

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights:

Difficult climatic conditions and lower cow numbers have seen whole milk production for the first half of 2009/10 fall to levels well below previous expectations. Despite previous cuts in forecast milk supply, full year fluid milk production for 2009/10 is now expected to fall a further 4.8 percent. This will likely put greater downward pressure on the production of butter and milk powders with cheese production remaining the least affected.

Summary

Difficult climatic conditions and lower cow numbers have seen whole milk production for the first half of 2009/10 fall to levels well below previous expectations. Despite previous cuts in forecast milk supply ([Dairy and Products Annual 2009](#)), full year fluid milk production for 2009/10 is now expected to fall a further 4.8 percent.

The downward revision in fluid milk production is somewhat unexpected considering many production indicators were positive for fluid milk production. Irrigation water availability and pricing have improved considerably in 2009/10 as have fodder prices and supplies. However, cow numbers and rainfall (for the first half of 2009/10) declined to levels well below the long-term average resulting in a sharp decline in production.

Dry and windy conditions in the first half of 2009/10 reduced soil moisture and degraded pasture conditions preventing the typical "spring flush" from seasonally boosting milk supplies. Post had already factored lower production but had assumed average weather conditions during the crucial spring and early summer period. Unseasonably dry conditions slashed production to levels well below previous expectations.

Despite falls in production of fluid milk, domestic fresh milk consumption is expected to remain strong and this is expected to reduce the availability of milk for manufacturing purposes as well as exports. This will likely put greater downward pressure on the production of butter and milk powders with cheese production remaining the least affected.

Industry reports suggest that a succession of interest rate rises have constrained many dairy producers in their response to improved conditions. A high Australian dollar has partially blunted stronger world prices.

Going forward, the remainder of the forecast year looks far more positive. Recent increases in prices received for milk have filtered down to the farm gate level while seasonal conditions have improved dramatically during the second half of 2009/10. Supplies of grain and irrigation water continue to improve. A higher Australian dollar is expected to continue to provide some constraint to further increases in farm gate prices and key export markets such as Japan are expected to continue their sluggish performance.

Looking beyond the forecast period, cow numbers are expected to increase slowly and milk yields will also improve slightly in response to higher prices and improved production conditions. However, it appears that the Australian dairy industry continues to work through the recovery process over the longer term.

Commodities:

Dairy, Milk, Fluid

Dairy, Cheese

Dairy, Butter

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

Dairy, Milk, Fluid**Dairy Cow Numbers**

Dairy cow numbers are forecast to decline 4.5 percent to 1.6 million head for 2009/10 following a period of poor climatic and economic conditions. Recent years have seen record high feed and irrigation water prices increase production costs while declining world dairy prices and a stronger Australian dollar have eroded returns.

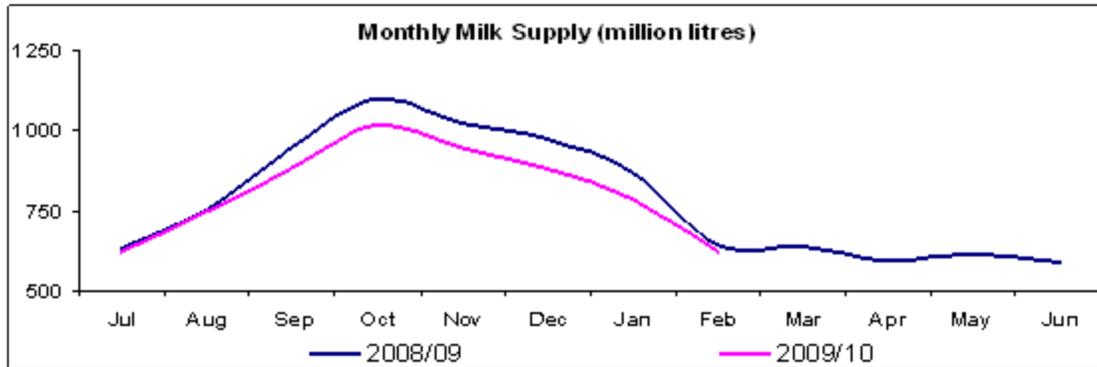
Post advises that scope remains for cow numbers to increase beyond the outlook period with ABARE forecasting modest increases in cow numbers in 2010/11. Media reports have prices for live dairy cattle reaching record or near record prices supporting the belief that producers are looking to expand herds.

Post has revised cow numbers for 2008/09 downwards to 1.68 million head, in line with recently released Australian Bureau of Statistics (ABS) data. Cow numbers for 2007/08 have also been revised downwards in line with ABS data.

