



PRINT THE GLOBAL DAIRY eBRIEF

FEATURED

FTA opens Chinese market to Australian dairy; NZ seeks renegotiation

Although the official text has not yet been released, initial reports suggest sweeping market access provisions for Australian dairy exporters in the newly minted China-Australia FTA. Commenting on the deal, Murray Goulburn Managing Director Gary Helou said, "We couldn't wish for a better deal." Fonterra Australia called it a "game changer" for the Australian dairy industry that will provide farmers and business the confidence to invest in milk production and processing capacity.

According to media reports, the agreement phases out tariffs on infant formula, lactose, ice cream, casein and milk albumin over four years; tariffs on fluid milk, cheese, butter and yogurt over nine years; and tariffs on milk powder over 11 years.

Australian officials characterized the FTA, in terms of dairy, as better than the New Zealand-China FTA. The New Zealand deal contains safeguards that reinstate tariffs should volumes exceed certain established levels. The Australian deal only applies such safeguards to milk powder, not to other dairy products.

"The China-Australia FTA is yet another indication of why it is so important for the United States to conclude the Trans-Pacific Partnership," USDEC Senior Vice President, Trade Policy, Jaime Castaneda commented to media this week. "Our major competitors are very active in negotiating trade agreements with key markets and we need to be so as well. TPP has the opportunity to provide the United States with significant access to a number of Asian countries plus Canada. We can't pass up that opportunity."

In countries like China where the United States is not yet pursuing trade talks, USDEC is working proactively to explore how to address competitive disadvantages these types of deals create for U.S. suppliers. This deal is the third and best FTA Australia concluded with key U.S. dairy customers this year, following agreements with Japan and South Korea.

New Zealand seeks same terms

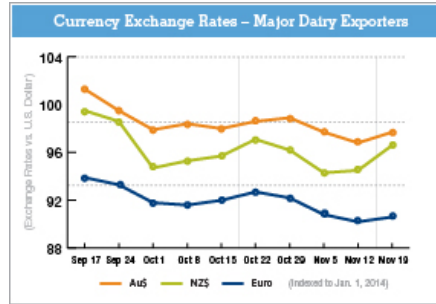
New Zealand Trade Minister Tim Groser said New Zealand was prepared to go back to China to seek the same terms as the Australian deal if indeed Australia secured better market access provisions. Under terms of the China-New Zealand FTA, the Chinese government must match the terms of a third-party deal if those terms exceed the New Zealand terms. Groser said the nation would not immediately raise the matter with Chinese leadership but would begin looking into it once the official text of the deal is released.

Investment surge

A rush of Australian dairy investment accompanied the announcement. Australia's Freedom Foods Group and its controlling shareholder Perich Group struck a deal with Chinese ag industry giant New Hope Group that will see New Hope invest somewhere between A\$100 million and A\$500 million (about US\$87 million-US\$436 million) in large-scale intensive dairy farms in Australia. The farms will supply Freedom's Pactum Dairy Group UHT milk operations and potentially other dairy processing plants, with

CURRENCY AND PRICES

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A rising index means that a competitor's currency is strengthening against the U.S. dollar. A falling index means that a competitor's currency is weakening against the dollar. When a competitor's currency is strengthening against the U.S. dollar (weak US\$), exporters in that country expect lower returns from export markets; when a competitor's currency is weakening against the U.S. dollar (strong US\$), exporters in that country expect higher returns from exports markets. Source: Oanda.com

	Oct 22	Nov 5	Nov 19
Cheese	3300-3900	(-50) 3250-3700	(-200) 3200-3700
SMP	2350-2900	(+100) 2450-2900	(-50) 2400-2800
Butter	2600-3200	(-100) 2500-2800	(-400) 2550-2850
WMP	2400-2800	(+125) 2525-2850	(-150) 2500-2700

Oceania prices are mostly steady. New Zealand weather has been conducive to excellent pasture growth in recent weeks. However, culling is relatively heavy given expected lower payments for 2014/2015. Rural banks in New Zealand continue to trim their forecasts of cowing payments. Fonterra will revisit its current estimate of NZS5.50/ing MS next month. Peak milk production is set to be 3-4 percent above a year ago. Fonterra claims it's been able to raise most of current season production, preventing inventory build-up. At this week's GDT, China took only 46 percent of powder volume, among the lowest figures since the auction launched in 2006. In the third quarter, Australia's exports of milk powder, cheese, butter and whey were up 15 percent from a year ago. New Zealand exports were up 17 percent.

Note: Numbers in parentheses are changes from previous period. Source: USDA and commercial contacts

output earmarked for China. At the end of October, Perich said it planned to sink A\$100 million of its own money into acquiring dairy farms, developing new products and building a new fluid milk processing plant.

