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Required Report - public distribution

Date: 10/14/2011

GAIN Report Number: NZ1113

New Zealand

Dairy and Products Annual

2011 Annual Dairy Report

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Report Highlights:

New Zealand's milk production in 2012 is forecast at 19.0 million metric tons (MMT), up slightly (1.6%) from this year's estimated record production level of 18.7 MMT. Total production of dairy products is forecast at 2.3 MMT, up 5% from 2011. Production of whole milk powder (WMP) is again expected to surge and is forecast at a record 1.1 MMT. Total exports of dairy products in 2012 are forecast at 2.27 MMT, up about 8% from the estimated 2.1 MMT exported in 2011.

Executive Summary

It will be a tall order for the New Zealand Dairy industry to top this year's record milk production. Assuming normal climate conditions, however, Post is projecting that the nation's farmers will rise to the challenge and forecast total fluid milk production in 2012 at 18.7 million metric tons (MMT), up almost 2 percent from the estimated record 18.7 MMT produced in 2011. Increased production is expected to be supported by the entry of 80 to 100 new dairy farms adding an extra 110,000 cows, and by the continuing trend in productivity gains in per cow and per hectare performance levels.

Environmental concerns and the imposition of tighter conditions on new farms and land use changes are limiting additional growth in the dairy industry. Without these additional costs and risks the rate of new farms being added to the sector could be up to double the present rate.

New Zealand's dairy industry is reasonably unique in that no more than 5% of the milk produced is actually consumed as dairy products or liquid milk within New Zealand, and the farmers rely on a pasture-based cow feeding system. This means that any changes in production are reflected in exports. There is no government interference in the form of export quotas or taxes. Total exports in any one year are only moderated by processor stock level changes.

Looking ahead to CY2012, Post anticipates that total production of Whole Milk Powder (WMP), Non Fat Dried Milk or Skim Milk Powder (SMP), Cheese, and Butter/Anhydrous Milk Fat (AMF) production will reach 2.3 MMT, a 5% increase compared to the estimated CY2011 production level of 2.2 MMT. With production of WMP forecast at 1.1 MMT in 2012, WMP will continue to dominate the dairy product sector, comprising nearly 48% of total production. In order to process the record daily milk flows in Q4 2011 promptly, processors are producing more Butter/AMF and SMP, which will check some of the increase in WMP production in 2011.

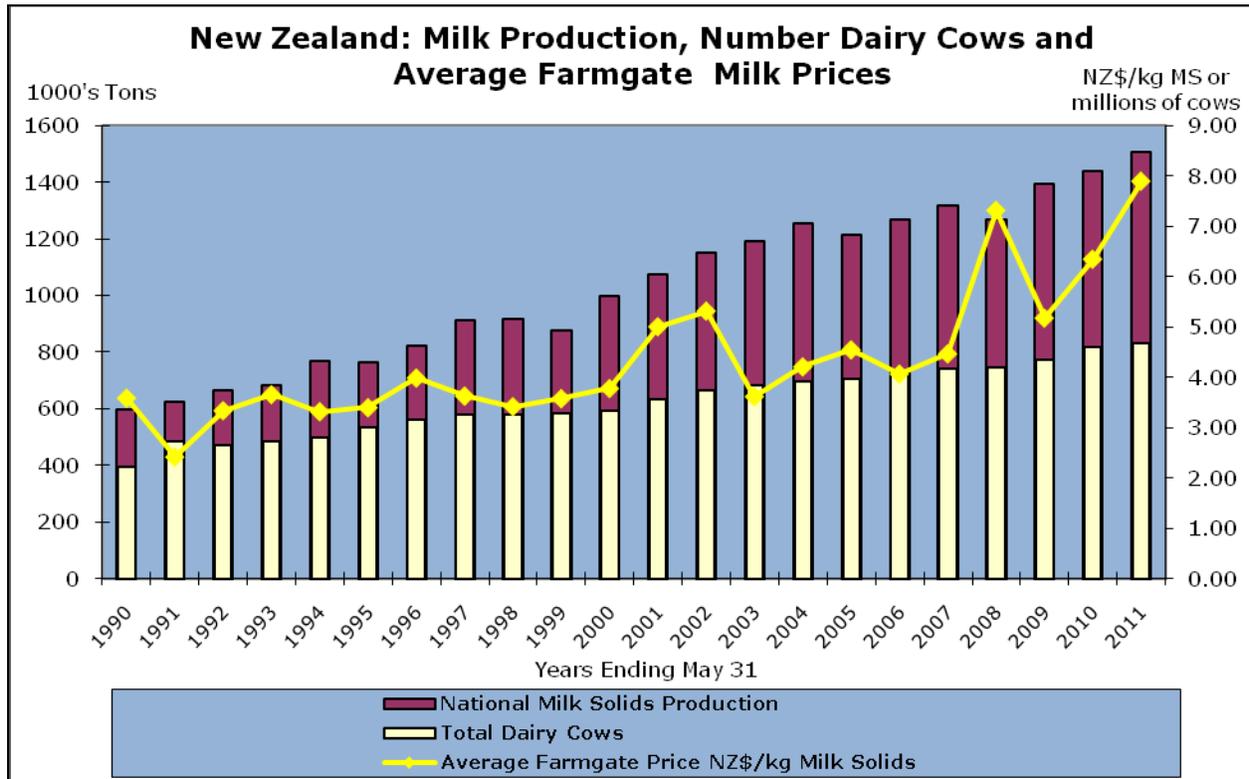
On the export front, a buildup of stocks in Q4 2011 will likely boost total exports of the big four commodities in 2012, which are forecast at 2.27 MMT. The production boost for WMP will see WMP exports jump up by 9% and the stock reduction for SMP and fat products will help increase exports by 12% and 6% respectively. Cheese is becoming the poor cousin, with exports languishing at an estimated 238,000 tons for CY2012. Exports of other products including Milk Protein Concentrates (MPC), Casein, liquid milk, whey products will now total more than that of cheese.

