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Dairy

DAIRY SITUATION AND OUTLOOK

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Prepared by:

Gary Meyer

U.S. Embassy

Drafted by:

Maxine Yule

Report Highlights: Drought conditions are expected to hold milk production at 11,780 thousand metric tons in 1998/99. Butter previously destined for Russia will be diverted to the U.S. market for as long as prices hold. Butter production increases in 1998/99 will push up stocks of NFDM and lower cheese and WMP production. The Government's call in May for industry plans to move toward a deregulated environment has resulted in wide-ranging debate, particularly for the dairy industry. The NZDB opposes the elimination of the single-desk system.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

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EXECUTIVE SUMMARY	Page 1 of 18
FLUID MILK	Page 2 of 18
Production	Page 2 of 18
Production Mix	Page 3 of 18
Cross Commodity Developments	Page 3 of 18
DOMESTIC CONSUMPTION	Page 4 of 18
Prices	Page 4 of 18
TRADE	Page 5 of 18
1998/99 Outlook	Page 5 of 18
Exchange rate	Page 5 of 18
POLICY DEVELOPMENTS	Page 5 of 18
Production Policy & Regulatory Reform	Page 5 of 18
1998/99 First Season of Market Driven Payment <i>System</i>	Page 6 of 18
New Dairy Board Chairman	Page 6 of 18
Moody's Downgrade NZDB Credit Rating	Page 6 of 18
Dairy Company Mergers	Page 6 of 18
Research and Development	Page 7 of 18
Competitive Activities	Page 7 of 18
BUTTER	Page 8 of 18
Production	Page 8 of 18
Consumption	Page 8 of 18
Trade	Page 8 of 18
N.Z. EXPORTS AND AVERAGE EXPORT PRICES: BUTTER	Page 9 of 18
CHEESE	Page 10 of 18
Production	Page 10 of 18
Consumption	Page 10 of 18
Trade	Page 10 of 18
N.Z. EXPORTS AND AVERAGE EXPORT PRICES: CHEESE	Page 12 of 18
NON-FAT DRY MILK POWDER	Page 13 of 18
Production	Page 13 of 18
Trade	Page 13 of 18
N.Z. EXPORTS AND AVERAGE EXPORT PRICES: NFDM	Page 14 of 18
WHOLE MILK POWDER	Page 15 of 18
Production	Page 15 of 18
N.Z. EXPORTS AND AVERAGE EXPORT PRICES: WMP	Page 16 of 18
DRIED WHEY	Page 17 of 18
Production	Page 17 of 18
N.Z. EXPORTS AND AVERAGE EXPORT PRICES: WHEY	Page 18 of 18

EXECUTIVE SUMMARY

New Zealand fluid milk production in 1998/99 is projected to reach 11,780 thousand metric tons, surpassing last season's record output of 11,640 thousand metric tons. Drought conditions are expected to curb milk production once again and dairy processing companies are already reporting lower daily milkflows compared to last season. Dairy herd expansion is slowing due to increased entry costs and lower payout forecasts.

The Dairy Board expects to face tough market conditions globally in 1998/99 as the Asian crisis, the Russian devaluation and weak Latin American markets depress demand for dairy products globally. Butter previously destined for Russia will be diverted to the U.S. market for as long as prices hold.

The NZDB exported 1.3 million tons of dairy product worth N.Z.\$7.7 billion (U.S.\$4.5 billion) in 1997/98, up from 1.2 million tons and N.Z.\$6.1 billion (U.S.\$4.2 billion) in the previous year. The Board estimates its share of the international dairy market has increased to an estimated 33 percent in 1997/98.

The 1997/98 NZDB payout to dairy processing companies was N.Z.\$3.00/kilogram of milksolids (kgMS) (N.Z.\$5.22/kgMS in milkfat terms). Dairy company top-up payments ranged between N.Z.\$0.20 and N.Z.\$0.65/kgMS this year, averaging N.Z.\$3.41/kgMS at the farmgate. The Board's pre-season outlook for the 1998/99 payout is between N.Z.\$3.15/kgMS and N.Z.\$3.30/kgMS.

The New Zealand Dairy Board remains the statutory export monopoly under the Dairy Board Act of 1961. The Government's call in May for industry plans to move toward a deregulated environment has resulted in a wide-ranging debate, particularly for the dairy industry. The Board has publicly opposed elimination of single desk powers and believes statutory exporting authority is in the best interests of suppliers. Nonetheless a plan is expected to be presented to Government by the November 15 deadline.

The 1998/99 season will see the introduction of the Board's new commercial pricing model governing its payments to the dairy processing cooperatives. The new payment system will focus on a dairy product's market value instead of its cost of production.

\$US:NZ Exchange Rates: June Years: 1996 (0.6684), 1997 (0.6973), 1998e (0.5933).