Just prior to the announcement, Australian mining billionaire Gina Rinehart said her firm, Hancock Prospecting, was partnering with Chinese state-owned China National Machinery Industry Corp. to invest A\$500 million into milk production and dairy processing in Queensland. The joint venture, Hope Dairies Ltd., plans to build a 15,000-cow farm and a manufacturing facility for infant formula (30,000 tons per year) and UHT milk, with exports to China slated to begin in the second half of 2016.

Chinese state-owned Greenland Holding Group said it is looking to buy Australian dairy, beef and wine companies over the next six months to supply Chinese food demand. Greenland said it saw “no ceiling” on the amount of funds it was prepared to invest in Australia.

And on a smaller scale, Bega Cheese said the FTA has accelerated partnership talks with Chinese investors, and dairy processor Norco said it would spend A\$4.5 million to increase fluid milk capacity at its Raleigh milk facility to serve Chinese markets.

Australian Trade Minister Andrew Robb said he expected to deal to enter into effect in March or April.

Australian trade officials said the country does not plan to slow its pursuit of new FTAs. Robb said Australia would send a team of negotiators to India within the next 10 days and that he hoped to complete a trade deal with that nation within the next year. (USDEC staff; BRW, 11/19/14; The Australian, 11/19/14; The Age, 11/18/14; Herald Sun, 11/18/14; International Business Times, 11/18/14; BusinessDesk, 11/17/14; Stock & Land, 11/19/14, 11/17/14; Stock Journal, 11/19/14; ABC Rural, 11/17/14; Baron's, 11/16/14; Reuters, 11/14/14; Drinks Business Review, 10/27/14)

Dairy crisis webinar to focus on China

USDEC, along with the Dairy Communications Management Team (DCMT), will hold a one-hour interactive webinar Dec. 17 to review U.S. preparedness for a potential crisis in China. The webinar will examine the importance of global crisis readiness, the power of Chinese media to spread information and misinformation about U.S. dairy, the preparations USDEC and the DCMT are making to respond swiftly in China and elsewhere around the world, and how U.S. suppliers can help.

The webinar takes place from 11 a.m.-12 p.m. CT and will feature USDEC President Tom Suber and other USDEC and Weber Shandwick experts on U.S. and Chinese crisis readiness. To register for the event, click [here](#). For more information, contact USDEC's Clemente Santiago at csantiago@usdec.org or 703-528-3049 or DMI's Jolene Griffin at lolene.griffin@rosedmi.com or 847-627-3320.

Sign up now for Middle East/North Africa foodservice cheese seminars

Although the Middle East and North Africa are growing users of cheese, many buyers in the region are still unfamiliar with U.S. cheese varieties, manufacturing capabilities and desire to serve the market. USDEC has slated two educational seminars aimed at raising the U.S. cheese profile with the Middle Eastern and North African foodservice sectors. The seminars will target importers, distributors and their customers, including chefs, food and beverage managers, and purchasing managers from local hotel and restaurant chains.

Following the educational presentations, USDEC will arrange one-on-one meetings between U.S. attendees and importers and distributors, providing an opportunity for suppliers to directly interact with and showcase their products to key local buyers. The first seminar is slated for Hurghada, Egypt, on Dec. 7. The second takes place in Casablanca, Morocco, on Dec. 11. To sign up or for more information, contact Amy Foor at afoor@usdec.org.

Editor's Note

There will be no *Global Dairy eBrief* next week due to the holiday. The next issue will publish Thursday, Dec. 4. Happy Thanksgiving!

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TRADE POLICY

NZ, South Korea conclude FTA; NZ restarts talks with India

Australia wasn't the only U.S. dairy export competitor with a new FTA. New Zealand announced that it concluded a bilateral FTA with South Korea over the weekend. Although the full text was not released, the Dairy Companies Association of New Zealand (DCANZ) said the deal would eliminate duties on “the vast majority” of tariff lines over “reasonable periods.”

DCANZ reported that the agreement includes transitional quotas for cheese of 7,000 tons and butter of 800 tons, rising 3 percent per year each until elimination. The organization did not report the phase out period. Infant formula is also reportedly covered by the deal.

The milk powder quota begins at 1,500 tons and rises 3 percent annually for 10 years, but tariffs do not completely phase-out, DCANZ said.

“The FTA will put New Zealand exporters back on a level playing field” in South Korea with the United States, Australia and the EU, New Zealand Prime Minister John Key said.

In contrast to the dairy-sector praise heaped on the China-Australia FTA, New Zealand's Federated Farmers called the South Korea deal "better than nothing."

Separate from the South Korea FTA announcement, New Zealand and India committed to a long-delayed 10th round of trade talks. The two began pursuing an FTA in 2010. (*DCANZ; Stuff.co.nz, 11/17/14; BusinessDesk, 11/17/14; Dairy Trader, 11/16/14; NZ Newswire, 11/7/14*)

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MARKET CONDITIONS

EU approves support for Baltic dairy farmers, touts promotional funding

The European Commission approved a new package of aid for dairy farmers experiencing liquidity problems in Estonia, Latvia and Lithuania due to Russia's trade embargo. The package divvies up €28 million according to each country's respective 2013/2014 milk output.