There have been no notable changes in the policy area, however there are several issues bubbling along which have the potential to change the sector over the next 12 to 18 months. Currently under review are the raw milk regulations contained in the Dairy Industry Restructuring Act. Any changes to the raw milk regulations would affect new processor access to raw milk from the Fonterra Cooperative, which collects approximately 89% of the milk produced in New Zealand. In addition, implementation of the proposal to allow Fonterra Cooperative shareholders to trade shares amongst themselves rather than only allowing Fonterra to transfer shares will require legislative changes.

Note: Marketing Year (MY) is the same as the Calendar Year (CY)

Production

Milk Production



CY 2012

2012 milk production is forecast at 19.0 MMT, up slightly from last year's record production level. In order to top last year's record production level it is assumed that generally normal climate conditions will prevail during the season. The following assumptions were employed in establishing the 2012 forecast, taking into account two distinct time periods, one for the period January/ May 2012 (prior to the winter dry-off period); and the June/December 2012 period.

- For the (Jan/May), 2012 summer and autumn seasons, it is estimated that milk production will be similar to the level of milk produced during the same period in 2011.
- It is unlikely that milk production for the period Jan/May 2012 will surpass output during the same period in 2011, as production during the 2011 time period was 11% ahead of the previous year. Additionally, the effects of "La Nina" will likely limit the potential for any significant gains in production during the first half of 2012.
- It is expected that by August 2012, another 80 to 100 dairy farms will come into production, mainly on the South Island. This will likely increase 2012 production levels during June/December 2012 period by as much as 1% to 1.5% compared to the same period in 2011.
- Assuming generally normal weather patterns during the June/December 2012 period, the positive trends in per cow and per hectare productivity will likely support production gains on the order of 1.5% to 2%.

- Higher cow numbers coupled with the positive trend in dairy productivity supports an increase in milk production on the order of about 3% for the July/December period compared to the same period last year, bringing the year-on-year total increase in total milk production to about 1.6%

CY 2011

In 2011, generally favorable weather has given rise to good pasture growth which in turn is expected to support a significant increase in milk production. Consequently, Post's estimate of 2011 milk production was increased (3.6%) to a record 18.7 MMT, nearly 9% higher than the 2010 estimated production level. Factors supporting this record level of production include:

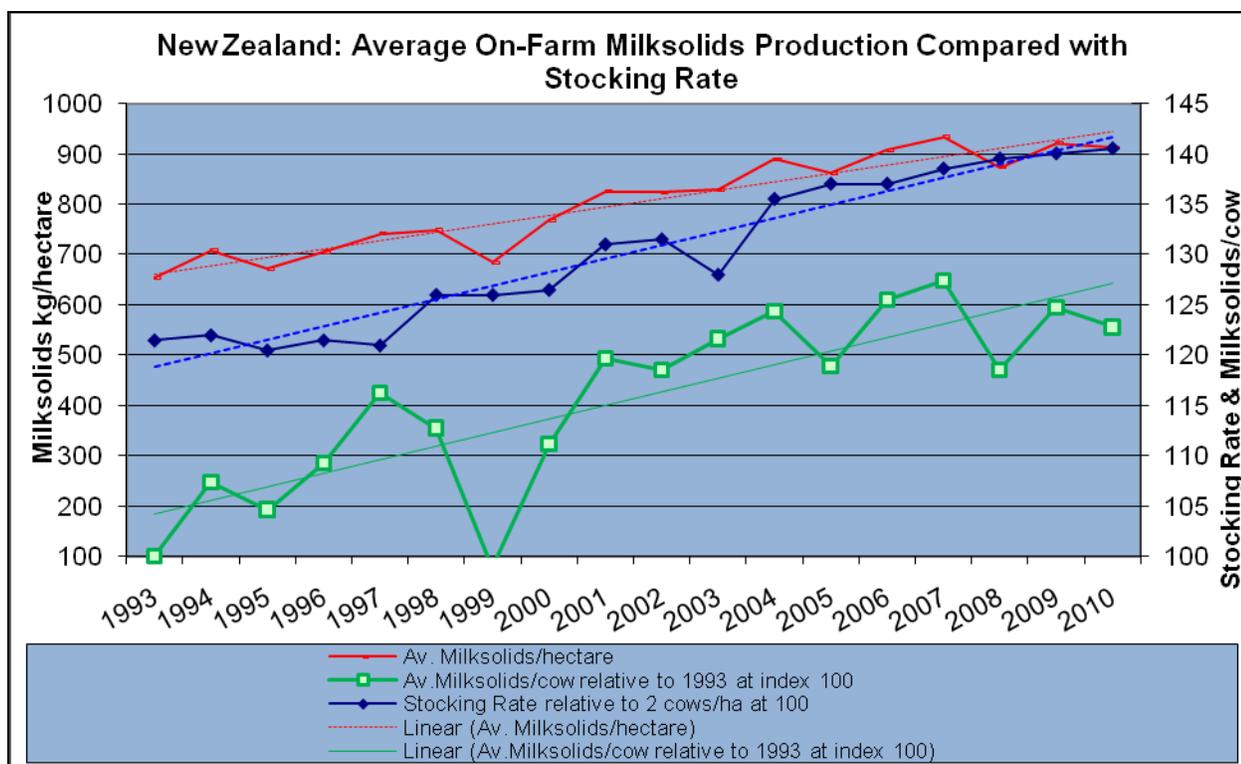
- Record production in the Jan/May 2011 time period was 11% higher than for the same period last year.
- Timely and sufficient rainfall during the Jan/May 2011 time period narrowly averted a third consecutive year of drought in the main dairy producing area of Waikato/Bay of Plenty, and maintained average or better-than-average pasture production levels over the rest of the dairy regions.
- With the expectation of a record milk payout, farmers purchased more supplementary feed to maintain cow herds at generally better levels than in previous years.
- Farmers milked their cows for a longer period (through late-May/early-June) before drying them off for the winter break in milk production.
- Pasture levels going into the (June/August) winter of 2011 were generally good and in response to favorable winter weather conditions cows were in better condition when they began calving than has been the case for the past two seasons.
- While soil temperatures in September 2011 were slightly lower than average for most of New Zealand south of Lake Taupo, there were no untoward weather events to mar the spring.
- Just enough high-quality pasture was available during August and September in the greater Waikato, Auckland & Bay of Plenty (approximately 35% of national production) to not limit production.
- Slightly higher cow numbers on existing farms (estimated NZ wide at an extra 65,000 cows) are pushing daily milk production to record levels in the Waikato.
- As many as 125 new dairy farms came into production by August 2011, most of which are located on the South Island (bringing in another 75,000 cows). Taking into account larger cow numbers and relatively benign weather, and South Island milk production is also pushing record levels.
- By the end of September 2011, NZ seasonal milk production was about 11% ahead of last year during the same period. (The 2010 spring was cold and wet, and milk production was just below the Sep 2009 level).
- Post maintains that the robust rate of growth in milk production during the first half of the season will not be sustained through December 2011, and thus a more modest estimate of a 7.5% increase in milk production for the June/Dec 2011 period is projected.
- Rains in October 2011 will likely sustain average pasture growth rates through early December, and underpin the forecast level of production for the Oct/December 2011 period.
- Although total cow numbers in 2011 are only 3% above 2010, the very large production increases evident in NZ milk production is being supported by gains in per cow and per hectare productivity, which had been lagging behind the historical trends in production increases owing to three years of drought. Every year the genetic potential of the NZ dairy herd strengthens, so there is a latent production potential which, when combined with good pasture growing conditions and the high milk payout price is being realized.