FLUID MILK

PSD Table						
Country:	New Zealand					
Commodity:	Dairy, Milk, Fluid					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		06/1996		06/1997		06/1998
Cows In Milk	3260	3260	3270	3270	0	3285
Cows Milk Production	11500	11500	11600	11640	0	11780
Other Milk Production	0	0	0	0	0	0
TOTAL Production	11500	11500	11600	11640	0	11780
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	11500	11500	11600	11640	0	11780
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	400	400	0	400
Factory Use Consum.	10650	10650	10743	10774	0	10908
Feed Use Dom. Consum.	435	435	442	451	0	457
TOTAL Dom. Consumption	11485	11485	11585	11625	0	11765
TOTAL DISTRIBUTION	11500	11500	11600	11640	0	11780
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Given the likelihood of another dry season for dairy farmers, fluid milk production in 1998/99 is expected to increase 1.2 percent to 904 million kilograms of milksolids (kgMS) or 11,780 thousand metric tons of fluid milk. Dairy cattle and water supplies have barely recovered from the 1997/98 El Nino drought. Potential production constraints from drought conditions include poor pasture growth (especially in East Coast regions), poor cow condition, and low supplementary feed stocks.

Dry El Nino conditions curbed New Zealand's fluid milk production in 1997/98 to 893 million kilograms of milksolids (kgMS) or 11,640 thousand metric tons of fluid milk. Although another record year in production terms, the increase represented a small 1.2 percent increase over 1996/97 production of 11,500 thousand metric tons of fluid milk (882 million kgMS).

The Taranaki region experienced an ideal season for dairy farming and was well positioned for the 1998/99 season. Most other dairying regions were affected by the drought, but the impact of the El Nino weather pattern varied widely. The 1997/98 season started with a rapid rise in milk production because farmers were able to provide good quality pasture. September/October milk production was well ahead of budget for many farms

and dairy companies in 1997/98. Drought affected production from November onwards with low summer rainfall and above average temperatures in December, January, February and March. Slow pasture growth rates and high temperatures saw steep declines in milk flows in almost all drought-affected dairying regions. Farmers responded by culling cows earlier to decrease stocking rates over the summer months. As the condition of cows dropped, farmers then started drying off lighter cows in February and March. More herds were milked once a day or dried off early compared to 1997.

Many farmers experienced difficulty securing off-farm winter grazing at an affordable price this season as the drought left many grazers with tight feed supplies. Over 90 percent of Canterbury's cows are wintered off-farm as either off-farm grazing or on run-offs or leased blocks. An estimate made in April 1998 that this winter 20-25 percent of cows would winter on-farm increased to approximately 30 percent by May. Greenfeed crops and pastures on dryland properties grew poorly through the April/May period due to continuing drought and many farmers had not budgeted to have these extra cows wintered on-farm. At the start of winter, many dairy farms had less conserved feed on hand than normal.

The 1998 drought is now having an impact on milkflows in many dairying regions. Northland Dairy Cooperative has reported milkflows are down 15 percent this season, beginning June 1. Daily milk flows have been back 15-20 percent through August and September compared to the previous year. New Zealand Dairy Group's milk flows are down 4.57 percent season-to-date and 4.75 percent on a daily basis. New Zealand's second largest dairy cooperative, Kiwi Dairies are down 3.5 percent on a daily basis and 1.8 percent (7.44 million liters) year-to-date. In contrast, the South Island Dairy Cooperative (the result of the Alpine and Southland merger) has reported increased milkflows, up 17 percent when compared to last year. The lift is a result of individual farmers increasing supply and new suppliers.

Production Mix

An estimated 1.2 percent increase in milk production to 904 million kg/MS in 1998/99 will see the output of manufactured product increase to 1.32 million tons. Despite the poor market outlook for butter in Russia and non-fat dry milkpowder in Asia, butter production is expected to remain high to enable the Board to capitalize on high American butter prices. Production of anhydrous milkfat, non-fat milkpowder and casein is expected to increase in 1998/99. Cheese and wholemilk powder production is expected to decline.

In milkfat terms, N.Z. dairy companies converted 1997/98 national milk production as follows: cheese (19.5 percent), butter (19.9 percent), wholemilk powder (26.5 percent), nonfat milk powder (13.1 percent), and casein (7.6 percent).

Cross Commodity Developments

There has been a marked slow-down in the conversion of dry stock farms to dairying due to lower milk prices and the requirement that new suppliers must pay capital contributions to their processing cooperative before they commence supply. While the prediction of a better milk payout may encourage further growth in dairy production, the up-front costs of joining a cooperative is expected to keep expansion at a relatively low level. This is expected to lead to more stable dairy cattle numbers.

DOMESTIC CONSUMPTION

Deregulation of the domestic milk market occurred in 1993. The larger dairy cooperatives have since increased their share of production and marketing of fresh milk products from smaller cooperatives, who have tended to concentrate on specialty niche products and/or export production. New Zealand Dairy Group and Kiwi dominate the fresh milk market in the North Island. The South Island market is dominated by the Meadow Fresh label (based in Christchurch) and Southern Fresh (Invercargill).

