



PRINT THE GLOBAL DAIRY eBRIEF

FEATURED

U.S. ag groups commend USTR on strong India stance

USDEC joined a group of 39 U.S. agriculture groups, led by the American Farm Bureau Federation, in sending a joint letter to USTR Michael Froman applauding U.S. leadership efforts to hold India to the Trade Facilitation Agreement (TFA) included in the WTO Bali Package late in 2013 (see *Global Dairy eBrief*, 12/12/13). India balked at implementing the TFA this summer and instead demanded a resolution to exempt its food stockpiling programs from WTO domestic support disciplines, despite previously agreeing to the Bali Package (see *Global Dairy eBrief*, 7/31/14).

USDEC helped initiate the letter and worked closely with Farm Bureau to help secure support for the message across a wide range of U.S. agricultural groups. The letter noted that India had already used TFA as leverage—employed under the guise of “food security”—to gain concessions at the Bali ministerial meeting. India’s refusal to support TFA now is “a brazen effort to force other WTO member nations to pay twice to gain India’s endorsement of TFA.”

India finally notified WTO of its agricultural subsidies this summer in a report that was a decade overdue. Its subsidies far exceed support in the United States and most other developed countries, the letter noted, “and it is these programs that India is seeking to protect from challenge.”

Once implemented, TFA will reduce the cost of trade by streamlining and harmonizing customs rules and procedures to the benefit of all countries.

The WTO kicked off nearly a month of talks last week aimed at finding a path forward for the TFA. Trade representatives have until an Oct. 6 meeting of the WTO Trade Negotiations Committee to find a way to implement it. Without TFA, the chances of moving forward on a post-Bali agenda are unlikely. (USDEC staff; *Inside U.S. Trade*, 9/15/14)

Permeate strategy session leads off USDEC board meeting

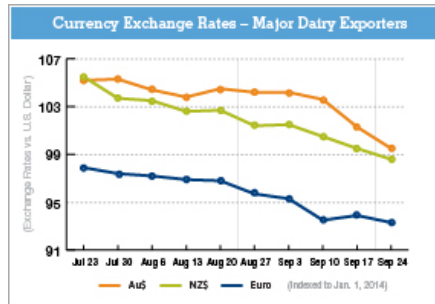
At the request of Polly Olson, chair of USDEC’s Global Ingredients Committee, staff has arranged for a global permeate strategy meeting in conjunction with the fall Board of Directors and Membership Meeting, Oct. 15-16 at Chicago’s Swissôtel. The session, aimed at members with a vested interest in promoting permeate use in food applications, takes place from 1-2 p.m. on Wednesday, Oct. 15, prior to the official start of the event.

The session will review the global strategy for permeate and include a strategic discussion on the opportunities and challenges for key markets and the approaches for overcoming those challenges. Please RSVP to Vikki Nicholson at vnicholson@usdec.org if you plan to attend the permeate meeting and for a copy of USDEC’s global permeate strategy.

To register for the Board of Directors and Annual Membership Meeting, click [here](#). To view the complete preliminary agenda for the event, click [here](#).

CURRENCY AND PRICES

Click charts to view larger images in your web browser



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

	Aug 27	Sep 10	Sep 24
Cheese	3750-4250	(-50) 3700-4200 (-50)	(+100)3800-4300 (+100)
SMP	2900-3400	(-150) 2750-3250 (-150)	(-225) 2525-3100 (-150)
Butter	2700-3300	(+100)2800-3400 (+100)	(+50) 2850-3400
WMP	2700-3300	2700-3300	(-75) 2625-3125 (-175)

Milk production in the Oceania region continues to build toward the seasonal peak at levels above a year ago. In August, China imported 88,370 tons of milk powder, whey products, butterfat and cheese, down 8 percent from last year and the lowest figure since June 2013. NZX futures average selling prices for Q1-2015 are within the range of earlier prices as today: \$3,050 for WMP, \$2,700 for SMP and \$3,400 for AMF. Ongoing weakness in global markets has eroded farmers' confidence and appetite to export, according to market surveys. Chinese currency is weakening; in the last 10 weeks, the NZD has lost 8 percent vs. the US\$, while the Australian\$ has lost 5 percent.