Dairy Farm Profitability and Farm Gate Milk Price Payouts

Payout Prices by NZ Dairy Cooperatives			
(Per Kg of Milk Solids)			
Company Name	Payout 2008/09	Payout 2009/10	Payout 2010/11
Fonterra	NZ \$5.20	NZ \$6.37	NZ\$7.90
Tatua	NZ \$5.38	NZ \$6.32	NZ\$8.10
Westland	NZ \$4.50	NZ \$6.15	NZ\$7.70

Sources: Tatua, Westland, Fonterra

Note: Payout includes raw milk price and dividend payout.



New Zealand: Profitability of Dairy Farming						
(NZ Dollars per kilogram of milk solids)						
Key Indicator Category	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11 Estimate
Milk Sales	4.13	4.12	7.35	5.20	6.16	7.60

Livestock Sales & Sundry Income	0.21	0.31	0.45	0.45	0.37	0.40
Change in Value Livestock	0.24	0.16	0.15	0.02	-0.01	0.05
Total Gross Income	4.58	4.59	7.95	5.67	6.52	8.05
Farm Working Expenses	3.54	3.63	4.91	4.88	4.51	4.80
Operating Profit	1.04	0.96	3.04	0.79	2.01	3.25
Debt Servicing	0.98	1.01	1.30	1.58	1.51	1.40
Rent	0.10	0.10	0.09	0.12	0.15	0.15
Net Profit	-0.04	-0.15	1.65	-0.91	0.35	1.70

Source: DairyNZ, Post Estimates

Environmental Constraints

Over the past several years, Post has highlighted increasing public concerns over environmental degradation, which is generally perceived, and in some cases rightfully so, to be the result of the growing number of dairy cows. At the top of the list of concerns is water quality, followed closely by water availability, and to a lesser extent soil degradation and animal welfare. Post has previously posited that growing environmental concerns would likely to constrain future growth in the dairy sector. This now appears to be the case, not overtly as such, but the costs and risks involved in dairy production have been increasing over the past several years. Today, a substantial proportion of the increase in production costs is based on: the environmental consents process; increased infrastructure needed for effluent handling; and higher costs associated with securing water availability. In the wake of the global financial crisis, the NZ banking sector has tightened up credit criteria and has interpreted environmental costs and concerns as increased risk, which has made obtaining credit for new dairy operations more difficult.

Over the next few years the following factors will likely limit increases in the number of dairy farms:

- The Horizons Regional Council in the Southern North Island has placed limits on calculated nitrate leaching on any new dairy farms which will limit the number of new entrants and increase the costs.
- The Lake Taupo catchment now has a national conservation order which severely limits nitrate leaching, making it highly unlikely that any new dairy operations will be established in that catchment area.
- In a recent report, the Southland Regional Council indicated that results from water monitoring suggest that under current farm management regimes the region is nearly at its limit in terms of cow numbers and the potential level of nitrate leaching that the water systems can currently sustain without substantial degradation.
- As a signatory to the Kyoto protocol the land in the central North Island which is currently under trees cannot be cleared without a significant Kyoto penalty, and under current New Zealand law this liability is passed on to the actual landowners. The cost of this penalty means it would be uneconomical to convert this land to dairying.
- The likelihood of new rather more restrictive bylaws in the Waikato river catchment appears likely.

It seems reasonable to assume that in the absence of restrictions outlined above, the number of farms being converted to dairying would be significantly higher perhaps up to double the current rate.

Dairy Product Production

CY 2012

In response to the greater availability of milk, total production of dairy products in 2012 is forecast at 2.3 MMT, a 5% increase over the previous year.

Whole Milk Powder (WMP)

At least one major powder drying processing facility and possibly one or two smaller units are expected to commence production during 2012. As a result, it is anticipated that once again WMP production will surge and is forecast at 1.1 MMT in 2012, an 11% increase over the 2010 production level.

Butter and other Fat Products

It is expected that most of the increased supply of milk will go into WMP production, thus butter and fat production is forecast to stabilize at 490,000 tons (PSD total adjusts AMF volume to a butter equivalent), a 2,000 ton reduction from the 2011 production level.