The New Zealand domestic fluid milk market is worth an estimated N.Z.\$181 million, equivalent to 138 million liters. Standard/homogenized milk accounts for 61.3 percent of total milk sales. There is considerable segmentation and product development in the domestic fluid milk market. Low fat, full cream, half/half, calcium fortified and organic milks are widely available with each brand having at least four variants of white milk on the shelf. Fresh flavored milk sales grew 13 percent over 1997/98 to reach 3.7 million liters and is widely available. Per capita milk consumption continues to decline.

Prices

The 1997/98 Dairy Board's base payout to dairy processing companies was N.Z.\$3.00 per kilogram of milksolids (kgMS), or N.Z.\$5.22 per kilogram in milkfat terms. The Board's payment is "topped-up" with additional payment from individual dairy cooperatives. In the 1997/98 season top-up payments ranged between NZ\$0.20/kgMS and NZ\$0.65/kgMS, averaging NZ\$3.41/kgMS at the farmgate. New Zealand dairy companies pay farmers for milk at a rate based on separate values for fat and protein. Milksolids include both fat and protein. The conversion factor from milkfat to milksolids is 1.74. Dairy farmers supplying New Zealand's smallest milk company, Tatua Cooperative, received the highest payout once again at NZ\$3.65/kgMS. The 1997/98 Board payout declined 5.6 percent on the 1996/97 payout of NZ\$3.18/kgMS. The Dairy Board is predicting an increase in the 1998/99 base payout in the range of NZ\$3.15 and NZ\$3.30 per kgMS due to an anticipated drop in world demand.

NEW ZEALAND DAIRY PRICES AT THE FARMGATE			
SEASON	NZ\$/KGMF	NZ\$/KGMS	NZ\$/US\$
91/92	4.22	2.43	0.5978
92/93	5.84	3.36	0.5531
93/94	6.38	3.67	0.5651
94/95	5.81	3.34	0.6355
95/96	6.26	3.60	0.6684
96/97	5.54	3.18	0.6973
97/98e	5.22	3.00	0.5933
98/99 f	5.60	3.22	0.5500

Exchange rates are Reserve Bank mid-rates.

TRADE

All exports of dairy products manufactured in New Zealand are carried out by the statutory monopoly, the New Zealand Dairy Board (NZDB). Established under the Dairy Board Act of 1961, the Dairy Board exported 1,308,000 MT in 1997/98 versus 1,288,000 MT in 1996/97.

1998/99 Outlook

The Board is expecting a tough year ahead as prices weaken in response to the demand downturn in Asia, Russia and South America. While demand remains flat, the Board expects more aggressive use of EU export subsidies as it tries to maintain exports levels. In a recent speech retiring Dairy Board Chairman Sir Dryden Spring outlined the Board's view of EU export subsidies: "We have a major task to again persuade the European Union to understand that those tactics will not enable them to export a single ton more, for New Zealand and Australia have no other option but to meet the market, wherever it is, as we must sell what we produce each year. All increased export subsidies will do, is drive prices down even further". Butter previously destined for Russia will go to the U.S. market for as long as prices hold.

Exchange rate

After holding a relatively strong position against the U.S. dollar, the N.Z. dollar has fallen steadily over the last twelve months, and it may now be at a relatively stable level (N.Z.\$1.845=U.S.\$1.00). The weak New Zealand dollar will help dairy exports, but high import prices will result in increased farm input costs.

The Board's hedging activities resulted in losses of N.Z.\$488 million in 1997/98. The board's hedging policy is to have approximately 50 percent of any season's cashflows hedged and it had arranged cover at 0.6460 against the US\$. Had the Board's cover remained at 50 percent, farmers would have benefitted from the falling NZ\$, but Board directors authorized increased cover (up to 88 percent) in a bid to maintain the payout at N.Z.\$3.00/kgMS.

See NZ8041 for further information.

POLICY DEVELOPMENTS

Production Policy & Regulatory Reform

In the 1998 Budget, the Government announced its intention to review the statutory backing of New Zealand's agricultural industry Boards and invited the Boards to file plans for operating without statutory backing. These strategic plans for operating without statutory powers are due mid-November 1998. Although the time frames for change for each Board are expected to differ, the Government has spoken of time frames of between three and five years. The Government argues that its primary reason for reviewing producer board legislation is to improve returns to its agricultural producers.

The Government's call in May for industry deregulation plans has resulted in a wide-ranging debate, particularly for the dairy industry. The Board has publicly opposed elimination of single desk powers and believes statutory exporting authority is in the best interests of suppliers. A draft plan has been developed within the Board and consultation meetings held with dairy companies. Feedback from the draft was then included in a revised draft plan for approval by the Board. The Board has not yet consulted with producers but a round of 14 producer consultative meetings will be held by the end of October. The views of producers will then be included in the draft plan which will be approved by the Board by October 29. The plan will be presented to Government by the November 15 deadline. The plan is not expected to include an Industry Strategic Plan or in-depth farmer-view analysis.

