

# Fortnightly Update

Issue 16 – 9 August 2013

## Global Developments

**Dairy markets have seen a week of intense media and regulatory activity. On August 3 Fonterra New Zealand reported contamination of three batches of WPC80 with *Clostridium botulinum*.** The company advised eight of its customers about the quality issue with the whey protein that was produced at the Hautapu manufacturing site more than a year ago in May 2012. The contaminated ingredient was exported to six international markets, including Australia, China, Malaysia, Vietnam, Thailand and Saudi Arabia for use by customers in a range of products including infant formula, growing up milk powder and sports drinks. Food Standards Australia New Zealand (FSANZ) confirmed Australia received two batches of the potentially contaminated ingredient from NZ. DAFF has traced all affected product and dairy products made with potentially contaminated NZ dairy ingredients are no longer in the Australian dairy production system.

**In an unrelated development this week, Fonterra was one of six milk powder producers fined this week by China's National Development and Reform Commission (NDRC)** following an investigation into price fixing and anticompetitive behaviour. The total penalties between Fonterra, Mead Johnson, Danone, Abbott Laboratories, Friesland Campina and Biostime International came to US\$108 million (AUD\$121 million). Three other firms, Nestle-owned Wyeth, Japan's Meiji Holdings and Zhejiang Beingmate were probed but were not fined.

**Buyers seem to have largely shrugged off the week's disruptions at the most recent GlobalDairyTrade (GDT) auction (event 97), with the GDT Price Index (replacing the Trade-Weighted Index) down by a relatively modest 2.4%.** The 60,587 tonnes of product sold was 60% higher than the previous auction and 30% more than the same time last year. A reported 39,000 tonnes of WMP was snapped up at an average price of US\$5,021/t—down 1.6%, while SMP sold to an average of US\$4,451/t (down 3.0%). SMP price differentials between Fonterra product and that of DairyAmerica, Arla and Amul decreased, while forward pricing for both the key powders reflects expectations of continued strength in the market. AMF and butter saw slightly larger average declines, down 4.9% and 5.5% to US\$4,612/t and US\$3,499/t respectively. See: [www.globaldairytrade.info](http://www.globaldairytrade.info).

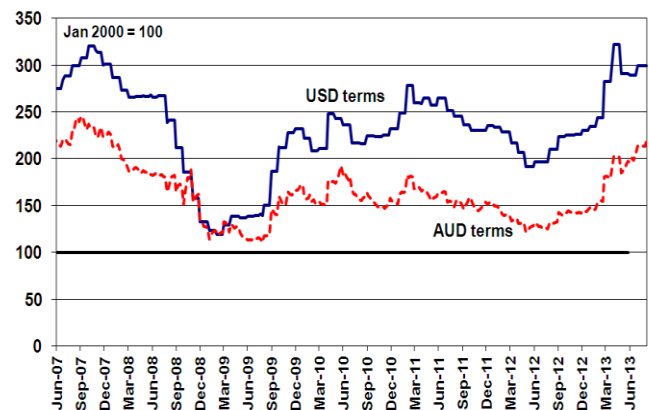
## The Australian Front

**Devondale Murray Goulburn (Devondale-MG) is investing \$2.5 million in upgrading equipment at its Koroit site following an agreement to supply Danone Group with up to 50,000 tonnes of growing-up milk powders (GUMPs) over 5 years.** This agreement with Danone builds on Devondale-MG's history of supplying the French dairy group with GUMPs base in recent years in both Malaysia and Thailand; and represents another effort to achieve 'higher margins and reduce...exposure to the more price volatile commodity products.'

**Gippsland's Burra Foods is spending \$20 million to build an infant formula processing plant** at its Korumburra site, with the first batch of nutritional milk powders scheduled for early 2014. Shareholders Itochu and the Crothers family are funding the development through which Burra expects to create up to 30 new jobs and add 10,000 tonnes to the Korumburra site's existing 50,000 tonnes of annual output. In establishing the new infant formula processing plant, Burra expects to increase both (a) the utilisation of its spray dryer outside the spring peak and (b) the returns from its milk with an export product that 'is approximately one and-a-half to two times the value of commodity based powder.'

**A continued focus by Australian dairy players on higher value nutritional powders is expected, especially given the attractive returns and growth prospects in the global market for milk formula,** forecast to grow annually at 8%—and the Chinese market at 19%—through to 2016 (according to Euromonitor), underpinned by further increases in disposable incomes.

### Export Index



Australian Export Index (Base = 100 at Jan 2000)

	This week	Last month	3 months ago
<b>Index (USD)</b>	299.3	299.3	290.9
<b>Index (AUD)</b>	219.8	214.6	186.1
<b>AUD/USD</b>	0.8923	0.9139	1.0245