Non-Fat Dried Milk/Skim Milk Powder (SMP)

For SMP, it is a similar story to butter with production forecast to be stable at 440,000 tons.

Cheese

There are no indications at this stage that there will be any significant changes to cheese production in 2012. Post is forecasting a small 1% increase that would see total production at 260,000 tons.

CY 2011

Total production of for Cheese, Whole Milk Powder, Non-Fat Dried Milk, and Fat products in 2011 is estimated at 2.2 MMT, nearly a 10% increase above the 2010 production level. Production of other commodities and consumer products are likely to be in the region of 325,000 tons, close to a 13% year-on-year increase. Because domestic consumption is relatively stable and comprises only a very small proportion of total production, virtually all the increase in milk production goes directly through to the production of exportable commodities and products.

Whole Milk Powder (WMP)

The meteoric rise in WMP production is set to continue in 2011, with production estimated at 1.0 MMT, up about 6% or 53,000 tons from the previous year. This level may well have been greater but processing facilities around New Zealand are finding it difficult to handle record peak daily milk flows during the October/December 2011 period, and are being forced to emphasize production of Skim Milk Powder and Anhydrous Milk fat to maximize processing efficiency.

Butter and other Fat Products

Butter and Anhydrous Milk Fat (AMF) production is likely to increase in 2011, in response to the need to process record peak milk flows quickly during the October /December 2011 period. Post estimates total PSD Butter production in 2011 at 492,000T (PSD total adjusts AMF volume to a butter equivalent) an increase of 12% over 2010.

Non-Fat Dried Milk/Skim Milk Powder (SMP)

Because SMP is produced in tandem with AMF and butter to make use of the protein fraction of the milk processed into the fat products, it is likely there will be a significant jump in SMP production. Post now estimates 2011 SMP production at 440,000 tons, a significant 28% increase over last year. Relative pricing for fat products and SMP has been favorable when compared to WMP for most of 2011.

Cheese

Cheese is not a preferred production option at present. Post estimates 2011 production at 257,000 tons, down about 4% from the 2010 production level. New Zealand has quota access for a stable volume of cheese exports and producing much beyond that level is not economical. Fonterra has legacy cheese plants which it fires up to help process the seasonal peak milk flows during the peak October/ December production period.

PSD Tables

Dairy, Milk, Fluid New Zealand	2010			2011			2012		
	Market Year Begin: Jan 2010			Market Year Begin: Jan 2011			Market Year Begin: Jan 2012		
(1000 Hd, 1000MT)	Official Data	Post Estimate	New Post Data	Official Data	Post Estimate	New Post Data	Official Data	Post Estimate	New Post Data
Cows In Milk	4700	4700	4680	4800	4800	4820			4930
Cows Milk Production	17173	17173	17173	18049	18049	18681			19023
Other Milk Production	0	0	0	0	0	0			0
Total Production	17173	17173	17173	18049	18049	18681			19023
Other Imports	2	2	2	2	2	2			2
Total Imports	2	2	2	2	2	2			2
Total Supply	17175	17175	17175	18051	18051	18683			19025
Other Exports	123	123	123	125	125	120			125
Total Exports	123	123	123	125	125	120			125
Fluid Use Dom. Consum.	300	300	300	300	300	300			300
Factory Use Consum.	16702	16702	16702	17576	17576	18213			18550
Feed Use Dom. Consum.	50	50	50	50	50	50			50
Total Dom. Consumption	17052	17052	17052	17926	17926	18563			18900
Total Distribution	17175	17175	17175	18051	18051	18683			19025
CY Imp. from U.S.	0	0		0	0	0			0
CY. Exp. to U.S.	0	0		0	0	0			0
TS=TD			0			0			0

Dairy, Dry Whole Milk Powder New Zealand	2010			2011			2012		
	Market Year Begin: Jun 2010			Market Year Begin: Jun 2011			Market Year Begin: Jun 2012		
(1000 MT)	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post

Beginning Stocks	100	100	100	100	100	100			99
Production	947	947	947	1,015	1,015	1,000			1,110
Other Imports	2	2	2	1	1	0			0
Total Imports	2	2	2	1	1	0			0
Total Supply	1,049	1,049	1,049	1,116	1,116	1,100			1,209
Other Exports	948	948	948	1,000	990	1,000			1,093
Total Exports	948	948	948	1,000	990	1,000			1,093
Human Dom. Cons.	1	1	1	1	1	1			1
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Cons.	1	1	1	1	1	1			1
Total Use	949	949	949	1,001	991	1,001			1,094
Ending Stocks	100	100	100	115	125	99			115
Total Distribution	1,049	1,049	1,049	1,116	1,116	1,100			1,209
CY Imp. from U.S.	0	0	0	0	0				
CY. Exp. to U.S.	1	0	0	1	1	0			0
TS=TD			0			0			0

Dairy, Milk, Nonfat Dry New Zealand	2010 Market Year Begin: Jan 2010			2011 Market Year Begin: Jan 2011			2012 Market Year Begin: Jan 2012			
	(1000 MT)	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	50	50	50	50	50	50				80
Production	344	344	344	375	375	440				440
Other Imports	3	3	3	3	3	3				3
Total Imports	3	3	3	3	3	3				3
Total Supply	397	397	397	428	428	493				523
Other Exports	344	344	344	375	375	410				460
Total Exports	344	344	344	375	375	410				460
Human Dom. Cons.	3	3	3	3	3	3				3
Other Use, Losses	0	0	0	0	0	0				
Total Dom. Cons.	3	3	3	3	3	3				3
Total Use	347	347	347	378	378	413				463
Ending Stocks	50	50	50	50	50	80				60
Total Distribution	397	397	397	428	428	493				523
CY Imp. from U.S.	0	0		0	0					
CY. Exp. to U.S.	0	0		0	0					
TS=TD			0			0				0

Dairy, Cheese New Zealand	2010 Market Year Begin: Jan 2010			2011 Market Year Begin: Jan 2011			2012 Market Year Begin: Jan 2012		
	(1000 MT)	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post