Federated Farmers' Dairy Section (FFDS) believes that farmers should determine the structure of the dairy

industry. Whether the legislation underpinning the Dairy Board's single selling powers remains in place or not, it should not compromise in seeking the ideal structure. While farmers support the Board and its critical mass in exporting, FFDS believes the Board can exist without the legislation. FFDS say the Board's survival depends more on whether the manufacturing cooperatives want it rather than on the legislation supporting it, and has criticized the Board for not producing discussion papers or draft plans as part of their consultation process.

The New Zealand Business Roundtable (NZBR), fully supports the removal of the Board's export monopoly and says N.Z. dairy farmers may losing out on 10 to 15 percent of their returns from milk sales. According to the NZBR, farmer control of processing and marketing imposes a significant cost on dairy farmers compared with their counterparts in New South Wales, Australia, where there is competition between farmer-controlled and investor-owned firms.

1998/99 First Season of Market Driven Payment System

The 1998/99 season will see the introduction of the Board's new market driven payment system which will focus on a dairy product's market value instead of its cost of production. With more than an estimated 70 percent of New Zealand's total processed product falling into "commodity" categories, prices received by cooperatives will be pegged against monthly average world commodity prices. The new payment system is likely to result in wider swings in company earnings, particularly for those dairy companies with limited flexibility in terms of product mix.

See NZ8010 for further information.

New Dairy Board Chairman

The Dairy Board has elected John Storey as its chairman to succeed Sir Dryden Spring. Sir Dryden Spring announced his intention to resign earlier after nine years in the position. Mr Storey has stepped-down as Chairman for the New Zealand Dairy Group to take up his new role, which began October 13 1998. Mr Doug Leeder (previously deputy Chairman) has been elected Chairman of New Zealand Dairy Group. Henry van der Heyden has been elected as new Deputy Chairman of NZDG.

Moody's Downgrade NZDB Credit Rating

The Dairy Board's credit rating was downgraded from P1/Aa2 to P1/Aa3 in September 1998 following Moody's downgrade of the New Zealand Government rating. Moody's New Zealand downgrade is based on the likely effect of the Asian crisis and New Zealand's increasing current account gap.

Dairy Company Mergers

After several years of intense merger activity there are now only 9 dairy cooperatives, down from 15 in 1995. The 1998/99 season has seen Alpine Dairy Products and Southland Dairy Coop merged to form the South Island Dairy Cooperative (SIDC). As New Zealand's newest dairy company, SIDC will rank third in size after NZDG and Kiwi. SIDC will have approximately 867 shareholders milking approximately 335,100 cows to produce 109 million kilograms of milksolids in 1998/99. Benefits promoted to shareholders included an improved payout, more efficient use of capital, additional product mix flexibility, and greater economies of scale.

Merger negotiations between New Zealand Dairy Group and Northland Coop Dairy remain stalled after preliminary investigations. Industry sources believe the merger will eventually go ahead.

Research and Development

Most projects involve cooperation between the Board, dairy companies, the N.Z. Dairy Research Institute and other research organizations domestically and offshore. Under the Board's new global marketing structure, research and development is expected to be more closely aligned with the industry's marketing and manufacturing functions. Each strategic business unit will include a person with a technical focus, either from the Dairy Board or from the NZ Dairy Research Institute, which is expected to ensure that the Board's research and development activities are market-led.

Competitive Activities

The Board's cost of sales and other marketing expenses (excluding dairy company payouts) reached N.Z.\$2,956 million (U.S.\$1,778 million) in 1997/98. Marketing and distribution costs for N.Z. manufactured dairy products reached N.Z.\$424 million (U.S.\$255 million) while the cost of sales for N.Z. origin dairy products was N.Z.\$1,303 million (U.S.\$784 million) New Zealand origin dairy product cost of sales comprises the following major items:

- international freight/insurance N.Z.\$304 million (U.S.\$182.9 million)
- customs duties/levies N.Z.\$485 million (U.S.\$291.8 million)
- storage, packing and further processing. N.Z.\$390 million (U.S.\$234.7 million)

Consumer products sales at N.Z.\$1.7 billion accounted for 22 percent of the Board's revenue in 1997/98 compared to N.Z.\$1.4 billion in 1996/97. Consumer powder sales are expected to be particularly hard hit in Asian markets over 1998/99. Food Service product sales increased 2 percent (volume) to reach 55,000 MT in 1997/98. Key food service markets include Asia and Australia. Exports of ingredient volumes increased by 36,000 MT to a record 1,006,000 MT in 1997/98 and accounted for 59 percent or N.Z.\$4.6 billion of revenue. Increased ingredient exports were attributed to North American and the Middle Eastern markets.