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

Arla executive to address global dairy landscape at USDEC board meeting

Today's global dairy landscape is at once filled with more promise and more challenge than ever before. From his perch as executive vice president and a member of the executive management group of Arla Foods, Jais Valeur has a unique vantage point on the issues, trends and strategies likely to shape the industry in the coming years.

Valeur will share from his wealth of international dairy experience in an afternoon presentation Oct. 16 at the USDEC Board of Directors and Annual Membership Meeting at Chicago's Swissôtel.

Valeur is currently responsible for Arla's global categories and operations, driving the development of global brands like *Lurpak* and *Castello*, the Arla Strategic Innovation Centre and Arla's global operations and supply chain for cheese, powder and butter. Previous responsibilities include CEO for Arla Mengniu in China, general manager with New Zealand Dairy Board/Fonterra, and president of the European Whey Products Association.

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EU suspends cheese PSA

The European Commission suspended its private storage aid (PSA) program for cheese (implemented to support cheesemakers hurt by the Russian trade embargo) after a rush of dubious compensation claims. Italy put in claims for more than 74,000 tons of cheese the first week PSA opened, which amounted to nearly 88 percent of all cheese claims for the period. However, for the 12 months ending April 2014, Italy had shipped only 11,000 tons of cheese to Russia.

The commission said the suspension was a "precautionary step" to avoid hitting the 155,000-ton PSA ceiling too quickly. It did not say if and when it would reopen the program. Earlier this month, the EU halted its produce support scheme for similar reasons (see *Global Dairy eBrief*, 9/18/14). Initial PSA claims for SMP and butter were in line with expectations, the commission said: 8,825 tons of butter and 4,342 tons of SMP through Sept. 21. (*Dairy Markets*, 9/24/14; *Agence France Presse*, 9/23/14)

Submit reservations for Gulfood 2015 starting Oct. 8

USDEC will begin accepting registrations for the 2015 Gulfood show via email starting at 4 p.m. ET on Wednesday, Oct 8. The trade show is slated for Feb. 8-12, 2015, in Dubai. USDEC will allocate positions on a first-come, first-serve basis. The trade show is one of the most popular among USDEC members and spaces generally fill up in a matter of minutes.

Gulfood, the Middle East's leading exhibition for the foodservice and hospitality sectors, attracts attendees not only from the Middle East, but from around the world, with more than 150 countries represented in 2014. While nominally a foodservice/hospitality event, executives from importers, distributors and retailers all attend.

Please note: USDEC will be setting aside two positions for member companies who have not previously exhibited at the Gulfood show. Additionally, due to high demand and space limitations, USDEC member companies with their own booth within the U.S.A. Pavilion or elsewhere in the show are ineligible to participate in the USDEC booth.

To register for the USDEC booth, email Amy Foor at afoor@usdec.org starting at 4 p.m. ET on Oct 8. For general information on Gulfood, click [here](#).

Russia continues to shuffle dairy suppliers

Russia reportedly reached agreements to fast-track dairy plant certifications for Argentina and India. If inspections and paperwork proceed as expected, Indian suppliers could start shipping to Russia as early as December. India has not exported to Russia in nearly three years and even when it did, volumes were minor—averaging less than 40 tons annually from 2008-2011, according to data from Global Trade Information Services.

A number of Argentine dairy suppliers are already cleared to ship to Russia. Argentine dairy exports to Russia—primarily milk powder—rose in both 2012 and 2013 (reaching 26,408 tons), but Russia is looking for greater volumes and more variety, including cheese and butterfat, to replace lost European sales. More than 125 food and beverage companies from Argentina and Brazil attended World Food Moscow in mid-September looking to build ties.