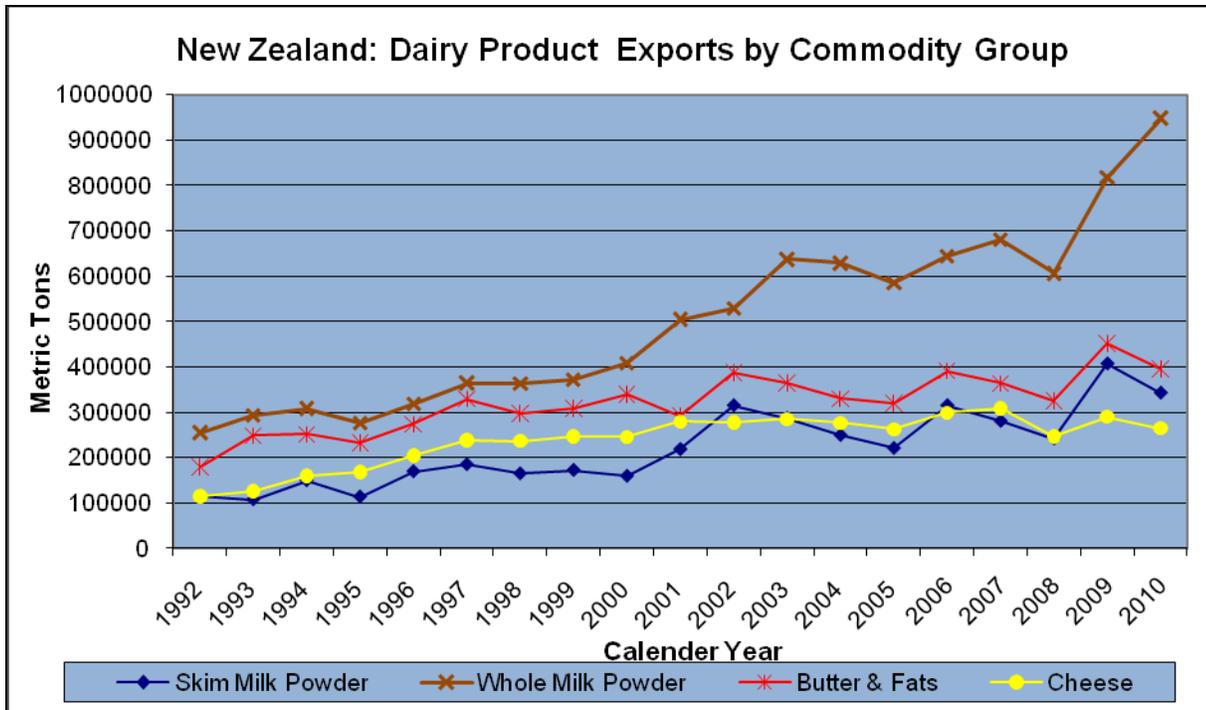
Beginning Stocks	55	55	55	40	40	40			40
Production	268	268	268	255	255	257			260
Other Imports	6	6	6	6	6	3			3
Total Imports	6	6	6	6	6	3			3
Total Supply	329	329	329	301	301	300			303
Other Exports	265	265	265	237	237	240			238
Total Exports	265	265	265	237	237	240			238
Human Dom. Cons.	24	24	24	24	24	20			25
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Cons.	24	24	24	24	24	20			25
Total Use	289	289	289	261	261	260			263
Ending Stocks	40	40	40	40	40	40			40
Total Distribution	329	329	329	301	301	300			303
CY Imp. from U.S.	0	0	0	0	0	0			0
CY. Exp. to U.S.	7	5	5	0	7	2			2
TS=TD			0			0			0

Dairy, Butter New Zealand	2010 Market Year Begin: Jan 2010			2011 Market Year Begin: Jan 2011			2012 Market Year Begin: Jan 2012			
	(1000 MT)	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	56	56	56	50	50	50				70
Production	441	441	441	454	454	492				490
Other Imports	1	1	1	1	1	1				1
Total Imports	1	1	1	1	1	1				1
Total Supply	498	498	498	505	505	543				561
Other Exports	428	428	428	435	435	453				481
Total Exports	428	428	428	435	435	453				481
Domestic Cons.	20	20	20	20	20	20				20
Total Use	448	448	448	455	455	473				501
Ending Stocks	50	50	50	50	50	70				60
Total Distribution	498	498	498	505	505	543				561
CY Imp. from U.S.	0	0	0	0	0	0				0
CY. Exp. to U.S.	35	22	22	35	25	12				15
TS=TD			0			0				0

Note 1: Non butter fat products such as AMF are brought up to a butter equivalency by multiplying by 1.22.

Note 2: these tables are not official USD forecasts.

Exports/Ending Stocks



Source: Global Trade Atlas (GTA)

CY 2012

Total Exports of the main four commodities WMP, SMP, Butter, and Cheese are forecast to reach 2.27 million tons, an 8% increase over 2011. This is attributable to a moderate production increase and a 5% reduction in total ending stock levels especially for SMP and butter/AMF.

WMP

With emphasis going back into increasing WMP production in 2012, it is forecast that WMP exports will increase by 9% to 1.09 million tons.

SMP

Exports of SMP in 2012 are forecast at 460,000 tons. An anticipated 25% reduction (20,000 tons) in ending stocks will support the 12% year-on-year increase in exports of SMP.

Butter/AMF

It is a similar story for fat products. Post anticipates ending stocks will be reduced by 14% (10,000 tons). This, combined with stable production should see exports reaching 481,000 tons in 2012, a 6% increase compared to last year.

Cheese

Post forecasts cheese exports will be relatively stable at 238,000 tons, down about 2,000 tons from last year.