On a broader scale, many in the EU dairy sector continue to apply pressure for additional support, including the reinstatement of export refunds. Although new EU Farm Commissioner Phil Hogan said the legal framework for export refunds remains in place, he preferred to focus on increased promotional funding to support the dairy and ag sectors. The EU approved a plan to increase the ag promotional spending budget from €60 million to €200 million by 2020, a move that Hogan said would improve the bloc's medium term capacity to find new markets, diversify existing markets and burnish the image of EU agriculture. (*Dairy Markets, 11/20/14; Agri.eu, 11/19/14*)

Milk powder decline brings down GDT

The GlobalDairyTrade (GDT) Price Index declined 3.1 percent to an average winning price of US\$2,561/ton at the Nov. 18 auction, dashing industry hopes that the market had bottomed out. It is the lowest the index has been in five years.

Continued robust milk production contributed to the decline. Global milk flows remain strong, with farmgate prices in parts of Europe and the United States still making for profitable production (in part due to low grain prices), meaning farmers still have not received the signal to cut supply.

Milk powder led the GDT fall, with the average winning price for WMP dropping 5.1 percent to US\$2,400/ton and SMP slipping 5.7 percent to US\$2,299/ton.

On the plus side, the future curves for SMP and butterfat began to improve, and the sentiment remains that prices should recover throughout 2015, albeit slowly.

Most other products actually recorded gains at the Nov. 18 event: buttermilk powder, +1.4 percent to US\$2,511/ton; cheddar, +5.0 percent to US\$2,861/ton; butter, +6.0 percent to US\$2,656/ton; and AMF, +6.1 percent to US\$3,490/ton. Casein plunged 12.2 percent to US\$6,681/ton, while lactose did not trade and whey powder results were unavailable.

The decline in powder prices, which came despite Fonterra Co-operative Group reducing the amount of product on offer, hit New Zealand farmers especially hard, confirming that forecast payouts were likely on their way down. Post-auction, New Zealand analysts reduced their 2014/2015 projected payout by more than 10 percent to NZ\$4.55-NZ\$4.70/kgMS, and farmers at both Fonterra and Westland Milk Products said they expected official projections to be lowered in the coming weeks. (*GDT; New Zealand Herald, 11/20/14; BusinessDesk, 11/19/14; Interest.co.nz, 11/19/14*)

Russia looks to Belarus, Argentina for cheese

Russia import data is not available, but EU export data from August and September give an early indication of the impact of Russia's ban on dairy from Europe. In the first seven months of the year, the EU-28 reported exports to Russia of 18,613 tons of cheese and 2,514 tons of butterfat per month. In August, the EU-28 exported 3,169 tons of cheese and 342 tons of butterfat. In September, volumes were just 32 tons of cheese and 1 ton of butterfat, according to GTIS data.

Some of the difference on cheese has been offset by increased purchases from Belarus and Argentina. Belarus cheese exports to Russia were 17,580 tons in August, up from an average of 11,086 tons per month in the first seven months of the year. Argentina cheese exports to Russia were 4,941 tons in August and 5,677 tons in September, up from 959 tons per month in the January-July period. Uruguay and Switzerland also reported increased cheese exports to Russia in recent months. (*USDEC staff; GTIS*)

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COMPANY NEWS

UDP parent placed in receivership

Five Star United Food, parent company of Australia's United Dairy Power (UDP), was placed into receivership after a loss of confidence in its Hong Kong ownership. Insolvency firm PPB and UDP's financier Rabobank appointed a new managing director and said the company and its subsidiaries would continue to operate as usual while management worked to stabilize operations³. (*The Weekly Times, 11/18/14*)

Mergers and acquisitions

German healthcare group **Fresenius** and European buyout firm **Permira** reportedly made a joint bid for **Danone's** medical nutrition business, which has been rumored to be on the block since last year . . . **Lactalis** joined the battle for Egypt's **Arab Dairy**, offering a 15 percent premium over the latest bid from Saudi Arabia's **Arrow Food Distribution** (see *Global Dairy eBrief*, 11/6/14) . . . Thai beer and spirits company **ThaiBev** is reportedly looking to buy Vietnamese milk processor **Vinamilk**. ThaiBev, through its ownership of Fraser & Neave, already holds an 11 percent stake in Vinamilk. (*Wall Street Journal*, 11/19/14; *Ahram Online*, 11/18/14; *VietnamNet Bridge*, 11/18/14)

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PUBLICATIONS

USDA releases three more dairy product annuals

USDA's Foreign Agricultural Service issued Dairy and Products Annuals for [Algeria](#), [Colombia](#) and [Russia](#). To download each report, click on the respective country.

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