamination scandal, that marred its reputation and that of its former joint venture partner – San Lu, behind it and is on course to increase its dairy exports to China threefold, to a total of approximately 160,000 tonnes this financial year, reports *The New Zealand Herald*. Fonterra Chairman, Henry van der Heyden, who has recently visited China with New Zealand Prime Minister, John Key, has confirmed that there has been a big leap in demand in China for foreign milk as many Chinese consumers no longer trust local product. “At Fonterra’s last monthly auction a tonne of milk powder was worth US\$2,235. At this price, 160,000 tonnes would return NZ\$630 million” reports *The New Zealand Herald*.

Full story:

http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10567484

US Dairy Exports/Imports

Agra Informa Limited 16 April 2009

Total US exports of dairy products in February this year were just 46,184 tonnes, almost 46% less than in the same period in 2008, reports *Agra Informa Limited*. In value terms, the picture is even worse with total exports in February 2009 earning US\$96.2 million in comparison to US\$279.2 million in February the year earlier and US\$117.4 million in February 2007. Overall: “Volumes and sales values plummeted to all the major destinations” reports *Agra Informa Limited*. At the same time the cost of imports increased by 10.9% to US\$244.0 million, meaning that the value deficit was US\$147.8 million in comparison to a surplus of US\$60.0 million in February 2008.

Cheese: “US spending on imports is greatest for HS 040690 cheese and European countries are significant suppliers of this product. US spending on imports from Italy in the latest 12-month period accounted for 28% of the total US\$1.045 billion” reports *Agra Informa Limited*.

Casein: US imports of casein from Ireland have increased, with purchases of the product in February 2009 more than doubling reaching US\$3,197 million, and bringing the 12-month total to US\$80.2 million. However, New Zealand is still the dominant supplier of casein to the US, recording a 78% increase in February 2009, to reach US\$32.9 million. From March to February 2009 total US purchases of New Zealand casein reached US\$251.5 million, reports *Agra Informa Limited*. The US data also shows that the Netherlands was a significant supplier of caseinates in terms of tonnage over the March to February period, but was well below New Zealand in terms of value.

Whey: “New Zealand is also by far the major supplier of US imports of HS 040490 whey products. The US import data show a threefold increase in spending on the New Zealand products, to US\$47.4 million, accounting for more than 96% of total US spending” reports *Agra Informa Limited*.

Full story:

<http://www.agra-net.com/dairy>

Dairy Herd Contraction Impacting on Dairy Prices

USDA Livestock, Dairy, and Poultry Outlook/Richard Stillman 16 April 2009

Dairy cow slaughter surged ahead of year-earlier levels for the third month in a row in February, aided in part by the sixth Co-operatives Working Together (“CWT”) buyout since 2003, which removed over 50,000 cows from the dairy herd, mostly in the first quarter of 2009. According to recent Livestock Slaughter reports, dairy cow slaughter had moved ahead of year-earlier levels for much of 2008. For the country as a whole, slaughter was 17% above year-earlier levels in February, 19% in January, and 12% in December. The CWT program is expected to remove additional cows from the herd by this summer. USDA forecasts that the dairy herd will contract to an average 9.2 million cows in 2009, compared with 9.3 million in 2008. Higher feed costs will likely continue to pressure producer profits. Milk per cow will climb only incrementally in response to poor producer returns. The yield increase is expected to be less than 0.5% this year, adjusting for leap-year, continuing the trend toward smaller year-over-year increases that began in 2006. The outcome from these adjustments is a decline in milk production in 2009 to 187.1 billion pounds from 190.0 billion pounds in 2008. Cheese production rose slightly in February after adjusting for the extra day in February 2008. Production of cheddar and mozzarella showed declines even after adjustment. Overall production was higher because of increases in Hispanic cheeses, Italian types beside mozzarella, and other cheeses. February stocks of all cheeses were 11% above year-earlier levels. Commercial disappearance for all cheese was down only slightly in January compared with a year earlier, the last month for which figures are available. Market adjustments so far have led to cheese prices increasing from the lows observed earlier in 2009. The decline in milk production is expected to cause further declines in cheese production. Declining retail cheese prices that have lagged falling wholesale prices are finally beginning to boost consumption. Lower prices compared with last year will likely continue to boost consumption. Lower milk production and somewhat higher domestic use will likely raise prices toward the end of 2009. For the year, prices are expected to average US\$1.270 to US\$1.320 per pound. The year-over-year decline in butter production was a scant 0.9%. Butter stocks declined in February compared with a year earlier. According to *Dairy Market News*, international demand for butter is weak. Since the first of the year, the Commodity Credit Cooperation (“CCC”) has contracted to buy 4.6 million pounds of butter, but higher prices are expected to preclude additional butter purchases this year. The domestic demand outlook for butter is similar to that for cheese except that Government purchases have helped ease commercial stocks of the former somewhat. The price scenario for butter is similar to that for cheese, as reduced milk production could boost prices toward the end of 2009. The butter price is expected to average US\$1.155 to US\$1.235 per pound for the year. With non-fat dry milk (“NDM”) prices near support levels, domestic use appears to be strengthening. However, since the first of the year, about 100 million pounds of NDM have moved into CCC inventories, but the pace of removals has slowed. There is some increased foreign demand because production from Oceania, although improved over recent drought years, did not reach expectations. However, a weaker world economy may limit demand. Prices for NDM are forecast to remain above support, averaging US\$0.83 to US\$0.87 per pound in 2009. Whey production for human consumption continues to lag year-ago levels. Output in February was down 3.7% from a year ago (adjusting for leap-year in 2008). Whey production has been below year-earlier levels for over a year. Whey prices are still below those of recent years, but reduced supplies and improving export demand have led to a slightly higher price forecast than earlier in the year. Whey prices are expected to average US\$0.17 to US\$0.20 cents per pound for the year. As a result of slightly higher than expected product prices, the prices for Class III and Class IV milk have been raised slightly to US\$10.65 to US\$11.15 per cwt and US\$9.95 to US\$10.55 per cwt, respectively, for 2009. The all milk price is expected to average US\$11.85 to US\$12.35 per cwt in 2009.

Full report available at:

<http://www.ers.usda.gov/Publications/LDP/#newsletter>

Manufacturing/R&D

More Factory Closures

Just-food.com 20 April 2009

US Dairy company, Dean Foods plans to close two US production plants in a bid to rationalise production, reports *Just-food.com*. The company will close its Meadow Gold production facility in Lincoln, which has approximately 100 employees and will also end production at its Flint's Country Fresh dairy, which has around 180 employees.

Full story:

<http://www.just-food.com/article.aspx?id=106281&amd=7643>

Le Mars Daily Sentinel/Magdalene Landegent 16 April 2009

Dean Foods spokeswoman, Marguerite Copel commented on the closure of the Meadow Gold production plant, reports the *Le Mars Daily Sentinel*. "We'll be moving production to other plants" she said. "As we look at the whole picture, all the plants in the vicinity could be a possibility" however jobs will not necessarily be added at the factories where production is shifted.

Full story:

<http://www.lemarssentinel.com/story/1531204.html>

Meanwhile:

Wisconsin State Journal 15 April 2009

Another US dairy manufacturing plant is also set to close, reports the *Wisconsin State Journal*. Land O'Lakes, a farmer-owned food and agricultural co-operative plans to close Madison Dairy, a butter manufacturing plant that employs 120 people. Land O'Lakes Corporate Communications Director, Jeanne Forbis, said the decision to close the plant was made after a business analysis. "The plant was no longer cost-efficient" she said. "A variety of factors played into the decision." Casey Langan of the Wisconsin Farm Bureau said the factory closure comes at a time when Wisconsin's milk production and dairy herd have grown and cheese plants are operating at capacity. "It's the type of thing we're really trying to avoid" he said of the closure. "That's our dairy industry infrastructure [that provides] markets for our products."

Full story:

<http://www.madison.com/wsj/home/biz/447241>

And in New Zealand:

Dairyworks Release 17 April 2009

New Zealand Cheese marketing company, Dairyworks has decided to move its operations from Temuka to Christchurch, which will mean its Temuka factory, is likely to close by the end of June. "There will be a gradual transfer of production from Temuka to Christchurch during May and June" said Dairyworks Chairman, Graham Heenan. Dairyworks has outgrown its Temuka premises and the significant limitations at the plant have affected productivity. Dairyworks has doubled its sales in the last five years and has identified a need to operate closer to its markets. Moving to Christchurch will significantly cut transport costs and time and will remove double handling. Dairyworks buys cheese from the nearby Fonterra plant and from other New Zealand and Australian manufacturers, cuts it, packages it and brands it for the New Zealand market. Dairyworks brands include Alpine and Rolling Meadow.