CY 2011

Total exports of WMP, SMP, Butter, and Cheese in 2011 are in line to reach an estimated 2.1 MMT, a 6% increase over 2010. This level of increase is not equivalent to the production increase because ending stocks are

forecast to increase by 16% due to the trade's inability to ship additional products stemming from the surge in production during the October through December 2011 period.

WMP

Post expects WMP exports to top 1.0 million tons in 2011, up 5.5% on 2010.

Butter/AMF

Total exports of Butter/AMF (AMF adjusted to butter equivalents) are expected to reach 453,000 tons, 6% or 22,000 tons ahead of 2010. Logistic bottlenecks are likely to have an influence on shipments in Q4 and as a result it is likely there will be a buildup of ending stocks of 20,000 tons to reach 70,000 tons by the end of the calendar year.

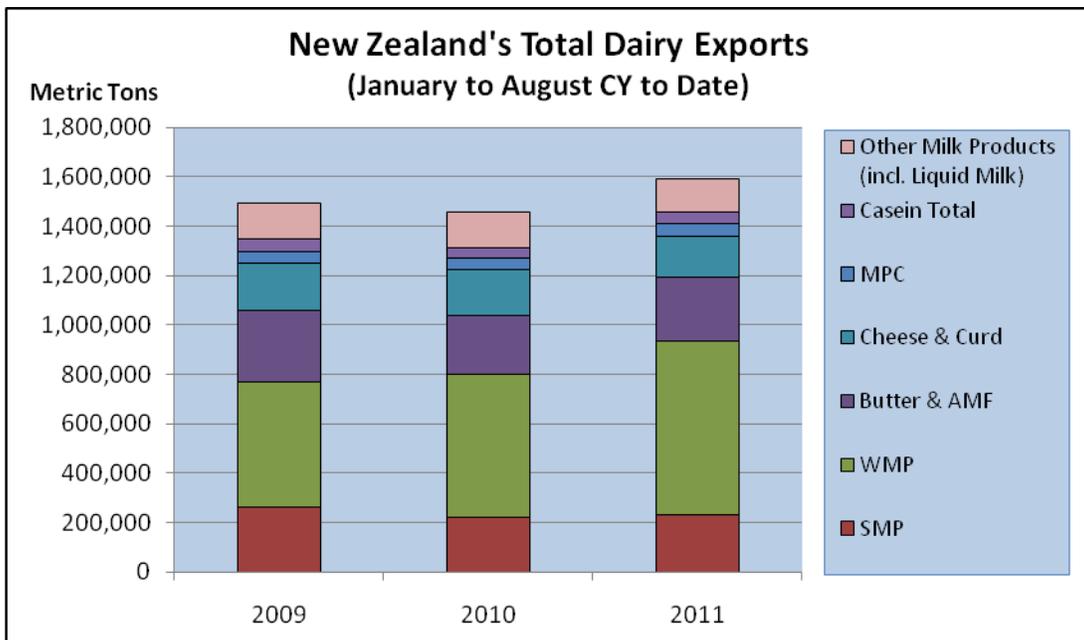
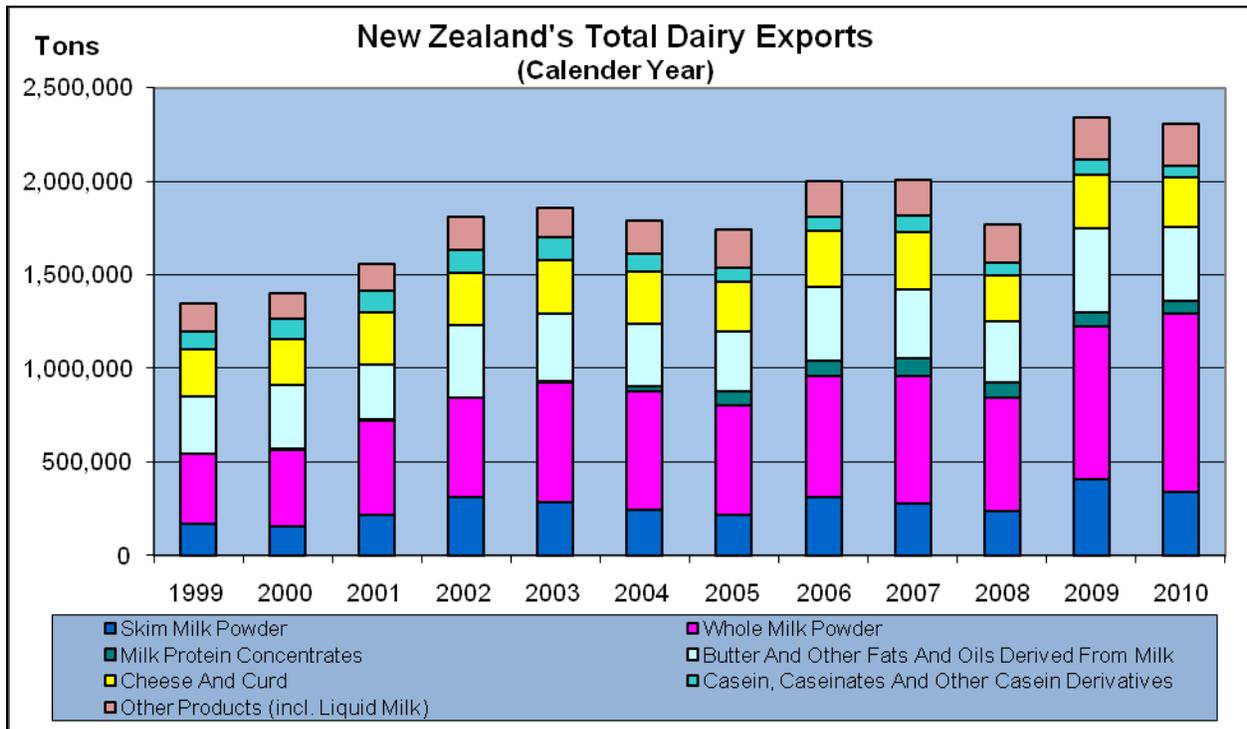
SMP

SMP exports are likely to be the big mover in 2011, with a 19% year on year increase in exports, estimated at 410,000 tons. Even though exports for the year to August are only 11,000 tons ahead of 2010 the emphasis on SMP and butter/AMF production over Q3 and Q4 are likely to see this gain boosted significantly. In addition owing to logistical bottlenecks it is likely that some of the extra production will get held over the end of the calendar year, boosting ending stocks by 30,000 tons to 80,000 tons.