At the same time, Russian authorities said they are more closely monitoring imports of Belarusian dairy products. The government claims Lithuania and Poland have increased dairy shipments to Belarus and that some of those products might be earmarked for re-export to Russia. (*RT.com*, 9/24/14; *Dairy Markets*, 9/23/14; *Itar-Tass*, 9/19/14; *RIA Novosti*, 9/17/14)

[Back to top](#)

TRADE POLICY

Talks continue, but TPP progress lacking

USTR Michael Froman and Japanese Minister for Economic and Fiscal Policy Akira Amari held a two-day meeting this week in Washington, D.C., to "review progress, identify where gaps remain and begin working through outstanding issues" on the Trans-Pacific Partnership (TPP), a USTR spokesperson said. The United States downplayed expectations of an agricultural breakthrough at the meeting, although prior to it, Ambassador Froman did urge Japan to hold to Japanese Prime Minister Shinzo Abe's "bold vision" and show greater willingness to

compromise. For his part, Abe subsequently claimed Japan would present its flexibilities at the meeting and called on the United States to do the same.

Trade representatives released no details of the talks and there are no signs of progress in securing meaningful agricultural market access from Japan across all sectors.

The inability of the United States and Japan to reach a compromise on agriculture is widely regarded as holding up the rest of the negotiations, although significant work remains on other TPP areas, including with Canada on agriculture.

The next TPP chief negotiators meeting is slated for mid-October in Canberra, Australia, and trade ministers will meet immediately following in Sydney, according to sources close to the talks. Media reports say that South Korea is now considering joining the deal after the 12 nations complete negotiations but prior to the major parties ratifying the deal. (*USDEC staff; Inside U.S. Trade, 9/23/14; 9/18/14; 9/15/14; 9/12/15*)

TTIP and other trade negotiations proceed

The United States and others continue to work on trade deals apart from TPP:

- A seventh round of negotiations on the Transatlantic Trade and Investment Partnership (TTIP) takes place Sept. 29-Oct. 3 in Chevy Chase, Md.
- The 16 nations involved in establishing the Regional Common Economic Partnership (RCEP) will hold their fifth round of FTA talks Dec. 1-5 in India. The group, made up of Australia, China, India, Japan, Korea, New Zealand and the 10 countries of the Association of Southeast Asian nations, set a 2015 goal to complete negotiations.
- South Korea's Ministry of Trade, Industry and Energy said that it might require only one more round of talks with New Zealand to complete their bilateral FTA. (*USDEC South Korea office; Inside U.S. Trade, 9/18/14, 8/27/14*)

[Back to top](#)

MARKET CONDITIONS

Fonterra slices NZ\$0.70 from forecast payout

New Zealand's Fonterra Co-operative Group lowered its forecast farmgate milk price for the 2014/2015 season from NZ\$6/kg MS to a six-year low of NZ\$5.30/kg MS (equivalent to about US\$13.00/cwt). A small increase in the dividend (from NZ\$0.20-0.25 to NZ\$0.25-0.35 per share) only slightly mitigated the reduction for Fonterra members.

In making the changes, the co-op cited the "uncertain outlook for the global economic environment and an expectation of continued volatility for dairy prices driven by geo-political events and the supply/demand imbalance."

The reduction means member income will fall by more than NZ\$5 billion compared to the final 2013/2014 payout, a reality that is already causing farmers to reduce spending and investment. In addition, the co-op pointed to further downside risk. The new forecast is based on the belief that international WMP prices will recover to US\$3,500/ton by March 2015. (*Company reports; Wall Street Journal, 9/24/14; CNBC, 9/24/14; Stuff.co.nz, 9/23/14*)

Australia dismisses idea of monopoly exporter

A draft report from an Australian competition policy review panel rejected the suggestion that the nation should amend federal legislation to allow a "national champion" for the Australian dairy sector akin to New Zealand's Fonterra. Ever since the takeover battle for Warrnambool Cheese and Butter Factory last winter, some Australian dairy companies and politicians have lobbied for less restrictive competition laws that would allow the country to emulate Fonterra in its approach to world markets. Proponents claim it would better equip the nation to compete globally.

The draft report dismissed those suggestions, saying it was unclear whether suspending competition laws was in the best economic and consumer interests of Australia. The matter, however, is not closed: The review panel is accepting comments on the draft until Nov. 17. The final report is due in March 2015. (*The Weekly Times, 9/22/14; The Land, 9/22/14*)

More Australian fluid milk headed to China

Bega Cheese, A2 Milk and Brownes Dairy are looking to join their fellow Australian processors in capitalizing on rising Chinese demand for fluid milk. Bega signed an A\$100 million (about US\$89 million) agreement to supply UHT milk to Chinese retailer Chongqing General Trading Group. Bega said it was the first step in developing a comprehensive Chinese UHT offering in the future.

A2 said it finalized a deal to offer refrigerated milk from Australia through online retailer Jingdong and is in advanced talks to sell the same product through online retailer Alibaba. The company expects to ship 1.5 million liters of fresh milk to China over the next 12 months. Within two years, it expects Chinese shipments of A2 fresh and UHT milk

combined to reach 10 million liters per year.

Australian private equity firm Archer Capital is looking for a Chinese partner to invest in Australian fluid milk and yogurt processor Brownes Dairy. Archer reportedly wants the investor to take a significant stake in the business and then help Brownes distribute its milk products across mainland China. (*Sydney Morning Herald*, 9/19/14; *Wall Street Journal*, 9/19/14; *The Australian*, 9/18/14)

[Back to top](#)

USDEC NEWS

Dairy ingredients highlighted at Frito-Lay event

The USDEC Global Marketing domestic ingredients program will highlight the advantages of U.S. dairy ingredients at the Frito-Lay Inc. TOPS in-house Innovation Technology Show on Sept. 25. Staff will emphasize the satiety, weight management and clean label benefits of dairy using a soft "Protein Pretzel" prototype made with WPC80 and permeate and paired with a chipotle yogurt dip.

The event enables one-on-one sharing of the latest dairy ingredient research, and nutrition and application information with personnel from R&D to marketing at Frito-Lay's Plano, Texas, R&D center. For a copy of the soft pretzel formula sheet, click [here](#).

[Back to top](#)

PUBLICATIONS

DMI Research Pipeline Quarterly

DMI released the latest Research Pipeline Quarterly, a report that highlights recent high-impact nutrition research, product research and scientific affairs papers that were accepted or published in scientific journals within the last quarter. Among the current issue's papers are summaries of three breakfast nutrition studies, as well as research into the relationship between fatty acids and diabetes and sodium/potassium and blood pressure. To view a copy, click [here](#).

[Back to top](#)

COMPANY NEWS

Arla targets Brazil

Arla Foods is positioning for expansion in Brazil. The company is exchanging its stake in Dan Vigor, a 50/50 joint venture with Brazil's largest dairy Vigor Alimentos, for an 8 percent share in Vigor Alimentos itself. Arla's ambition is to accelerate its branded product exports to Brazil, particularly butter and cheese. The move aligns with efforts to find growth markets outside the EU in preparation for the removal of milk quotas in 2015. As part of the Vigor deal, Arla will spearhead a new business unit within Vigor (with a new commercial executive officer) focusing on marketing and selling imported brands. (*Company reports*)

Hochdorf expands infant formula operations with eye on Latin America

Switzerland's Hochdorf Group acquired 60 percent of German dairy Uckermärker Milch and just over a quarter of German trading house and Uckermärker owner Ostmilch Handels. Hochdorf plans to spend \$26 million to upgrade and expand the Uckermärker milk powder plant in Prenzlau, Germany, to infant formula standards. The facility will produce for the Central and South American markets as well as for Europe, Hochdorf says. (*Company reports*)

[Back to top](#)

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