BUTTER

PSD Table						
Country:	New Zealand					
Commodity:	Dairy, Butter					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		06/1996		06/1997		06/1998
Beginning Stocks	126	126	77	101	73	99
Production	320	320	315	343	0	340
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	446	446	392	444	73	439
Intra EC Exports	0	0	0	0	0	0
Other Exports	315	315	265	315	0	320
TOTAL Exports	315	315	265	315	0	320
Domestic Consumption	54	30	54	30	0	30
TOTAL Use	369	345	319	345	0	350
Ending Stocks	77	101	73	99	73	89
TOTAL DISTRIBUTION	446	446	392	444	73	439
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	9	0	15	0	20

Production Butter production (including AMF and fat mixes) is expected to remain stable at 340,000 MT in 1998/99 despite the troubled Russian market. The Board plans to divert butter away from Russian markets to the United States market where prices are currently high, despite the subsequent increase in NFD. Last season's butter production has been revised to reflect end of season industry estimates.

Consumption New Zealanders have the world's second highest butter consumption at 8.1 kilograms per capita. The domestic retail butter market is estimated to be worth N.Z.\$67.8 million but sales by volume fell 5.5 percent last year. This year the New Zealand Dairy Board decided to close generic butter promoter arm, Buttermark.

Trade Russia continues to be New Zealand's largest butter market but exports dropped 27.5 percent to 58,224 MT in 1997/98 (1996/97: 80,214 MT). Butter exports to Russia in 1998/99 are expected to fall given the economic difficulties there. Butter exports to the United Kingdom continue to decline as the Board's spreadable butter legal wrangle with United Kingdom Customs and Excise continues. Butter exports to the United States increased 60.2 percent (5,824 MT) reflecting short supply and high prices domestically. New Zealand's butter exports to the United States have increased 345 percent since 1995/96. This year the Board launched "Doyarushka" butter, a traditional butter developed specifically for Russian consumers. N.Z. butter trade in 1998/99 will see increased exports to the United States as long as prices in that market remain high.

FOB Prices Average FOB prices in N.Z. dollars increased 11.7 percent in the June 1997/98 year. All markets (except Iran) experienced increased prices but the U.K. remained the highest paying butter market at N.Z.\$4,959/MT.

N.Z. EXPORTS AND AVERAGE EXPORT PRICES: BUTTER						
June years, Metric Tons, NZ\$FOB						
Destination	1995-96		1996-97		1997-98	
	MT	NZ\$/MT	MT	NZ\$/MT	MT	NZ\$/MT
Russia	30,400	2,941	80,214	2,140	58,224	2,806
United Kingdom	65,384	4,665	58,084	4,905	51,811	4,959
Belgium	5,261	3,890	26,910	2,951	34,379	3,385
Egypt	15,013	2,479	14,367	2,225	15,498	2,545
United States	3,478	2,515	9,672	2,427	15,496	3,129
Iran	21,057	3,647	5,423	3,522	12,975	2,742
United Arab Emirates	2,100	3,260	5,222	2,426	9,772	2,806
Mexico	3,798	3,669	8,284	2,573	8,974	2,959
Morocco	11,701	3,068	12,750	2,114	8,528	2,784
Taiwan	7,251	3,157	7,781	2,782	8,432	3,039
Saudi Arabia	4,767	3,560	5,765	2,679	6,746	2,862
Singapore	3,459	3,583	3,435	2,646	6,412	2,672
Australia	4,712	2,909	4,472	2,625	6,139	2,912
Algeria	700	2,570	8,024	2,411	5,597	2,716
Philippines	3,988	3,586	5,025	2,543	5,264	2,607
Germany	689	3,939	1,239	2,272	4,334	2,915
Malaysia	3,492	3,634	3,611	2,919	3,574	2,974
Hong Kong	8,321	3,074	5,514	2,787	3,110	3,184
Brazil	1,187	2,998	1,329	2,430	2,749	3,005
Vietnam	3,791	3,452	3,480	2,390	2,672	2,653
Thailand	3,219	3,606	3,749	2,540	2,281	2,741
Chile	1,640	2,589	1,095	2,619	1,131	3,268
Fiji	1,733	2,944	1,828	2,465	1,165	2,791
Netherlands	6,143	4,085	2,547	2,043	345	2,438
Japan	276	3,323	343	2,582	343	2,982
Cuba	128	3,075	268	1,965	262	2,339
Other	34,840	3,302	34,969	2,643	38,971	2,927
TOTAL BUTTER/AMF	237,690	3,620	315,403	2,910	315,187	3,252

Source: NZ Department of Statistics

Note: 1997/98 data is provisional and subject to change.

CHEESE

PSD Table						
Country:	New Zealand					
Commodity:	Dairy, Cheese					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		06/1996		06/1997		06/1998
Beginning Stocks	69	69	43	41	33	41
Production	240	240	260	266	0	245
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	1	1	1	0	0
TOTAL Imports	1	1	1	1	0	0
TOTAL SUPPLY	310	310	304	308	33	286
Intra EC Exports	0	0	0	0	0	0
Other Exports	236	236	240	232	0	210
TOTAL Exports	236	236	240	232	0	210
Human Dom. Consumption	31	33	31	35	0	35
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	31	33	31	35	0	35
TOTAL Use	267	269	271	267	0	245
Ending Stocks	43	41	33	41	33	41
TOTAL DISTRIBUTION	310	310	304	308	33	286
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	22	0	21	0	22

Production Cheese production is expected to decline 7.8 percent to 245,000 MT in 1998/99 year reflecting increased milkfat utilization in butter and anhydrous milkfat (AMF) production. NZ Dairy Group's Lichfield cheese factory will add the newly developed "Taupo" cheese to its manufacturing line in 1998/99. "Taupo" cheese was developed especially for the Japanese market and is described as a semi-hard rindless variety with a milky flavor. Taupo cheese is used as an ingredient by manufacturers of foods such as pizza.

Consumption New Zealand's consumer cheese market is worth an estimated N.Z.\$175.0 million and 21.0 million kilograms in volume terms. Sales of traditional cheddar cheeses increased by 2 percent in volume and 2.4 percent in value over the last year. In contrast the specialty cheese segment soared 8.4 percent in volume and 7.4 percent in value. The most popular specialty cheeses by dollar sales are brie, Camembert, feta, blue vein and Parmesan.

Trade Cheese export volumes faltered in 1997/98 with a 1.7 percent fall to 232,075 MT, down from 236,252 MT in 1996/97. Russia was down 36.8 percent or 7,683 MT to 13,190 MT in 1997/98 compared to 20,873 MT the previous year. Cheese exports to the United Kingdom increased 25.2 percent to 18,338 MT, making it the Board's fourth largest market by volume but the highest paying market overall.

In the United States, the Dairy Board formed the Greenwood Valley Cheese Company, a joint venture with Dairy Farmers of America. Under their agreement, a Wisconsin plant will grate blocks of hard cheese, including New Zealand manufactured cheese, and packed under third-party brands for the food service sector. The Board's new cheese factory in Guangdong, China, started slice-on-slice production for McDonald's in February 1998.

FOB Prices Average FOB prices started at N.Z.\$3,621/MT in September 1997 and continued increasing throughout the year, reaching N.Z.\$3687/MT in December 1997, N.Z.\$3920/MT in March 1998 and N.Z.\$4,126/MT in the final quarter. Average cheese prices increased N.Z.\$290/MT in 1997/98 to N.Z.\$3,840/MT compared with the previous year. The United Kingdom remained the Board's highest paying market at N.Z.\$5,298 MT - 37.9 percent above (N.Z.\$1458/MT) the total average price.

N.Z. EXPORTS AND AVERAGE EXPORT PRICES: CHEESE						
June years, metric tons, NZ\$FOB						
Destination	1995-96		1996-97		1997-98	
	MT	NZ\$/MT	MT	NZ\$/MT	MT	NZ\$/MT
Japan	48,097	3,268	52,576	3,318	52,430	3,840
USA	13,929	4,413	22,182	3,475	21,408	3,792
Australia	21,872	3,648	20,881	3,728	20,906	3,670
United Kingdom	8,635	7,248	14,645	6,369	18,338	5,298
Belgium	5,687	4,006	15,728	3,247	17,835	3,464
Russia	15,762	3,106	20,873	3,403	13,190	3,551
Mexico	4,428	3,029	9,102	3,121	10,152	3,604
Philippines	7,574	3,316	8,824	3,409	7,763	3,703
Chile	5,494	2,859	5,946	2,838	5,537	3,219
Taiwan	3,314	2,875	4,408	3,548	5,164	3,859
Saudi Arabia	2,096	3,662	4,125	3,426	4,598	3,849
Netherlands	956	3,235	3,389	3,166	4,557	3,123
Jamaica	3,634	3,228	3,411	3,273	3,778	3,689
Korea	0	na	3,972	3,283	3,765	4,056
Panama	2,706	3,025	2,758	2,392	3,269	3,612
Egypt	2,600	3,292	3,238	3,190	2,803	3,475
Brazil	2,318	1,786	4,398	3,021	2,045	3,482
Canada	1,905	3,470	2,791	3,145	1,504	3,706
Algeria	650	6,238	4,632	2,955	1,499	3,396
Trinidad and Tobago	1,774	3,179	1,799	3,405	1,043	3,914
Other	19,999	3,289	26,576	3,579	30,489	3,883
TOTAL CHEESE	172,778	3,576	236,252	3,550	232,075	3,840

Source: NZ Department of Statistics

Note: 1997/98 data is provisional and subject to change.