Full release:

<http://www.scoop.co.nz/stories/BU0904/S00340.htm>

Recession Increases Sales of Direct-to-Vat Cottage Cheese Cultures

Foodnavigator-usa.com/Caroline Scott-Thomas 20 April 2009

Chr. Hansen has said that the current global economic crisis has boosted sales of its direct-to-vat cottage cheese cultures, as manufacturers look for ways to cut costs, reports *Foodnavigator-usa.com*. According to the company, 30% of US cottage cheese producers are now using its frozen Fresco direct vat set (“DVS”) cultures, up 10% from last year. Marketing Director of Food Cultures and Enzymes at Chr. Hansen North America, Roy Riley told *Foodnavigator-usa.com*: “New technology has let us narrow the cost efficiency between direct set and bulk starters...Because of the recession, everybody is being cost conscious. They [the DVS cultures] cost a little bit more up front, but...if you can increase your yield without increasing your labour, you really need to take a look.”

Full story:

http://www.foodnavigator-usa.com/Financial-Industry/Recession-raises-direct-to-vat-cottage-cheese-culture-sales/?c=xaxQPussIa%2Bpz5CA4ZImzQ%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily

Packaging Industry Commit to Recycling

Carton Council Release 9 April 2009

Four of the US’s leading carton manufacturers have joined forces to help advance improvements to carton recycling infrastructure across the country, building on the already significant environmental benefits afforded by carton packaging. The formation of the Carton Council by Tetra Pak, Elopak, Evergreen Packaging and SIG Combibloc signals an unusual move by companies who are strong industry competitors. However, a shared commitment to sustainability has brought them together as they seek to improve environmental performance of their products. The Council is specifically committed to increasing carton recycling in the US. By promoting both recycling technology and local collection programs, it believes it can help limit the number of cartons that become waste. Cartons are an effective form of liquid food and beverage packaging and play an important role in protecting their nutritional value. Chilled kitchen staples like milk and orange juice have long been packaged in traditional gable top cartons. Increasingly, aseptic cartons are being utilised for food products and beverages like soups and broths, organic milk, soy milk, wine and juices, as a means to make them “shelf stable” eliminating the need for preservatives and refrigeration. The Council will also encourage consumers to consider the environmental impact of product packaging before they make a purchase. Both gable top and aseptic cartons are made primarily from paper, a renewable resource that is highly recyclable. In general, cartons have a smaller carbon footprint than traditional packages. “We are very proud that the environmental impact of cartons already is among the lowest in the packaging industry” said Ed Klein, Executive Director of the Carton Council. “Cartons are source-reduced and made primarily of paper, a renewable resource, from responsibly sourced, well-managed forests. But we want to take our commitments to the next level, and that’s where significantly increasing recycling comes in.” Klein noted that the Council plans to work with communities that wish to add cartons to their recycling programs and will serve as a resource and forum for carton education. “Currently, communities in 26 states in the US are able to recycle cartons which give more than 60 million people access to carton recycling. This is significant, but we are not satisfied. We want to increase the number of communities that recycle cartons, and we want to inform consumers in those communities that they can recycle their cartons and motivate them to do so” said Klein. One of the first alliances from the Carton Council to increase carton recycling is with Waste Management, which has agreed to include cartons in all their recycling programs.

For more information visit:

www.recyclecartons.com

Marketing

Milk Link Pushes Cheese in China

Milk Link Release 14 April 2009

Milk Link, a UK dairy business, has secured a contract with Yili, the leading Chinese dairy company, to supply Stilton and Cheddar to the Chinese market. As part of the deal, Milk Link's award winning Stilton and Cheddar will be available in major supermarket chains and leading hotels located in major cities across China. The first shipment of cheese arrived in China this month and regular shipments are scheduled to supply the country's rapidly growing supermarket chains. The market for cheese in China is seeing strong growth and Yili – which is already one of China's largest dairy companies – is focused on becoming the market leader in this sector. Yili is already at the forefront of supplying dairy products through its yoghurt, long life milk, milk powder and ice cream businesses. Milk Link's cheese products will be sold in China under Yili's 'Pureday' brand and will include the Milk Link logo on all packaging. Commenting on the deal, Neil Kennedy, Milk Link Chief Executive, said: "We are delighted to be working in partnership with Yili, one of China's largest and most innovative dairy companies, and we look forward to a long and fruitful relationship." Gang Pan, CEO and President of Yili, commented: "We are delighted that we will be able to supply our customers with the finest award-winning British cheeses. We like to work with the best suppliers available, and believe that our partnership with Milk Link, one of the UK's leading producers of British cheeses, will be a strong one." Simon Mercer, Head of Export at Milk Link, added: "This deal is the culmination of a lot of hard work and raises the bar for us in terms of our export business. We are now exporting our cheeses to over 25 major companies in 20 countries and this latest agreement is testament to the fantastic quality of our products."

Full release:

<http://www.flex-news-food.com/pages/23169/China/Dairy/Milk/UK/milk-link-enters-chinese-market.html>

Meanwhile:

AP-Foodtechnology.com/Neil Merrett 15 April 2009

A study has suggested, that moves made by dairy manufacturers into emerging markets outside of the US and the EU – such as those made by Milk Link into China, and Fonterra into Egypt – could prove prudent, despite difficulties felt in the market in 2008, reports *AP-Foodtechnology.com*. New research by Proteus Insight has shown that in 2008 total dairy product consumption was down by 0.5% in the emerging markets of Asia, Latin America, Eastern Europe, Central Asia, Middle East and North Africa and the Caucasus. The research stated that: "Eastern Europe was hit particularly hard, with consumption and spending dropping in Ukraine and Serbia following the economies needing assistance from the IMF." Despite this, Proteus Insight suggested that such emerging markets still have strong potential for dairy manufacturers. For example, the research showed that of the approximate 4.5 million tonnes of cheese consumed across the 68 markets studied, it was estimated that only 2% of the products were supplied as private label brands, reports *AP-Foodtechnology.com*. Proteus Insight suggested that: "These markets represent great potential for manufacture brand development as private label products have not penetrated to the extent found in Western Europe or North America. [This has occurred] even though key accounts such as Carrefour and Tesco have established themselves in many of these markets."

Full story:

http://www.ap-foodtechnology.com/Publications/Food-Beverage-Nutrition/DairyReporter.com/Industry-markets/Dairy-potential-remains-for-emerging-market-push-report/?c=xaxQPussIa%2Fd1yLczUFoBA%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily

Dairy Beverages Market Health Benefits

Food New Zealand April/May 2009

Seventy percent of all dairy products launched globally now promote a health benefit, reports *Food New Zealand*. BENE0-Orafti Marketing and Communication Manager, Tim van der Schraelen explained: “We have seen a growing emphasis on health in society as obesity becomes a global problem and although ‘convenience’ is still a major driver in the promotion of dairy beverages (17% of new products use it to sell the product), this has been overtaken in popularity by ‘health’ as the primary claim used to encourage sales, with 53% of producers using it to sell their product. With this in mind we have seen more than a 90% increase in the number of dairy beverage products that contain inulin and oligofructose brought to market over the last seven years.” He added: “Following our own consumer research in December 2008, we have found that promoting the health benefits of a product does increase the appeal of established brands and generates added value. However, although consumers might know the name of key ingredients such as vitamin C, calcium, wholegrain or prebiotics, they do not necessarily equate these names with the key health benefits the ingredients provide. By communicating more about the health benefits over and above the names of the ingredients included in the product, manufacturers can add significant value to already premium brands.”

The Perfect Ice Cream for Anzac Day

The Warrnambool Standard/Tina Liptai 21 April 2009

An ice cream maker in South-west Victoria, Australia has created the perfect ice cream, just in time for Anzac day on 25 April 2009, reports *The Warrnambool Standard*. Tim Marwood from Timboon Fine Ice Cream has developed an ice cream flavour based on the famous Anzac biscuit recipe, containing golden syrup, rolled oats and coconut. Mr Marwood said: “As far as I know, no one has ever done anything like this before. We’ve spent a couple of months perfecting the formula and come up with a really textured ice-cream that has a real Anzac biscuit flavour.” He added: “We’ve already tested it out on some people during the developing stages, and we’ve got the thumbs up so far. We always try to come up with new ideas for flavours that are different but still accessible to people.” The Anzac biscuit ice cream is the first new flavour to be added to Timboon Fine Ice Cream’s range in 12 months, reports *The Warrnambool Standard*.

Full story:

<http://www.standard.net.au/news/local/news/general/icecream-producer-has-national-pride-licked/1491460.aspx?src=enews>

Malaysian Market Shows Strong Demand for New Dairy Products

The New Zealand Farmers Weekly/Hugh Stringleman 20 April 2009

Fonterra decided to market its Fernleaf CalciYum product in Malaysia as “cultured milk food” as opposed to yoghurt and the trick worked, reports *The New Zealand Farmers Weekly*. There is a prevailing Chinese attitude against yoghurt as the Chinese characters for yoghurt literally read as ‘sour milk.’ “Since the 2006 launch of CalciYum sales have reached more than three million cups a month, giving Fonterra Brands 42% of a total Malaysian market that has more than doubled in size over the past three years. In 2005 Fonterra’s Anlene yoghurt had a 15% share of a very small yoghurt market of 1.2 million cups a month, dominated by Nestlé. In 2008 the CalciYum sales growth was 60% and it now accounts for 36% of total yoghurt sales in Malaysia.” Fonterra is the largest supplier into the Malaysian market, estimated to be worth just under NZ\$1 billion, reports *The New Zealand Farmers Weekly*. Fonterra holds 35% of the market, and Australia is the next biggest supplier followed by the EU. Fonterra Brands Malaysia General Manager, John McKay said: “We are starting to change the ways in which Malaysian consumers use dairy products.”

Consumer

Consumers Still Impulse Buy

Australian Food News/Daniel Palmer 9 April 2009

According to new research the average shopper takes just 2.3 seconds to make an in-store brand decision and more than 90% of shoppers make at least one unplanned purchase on any shopping trip, reports *Australian Food News*. Senior Vice-President for the consumer industries division of retail consultants Miller Zell, Curt Johnson said the survey of 1,000 shoppers had results that he found surprising. "We were surprised" he said. "Because while we've been hearing so much lately about how careful shoppers are being, making lists and doing research on purchases beforehand, there's still a lot of impulse buying." According to the research, shoppers believe in-store advertising to be slightly more effective than advertising out of stores. Consumers also think that within the supermarket: "end-of-aisle promotions have the greatest impact, followed by merchandising displays, department signage and shelf tags" reports *Australian Food News*. Another surprise that came out of the research is that shoppers were not as price-focussed as expected, with many saying that product messages were more important than price messages.

Full story:

<http://www.ausfoodnews.com.au/2009/04/09/majority-of-shoppers-still-buying-on-impulse-despite-increased-use-of-lists.html>

Meanwhile:

Just-food.com/Ben Cooper 22 April 2009

The Hartman Group has released a report: "Sustainability: The Rise of Consumer Responsibility" in which it was revealed that three quarters of the consumers surveyed consider social and environmental factors when making a purchase, reports *Just-food.com*. However, only 46% of the consumers surveyed said they were familiar with the term "sustainability" and less than 25% of consumers could name a sustainable product. According to Laurie Demeritt, President and Chief Operating Officer of the Hartman Group, there are a number of other "ethical issues" that have resonance with consumers. "The better-for-you factor plays particularly strongly, Demeritt says, citing milk without hormones and antibiotics as an example. As broader environmental concerns do not play such a prominent part in consumer rationale, it is logical to assume that consumer motivation in this area will be more susceptible to recessionary pressures...However, that is not to say that efforts in the environmental field are wasted in the current climate. But factors that are closer to home and more relevant to consumers, such as perceived personal health benefits, are more likely to influence purchasing behaviour" reports *Just-food.com*.

Full story:

<http://www.just-food.com/articleprint.aspx?id=106317>

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