Cheese

Cheese exports are likely to drop 25,000 tons in 2011, and are estimated at 240,000 tons, a 9% reduction. Already for the year to August 2011 exports are 15,000 tons less than the same period in 2010.

Trade



New Zealand Dairy Product Exports							
Year To Date: January - August							
Partner Country	United States Dollars			% Share			% Change 2011/2010
	2009	2010	2011	2009	2010	2011	
China	354,084,552	814,156,477	1,191,211,633	9.8%	16.1%	18.0%	46.3%
United States	386,368,726	329,815,504	414,108,203	10.7%	6.5%	6.3%	25.6%
Japan	216,260,869	271,353,440	316,778,223	6.0%	5.4%	4.8%	16.7%
Australia	155,437,142	263,668,868	275,989,195	4.3%	5.2%	4.2%	4.7%
Saudi Arabia	128,287,687	168,604,400	271,272,970	3.6%	3.3%	4.1%	60.9%
Philippines	157,003,859	258,378,841	268,813,478	4.4%	5.1%	4.1%	4.0%
Algeria	102,034,662	100,131,745	268,452,206	2.8%	2.0%	4.1%	168.1%
Malaysia	148,395,770	190,303,517	245,686,501	4.1%	3.8%	3.7%	29.1%
Indonesia	166,703,621	188,067,854	213,187,422	4.6%	3.7%	3.2%	13.4%
UAE	83,168,426	133,273,863	206,000,815	2.3%	2.6%	3.1%	54.6%
All Other Destinations	1,707,761,655	2,334,633,916	2,933,926,841	47.4%	46.2%	44.4%	25.7%
Totals for all Countries	3,605,506,976	5,052,388,418	6,605,427,492	100.0%	100.0%	100.0%	30.7%

Source: Global Trade Atlas (GTA)

General Discussion

Industry participants generally believed that end-user inventories during Q3 2011 were low enough that they would pursue more aggressive purchasing in Q4 and going into Q1 2012. This is particularly evident for Oceania countries.

In addition, it is estimated that stocks in the major producing countries in Latin America, the EU, and USA have not grown significantly, even though milk supplies had increased significantly during the first 3 Quarters of 2011. On this basis there is some support for some firming of prices in Q4 2011 and into Q1 2012

China

During the first eight months of 2011, NZ exports to China were valued at USD \$1.2 billion, up 46% compared to the same period last year. WMP still makes up 65% of the value of all exports, down from 71% in the same period in 2010, even though tonnages in the period were up 21%. China is broadening the base of its imports from New Zealand and is now taking more SMP; considerably more fat products; and a notable increase (albeit from a low base) in liquid milk.

An interesting factor influencing the behavior of importers with regard milk powders is the mechanics of the NZ: China FTA. While the tariff on WMP is reduced each year, from 10% in 2008, to 6.7% in 2011, to 5.8% in 2012 there is a safeguard whereby once a trigger volume of imports is reached the tariff for any additional imports reverts back to the WTO, MFN (most favored nation) tariff level. For 2011, the trigger tonnage was 109,974 tons of powders, which was reached by the end of March 2011. In 2012 the trigger level will increase 5% to 115,474 tons. It is considered that while Chinese buying has been relatively muted in Q3, 2011 that buyers will step up

their purchases in Q4, 2011 in order to land powders in China during the first three months of 2012, and thereby take advantage of the lower tariff.

USA

The value of exports in the 8 months of 2011 totaled USD \$414 million, a 25% increase over the same period in 2010. Most of this increase has come about through a general upward movement in unit prices. Though volume increases were registered for Milk Protein Concentrates (up 5%), and casein products (up 21%). Offsetting this were volume reductions for fat products (down 44%) and cheese (down 69%).

Cheese exports are now at nearly negligible levels. While exports through August in 2009 totaled 16,525 tons, for the same period in 2011 only 910 tons were shipped. Back in CY 2004 nearly 37,000 tons of cheese was exported to the USA, compared to an estimate of less than 2,000 tons for CY 2011.

The US has become a very important market for specialized ingredient products such as MPC, Casein products, and Whey products. The changes that have occurred in New Zealand's exports to the US can be partly explained by the fact that the world prices for New Zealand's main commodity exports have risen to match or better any prices that can be obtained in the US. Commentators believe this is a medium to long term trend.

Middle East/North Africa

Saudi Arabia continues to shine as a dairy export destination. For the 8 months to August 2011, Saudi Arabia emerged as the fifth most valuable dairy export destination. A range of products were exported centering on SMP and WMP, but also encompassing fats, Cheese, MPC, and Buttermilk.

Algeria has come back into the market with a vengeance increasing its imports of WMP by 72% in the eight months to August 2011, compared to the same period in 2010, to place it as the seventh most valuable export destination. In addition, it is interesting to note that exports of AMF went from 1,259 tons in 2010 to 7,972 tons in 2011.

Philippines

Industry participants feel that the Philippines has probably not recovered from the GFC as well as the rest of SEA and generally tonnages of most dairy products shipped to the Philippines have eased back.