NON-FAT DRY MILK POWDER

PSD Table						
Country:	New Zealand					
Commodity:	Dairy, Milk, Nonfat Dry					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		06/1996		06/1997		06/1998
Beginning Stocks	75	75	60	60	55	67
Production	211	211	211	215	0	225
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	286	286	271	275	55	292
Intra EC Exports	0	0	0	0	0	0
Other Exports	215	215	205	197	0	180
TOTAL Exports	215	215	205	197	0	180
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	226	226	216	208	0	191
Ending Stocks	60	60	55	67	55	101
TOTAL DISTRIBUTION	286	286	271	275	55	292
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	6	0	6	0	6

Production Production of non-fat dry milk powder (NFDM) is expected to increase to 190,000 MT in 1998/99 despite key milk powder markets facing economic uncertainty. Increased NFDM production reflects the Board's decision to focus on butter and AMF production in 1998/99. New Zealand Dairy Group's N.Z.\$164 million Te Rapa expansion includes a new powder plant capable of producing 23 MT of milk powder an hour. The plant is expected to be operational for the 1999/2000 season.

Trade Exports of non-fat dry milk powder production declined 8.5 percent in the 1997/98 year with the total export volume falling 18,490 MT. Sales to Asian markets reflect the economic downturn affecting the region with exports to the Philippines, Malaysia and Indonesia down 8.3 percent, 17.2 percent, and 26.6 percent respectively. Exports to China increased by 2,589 MT (up 45.4 percent) to reach 8,289 MT in 1997/98 compared to 5,700 MT in 1996/97. NFDM exports to Singapore doubled in 1997/98 to reach 8,087 MT, up from 4,037 MT in 1996/97. The Board's increased NFDM exports to Brazil and Peru reflect product launches of ANLENE and other products across Latin America in 1997/98.

N.Z. EXPORTS AND AVERAGE EXPORT PRICES: NFDM						
June years, Metric Tons, NZ\$FOB						
Destination	1995-96		1996-97		1997-98	
	MT	NZ\$/MT	MT	NZ\$/MT	MT	NZ\$/MT
Philippines	13,478	3,269	30,690	2,674	28,137	2,752
Malaysia	20,755	3,301	31,854	2,794	26,358	2,901
Japan	19,655	2,949	22,214	2,740	21,291	2,657
Indonesia	17,850	3,335	23,670	2,894	17,373	2,704
Taiwan	10,166	3,894	17,889	3,289	15,006	3,572
Thailand	5,818	3,247	13,781	2,887	12,691	2,670
Saudi Arabia	9,337	3,296	13,594	2,683	9,892	2,843
China	10,166	3,894	5,700	2,856	8,289	3,366
Singapore	4,225	3,065	4,037	2,311	8,087	2,413
Brazil	4,175	2,829	4,624	2,695	6,286	3,117
United States	3,615	4,891	6,205	4,328	6,160	3,594
Peru	2,254	3,189	2,651	3,334	4,761	2,749
Australia	3,080	2,744	2,828	2,612	4,380	2,434
Hong Kong	6,999	3,486	4,754	3,054	3,065	3,133
Mexico	1,827	3,656	2,136	3,838	2,091	3,863
Russia	63	3,632	2,910	2,548	847	2,770
Cuba	1,501	3,150	502	3,057	0	na
Other	28,496	3,369	25,669	2,844	22,506	2,836
TOTAL NFDM	149,616	3,285	215,710	2,881	197,219	2,889

Source: NZ Department of Statistics

Note: 1997/98 data is provisional and subject to change.

FOB Prices The average price for NFDM in 1997/98 remained stable at N.Z.\$2,889/MT compared to 1996/97 but significantly down from the 1995/96 average of N.Z.\$3,285/MT. Mexico was the highest paying market at an average FOB price of N.Z.\$3,863/MT followed by the United States at N.Z.\$3,594/MT. All prices are FOB.

WHOLE MILK POWDER

PSD Table						
Country:	New Zealand					
Commodity:	Dairy, Dry Whole Milk Powder					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		06/1996		06/1997		06/1998
Beginning Stocks	58	58	47	47	51	54
Production	366	366	360	397	0	375
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	424	424	407	444	51	429
Intra EC Exports	0	0	0	0	0	0
Other Exports	346	346	325	359	0	325
TOTAL Exports	346	346	325	359	0	325
Human Dom. Consumption	4	4	4	4	0	4
Other Use, Losses	27	27	27	27	0	27
Total Dom. Consumption	31	31	31	31	0	31
TOTAL Use	377	377	356	390	0	356
Ending Stocks	47	47	51	54	51	73
TOTAL DISTRIBUTION	424	424	407	444	51	429
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	1	0	3	0	4

Production Production of whole milk powder (WMP) is expected to decline 5.5 percent to 375,000 MT in 1998/99, down 6,000 MT from 1997/98 WMP production. The fall in WMP production reflects the Board's decision to increase butter production this season.

N.Z. EXPORTS AND AVERAGE EXPORT PRICES: WMP (includes sweetened) June years, Metric Tons, NZ\$FOB						
Destination	1995-96		1996-97		1997-98	
	MT	NZ\$/MT	MT	NZ\$/MT	MT	NZ\$/MT
Venezuela	19,495	3,359	25,611	2,853	42,640	2,855
Malaysia	43,178	3,503	45,627	3,253	37,317	3,347
Mexico	26,376	3,330	25,644	2,733	37,288	2,868
Sri Lanka	25,354	3,123	26,941	3,118	29,119	3,227
China	2,400	3,830	10,984	1,536	19,273	2,915
Thailand	15,654	3,727	20,115	3,178	18,929	3,440
Taiwan	15,096	3,953	18,074	3,542	18,109	3,476
Peru	21,057	3,497	18,296	3,250	17,594	3,056
Saudi Arabia	7,408	3,038	11,533	2,753	13,790	2,890
Philippines	4,501	3,880	10,147	4,127	12,793	3,999
Brazil	17,048	2,673	22,607	2,600	10,998	2,765
Cuba	7,501	3,128	12,975	2,548	10,566	2,713
El Salvador	3,424	3,638	5,149	3,358	8,546	3,304
Hong Kong	9,235	3,229	6,782	3,015	4,622	3,356
Algeria	5,969	3,613	18,222	2,752	4,085	3,110
Chile	5,889	2,887	2,749	2,633	1,900	2,986
Argentina	1,904	2,892	10,402	2,634	999	2,640
Russia	1,677	3,662	2,541	3,178	862	3,880
Other	45,375	3,404	52,406	3,044	69,356	3,091
TOTAL WMP	274,959	3,378	346,805	2,986	358,785	3,116

Source: NZ Department of Statistics

Note: 1997/98 data is provisional and subject to change.

FOB Prices The average price for WMP over the 1997/98 year increased 4.3 percent to N.Z.\$3,116 MT , up from N.Z.\$2,986/MT the previous year. Average FOB prices started at N.Z.\$2,977 in September 1997 but gradually strengthened over the year reaching N.Z.\$3,345/MT in the June 1998 quarter.

DRIED WHEY

PSD Table						
Country:	New Zealand					
Commodity:	Dairy, Dried Whey					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		06/1996		06/1997		06/1997
Beginning Stocks	26	26	27	27	27	44
Production	84	84	85	111	0	110
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	110	110	112	138	27	154
Intra EC Exports	0	0	0	0	0	0
Other Exports	83	83	85	94	0	100
TOTAL Exports	83	83	85	94	0	100
Human Dom. Consumption	0	0	0	0	0	0
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	0	0	0	0	0	0
TOTAL Use	83	83	85	94	0	100
Ending Stocks	27	27	27	44	27	54
TOTAL DISTRIBUTION	110	110	112	138	27	154
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	37	0	46	0	50

Production Total casein/ate production in 1997/98 increased to 111,000 MT and is expected to remain at a similar level in 1998/99. Alpine Dairy Products (now part of SIDC) produces both kosher and non-kosher whey protein concentrate (WPC) from it's Clandeboyne plant. Over the 1997/98 season the plant held monthly trials for a United States customer, and gained kosher approval in January 1998. Whey commonly made at Alpine is non-kosher, but the use of non-animal origin rennet ensures the whey can be deemed kosher. There are two cheese plants at Alpine, enabling kosher and non-kosher lines to be kept separate. The evaporator and dryer are common items and are completely cleaned and inspected by a member of the Jewish community.

N.Z. EXPORTS AND AVERAGE EXPORT PRICES: WHEY						
June years, Metric Tons, NZ\$FOB						
<i>Destination</i>	<i>1995-96</i>		<i>1996-97</i>		<i>1997-98</i>	
	MT	NZ\$/MT	MT	NZ\$/MT	MT	NZ\$/MT
United States	29,878	7,689	37,555	6,995	46,804	6,977
Germany	8,869	7,460	11,194	6,014	12,924	6,250
Japan	13,156	8,542	12,829	7,819	10,041	7,907
Italy	6,023	6,914	5,326	5,739	4,956	6,016
Korea	3,399	6,641	3,200	7,465	2,825	7,583
Mexico	1,171	8,585	1,867	6,775	2,057	6,785
United Kingdom	2,687	7,410	2,073	6,396	1,771	6,573
Australia	913	7,972	1,400	6,933	1,487	7,082
Canada	771	7,745	707	7,441	1,109	6,327
South Africa	1,121	7,714	1,025	6,955	919	7,053
Indonesia	617	4,952	848	5,052	789	6,224
Thailand	834	7,674	466	7,285	557	6,567
Taiwan	424	7,989	379	7,062	334	7,370
Other	2,219	10,517	4,274	6,399	7,904	1,395
TOTAL WHEY	71,658	7,775	82,990	6,874	94,475	6,899

Source: NZ Department of Statistics

Note: 1997/98 data is provisional and subject to change.

FOB Prices Casein prices remained stable in 1997/98 with average prices edging up to N.Z.\$6,899/MT, up from N.Z.\$6,874/MT in 1996/97. Prices steadily increased over the year from N.Z.\$6,388/MT in September 1997 reaching N.Z.\$7,483/MT in June 1998. Japan continued to be the highest paying market for N.Z. casein/ates at N.Z.\$7,907/MT.