



PRINT THE GLOBAL DAIRY eBRIEF

**FEATURED**

**China requires 'systems' audit for 'high-risk' products**

Due to heightened levels of concern regarding food safety, the Certification and Accreditation Administration of the People's Republic of China (CNCA) has reversed its position on plants producing so-called "high risk" products, including fluid milk, for export to China. U.S. facilities currently on CNCA's published list as eligible to ship "high-risk" products will be able to continue to ship only those products that appear on the published list. CNCA will not allow additions or modifications to the "high-risk" product offerings of those facilities nor will it accept new plants looking to ship "high-risk" products to China until it conducts a representative "systems" audit of "high-risk" facilities in the United States.

USDEC is working with USDA-FAS to address Chinese concerns by pressing CNCA to conduct its required facility audits in January 2015. USDA-FAS notified USDEC that CNCA's latest action should not affect its pending update of the existing plant list to include new facilities seeking approval to ship "low-risk" products (all dairy other than fluid milk or infant formula). For questions or more information, contact Matt McKnight ([mmcknight@usdec.org](mailto:mmcknight@usdec.org)) or Mitch Bowling ([mbowling@usdec.org](mailto:mbowling@usdec.org)) at 703-528-3049. (USDEC staff)

**\$100 gift card to 'test drive' new website**

USDEC is looking for members to "test drive" the design of a new website we are launching in 2015. Testing takes place next Monday and Tuesday from the comfort of your personal computer, utilizing online meeting technology.

The purpose is to help us create a user-friendly Web experience so members can find what they need, as quickly as possible.

We know your time is valuable, so as a thank you, participants will receive a \$100 Visa gift card.

The testing will take about 45 minutes. Experts from an agency we have hired will ask your opinions about our new design and see how easy or hard it is to perform some important member tasks. We are not testing you, but our website. What we learn will improve the site for all members.

We are recruiting members on a first-signed-up, first-served basis. Slots are limited.

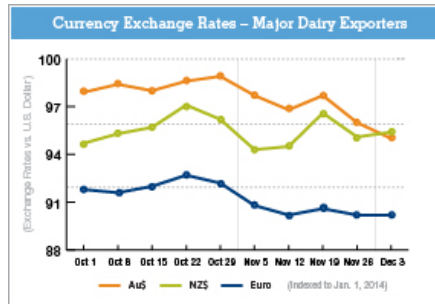
If you are interested, please choose a time slot [here](#). For questions, contact Clemente Santiago at [csantiago@usdec.org](mailto:csantiago@usdec.org).

**USDEC calls on U.S. negotiators to prioritize U.S. dairy benefits in TPP**

USDEC, NMPF and IDFA sent a joint letter to USTR Michael Froman and USDA Secretary Tom Vilsack calling for U.S. negotiators to ensure that Trans-Pacific Partnership (TPP) talks prioritize delivery of benefits to the U.S. dairy industry, not other TPP trading partners. "Our competitors in other TPP countries must work with their own governments to secure market access packages acceptable to them rather than simply insisting that any U.S. gains that may be achieved through complex

**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

	Nov 5	Nov 19	Dec 3
<b>Cheese</b>	3250-3700	3200-3700	3200-3650 (-50)
<b>SMP</b>	2450-2900	(-50) 2400-2800 (-100)	(-50) 2350-2750 (-50)
<b>Butter</b>	2500-2800	(+50) 2550-2850 (+50)	2550-2850
<b>WMP</b>	2525-2650	(+25) 2500-2700 (+50)	(-150) 2350-2650 (-50)

China purchasing annuals subdued, keeping a lid on price recovery. WMP prices have fallen to three-year lows. NZC futures for WMP have fallen to US\$2250/ton for Q2-2015. Milk production in the region is drifting seasonally lower after a very strong flush. New Zealand output reached a record high in October, up 4.5 percent vs. a year ago. Australia production was up 2.0 percent, resulting in the largest year-over-year volume increase in at least eight years. Reflecting its changing product mix, New Zealand exports of cheese (+17 percent) and butter (-26 percent) were up significantly in October compared with a year ago, while shipments of WMP were down (-17 percent). Sales of WMP to China were off 71 percent, and this was only partially offset by increased volumes to the Middle East/Africa and Southeast Asia. New Zealand's National Institute of Water and Atmospheric Research (NIWA) says there's now a 75 percent chance of an El Niño developing over the next three months, which could bring drier weather to the Oceania region.

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

negotiations, especially in challenging areas such as dairy, must be made available to all," the letter states. As a case in point, the three groups cited the recently concluded Japan-Australia FTA, which does little to open agricultural markets and instead aims to put the burden on U.S. negotiators to win agricultural concessions for all in the TPP.

With TPP negotiations heading into their final stage, the letter thanks both agencies for their efforts to achieve an ambitious outcome and urges them to "leave no stone unturned" in market access talks with Canada and Japan. TPP participants are holding the next informal round of negotiations next week, Dec. 7-12, in Washington, D.C. To read a copy of the joint letter, click [here](#). (*USDEC staff*)

#### **Euronext to launch dairy derivatives; NZX adds butter contract**

European exchange Euronext plans to launch a range of dairy futures and options next year to serve what it expects will be increased demand for hedging tools when the EU abolishes milk production quotas. The group said it would offer contracts on butter, SMP and whey powder denominated in euros and linked to physical delivery to warehouses in a 150km radius around the ports of Antwerp, Hamburg and Rotterdam. The contracts would also provide a much-needed price benchmark for Europe, the exchange said. Euronext suspended its original SMP contract this summer due to lack of liquidity. The target launch date for the new derivatives is spring 2015.

Separately, New Zealand's NZX is launching a cash-settled global butter futures contract on Dec. 12. The contracts will trade off the underlying price for unsalted butter on the Global Dairy Trade auction platform. (*NZX; Reuters, 11/27/14*)

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## **MARKET CONDITIONS**

#### **Strong milk production keeps downward pressure on GDT index**

The GlobalDairyTrade (GDT) Price Index declined 1.1 percent to an average winning price of US\$2,513/ton at the Dec. 2 auction. A 7.1 percent decline in WMP (to US\$2,229/ton) negated gains in all other traded products.

The average winning price for SMP increased 5.7 percent to US\$2,423/ton; butter gained 7.3 percent to US\$2,849/ton; AMF rose 9.0 percent to US\$3,817/ton; cheddar increased 5.2 percent to US\$3,017/ton; buttermilk powder, jumped 8.8 percent to US\$2,560/ton; and casein rose 9.3 percent to US\$7,255/ton.

Since the previous auction on Nov. 18, both Australia and New Zealand reported October milk production (the annual peak for both countries) showing strong gains over the previous year. Australian production rose 6 percent compared to October 2013, while New Zealand output increased 4.5 percent and set a single-month volume record.

The Price Index decline indicates global markets haven't found a bottom yet, and recent farmgate price deterioration and Fonterra Co-operative Group's expected payout adjustment next week suggest price signals may be starting to work their way down to the producer level. (*GDT; DairyAustralia; Dairy Companies Association of New Zealand*)

#### **EU extends PSA for butter, SMP**

The EU Commission extended emergency Private Storage Aid (PSA) for butter and SMP for two months through Feb. 25, 2015, in light of the ongoing Russian embargo and its impact on EU dairy prices. The EU Milk Market Observatory indicated that EU SMP prices had fallen 28 percent since the Russian embargo began in August, while WMP dropped 22 percent, cheddar fell 12 percent and butter declined 11 percent. The weighted average EU farmgate milk price declined in eight of the past nine months.

PSA usually runs March 1-Aug. 15, so the extension theoretically provides coverage through August of next year. Volumes of butter and SMP entering PSA slowed in November due to strong holiday demand, but reports suggest the numbers could rise again in the coming weeks. From Sept. 5 (the start of the emergency scheme) to Nov. 23, the program accepted 20,316 tons of butter and 14,198 tons of SMP.

According to Eurostat, in September alone, EU cheesemakers lost between €84 and €139 million (about US\$104 million-US\$173 million) in earnings due to the Russian embargo. (*European Commission; Dairy Markets, 11/28/14, 11/26/14, 11/18/14*)

#### **EI Niño reemerges**

Even though chances for an EI Niño event decreased all summer (*see Global Dairy eBrief, 8/14/14*), international weather services are saying that it likely just arrived. The Australian Bureau of Meteorology said several climate indicators were currently close to or above EI Niño thresholds, with climate model outlooks suggesting further intensification of conditions.

In New Zealand, the National Institute of Water and Atmospheric Research said that without sustained rainfall, drought conditions might be imminent in several regions. Officials already imposed restrictions on water for irrigation in South Canterbury due to record low dam water levels.

Meteorologists forecast that EI Niño conditions will likely extend through the first half of 2015 and that, overall, it will likely rank as a weak to moderate event in terms of potential changes to weather patterns. (*Australian Bureau of Meteorology; Bloomberg, 12/2/14; Financial Times, 12/2/14*)

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## MARKET ACCESS

### Russia clears West-aligned Brazilian dairies for export

Russia approved cheese exports from two Brazilian dairy companies with U.S. and EU parents. Schreiber Foods subsidiary Schreiber Foods do Brasil and Bongrain Group's Polenghi were granted "no limitation status," meaning they can sell regulated goods into the Eurasian Customs Union without any restrictions. Russia also approved an additional Brazilian company, Laticinios Tirolez, which joins Brasfrigo, BRF, Confepar and Itambé as sanctioned dairy suppliers. (*Dairy Markets*, 11/20/14)

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## COMPANY NEWS

### Yili plans major expansion in New Zealand

Yili Group earmarked US\$325 million to build what it is calling "the world's largest integrated dairy production base" in Waimate on New Zealand's South Island. The project includes a \$157-million, 56,000-ton/year milk powder plant and a US\$82-million UHT plant (the largest in New Zealand, according to Yili), as well as an infant formula canning line and a lactoferrin facility. All work will take place at Yili subsidiary Oceania Dairy's Glenavy site, where the company already spent nearly \$200 million on a 47,000-ton/year milk powder operation, commissioned in November.

Yili also signed a memorandum of understanding with Lincoln University in Canterbury that will see the two work together to explore technologies for improving processing, manufacturing and quality assurance across the whole dairy supply chain. (*USDEC China office; Company reports; Lincoln University; Timaru Herald*, 11/25/14)

### Arla offers cheesemaking alternative for developing world

Arla Foods Ingredients is marketing a range of "recombining" solutions under the *Nutrilac* banner that enable companies to manufacture white, processed and cream cheeses without fresh milk. The main target is developing nations where cheese demand is rising but access to fluid milk is limited. Companies would combine *Nutrilac* functional milk proteins, water and fat (usually butterfat or AMF) and use existing recombining equipment to make the cheese.

Arla says the line is particularly timely given the impending removal of EU milk quotas. The abolition of quotas "almost certainly means there will be a significant fresh milk surplus," much of which will be converted into dairy ingredients and sold into markets outside Europe for manufacturing recombined dairy products, the company says. (*Company reports*)

### Mergers and acquisitions

After completing due diligence, **Arla Foods** rescinded its non-binding offer to purchase all shares in Egypt's **Arab Dairy Products**. Three other suitors, including Lactalis, are reportedly still interested in acquiring the company (see *Global Dairy eBrief*, 11/20/14) . . . Media reports suggest **Bega Cheese**, **Saputo** and **Devondale Murray Goulburn** are among the companies planning to bid this month to takeover Australian processor **United Dairy Power** (see *Global Dairy eBrief*, 11/20/14) . . . **Danone** sold its Indonesian fresh dairy business to Indofood's **Indolacto** dairy division (including the *Milkaut* brand) for \$21 million . . . Switzerland's **Emmi** sold its aseptic manufacturing plant in Penn Yan, N.Y., to Kansas-based **KanPak LLC**. (*Company reports; Drinks Business Review*, 12/1/14; *DairyReporter.com*, 11/26/14)

### Company news briefs

New Zealand's **Miraka Dairy** plans to quadruple UHT milk output at its Taupo, Waikato, facility within the next four years after signing a new supply deal with China's **Mengniu Dairy**. Miraka is supplied by New Zealand farms owned by China's Shanghai Pengxin . . . **Swiss Valley Farms** is spending \$21 million to double natural cheese production and manufacture additional cheese varieties at its Luana, Iowa, plant. (*USDEC China office; Company reports; The Gazette*, 11/24/14)

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