New Zealand: Dairy Products to Top Five Markets in 2010

(CY2010/metric tons)

	China	USA	Japan	Australia	Philippines	World
Liquid Milk (T)	8,168	120	0	11,085	39,463	123,446
SMP	50,790	203	4,851	5,345	41,904	343,371
WMP	294,181	328	0	7,492	22,332	948,473
Consumer Products	2,987	60	4,082	3,370	12,355	49,710
MPC	1,383	43,654	2,866	1,490	1,449	73,279
Butter & Fats	19,351	18,502	731	16,587	14,945	395,338
Cheese	11,702	5,291	53,346	54,290	10,866	264,819
Casein	4,872	22,999	10,045	768	819	61,593
Whey Products	7,806	5,179	4,887	2,583	130	27,890
Other Products incl. Lactose	328	103	4,147	1,460	460	18,896
Total Volume	401,568	96,439	84,955	104,470	144,723	2,306,815
Total Value in 1000's USD	\$1,386,864	\$514,623	\$404,798	\$396,888	\$389,398	\$8,144,846

Price per Metric Ton in USD	\$3,454	\$5,336	\$4,765	\$3,799	\$2,691	\$3,531
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Source: Global Trade Atlas (GTA)

Policy

Third Stage of Fonterra Capital Restructuring - Trading Among Farmers (TAF)

Fonterra is progressing slowly toward achieving the final stage of its capital restructuring. In June 2010, farmers voted overwhelmingly in support of the proposal to change the Cooperatives capital structure so that farmers could transfer shares amongst themselves rather than the cooperative itself having to issue or redeem shares every time a farmer increased or decreased production. Because this change would require a legislative change to the Dairy Industry Restructuring Act (DIRA) the Ministry of Agriculture and Forestry (MAF) has become involved at a policy level. The government while wanting to accommodate change will want to see the principles of the DIRA maintained. Amendments to the Act are likely to go before parliament during the middle of 2012 and Fonterra is still hopeful it can implement TAF in 2012.

Part of the TAF proposal involves an entity, the Fonterra Shareholders Fund, which could receive investments from the wider public and be able to purchase the beneficial rights to Fonterra shares from farmers. Some Fonterra shareholders are now worried that this will be the end to 100% farmer ownership and control of the Co-op and that is not what they voted for with the TAF proposal.

Dairy Industry Restructuring Act (DIRA) Review – Raw Milk Regulations

In July 2011, MAF called for submissions on the sections of the DIRA which deal with the rules by which independent milk processors can access raw milk from Fonterra. By the closing date for submissions on September 2, 2011, 1,500 submissions had been received including one from the US Dairy Export Council. (The submissions can be seen at: <http://www.maf.govt.nz/news-resources/consultations/review-of-raw-milk-regulations>)

Other Policy Reviews - DIRA

Separate from its review of Raw Milk Regulations, MAF is also analyzing Fonterra's farm gate milk price setting mechanism (which has just been made public and can be accessed through the Fonterra website: <http://www.fonterra.com/wps/wcm/connect/fonterra.com/fonterra.com/Our+Business/Shareholder+Centre/Milk+Price/>)

In addition, MAF is working on the regulatory regime to accompany Fonterra's TAF proposal. MAF reports that its intention is not to recommend any amendments to the Raw Milk Regulations until work on Fonterra's farm gate milk price setting mechanism is completed and the wider implications can be fully considered.

The Great Milk Price Debate

Consumer irritation over food price increases over the last 18 months has focused on milk prices. In addition, the issue has been complicated by some industry players who deliberately confuse the raw farm gate price for milk with the retail price of milk in an attempt to get public traction for their own causes.

In response to sustained public pressure on the milk price issue:

- The Commerce Commission in 2011 decide to explore whether it needed to complete a full inquiry into the retail price of milk. It concluded it didn't need to;
- The Government directed MAF, the Ministry for Economic Development, and Treasury to examine milk pricing and the effectiveness of DIRA, and
- Opposition members of parliament have been successful in getting the Commerce Select Committee in Parliament to investigate the price of milk. This investigation has not been completed and as Parliament is in recess until after the General Election in November 2011 it won't be completed sometime in 2012.

Free Trade Agreements

The following agreements are in force:

- [New Zealand-Hong Kong, China Closer Economic Partnership](#) (NZ-HK CEP entered into force on 1 January 2011)
- [New Zealand-Malaysia Free Trade Agreement](#) (MNZFTA entered into force on 1 August 2010)
- [ASEAN-Australia-New Zealand Free Trade Agreement](#) (AANZFTA) - 2010
- [New Zealand-China Free Trade Agreement](#) (NZ-China FTA) - 2008
- [Trans-Pacific Strategic Economic Partnership](#) (P4) - 2005
- [New Zealand-Thailand Closer Economic Partnership](#) (NZTCEP) - 2005
- [New Zealand-Singapore Closer Economic Partnership](#) (NZSCEP) - 2001
- [Australia-New Zealand Closer Economic Relationship](#) (CER) - 1983
- [New Zealand-Australia Closer Economic Relations Investment Protocol](#) (CER IP) (Subject to Parliamentary Treaty Examination, expected to enter into force in the second half of 2011)

In addition, the New Zealand Government is currently negotiating the following FTAs:

- [Anti-Counterfeiting Trade Agreement](#) (ACTA signed; yet to be ratified)
- [New Zealand-Gulf Cooperation Council Free Trade Agreement](#) (NZ-GCC FTA negotiations have been concluded but not yet signed)
- Expansion of the [Trans-Pacific Strategic Economic Partnership](#) (TPP)
- [New Zealand-Korea Free Trade Agreement](#) (NZ-Korea FTA)
- [New Zealand-India Free Trade Agreement](#) (NZ-India FTA)
- [New Zealand-Russia-Belarus-Kazakhstan Free Trade Agreement](#) (NZ-RBK)
- [New Zealand-Hong Kong, Closer Economic Partnership Investment Protocol](#) (CEP IP)

While exporters report that FTAs do not drive business decisions, they do provide a framework to work out trade-related issues, especially SPS and non-tariff barriers, and, in some cases, convey significant market access advantages. For instance, in the New Zealand -China FTA, tariffs on milk powder will be reduced from 10% to 3.3% by 2015.

Commodities:

Dairy, Milk, Fluid

Dairy, Butter

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry