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Dairy and Products

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Report Highlights: New Zealand's fluid milk production in 2001/02 is tentatively forecast to rise 2 percent to a new record. Cow numbers are expected to increase but good rainfall over the next few months will be critical to output per cow, especially in areas of the South Island which are experiencing drought. Larger exports in 2001/02 of whole milk powder and cheese are forecast. Effective October 16, 2001, the merged dairy giant Fonterra came into effect, and currently controls 95 percent of all milk production. Effective October 16, export permits are no longer required except to specific quota markets, which have been initially allocated to Fonterra.

SECTION I. SITUATION & OUTLOOK

Milk production for the 2001/02 is forecast to increase 2 percent from last season's record 13,705,000 metric tons (1.054 billion kilograms of milksolids) to reach a new record of 13,980,000 metric tons or 1.075 billion kilograms of milksolids. Of this, 12,991,000 metric tons is estimated to be used for manufacturing purposes, and the rest for the domestic market. There is still a month to go before the peak production period of the New Zealand dairy season, and improved rainfall is needed in some areas, so forecasts are likely to be subject to revision. The forecast of a two-percent increase is primarily a result of increased cow numbers mostly in the South Island. Early calving and excellent grass growing weather particularly in the Waikato (the largest milk producing area) also added to this, but many other areas of New Zealand, especially in the South Island such as Canterbury and Otago, have experienced drought conditions over the winter and early spring.

Cheese production in 2001/02 is forecast to increase 5 percent to 295,000 MT with higher exports expected. The cheese market continues positive although the EU market reportedly has adjusted to earlier shifts due to FMD and BSE concerns.

Butter production for the 2001/02 season is forecast to decrease 3 percent to 345,000 MT. The New Zealand Dairy Board is looking in the longer run to diversify away from its dependence on relatively weak and volatile butter markets such as in Russia and the Middle East and concentrate on producing more cheese and whole milk powders.

Whole milk powder production (includes infant formula) is forecast to increase 7 percent in the 2001/02 year to 530,000 MT. Exports for whole milk powder are forecast to increase 7.5 percent. Strong foreign import demand is projected to lead to a continued shift in product powder mix to WMP in the long term.

Nearly 14,000 New Zealand dairy farmers voted in June (6/18/01) at meetings throughout the country to merge the dairy cooperatives Kiwi and the New Zealand Dairy Group with the New Zealand Dairy Board to form the world's ninth biggest dairy company (some say 4th largest with recent mergers/investments), known as 'Fonterra'. The company will own more the 95 percent of the NZ \$10 billion (US \$4.1 billion) export industry.

Legislation to enable the regulated industry to restructure and avoid Commerce Commission scrutiny of the merger proposal was introduced to parliament in June (6/19/01). Parliament passed the Dairy Industry Restructuring Bill in September and the industry signed off on October 16, meaning Fonterra was up and running. The now deregulated export industry means the Dairy Board's export controls were eliminated on October 16, 2001, but competition is expected to be slow arriving. Fonterra will retain licensing and tariff rate quota rights in certain overseas markets for six years, with these rights phased out over the subsequent four years.

SECTION II. STATISTICAL TABLES**PSD Table: Fluid Milk**

PSD Table						
Country	New Zealand					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)	(1000 MT)
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		06/1999		06/2000		06/2001
Cows In Milk	3269	3300	3300	3269	0	3330
Cows Milk Production	12835	12835	13705	13705	0	13980
Other Milk Production	0	0	0	0	0	0
TOTAL Production	12835	12835	13705	13705	0	13980
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	12835	12835	13705	13705	0	13980
Intra EC Exports	0	0	0	0	0	0
Other Exports	15	15	15	15	0	15
TOTAL Exports	15	15	15	15	0	15
Fluid Use Dom. Consum.	400	400	450	450	0	450
Factory Use Consum.	11931	11931	12716	12716	0	12991
Feed Use Dom. Consum.	489	489	524	524	0	524
TOTAL Dom. Consumption	12820	12820	13690	13690	0	13965
TOTAL DISTRIBUTION	12835	12835	13705	13705	0	13980
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table: Cheese

PSD Table						
Country	New Zealand					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		06/1999		06/2000		06/2001
Beginning Stocks	13	13	12	12	12	12
Production	270	270	282	282	0	295
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	283	283	294	294	12	307
Intra EC Exports	0	0	0	0	0	0
Other Exports	248	248	255	255	0	270
TOTAL Exports	248	248	255	255	0	270
Human Dom. Consumption	23	23	27	27	0	27
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	23	23	27	27	0	27
TOTAL Use	271	271	282	282	0	297
Ending Stocks	12	12	12	12	0	10
TOTAL DISTRIBUTION	283	283	294	294	0	307
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	36	36	35	28	0	30

PSD Table: Butter

PSD Table						
Country	New Zealand					
Commodity	Dairy, Butter				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		06/1999		06/2000		06/2001
Beginning Stocks	93	93	75	75	53	53
Production	347	347	355	355	0	345
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	440	440	430	430	53	398
Intra EC Exports	0	0	0	0	0	0
Other Exports	338	338	350	350	0	340
TOTAL Exports	338	338	350	350	0	340
Domestic Consumption	27	27	27	27	0	26
TOTAL Use	365	365	377	377	0	366
Ending Stocks	75	75	53	53	0	32
TOTAL DISTRIBUTION	440	440	430	430	0	398
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	29	29	25	20	0	25

PSD Table: Non-Fat Milk Powder

PSD Table						
Country	New Zealand					
Commodity	Dairy, Milk, Nonfat Dry			(1000 MT)		
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		06/1999		06/2000		06/2001
Beginning Stocks	54	54	49	49	38	38
Production	210	210	195	195	0	197
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	264	264	244	244	38	235
Intra EC Exports	0	0	0	0	0	0
Other Exports	204	204	195	195	0	197
TOTAL Exports	204	204	195	195	0	197
Human Dom. Consumption	11	11	11	11	0	11
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	11	11	11	11	0	11
TOTAL Use	215	215	206	206	0	208
Ending Stocks	49	49	38	38	0	27
TOTAL DISTRIBUTION	264	264	244	244	0	235
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	3	3	3	2	0	2

PSD Table: Whole Milk Powder

PSD Table						
Country	New Zealand					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		06/1999		06/2000		06/2001
Beginning Stocks	40	40	44	44	40	40
Production	420	420	495	495	0	530
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	460	460	539	539	40	570
Intra EC Exports	0	0	0	0	0	0
Other Exports	382	382	465	465	0	500
TOTAL Exports	382	382	465	465	0	500
Human Dom. Consumption	4	4	4	4	0	4
Other Use, Losses	30	30	30	30	0	30
Total Dom. Consumption	34	34	34	34	0	34
TOTAL Use	416	416	499	499	0	534
Ending Stocks	44	44	40	40	0	36
TOTAL DISTRIBUTION	460	460	539	539	0	570
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	4	4	4	4	0	4

PSD Table: Dried Whey

PSD Table						
Country	New Zealand					
Commodity	Dairy, Dried Whey				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		06/1999		06/2000		06/2001
Beginning Stocks	0	11	0	12	0	8
Production	0	25	0	20	0	25
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	1	0	1	0	1
TOTAL Imports	0	1	0	1	0	1
TOTAL SUPPLY	0	37	0	33	0	34
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	24	0	24	0	24
TOTAL Exports	0	24	0	24	0	24
Human Dom. Consumption	0	1	0	1	0	1
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	0	1	0	1	0	1
TOTAL Use	0	25	0	25	0	25
Ending Stocks	0	12	0	8	0	9
TOTAL DISTRIBUTION	0	37	0	33	0	34
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	6	0	5	0	5

Trade Matrix: Cheese (Tons)

NEW ZEALAND DAIRY EXPORTS		
Calendar Years (CY 2000 & 2001 Jan-July)		
CHEESE		
Destination	2000 (CY)	2001 (Jan-July)
Japan	50,627	32,084
United States	28,385	21,737
Australia	26,822	21,182
Belgium	16,756	12,862
Russia	9,443	1,149
Philippines	9,770	4,761
Mexico	8,601	4,878
Algeria	4,359	2,438
Taiwan	5,897	2,587
Chile	4,829	1,139
Netherlands	960	5,509
Korea	8,174	7,817
Saudi Arabia	4,749	4,691
Brazil	2,087	0
Egypt	4,039	3,680
Panama	1,857	2,385
Jamaica	4,093	2,679
Canada	1,392	0
Trinidad and Tobago	1,153	1,106
Hong Kong	3,668	2,457
Other	32,677	27,914
TOTAL CHEESE	235,338	163,055
Source: Statistics New Zealand		

Trade Matrix: Butter (Tons)

NEW ZEALAND DAIRY EXPORTS		
Calendar Years (CY 2000 & 2001 Jan-July)		
BUTTER, AMF, GHEE		
Destination	2000 (CY)	2001 (Jan-July)
Latvia	15,653	2,831
Russia	41,507	2,047
United Kingdom	38,772	23,268
United States	20,070	17,929
Belgium	42,151	20,369
Egypt	22,244	11,010
Taiwan	9,649	5,236
Iran	23,911	8,465
Mexico	18,273	8,407
Philippines	4,888	2,178
Morocco	7,549	3,515
Australia	8,472	6,052
Canada	9,796	8,306
United Arab Emeritus	9,984	2,575
China	1,139	416
Singapore	11,111	2,025
Malaysia	4,467	2,378
Fiji	1,550	922
Vietnam	3,720	1,661
Saudi Arabia	6,927	2,754
Thailand	2,692	1,668
India	4,518	0
Hong Kong	5,648	4,231
Chile	1,124	0
Other	46,416	24,552
TOTAL BUTTER/AMF	362,231	162,795
Source: Statistics New Zealand		

Trade Matrix: Non-fat Milk Powder (tons)

NEW ZEALAND DAIRY EXPORTS		
Calendar Years (CY 2000 & 2001 Jan-July)		
NON-FAT DRY MILK		
Destination	2000 (CY)	2001 (Jan-July)
Malaysia	22,080	17,421
Phillippines	23,954	20,300
Taiwan	14,358	11,123
Indonesia	16,295	15,026
Japan	12,100	11,785
China	6,861	3,106
Brazil	2,974	1,013
Thailand	9,080	8,695
Singapore	3,656	2,786
Saudi Arabia	11,821	5,851
United States	1,849	71
Australia	4,129	2,650
Yemen	1,915	1,707
Peru	4,944	3,257
Venezuela	3,085	2,722
Hong Kong	7,670	6,320
Mexico	6,776	3,143
Other	24,789	30,902
TOTAL NFMP	178,336	147,851
Source: Statistics New Zealand		

Trade Matrix: Whole Milk Powder (tons)

NEW ZEALAND DAIRY EXPORTS		
Calendar Years (CY 2000 & 2001 Jan-July)		
WHOLE MILK POWDER		
Destination	2000 (CY)	2001 (Jan-July)
Malaysia	51,678	23,879
Venezuela	25,548	28,379
Brazil	7,227	678
Sri Lanka	27,807	18,759
Mexico	14,852	18,848
Peru	27,088	4,102
Thailand	26,835	16,472
China	22,339	14,694
Taiwan	16,751	11,644
Saudi Arabia	27,640	10,877
Phillippines	15,854	12,211
El Salvador	27,107	9,990
Algeria	8,139	6,540
Cuba	9,295	7,021
Chile	12,827	10
Singapore	12,540	3,521
United States	4,000	4,000
Hong Kong	11,658	7,598
Other	45,829	74,255
TOTAL WMP	395,015	289,950
Source: Statistics New Zealand		

SECTION III. PRODUCTION, TRADE & POLICY

PRODUCTION

Fluid Milk Production

Milk production for the 2001/02 is forecast to increase 2 percent from last season's record 13,705,000 metric tons (1.054 billion kilograms of milksolids) to reach a new record of 13,980,000 metric tons or 1.075 billion kilograms of milksolids. Of this, 12,991,000 metric tons is estimated to be used for manufacturing purposes, and the rest for the domestic market. There is still a month to go before the peak production period of the New Zealand dairy season, and improved rainfall is needed in some areas, so forecasts are likely to be subject to revision. The forecast of a two-percent increase is primarily a result of increased cow numbers mostly in the South Island. NZ Dairy Group approved 108 new dairy conversions for this season (2001/2002) milking some 65,000 cows in Canterbury and Southland and Kiwi Dairies Ltd reports that 53 new herds totaling 22,700 cows are coming on stream this season in Canterbury and Otago. Early calving and excellent grass growing weather particularly in the Waikato (the largest milk producing area) also support the forecast, but many other areas of New Zealand, especially in the South Island such as Canterbury and Otago, have experienced drought conditions over the winter and early spring. The Waikato-based New Zealand Dairy Group, which is now been absorbed by Fonterra, has reported that due to excellent milk collections this month, it is on course to better last year's season record.

Generally dairy cattle stock condition is the poorest for some years due to the aftermath of drought and feed shortages but most farmers have handled the situation remarkably well and stock were healthy. Irrigation is now being used in many areas but supplies could be exhausted by early summer if good rains don't occur over the next few months.

