



PRINT THE GLOBAL DAIRY eBRIEF

## FEATURED

### Dairy crisis webinar to focus on China

China's critical position in world dairy trade is undeniable. A \$700 million market for the United States, it is also the world's largest buyer, capable of single-handedly moving international commodity prices and market sentiment. A food safety issue in China can have a massive effect on global dairy trade, and because of today's interconnected world, it can quickly ricochet and affect dairy consumer confidence here in the United States and elsewhere, particularly if U.S. dairy ingredients were involved.

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](mailto:csantiago@usdec.org) or 703-528-3049 or DMI's Jolene Griffin at [jolene.griffin@rosedmi.com](mailto:jolene.griffin@rosedmi.com) or 847-627-3320.

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## TRADE POLICY

### U.S., India resolve stockpiling issue; TFA set to proceed

The United States and India reached a deal on India's food stockpiling program, breaking a deadlock that had stalled the implementation of the WTO Bali Package and its Trade Facilitation Agreement (TFA) (see *Global Dairy eBrief*, 10/23/14). Official details of the deal were unavailable at press time. However, news reports said that the agreement essentially further clarifies that the "peace clause" that prevents countries from challenging developing nations' food stockpiling programs (provided that certain conditions are met) does not expire until a permanent solution is reached. It also lays out elements for an intensified program of work and negotiations to arrive at that final outcome.

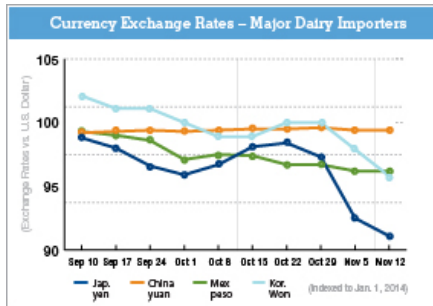
The agreement should clear the way for full Bali Package implementation. TFA aims to reduce bureaucracy, make trade regulations more transparent and accelerate customs procedures. Economists believe it will reduce trade costs by 14 percent. (*Wall Street Journal*, 11/13/14)

### TPP leaders express optimism; APEC launches Pacific trade study

Although much work remains, Trans-Pacific Partnership (TPP) leaders issued a statement noting that progress made in recent months "sets the stage to bring these landmark TPP negotiations to conclusion." They did not, however, include a specific timeline for the deal. Leaders met on the sidelines of last week's Asia Pacific Economic Cooperation (APEC) meeting in Beijing.

## CURRENCY AND PRICES

Click charts to view larger images in your web browser



A rising index means that an importer's currency is strengthening against the U.S. dollar. A falling index means that an importer's currency is weakening against the dollar. When an importer's currency is strengthening against the U.S. dollar (weak US\$), the importer's purchasing power increases; when an importer's currency is weakening against the U.S. dollar (strong US\$), the importer's purchasing power decreases. Source: Oanda.com

EU Export Prices (US\$/ton, FOB port)			
	Oct 15	Oct 29	Nov 12
<b>Cheese</b>	3950-4400	3950-4400	(-250) 3700-4100 (-300)
<b>SMP</b>	2300-2800	(-75) 2225-2725 (-75)	(-25) 2200-2500 (-225)
<b>Whey</b>	1025-1300	1025-1275 (-25)	1025-1250 (-25)
<b>Butter</b>	2625-4175	(+75) 3700-4150 (+25)	(-100) 2600-4000 (-150)
<b>WMP</b>	2800-3225	2800-3300 (-25)	(-25) 2775-3200 (-100)

The euro has fallen 9 percent in the last four months, putting downward pressure on European prices. The last time the euro was this weak was August 2012. SMP prices remain very weak, with competition from other regions. With heavy milk production from Europe, Canada and the United States—and little sign of a slow-down yet—buyers aren't very aggressive in purchasing ahead. EU-28 milk deliveries were up approximately 2.5 percent in September, bringing year-to-date growth to +4.9 percent—an additional 500,000 tons of milk per month.

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

New Zealand Trade Minister Tim Groser said he believed a likely timetable for concluding the talks is within the first six months of 2015. USTR Michael Froman was reportedly advocating a deadline of February 2015. Both President Obama and Republican congressional leaders identified trade as one area in which they could work together, although official accounts from their initial post-mid-term-election meeting made no mention of trade.

Meanwhile, at the APEC summit, leaders agreed to launch a joint two-year study on issues related to establishing a Free Trade Area of the Asia-Pacific (FTAAP). China is one of the major advocates of the deal, which some view as a rival to TPP. (USDEC Japan office; BBC News, 11/11/14; Inside U.S. Trade, 11/10/14; The Canadian Press, 11/10/14)

### USDEC calls for Congress to pass TPA

USDEC was one of nearly 200 organizations signing a letter from the Trade Benefits America Coalition to House and Senate leadership calling for swift passage of Trade Promotion Authority (TPA) legislation. TPA is a critical tool for helping complete trade deals, such as TPP.

USTR Michael Froman previously stated that without TPA, U.S. trading partners are unlikely to put their best offers on the bargaining table. USTR officials have reportedly begun to indicate informally that they prefer to have a TPA vote as soon as possible and before concluding TPP.

Some members of Congress have called for TPA legislation during the upcoming lame duck session. If that fails to materialize, Senator Orrin Hatch (R-Utah), who is expected to take over as Finance Committee chairman in the next Congress, said that TPA passage remains one of his top priorities. (Trade Benefits America Coalition, Inside U.S. Trade, 11/10/14, 11/6/14, 10/23/14)

### Australian dairy sector finds renewed hope for China FTA

The Australian dairy sector expressed renewed optimism that a new FTA with China will include full and relatively rapid phase-outs for Australian dairy products. The industry had been calling for a deal on par with New Zealand's FTA with China, which phases out most dairy tariffs by 2018.