Fluid Milk - Production

The forecast for 2009/10 fluid milk production has been revised downwards to 9.2 MMT, which equates to roughly 8.93 billion liters of milk using a conversion factor of 1.03. This forecast is sharply lower than the previous forecast of 9.57 MMT and is in line with ABARE's recent cut in forecast fluid milk production.

Recently published industry data shows monthly production falling well below previous expectations from September onwards with dry conditions diminishing the production peak usually experienced in spring and early summer. Partial year data (July-February) has fluid milk production down by over six percent. However, excellent rainfall received in the second half of 2009/10 should see production (at least on a monthly basis) return to more normal levels. Fluid milk production for the month of February was only 3.1 percent below the February 2009 level.



Source: Dairy Australia data

While some scope remains for a further downwards revision in production for 2009/10, such a revision would likely be considered minor. Estimated fluid milk production for 2008/09 remains unchanged at 9.67 MMT.

Statistical Table

Dairy, Milk, Fluid - Australia									
1,000 Head & 1,000 MT	2008			2009			2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	USD A Post	Official Estimate	Post Estimate New	USD A Post	Official Estimate	Post Estimate New	USD A Post	Official Estimate	Post Estimate New
Cows In Milk	1,730	1,730	1,640	1,700	1,700	1,676	1,665	1,665	1,600
Cows Milk Production	9,500	9,500	9,500	9,670	9,670	9,670	9,570	9,570	9,200
Other Milk Production	0	0	0	0	0	0	0	0	0
Total Production	9,500	9,500	9,500	9,670	9,670	9,670	9,570	9,570	9,200
Other Imports	6	6	6	7	7	7	7	7	7
Total Imports	6	6	6	7	7	7	7	7	7
Total Supply	9,506	9,506	9,506	9,677	9,677	9,677	9,577	9,577	9,207
Other Exports	69	69	69	70	70	60	70	70	70
Total Exports	69	69	69	70	70	60	70	70	70
Fluid Use Dom. Consum.	2,205	2,205	2,205	2,310	2,310	2,312	2,348	2,348	2,350
Factory Use Consum.	7,232	7,232	7,232	7,297	7,297	7,305	7,159	7,159	6,787
Feed Use Dom. Consum.	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	9,437	9,437	9,437	9,607	9,607	9,617	9,507	9,507	9,137
Total Distribution	9,506	9,506	9,506	9,677	9,677	9,677	9,577	9,577	9,207

Policy

Productivity Commission Review

The Government of Australia's (GOA) Productivity Commission recently announced it was conducting a study on the impact of bi-lateral and regional trade agreements on investment and trade. More specifically, the commission is to look at the contribution of such trade agreements to reducing trade barriers and the role of such agreements in lending support to the World Trade Organization (WTO). The productivity commission is the Australian government independent review and advisory body on a range of economic, social and environmental issues affecting the welfare of Australia. Previously known as the Industry Assistance Commission, the commission's independence is determined by an act of parliament.

As a mandated part of the process, submissions to this review were called for and closed on March 1, 2010. The Australian Dairy Industry Council (ADIC) made a submission to this review. In its opening comments, the ADIC review stated that the equivalent of around half of Australia's fluid milk production is currently exported indicating a strong link of Australian farm gate returns to world prices. Moreover, the Australian domestic market is considered to be a mature market with the export market offering the best potential for future growth.

The ADIC submission stated that the benefit of any trade agreement is limited to the extent of the products covered by the agreement and the extent to which the agreement provided "meaningful" improvement in access conditions. Other important aspects of trade agreements included; the extent to which the agreement included new barriers; whether or not an agreement compromised Australia's commitment to the WTO process; and whether the access granted under the agreement was better than access granted in agreements with other countries. The ADIC submission stated that, to varying degrees, the existing FTA's with the US, Thailand, Singapore and Chile satisfied these aspects.

The ADIC submission stated that in all trade agreements, the "quality of market access" provided is as important as the "trade volumes announced". The submission states that the tariff rate quota administration provisions of the Australia-US FTA (which emphasizes exporter control) are in line with the Australian Dairy Industry's preferred approach while the arrangements in place for the Korea/EU FTA are an example of the type of access conditions that should be avoided.

Trans Pacific Partnership Agreement

President Obama recently announced that the United States would enter into negotiations with Trans Pacific Partnership (TPP) countries with the goal of shaping a high standard broad based regional pact. The United States Government has also called for public input into the direction focus and content of the TPP.

Currently, the TPP includes the countries of Brunei, Chile, New Zealand and Singapore. The first rounds of TPP negotiations, held in March 2010, were aimed at expanding the membership of the TPP to include the United States, Australia, Peru and Vietnam. The next round of TPP meetings will be held in the United States (<http://www.ustr.gov/tpp>).

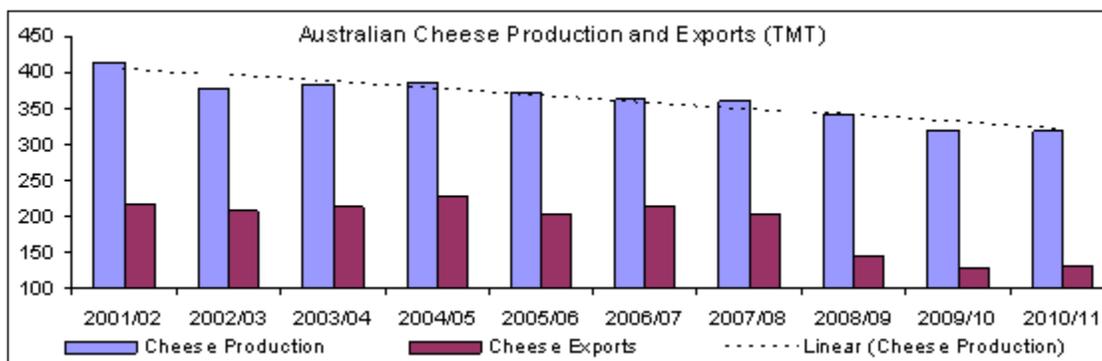
At present, the TPP is considered a comprehensive agreement and includes disciplines common in Free Trade Agreements (FTA's) such as tariff reduction, rules of origin, trade remedies, sanitary and phytosanitary measures, technical barriers to trade, trade in services, intellectual property, government procurement and competition policy. In addition to these common areas, further disciplines (Environment and Labor) have also been included.

Australia announced that it would participate in TPP negotiations in November 2008 and has called for public submissions from interested stakeholders. The Australian Government’s Department of Foreign Affairs and Trade (DFAT) describes the submissions as reflecting “widespread interest in and support for Australia’s participation in the TPP”. Agriculture was relatively well represented in the consultation process with submissions being received from ABB Grain Ltd, Australian Dairy Industry Council, Australian Pork Limited and Australian Sugar Industry Alliance Ltd.

Dairy, Cheese

Total cheese production for 2009/10 is forecast at 315 TMT, down slightly on the 325 TMT previously forecast by post. Post acknowledges the relative success that cheese is having in terms of consumer demand when compared to other dairy commodities. Cheese production is forecast to decline only three percent despite a forecast seven percent decline in manufacturing milk availability.

Industry sources have reported that the market for “soft cheeses” is expected to continue to grow and improve overall cheese demand. Furthermore, domestic consumption is forecast to remain comparatively strong and should see local demand for cheese grow modestly.



Source: ABARE data (July-June)

Cheese exports are forecast to increase sharply to 160 TMT in 2009/10, in line with industry partial year data (July-Feb) which shows a 20 percent increase in exports over this period. Strong growth in demand for “non cheddar” varieties is the primary driver for increased cheese exports. Media reports however suggest that increased exports will require further improvement in the Japanese export market, which has traditionally accounted for around ten percent of Australia’s fluid milk production.

Despite higher forecast cheese exports for 2009/10, the forecast remains well below the long-term average established using ABARE’s historic data and represents a partial return to the longer term average.

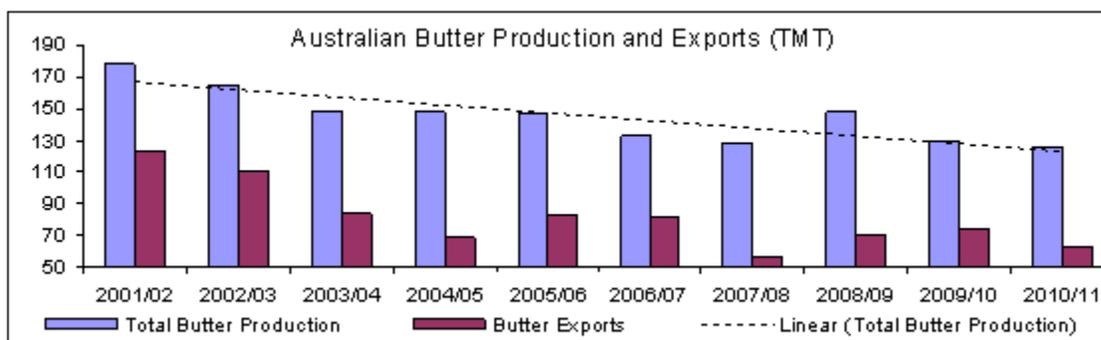
Statistical Table

Cheese - Australia									
1,000 MT	2008			2009			2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	USDA	Post	New	USDA	Post	New	USDA	Post	New

	Official	Estimate	Post Estimate	Official	Estimate	Post Estimate	Official	Estimate	Post Estimate
Beginning Stocks	18	18	18	10	10	15	43	43	40
Production	344	344	344	325	325	325	325	325	315
Other Imports	65	65	70	68	68	60	68	68	50
Total Imports	65	65	70	68	68	60	68	68	50
Total Supply	427	427	432	403	403	400	436	436	405
Other Exports	202	202	202	145	145	140	185	185	160
Total Exports	202	202	202	145	145	140	185	185	160
Human Dom. Consumption	215	215	215	215	215	220	215	215	225
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	215	215	215	215	215	220	215	215	225
Total Use	417	417	417	360	360	360	400	400	385
Ending Stocks	10	10	15	43	43	40	36	36	20
Total Distribution	427	427	432	403	403	400	436	436	405
CY Imp. from U.S.	1	1	7	7	7	1	6	6	6
CY. Exp. to U.S.	12	12	7	5	5	11	4	4	4

Dairy, Butter

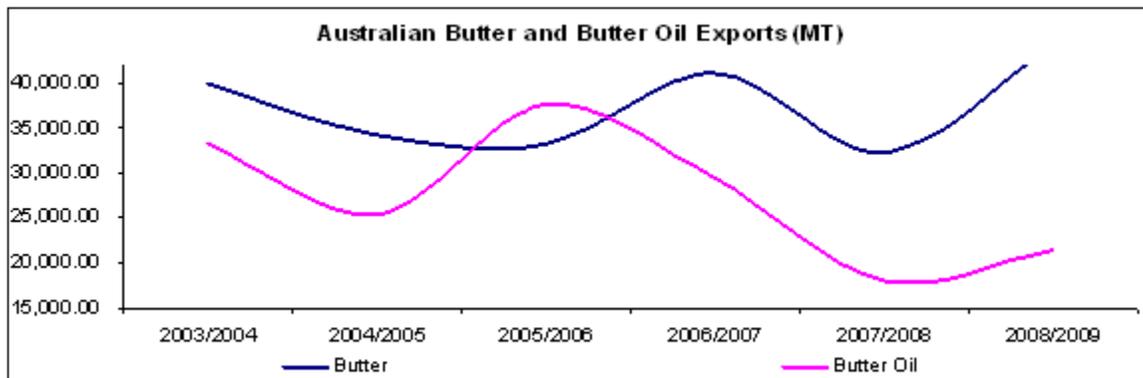
Total butter production for 2009/10 is forecast at 114 TMT, down significantly on the revised estimate for the previous year. This level represents the lowest production level for over a decade. The forecast decline is largely in-line with partial year industry data (July-Feb) which shows a significant decline in butter and butter oil production.



Source: ABARE data (July-June)

Total exports of butter are forecast to remain almost flat at 70 TMT in 2009/10 despite lower production. Post has boosted exports slightly, at the expense of closing stocks which have been revised downwards to a level much more reflective of the long-term average. Industry partial year data (July-Feb) show exports increasing beyond Post's forecast. However, lower production and diminishing stocks are likely to result in slowing butter exports in the second half of 2009/10.

Industry trade data shows fluctuating demand for butter and butter oil, which has traditionally been a minor component of total butter exports. More recent 2009/10 partial year trade data shows that butter oil accounted for almost half of total butter exports in the July-February period. Post uses a conversion of 1.24 to convert butter oil into a butter equivalent.



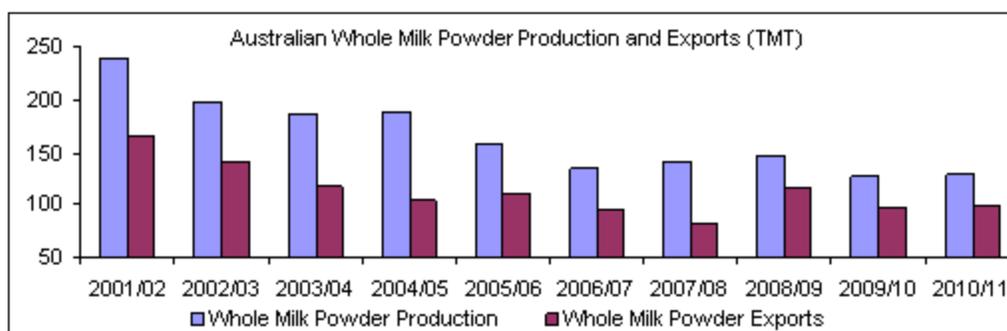
Source: ABARE data (July-June)

Statistical Table

Dairy, Butter - Australia									
1,000 MT	2008			2009			2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	New Post Estimate	USDA Official	Post Estimate	Post Estimate New
Beginning Stocks	4	4	4	11	11	13	30	30	20
Production	111	111	111	134	134	132	129	129	114
Other Imports	14	14	20	19	19	14	20	20	16
Total Imports	14	14	20	19	19	14	20	20	16
Total Supply	129	129	135	164	164	159	179	179	150
Other Exports	54	54	58	66	66	71	75	75	70
Total Exports	54	54	58	66	66	71	75	75	70
Domestic Consumption	64	64	64	68	68	68	68	68	70
Total Use	118	118	122	134	134	139	143	143	140
Ending Stocks	11	11	13	30	30	20	36	36	10
Total Distribution	129	129	135	164	164	159	179	179	150
CY Imp. from U.S.	2	2	2	2	2	0	0	0	0
CY. Exp. to U.S.	3	3	3	3	3	4	4	4	4

Dairy, Whole Milk Powder

Whole milk powder production for 2009/10 is forecast at 130 TMT, down 12 percent on the estimate for the previous year. Industry partial year data shows production down just over 12 percent for the period July to February. However, monthly data shows production volumes improving steadily. Post believes the full year production will be slightly lower than the partial year data suggests.



Source: ABARE data (July-June)

Whole milk powder exports for 2009/10 are forecast at 115 TMT, down sharply on the revised figure for the previous year and in-line with industry data showing exports down by 25 percent on the same period for the previous year.

Statistical Table

Dairy, Dry Whole Milk Powder - Australia									
1,000 MT	2008			2009			2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Beginning Stocks	23	23	23	26	26	40	11	11	16
Production	142	142	142	148	148	148	140	140	130
Other Imports	13	13	13	14	14	14	15	15	15
Total Imports	13	13	13	14	14	14	15	15	15
Total Supply	178	178	178	188	188	202	166	166	161
Other Exports	125	125	111	150	150	158	130	130	115
Total Exports	125	125	111	150	150	158	130	130	115
Human Dom. Consumption	27	27	27	27	27	28	27	27	29
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	27	27	27	27	27	28	27	27	29
Total Use	152	152	138	177	177	186	157	157	144
Ending Stocks	26	26	40	11	11	16	9	9	17
Total Distribution	178	178	178	188	188	202	166	166	161
CY Imp. from U.S.	0	0	1	1	0	0	0	0	0
CY. Exp. to	0	0	3	1	0	2	0	0	2

U.S.									
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Dairy, Nonfat, Dry - Skim Milk Powder

Total skim milk powder production for 2009/10 is forecast at 190 TMT, down 16 percent on the estimate for the previous year. Industry year-to-date production figures have production down nearly 19 percent, but improving steadily on a monthly basis. Exports of skim milk powder in 2009/10 are forecast to fall just over 10 percent to 145 TMT.

Statistical Table

Dairy, Milk , Nonfat Dry - Australia									
1,000 MT	2008			2009			2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	USDA Offici al	Post Estimat e	Post Estimat e New	USDA Offici al	Post Estimat e	Post Estimat e New	USDA Offici al	Post Estimat e	New Post Estimat e
Beginning Stocks	30	30	30	42	42	42	62	62	61
Production	177	177	177	227	227	227	210	210	190
Other Imports	4	4	4	4	4	4	4	4	4
Total Imports	4	4	4	4	4	4	4	4	4
Total Supply	211	211	211	273	273	273	276	276	255
Other Exports	120	120	120	162	162	162	170	170	145
Total Exports	120	120	120	162	162	162	170	170	145
Human Dom. Consumption	49	49	49	49	49	50	49	49	51
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	49	49	49	49	49	50	49	49	51
Total Use	169	169	169	211	211	212	219	219	196
Ending Stocks	42	42	42	62	62	61	57	57	59
Total Distribution	211	211	211	273	273	273	276	276	255
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at: <http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Title of Report	Date
Beef Grading Agreement Opens Way for Increased Beef Exports to Chile	05/05/10
Sugar Annual 2010	04/15/10
Cotton and Products Annual	03/29/10
Grain and Feed Annual	03/16/10
Wine Annual 2010	03/01/10
Livestock and Products Semi-annual 2010	03/01/10
Government announces Ag Research Initiative to Increase Productivity & Cut Carbon	02/18/10

Emissions by 50 percent	
Australian Container exports rise	02/02/10