The New Zealand milking herd for the 2001/02 season is estimated to begin with a little more than 3.3 million head. This is a 2 percent increase from last season and gives an indication of the confidence dairy farmers are feeling in the industry outlook for the medium term. The national herd is expected to grow at a rate of around 50,000 cows per year over the next 5 years. Minimal production gains per cow from some farms are expected to occur but increased productivity is a key goal of the dairy industry.

Cheese

The domestic cheese market in New Zealand is reported to be fairly static. Cheese production in 2001/02 is forecast to increase 5 percent to 295,000 MT with higher exports expected. The cheese market continues positive although the EU market has adjusted to earlier shifts due to FMD and BSE concerns. Cheese stocks remain low as supply is tight.

Butter

Butter exports for the 2000/01 season increased 3.5 percent from the previous season to 350,000 MT. Butter production for the 2001/02 season is forecast to decrease 3 percent to 345,000 MT. The New Zealand Dairy Board is looking in the longer run to diversify away from its dependence on relatively weak and volatile butter markets such as in Russia and the Middle East and concentrate on producing more cheese and whole milk powders. Events since September 11 also add uncertainty into the Middle East butter market. New Zealand was well positioned and

exported large amounts of butter to the US in early 2001 when prices were high but prices have now declined.

Non-fat Dry Milk Powder

2000/01 exports show a decrease of 7 percent. 2001/02 non-fat dry milk production (including buttermilk) is forecast to be up 1 percent from 2000/01 production. Exports for 2001/02 are also forecast to increase 1 percent. Due to the longer term trend of lower New Zealand domestic non-fat dry milk production, New Zealand has reached an agreement with a U.S. company, Dairy America, to sell most of its U.S. SMP exports (depending on DEIP and market demand). This U.S. company produces most U.S. SMP.

Whole Milk Powder

Whole milk powder production (includes infant formula) is forecast to increase 7 percent in the 2001/02 year to 530,000 MT. Exports for whole milk powder are forecast to increase 7.5 percent. Strong foreign import demand is projected to lead to a shift in product mix to WMP in the long term. WMP export prices had been high but for the second half of 2001 prices are off as the EU as cut demand for WMP in calf feed. Concerns exist that the EU could increase export subsidies if world demand falls due to the terrorist events and response after September 11.

Dried Whey

Production of dried whey for the 2001/02 season is forecast to be stable at 24,000 MT. Exports are also expected to remain static.

Casein

New Zealand casein production is forecast to rise very slightly or 1 percent to 137,000 MT in the 2001/02 season, from last season's 136,000 MT.

Farmgate Prices

In the 2000/01 season New Zealand Dairy Group (NZDG) achieved a NZ \$5/kg MS (US \$2.05/kg MS) price or a 33 percent lift in farm payout over the previous season's NZ \$3.75/kg MS (US \$1.45/kg MS) and a distribution of NZ \$3.14 billion (US \$1.3 billion) to the company suppliers in the greater Waikato, Bay of Plenty and the South Island. It comprises a commodity milk price of NZ \$4.49 (US \$1.84/kg MS) received for exports sold through the NZ Dairy Board and a NZDG margin of NZ \$0.40/kg MS (US \$0.16/kg MS). In the current 2001/02 season a payout of NZ \$4.60+/kg MS (US \$1.90/kg MS) is expected by the newly merged Fonterra, operational from October 16, 2001. Internationally over the current (2001/02) season, the industry does not see an upside but more likely erosion of prices and returns. Returns, however, also depend on exchange rates, and the NZ dollar has remained weak (about US\$.42=1\$NZ). Also, given hedging that took place last season, some lagged benefit will accrue this season from the weak NZ dollar.

TRADE & MARKETING

Dairy forecasts uncertain

New Zealand industry experts are reluctant to forecast the likely impact on New Zealand's dairy producers of the terrorist attacks on America and their aftermath. Likewise economists remain hesitant about how the projections of lowered world economic growth will affect dairy exports. A low dollar and interest rates are currently offering farmers some insulation, as do relatively good international markets. However, Fonterra continues to monitor the impact of the terrorist attacks and the U.S. response on its global businesses and to watch the extent of a worldwide downturn carefully. Its teams are receiving detailed information from offices around the world on how markets are being affected and how they could be affected under a range of different future scenarios.

A New Zealand Dairy Board spokesman has said that the past two months have been relatively flat in international dairy markets. In Europe, prices of butter, skim milk powder and some other standard products showed signs of easing back from recent high levels. Of immediate concern would be America's response to Afghanistan's harboring of Osama bin Laden and the extent to which that impacts on the greater Middle East region. The Middle East is a relatively small player in New Zealand's dairy exports but has shown significant growth over the last year.

New Zealand's milk exports to Saudi Arabia over the past year were worth NZ \$128 million (US \$52 million). This was up 83 percent, while cheese exports also increased 27 percent to NZ \$31.7 million (US \$15 million). Dairy exports are the main driver of growth in the Egyptian market with butter exports up 35 percent over the past year to NZ \$78 million (US \$32 million) and cheese exports up 53 percent to NZ \$27 million (US \$11 million). In the United Arab Emirates, butter exports rose 90 percent over the past year to NZ \$33 million (US \$14 million) and milk exports are up 23 percent to NZ \$33 million (US \$14 million).

Organics enters the mainstream

One of the biggest players in New Zealand's domestic dairy market has launched a mainstream brand of organic dairy products highlighting the trend toward organic food in New Zealand households. New Zealand Dairy Foods (NZDF) last month introduced 'Simply Organic' in a move to answer the call from consumers to bring organic products out of the speacalised food category and into the mainstream arena. Simply Organics recommended retail price is NZ \$2.20 (US \$0.90) per liter, which is slightly more than the price for other milk variants. Simply Organics milk will initially come in three one-liter varieties - whole milk (4.3% fat), standard milk (3.3% fat, homogenized), and low fat (1.0% fat, homogenized). Currently in New Zealand, organic milk forms 0.5 percent of supermarket milk sales. Simply organic is the first organic brand with a full marketing support program. This includes advertising, advertorials, point of sale material and sampling. They plan to expand their product range to include yoghurt by October 2001.

Bonland Dairies

Bonland Dairies, a new name for 'ConsumerCo' a dairy products company jointly owned by Bonlac Foods and the New Zealand Dairy Board was launched in Melbourne on September 4, 2001. Bonland Dairies has an annual turn over of NZ\$714 million (US \$293 million) and employing 230, promotes NZ and Australia's cheese and dairy spread brands, including Mainland, Bodalla, Bega, Western Star, Allowrie and Perfect Italiano under licence to their

manufacturers. A spokesman said the marketing alliance would strengthen the position of NZ and Australian dairy farmers in Fonterra and Bolnac. Fonterra has investments in three Australian dairy companies: 25 percent of BFL, 18.2 percent of National foods and 80 percent of West Australian Company Peters and Brownes.

NZ Milk in Mexican buy-up

NZ Milk, a subsidiary of Fonterra, has announced it is planning to buy two Mexican dairy companies, Lamesa and Eugenia, to make it the top seller of cheese and one of the biggest dairy product marketers in Mexico. The purchases, which are still to be completed, would boost NZ dairy sales in Mexico by NZ \$220 to \$750 million (by US \$97 to US\$330 million). The two companies have more than 2000 staff. Milk for the products will come from Mexican suppliers.

Nestle' - Fonterra Dairy deal

Nestle', the world's largest food group and New Zealand's Fonterra, last month announced that they are negotiating an alliance to create a number of joint ventures in the dairy business. These ventures will be restricted to North, Central and South America and are subject to due diligence as well as to regulatory and other clearances. They will cover a wide range of dairy products including shelf stable as well as chilled refrigerated milk foods and beverages under their respective brands. Infant formula, evaporated and condensed milks, certain specially products, cheese and butter are not covered by the alliance. The joint ventures will be managed by senior executives from both founding partners of the alliance and will report to a joint supervisory board. The two companies expect considerable benefits from their alliance. These will include favorable development of the quantity, quality and costs of fresh milk through the development of state of the art dairy farming practices in the host countries. Both partners have a long history of association with partners and expect to make an important contribution towards developing fresh milk production in Latin America and thus to improve the total earnings of farmers.

Dairy investigation

The merger agreement to form giant dairy company Fonterra Cooperative Group Ltd (resulting from the merger of the major New Zealand milk cooperatives and the New Zealand Dairy Board and formerly known as GlobalCo) was signed on October 16, 2001, after the acceptance of terms of reference for an investigation into who was responsible for illegal milk powder exports. The terms of reference provide for private investigators to join auditors in examining the books of merger companies Kiwi Dairies Co-operative and New Zealand Dairy Group. The regulated merger had been delayed till Fonterra directors agreed on the terms of reference. Dairy sector law says all products must be exported under Dairy Board licence. The alarm that products had been exported without Dairy Board approval was raised earlier this year. An initial investigation into the last two years of dairy exports reportedly found evidence of 5000 tons of unlicensed milk powder exports. The Agriculture Ministry is also investigating whether the Dairy Board Act and the Dairy Industry Act have been breached. The illegal exports are thought to be worth under NZ \$10 million (US \$4.1 million).

Kosher future for Edendale?

Anchor is looking at new markets for the production from its Edendale plant, with one option being the production of kosher milk products for export to the Jewish market in the U.S. This has been trailed in Waikato and the company is at present exploring its viability. Anchor has

established an anhydrous milk fat plant at Edendale which was commissioned on 1 September. It has been scheduled to process up to 600,000 liters of cream. A new milk treatment plant, able to process 4 million liters of milk, is to come on stream in February next year. The third major development, a new milk powder dryer, is still at the planning stage.

POLICY

Domestic

Nearly 14,000 New Zealand dairy farmers voted in June (6/18/01) at meetings throughout the country to merge the dairy cooperatives Kiwi and the New Zealand Dairy Group with the New Zealand Dairy Board to form the world's ninth (some say 4th largest with recent mergers/investments) biggest dairy company, known as 'Fonterra'. The company will own more than 95 percent of the NZ \$10 billion (US \$4.1 billion) export industry. Kiwi shareholders voted 83 percent in favor of the mega-merger and New Zealand dairy group shareholders 85 percent in favor. Farmers voted on a milksolids production basis, not a one farmer one vote basis.

Legislation to enable the regulated industry to restructure and avoid Commerce Commission scrutiny of the merger proposal was introduced to parliament in June (6/19/01). Parliament passed the Dairy Industry Restructuring Bill in September and industry signed off on October 16, meaning Fonterra is officially up and running. The now deregulated export industry means the Dairy Board's export controls have been eliminated but competition is expected to be slow arriving. At least in the short-term, processed products like ice cream and formula feed are those which are expected to be exported outside of Fonterra. Fonterra will retain licensing and tariff rate quota rights in overseas markets for six years, with these rights phased out over the subsequent four years (a system will go into effect then to allocate licences). These quota rights are for butter and cheese to the EU, cheese subject to quota to the U.S., butter to Canada, cheese and prepared animal fats to Japan, and WMP to the Dominican Republic.

Merger advocates have identified one-time gains of up to NZ\$320 million (US \$131 million) over three years and farmers are proposing a pay boost of NZ\$0.30 (US \$0.12) cents per kilogram of milksolids by the company's third year.

New Zealand Dairy Foods sign crucial contract

New Zealand Dairy Foods (NZDF) has signed key supply and brand licensing contracts with Fonterra that will put it on an equal footing with the giant in the domestic market. A key outcome of the contracts is that Fonterra must charge NZDF the same transfer price for raw milk and other ingredients as it does its own subsidiary, Mainland. Fonterra is selling its half stake in NZDF to maintain domestic competition. The 10 year contracts cover costs for supply of raw milk, cream, butter and cheese, as well as licensing the Chesdale brand, the Anchor and Fernleaf brands were signed months ago.

Dairy Board revenue almost NZ \$10 billion

The New Zealand Dairy Board had a record group revenue of NZ \$9.99 billion (US \$4.1 billion) in the year to May 31, up NZ \$2.34 billion (US \$959 million). Both the Board's strategic business units recorded strong sales growth. NZ Milk's revenue grew 18 percent to NZ \$3.5 billion (US \$1.4 billion); NZMP's revenue totaled NZ \$6.3 billion (US \$2.6 billion) an increase

of NZ \$1.8 billion. Total payments to NZ dairy companies for NZ-origin products was NZ \$1.2 billion (US \$495 million), up 36 percent.

Biotechnology

Fonterra supports GM research

Fonterra Co-op Group believes the responsible use of genetic modification must be allowed in New Zealand, but it did not mean that it wanted to use GM ingredients in its products an industry official said. Fonterra has said it must be allowed to conduct research in New Zealand in a responsible manner and must have the ability to make sensible choices about the commercial application of genetically modified organisms in the future. Fonterra has added that if the present moratorium on GM commercial release and field trials was extended, it would be impossible for Fonterra to remain competitive with developments in GM science without moving its research operations overseas.

By October 31, the Government will provide its response to the report of the Royal Commission on Genetic Modification which will include its policy regarding field tests and commercial releases. New Zealand has no GMO's released for commercial production and all new GMO field trials have been halted since May 2000.