The opinion directly contrasts government guidance issued less than two months earlier, when Australian Trade Minister Andrew Robb warned the nation's dairy industry to temper its expectations for the Australia-China FTA (see *Global Dairy eBrief*, 9/18/14). Although no official details of the pending deal have been released, media reports are suggesting that China is willing to include dairy phase-outs similar to New Zealand's, in part to create more competition for Kiwi suppliers. Media reports also suggest that Australian and Chinese leaders could sign a completed pact as early as this coming Monday.

Separately from the FTA, Australia and China are reportedly close to signing a major deal for live cattle exports. A number of reports claim the number could be as many as 1 million head annually, primarily beef, although industry sources said it could be significantly lower. (ABC News, 11/13/14, 11/11/14; The Land, 11/11/14; Herald Sun, 11/11/14; Kiama Independent, 11/11/14)

### China, South Korea complete FTA; dairy excluded

China and South Korea reportedly finalized an FTA that will remove tariffs on 90 percent of goods traded between the two nations over the next 20 years. Most dairy products, including cheese, SMP, WMP, fluid milk, infant formula, butter and whey, were excluded from the deal. (USDEC South Korea office; AP, 11/10/14)

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## LOGISTICS

### Industry groups take port issue to White House

The Agriculture Transportation Coalition (AgTC) and other industry groups met with White House leadership to discuss port disruptions on the West Coast (see *Global Dairy eBrief*, 11/6/14). The groups strongly emphasized that government monitoring of the situation is insufficient and urged the administration to take firm action, such as bringing in a federal mediator to the negotiations between the Pacific Maritime Association and the International Longshore and Warehouse Union.

Port conditions are reportedly worsening, with cargo being left at the docks or unable to move and ships stacked up outside the port. The AgTC, of which USDEC is a member, said it is working with congressional delegations and the press to generate pressure on the White House to take action. (AgTC; The Loadstar, 11/13/14)

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## MARKET CONDITIONS

### Fonterra reaffirms payout, expectations for price rise

Fonterra reaffirmed its forecast 2014/2015 payout at NZ\$5.30/kgMS (plus a dividend of NZ\$0.25-0.35 per share), reiterating its expectation that commodity prices would begin to rise over the next six months.

Because a number of farmers had used the record 2013/2014 payout to deleverage their operations and were closely watching costs and cutting expenses now, New Zealand's Reserve Bank believed that the industry was well

positioned to handle one year of low payouts, as long as that payout did not fall into the mid \$4.00/kgMS range. However, the bank said the country would see rising loan defaults from dairy farmers should the lower payout levels persist for more than a year (due to factors such as continued robust expansion in the global milk supply or delays in China returning to the market).

Even for a single year, DairyNZ estimated that about one-quarter of New Zealand dairy farms could struggle to meet interest and working expenses at the current NZ\$5.30/kgMS payout.

Fonterra Chairman John Wilson said he expected farmer budget cuts and reduced feed on farm would reduce milk volume growth over the summer. "While the peak is up at the moment . . . I think it's highly likely that we'll produce less milk out of New Zealand this year than last year," Wilson said. (*BusinessDesk*, 11/12/14; *3News*, 11/12/14; *NZCity*, 11/12/14; *Waikato Times*, 11/4/14; *New Zealand Herald*, 10/31/14)

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## COMPANY NEWS

### DFA and Yili to build joint U.S. milk powder facility

Dairy Farmers of America and Yili Group are expanding their year-old strategic alliance with a new U.S. milk powder manufacturing plant. The partners will build the plant in Kansas, with DFA investing \$70 million and Yili contributing \$30 million. The facility will reportedly produce 80,000 tons per year. Initial news reports did not specify a timetable for construction or plans for marketing the products. (*Wall Street Journal*, 11/13/14)

### Mergers and acquisitions

Hong Kong-listed infant formula company **Ausnutria Dairy Corp.** sold a 25.8 percent stake to Taiwan-based pharmaceutical company Center Lab and its subsidiary Biogene Capital for approximately US\$99 million . . . **Mondelez International** agreed to buy an 80 percent stake in Vietnamese snack manufacturer **Kinh Do Corp.** for approximately \$370 million. The deal includes an option to purchase the outstanding 20 percent after 12 months. (*Company reports*)

### Company news briefs

**Agropur** is spending \$55 million to expand feta processing at its Weyauwega, Wis., manufacturing site . . . Saudi Arabia's **Almarai** plans to accelerate expansion of its baking business with a new manufacturing plant in King Abdullah Economic City. The plant will replace an older facility in Jeddah . . . UK chain **Pizza Express**, purchased last year by Chinese private equity firm Hony Capital, plans to open 100 new outlets in China, starting in Macau . . . **American Dairy Queen Corp.** signed a long-term, multi-unit agreement with foodservice franchise group **Bajco Gulf** to develop the Dairy Queen concept in the UAE . . . **Fonterra** plans to launch a free school milk pilot program in Sri Lanka by early next year. The company did not reveal the scale of the program . . . Australia's **Devondale Murray Goulburn** pushed back the date when it expects to issue a new capital restructuring proposal from March 2015 to "mid-2015" . . . **Mondelez** is spending \$24 million to expand confectionery production at its chocolate, candy and gum facility in Gebze, Turkey (*USDEC Middle East office*; *Company reports*; *Dominion Post*, 11/11/14; *Milwaukee Journal Sentinel*, 11/10/14; *Macau Business Daily*, 11/5/14)

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