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New Zealand

Dairy and Products

Annual

2000

Approved by:
David Young
U.S. Embassy
Prepared by:
Rachel Monk

Report Highlights: New Zealand's fluid milk production is forecast to rise 4 percent in the 2000/01 season to a record 13,348,000 MT (1.024 billion kgs milksolids). This is a result of early calving and excellent grass growing weather. Production of most major dairy products is forecast to increase, and WMP and butter export markets look promising. The New Zealand dairy industry is focusing on expanding it's commercial business internationally with proposed mergers announced between the New Zealand Dairy Board and Australian and Brazilian companies. New Zealand's second largest co-operative has announced plans also to merge with an Australian consumer food business. Negotiations are again under way between New Zealand's two largest co-operatives to initiate the integration of manufacturing and marketing operations in the industry.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Wellington [NZ1], NZ

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SECTION I. SITUATION AND OUTLOOK

Milk production for the 2000/01 season is forecast to increase 4 percent from last season's record 12,835,000 metric tons (985 million kilograms of milksolids) to reach a new record of 13,348,000 metric tons or 1.024 billion kilograms of milksolids. The four-percent increase forecast is a result of early calving and excellent grass growing weather, with mild temperatures and average rainfall in most areas in New Zealand.

At NZ$3.35 per kilogram of milksolids, the Board's 1999/00 payout was a 10-cent increase over the previous year. In a year where international dairy commodity prices were, on average, lower than the previous year, the weaker New Zealand dollar benefitted New Zealand dairy farmers. The New Zealand Dairy Board's first forecast payout for the 2000/01 season is NZ$3.65-$3.75 per kilogram of milksolids. This payout will get revised and updated if necessary in October, February and March of the 2000/01 season.

Dairy Exports rose in 1999/00, aided by recovery in Asia, strong sales into North America and a much lower Kiwi dollar. Exports in 2000/01 are forecast to increase for most products, with WMP exports showing the biggest gain.

The New Zealand Dairy Board has recently announced a strategy designed to ensure a 4 percent on-farm productivity improvement target, which is crucial to future growth in New Zealand's dairy industry, is achieved. A Centre of Excellence is to be established which will focus on realigning and re-focusing the New Zealand dairy industry's research and extension activities with the urgent objective of achieving the 4 percent on-farm productivity goal. The Centre of Excellence will undertake core functions such as extension, economic modeling, strategic planning, whole farm systems research, and will co-ordinate a number of other functions such as animal improvement, forage and feeding research, education and animal welfare.

The New Zealand dairy industry strategy has been refocused in the past season to place more emphasis on expanding the business internationally. The New Zealand Dairy Board is awaiting the due diligence process on a merger with Bonlac, Australia's second largest dairy company, and the Board's subsidiary, Milk Products Holdings (Latin America) Ltd, has signed an agreement with S.A. Fabrica de Produtos Alimenticios Vigor to purchase 51 percent of the Brazilian company. Kiwi Dairies, New Zealand's second largest co-operative has recently announced plans to buy a majority shareholding in Perth-based Peters and Brownes, Australia's 4th largest consumer dairy-foods company. Kiwi's shareholding in Peters and Brownes could be between 50-100 percent.

The structure of the New Zealand dairy industry still lies in balance after the failure in April 2000 of New Zealand's two largest dairy companies to agree to merge, a move that would have enabled the integration of the dairy industry's marketing and manufacturing operations. Recently the two companies have reached an agreement in principle to work together. Both companies have announced that the merger of the three operations (including the New Zealand Dairy Board) to integrate manufacturing and marketing processes is their priority, but not at any cost. The two companies believe that any new structure must have the commercial viability to match it with international competition in a deregulated environment. Government and Commerce Commission conditions will play a large part in any decision to merge.

SECTION II. STATISTICAL TABLES

PSD Table: Fluid Milk

PSD Table						
Country	New Zealand					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		06/1998		06/1999		06/2000
Cows In Milk	3285	3285	3300	3300	0	3500
Cows Milk Production	11070	11070	12835	12835	0	13348
Other Milk Production	0	0	0	0	0	0
TOTAL Production	11070	11070	12835	12835	0	13348
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	11070	11070	12835	12835	0	13348
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	450
Factory Use Consum.	10250	10250	11931	11931	0	12359
Feed Use Dom. Consum.	405	405	489	489	0	524
TOTAL Dom. Consumption	11055	11055	12820	12820	0	13333
TOTAL DISTRIBUTION	11070	11070	12835	12835	0	13348
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	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		06/1998		06/1999		06/2000
Beginning Stocks	41	41	13	13	12	12
Production	238	245	270	270	0	283
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	279	286	283	283	12	295
Intra EC Exports	0	0	0	0	0	0
Other Exports	240	240	245	248	0	260
TOTAL Exports	240	240	245	248	0	260
Human Dom. Consumption	26	33	26	23	0	23
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	26	33	26	23	0	23
TOTAL Use	266	273	271	271	0	283
Ending Stocks	13	13	12	12	0	12
TOTAL DISTRIBUTION	279	286	283	283	0	295
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	35	35	35	36	0	35

PSD Table: Butter

PSD Table						
Country	New Zealand					
Commodity	Dairy, Butter				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		06/1998		06/1999		06/2000
Beginning Stocks	86	86	93	93	0	75
Production	316	316	320	347	0	356
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	402	402	413	440	0	431
Intra EC Exports	0	0	0	0	0	0
Other Exports	279	279	300	338	0	350
TOTAL Exports	279	279	300	338	0	350
Domestic Consumption	30	30	27	27	0	27
TOTAL Use	309	309	327	365	0	377
Ending Stocks	93	93	86	75	0	54
TOTAL DISTRIBUTION	402	402	413	440	0	431
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	16	16	17	29	0	25

PSD Table: Non-fat Milk Powder

PSD Table						
Country	New Zealand					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		06/1998		06/1999		06/2000
Beginning Stocks	67	67	54	54	48	49
Production	203	203	210	210	0	200
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	270	270	264	264	48	249
Intra EC Exports	0	0	0	0	0	0
Other Exports	205	205	205	204	0	195
TOTAL Exports	205	205	205	204	0	195
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	216	216	216	215	0	206
Ending Stocks	54	54	48	49	0	43
TOTAL DISTRIBUTION	270	270	264	264	0	249
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	3	3	3	3	0	3

PSD Table: Whole Milk Powder

PSD Table						
Country	New Zealand					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		06/1998		06/1999		06/2000
Beginning Stocks	54	54	40	40	46	44
Production	382	382	420	420	0	500
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	436	436	460	460	46	544
Intra EC Exports	0	0	0	0	0	0
Other Exports	362	362	380	382	0	465
TOTAL Exports	362	362	380	382	0	465
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	396	396	414	416	0	499
Ending Stocks	40	40	46	44	0	45
TOTAL DISTRIBUTION	436	436	460	460	0	544
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	5	5	4	4	0	4

PSD Table: Dried Whey

PSD Table						
Country	New Zealand					
Commodity	Dairy, Dried Whey				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		06/1998		06/1999		06/2000
Beginning Stocks	0	4	5	11	5	12
Production	0	22	25	25	0	24
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	1	1	1	0	1
TOTAL Imports	0	1	1	1	0	1
TOTAL SUPPLY	0	27	31	37	5	37
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	15	25	24	0	24
TOTAL Exports	0	15	25	24	0	24
Human Dom. Consumption	0	1	1	1	0	1
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	0	1	1	1	0	1
TOTAL Use	0	16	26	25	0	25
Ending Stocks	0	11	5	12	0	12
TOTAL DISTRIBUTION	0	27	31	37	0	37
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	5	8	6	0	6

Trade Matrix: Cheese (tons)

NEW ZEALAND DAIRY EXPORTS			
June years, tons			
CHEESE			
Destination	1997-98	1998-99	1999/2000
Japan	52,430	54,101	53,085
USA	21,408	35,140	35,704
Australia	21,024	26,681	29,290
Belgium	17,835	14,169	11,653
United Kingdom	18,338	17,454	15,593
Russia	13,190	6,534	3,000
Philippines	7,801	8,144	9,678
Mexico	10,152	7,303	11,308
Algeria	1,499	5,598	7,256
Taiwan	5,178	4,538	5,129
Chile	5,537	2,045	4,034
Netherlands	4,557	2,953	963
Korea	3,765	5,253	8,870
Saudi Arabia	4,598	4,860	6,222
Brazil	2,045	1,550	632
Egypt	2,803	5,908	5,053
Panama	3,419	2,384	2,006
Hong Kong	2,943	2,452	3,498
Jamaica	3,778	4,420	4,422
Canada	1,544	1,346	1,053
Trinidad and Tobago	1,043	774	948
Finland	3,036	57	322
Other	24,543	26,103	28,709
TOTAL CHEESE	232,469	239,711	248,428
Source: NZ Department of Statistics			

Trade Matrix: Cheese (value)

NEW ZEALAND DAIRY EXPORTS			
June years, NZ$/ton			
CHEESE			
Destination	1997-98	1998-99	1999/2000
Japan	3,841	4,159	4,073
USA	3,792	4,497	4,535
Australia	3,663	3,925	4,146
Belgium	3,464	3,760	4,472
United Kingdom	5,302	5,263	3,910
Russia	3,551	3,856	3,224
Philippines	3,707	3,696	3,635
Mexico	3,604	3,411	3,170
Algeria	3,396	3,374	3,212
Taiwan	3,862	4,268	4,061
Chile	3,219	3,699	3,482
Netherlands	3,123	2,609	3,744
Korea	4,056	3,997	3,849
Saudi Arabia	3,849	4,040	3,937
Brazil	3,482	3,669	3,771
Egypt	3,475	3,533	3,446
Panama	3,619	3,604	3,370
Hong Kong	4,152	4,316	4,223
Jamaica	3,689	3,590	3,065
Canada	3,718	3,744	3,757
Trinidad and Tobago	3,914	4,009	3,786
Finland	3,559	3,351	5,363
Other	3,890	4,087	3,673
TOTAL CHEESE	3,839	4,104	3,958
Source: NZ Department of Statistics			

Trade Matrix: Butter (tons)

NEW ZEALAND DAIRY EXPORTS			
June years, tons			
BUTTER, AMF, GHEE			
Destination	1997-98	1998-99	1999/2000
Latvia			22650
Russia	58,224	31,881	7841
United Kingdom	51,811	41,462	44018
United States	15,496	15,912	28769
Belgium	34,379	33,154	32606
Egypt	15,498	24,323	24302
Taiwan	8,432	9,582	9018
Iran	12,975	13,511	24312
Mexico	8,974	10,130	15678
Phillipines	5,264	5,889	4194
Morocco	8,528	6,852	8471
Australia	6,139	6,180	9392
Germany	4,334	1,901	1506
United Arab Emirates	9,772	6,512	6581
China	5,309	2,478	3334
Singapore	6,426	6,145	15782
Malaysia	3,574	3,936	3428
Fiji	1,195	2,089	1938
Vietnam	2,674	3,644	2702
Saudi Arabia	6,746	5,016	6502
Thailand	2,282	2,581	1610
India	5,067	2,748	7007
Hong Kong	3,110	2,811	5986
Brazil	2,749	1,629	1459
Algeria	5,597	3,918	5020
Chile	1,131	640	1564
Netherlands	360	175	254
Other	29,245	33,890	41955
TOTAL BUTTER/AMF	315,293	278,990	337879
Source: NZ Department of Statistics			

Trade Matrix: Butter (value)

NEW ZEALAND DAIRY EXPORTS			
June years,NZ$/ton			
BUTTER, AMF, GHEE			
Destination	1997-98	1998-99	1999/2000
Latvia			2,513
Russia	2,806	3,208	2,416
United Kingdom	4,959	4,191	4,381
United States	3,129	3,407	2,743
Belgium	3,385	4,113	3,058
Egypt	2,545	3,168	2,384
Taiwan	3,037	3,392	2,896
Iran	2,742	3,110	2,381
Mexico	2,959	3,555	2,969
Phillipines	2,607	3,515	3,063
Morocco	2,784	2,855	2,298
Australia	2,912	2,931	2,813
Germany	2,915	3,540	2,761
United Arab Emirates	2,806	3,461	2,647
China	2,838	3,458	2,536
Singapore	2,677	3,190	2,646
Malaysia	2,974	3,634	3,324
Fiji	2,721	3,009	2,672
Vietnam	2,655	3,431	2,973
Saudi Arabia	2,862	3,508	3,185
Thailand	2,742	3,445	2,970
India	2,500	2,889	2,575
Hong Kong	3,184	3,715	3,310
Brazil	3,005	3,925	2,803
Algeria	2,716	3,404	2,753
Chile	3,268	4,367	2,902
Netherlands	2,485	4,914	1,354
Other	3,004	3,470	3,008
TOTAL BUTTER/AMF	3,251	3,545	2,969
Source: NZ Department of Statistics			

Trade Matrix: Non-fat Milk Powder (tons)

NEW ZEALAND DAIRY EXPORTS			
June years, tons			
NON-FAT DRY MILK			
(Includes buttermilk)			
Destination	1997-98	1998-99	1999/2000
Malaysia	26,455	28,911	26,249
Philippines	28,137	22,621	24,577
Taiwan	15,055	19,039	16,265
Indonesia	17,373	18,488	17,487
Japan	21,291	17,084	16,597
China	8,289	10,764	7,236
Brazil	6,286	7,719	2,855
Thailand	12,691	7,986	7,831
Singapore	8,087	8,273	7,054
Saudi Arabia	9,852	10,484	9,469
United States	6,333	3,260	2,494
Australia	4,398	3,955	6,170
Yemen	2,866	1,937	2,470
Peru	4,761	6,428	7,978
Venezuela	2,810	2,528	2,855
Hong Kong	3,065	2,043	11,264
Mexico	2,091	1,254	8,817
Other	17,662	32,771	26,621
TOTAL NFDM	197,501	205,544	204,289
Source: NZ Department of Statistics			

Trade Matrix: Non-fat Milk Powder (value)

NEW ZEALAND DAIRY EXPORTS			
June years, NZ$/ton			
NON-FAT DRY MILK			
(Includes buttermilk)			
Destination	1997-98	1998-99	1999/2000
Malaysia	2,890	2,864	2,994
Philippines	2,752	2,897	2,862
Taiwan	3,564	3,224	3,546
Indonesia	2,704	2,678	3,046
Japan	2,657	2,608	2,757
China	3,366	3,075	2,816
Brazil	3,117	2,555	2,695
Thailand	2,670	2,582	2,909
Singapore	2,413	2,220	2,907
Saudi Arabia	2,844	2,624	2,517
United States	3,577	3,591	3,109
Australia	2,433	2,476	2,561
Yemen	2,765	2,595	2,575
Peru	2,749	2,626	2,825
Venezuela	3,021	2,618	2,585
Hong Kong	3,133	3,080	3,289
Mexico	3,863	3,186	2,552
Other	2,820	2,485	2,786
TOTAL NFDM	2,888	2,748	2,909
Source: NZ Department of Statistics			

Trade Matrix: Whole Milk Powder (tons)

NEW ZEALAND DAIRY EXPORTS			
June years, tons			
WHOLE MILK POWDER			
(includes sweetened)			
Destination	1997-98	1998-99	1999/2000
Malaysia	37,319	41,452	45,732
Venezuela	42,640	29,739	30,473
Brazil	10,998	9,670	3,005
Sri Lanka	29,119	30,054	36,178
Mexico	37,288	32,995	521
Peru	17,594	13,143	15,816
Thailand	18,929	20,557	23,252
China	19,273	24,932	22,082
Taiwan	18,114	18,048	16,408
Saudi Arabia	13,790	12,281	16,664
Philippines	12,793	12,204	12,638
El Salvador	8,546	12,237	15,758
Algeria	7,844	11,822	2,977
Cuba	10,566	5,158	0
Chile	4,657	80	2,160
Singapore	1,900	7,060	18,717
Hong Kong	8,273	1,082	20,800
Colombia	4,085	0	110
Other	55,943	79,740	98,748
TOTAL WMP	359,669	362,255	382,039
Source: NZ Department of Statistics			

Trade Matrix: Whole Milk Powder (value)

NEW ZEALAND DAIRY EXPORTS			
June years, NZ$/ton			
WHOLE MILK POWDER			
(includes sweetened)			
Destination	1997-98	1998-99	1999/2000
Malaysia	3,348	3,442	3,004
Venezuela	2,855	2,899	1,943
Brazil	2,765	3,043	2,079
Sri Lanka	3,233	3,528	2,092
Mexico	2,868	3,098	2,643
Peru	3,056	3,491	2,365
Thailand	3,440	3,584	2,639
China	2,915	2,950	2,310
Taiwan	3,475	3,387	3,287
Saudi Arabia	2,890	3,396	2,366
Philippines	3,999	4,384	3,500
El Salvador	3,304	3,459	2,659
Algeria	2,747	3,157	2,906
Cuba	2,713	3,081	na
Chile	3,368	6,368	1,200
Singapore	2,986	2,892	1,841
Hong Kong	2,701	6,569	2,253
Colombia	3,110	na	2,891
Other	3,182	3,263	738
TOTAL WMP	3,114	3,312	2,380
Source: NZ Department of Statistics			

Trade Matrix: Dried Whey (tons)

NEW ZEALAND DAIRY EXPORTS: DRIED WHEY			
June years, tons			
Destination	1997-98	1998-99	1999/2000
United States	5,314	5,112	5,934
Korea	944	493	933
Japan	2,332	1,640	2,929
Australia	1,631	1,107	2,002
Denmark	1,800	2,058	2,108
China	990	1,222	2,845
Peru	376	547	716
Canada	925	481	11
Hong Kong	678	33	473
Germany	572	68	1,167
Other	2,206	1,996	4,399
TOTAL WHEY	17,771	14,757	23,517

Trade Matrix: Dried Whey (value)

NEW ZEALAND DAIRY EXPORTS: DRIED WHEY			
June years, NZ$/ton			
Destination	1997-98	1998-99	1999-00
United States	6,030	6,336	6,657
Korea	2,626	2,029	4,389
Japan	6,695	7,487	7,810
Australia	3,190	3,915	3,788
Denmark	6,174	6,533	6,541
China	1,738	1,442	5,272
Peru	1,679	1,562	1,732
Canada	4,163	4,408	5,273
Hong Kong	1,561	1,592	2,351
Germany	6,935	6,031	6,967
Other	3,672	4,515	4,387
TOTAL WHEY	4,828	5,262	5,642

Exchange rate: $NZ:US

1998:	0.5225
1999:	0.5275
2000 YTD	0.4303
10/05/00	0.4010

SECTION III. PRODUCTION, TRADE & POLICY

PRODUCTION

Fluid Milk

Milk production for the 2000/01 season is forecast to increase 4 percent from last season's record 12,835,000 metric tons (985 million kilograms of milksolids) to reach a new record of 13,348,000 metric tons or 1.024 billion kilograms of milksolids. Of this, 12,359,000 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, so forecasts are likely to be subject to revision. The four-percent increase forecast is a result of early calving and excellent grass growing weather, with mild temperatures and average rainfall in most areas in New Zealand.

Over the past three years New Zealand's weather pattern has been dominated by a series of "El Nino" and "La Nina" cycles, bringing prolonged drought conditions and above average rainfall to New Zealand's spring/summer climate. New Zealand's National Climate Center is warning New Zealand farmers to make the most of the present conditions as summer droughts are likely to occur in some of the main dairying areas, such as Bay of Plenty, Waikato and East Coast.

Milk production in the South Island is experiencing a rapid growth period. In the past three years, dairying regions in the South Island experienced a 7 percent growth. The growth was such that New Zealand Dairy Group (NZDG) the largest dairy co-operative in New Zealand has placed a moratorium on the establishment of new dairy farms in its supply region. This was originally due to be removed in September, but has been moved back to December 2000, as the company tries to find a way to effectively manage the excess milk they will be receiving. Conservative estimates of growth in dairying in the South Island over the next five years are 24 percent more herds, a 19 percent rise in average farm size, a 27 percent increase in average herd size, and a 48 percent rise in milksolids produced. Demand for dairy farms in the South Island has forced up the price of suitable land by about 25 percent in the last year. Properties that sold for NZ$11-$14/kg of milksolids a year ago are now selling for NZ$15-$19/kg MS.

The New Zealand milking herd is estimated to be approximately 3.5 million head for the 2000/01 season. This is a 6 percent increase from last season's herd of 3.3 million cows and gives an indication of the confidence dairy farmers are feeling in the industry outlook for the medium term.

Cheese

1999/00 cheese exports have been revised given the release of final year export data from Statistics New Zealand. Domestic consumption figures have also been revised according to industry estimates, as the domestic cheese market in New Zealand is continuing to decline. Cheese production in 2000/01 is forecast to increase 5 percent to 283,000 MT. Cheese stocks remain low as supply is tight.

Butter
1999/00 butter production has been revised reflecting estimates from the New Zealand Dairy Board. 1999/00 butter exports have also been revised given the release of final year data from Statistics New Zealand. Butter exports for the 1999/00 season increased 21 percent from the previous season to 338,000 MT. The majority of this increase came from a 80 percent increase in exports to the United States, now receiving 29,000 MT of New Zealand butter, a near doubling of shipments to Iran and also from a 150 percent increase in exports to Singapore. Butter production for the 2000/01 season is forecast to increase 3 percent to 356,000 MT. With the international butter market showing signs of improvement due to the rising oil prices causing a number of the oil-exporting countries to be more active in the market, the New Zealand Dairy Board is keen to establish it's position as the dominant supplier to the international butter and butter products market, with a 60 percent share. The Board estimate that returns from sales of butter and related products are likely to exceed NZ$1.4 billion (US$600 million) this season.

Non-fat Dry Milk Powder
1999/00 exports have been revised to reflect final data from Statistics New Zealand. This reflects a decrease in exports of 0.5 percent. 2000/01 non-fat dry milk production (including buttermilk) is forecast to be down 5 percent from 1999/00 production. Exports for 2000/01 are also forecast to decrease 5 percent.

Whole Milk Powder
Whole milk powder production (includes infant formula) is forecast to increase 20 percent in the 2000/01 year to 500,000 MT. Exports for whole milk powder are forecast to increase 22 percent. Strong foreign import demand is projected to lead to a shift in product mix to WMP.

Dried Whey
1998/99 dried whey exports have been revised to 15,000 MT to reflect actual export data, this led to an increase in dried whey ending stocks. 1999/00 exports have also been revised to reflect actual export data released by Statistics New Zealand. Production of dried whey for the 2000/01 season is forecast to decrease 4 percent to 24,000 MT. Exports are expected to remain static.

Casein
New Zealand casein production is forecast to increase 36 percent in the 2000/01 season, from last season's 100,000 MT to 136,000 MT. Casein exports to the United States for the 1999/00 season increased 14 percent from the previous season, at a value of NZ$439 million (US$189 million).

Farmgate Prices
The 1999/00 season saw the implementation of the final stages of the Commercial Pricing Model (CPM), which represents the way in which the Dairy Board acquires product from manufacturing companies. The CPM was first introduced in the 1998/99 season, and was reported on in the New Zealand Dairy Semi-Annual (NZ0026). The purpose of the CPM is to provide dairy companies with clearer market signals. Payments are made on the basis of actual market commodity prices, with additional payments reflecting the value added by the manufacturer. Results from the first stages of the CPM indicate that dairy companies will be encouraged to be more innovative in developing new products for customers, and have closer involvement in

product mix planning.

At NZ$3.35 per kilogram of milksolids, the Board's 1999/00 payout was a 10 cent increase over the previous year. In a year where international dairy commodity prices were, on average, lower than the previous year, the weaker New Zealand dollar benefitted New Zealand dairy farmers. While the trend of lowering prices reversed over the second half of the year, the estimated negative impact of lower average prices was around 15 cents per kilogram of milksolids. More than offsetting this, the weaker New Zealand dollar resulted in an average USD/NZD conversion rate that positively impacted payout by around 38 cents per kilogram of milksolids. The New Zealand Dairy Board's first forecast payout for the 2000/01 season is NZ$3.65-$3.75 per kilogram of milksolids. This payout will get revised and updated if necessary in October, February and March of the 2000/01 season.

New Zealand's largest dairy co-operative, New Zealand Dairy Group (NZDG), posted a final payout for the 1999/00 season of NZ$3.75/kg milksolids. The second largest co-operative, Kiwi Dairies, posted a final payout for the 1999/00 season NZ 7 cents higher than NZDG's, at NZ$3.82. This has caused some concern from NZDG's shareholders regarding the performance of their company. NZDG has been looking to reduce its Board of Director numbers from 17 to 12 for several months, with the first attempt being rejected by farmers. Early in September, farmers accepted the second proposal, only because it included a forecast payout for the 2000/01 season of between NZ$4.20-$4.30 per kilogram of milksolids. NZDG's farmers have said that if this payout is not achieved, they will demand some changes in their company's leadership. Kiwi Dairies forecast payout for the 2000/01 season is NZ$4.05 per kilogram of milksolids.

Peak Milk Rights

In the 1999/00 season, New Zealand Dairy Group (NZDG) placed a moratorium on new milk supply from its suppliers due to the rapid growth in production, and the lack of manufacturing capacity to deal with it. This moratorium may be lifted in December if shareholders approve a plan to set up a peak rights system. Under the plan, existing milk suppliers will be allocated peak rights for the October seasonal peak, based on historical production. The peak rights will cost NZ$30 per "peak standardized litre" initially and will be tradable among farmers or shareholders. For new milk, they will be on top of the normal NZ$2/kg milksolids share prices charged by the co-operative to enter the industry.

Designed to "encourage a longer, flatter production curve" and better use of milk processing capacity, introduction of peak rights will ensure new milk pays a fair price on entry into the industry. The peak/new milk problems have been created by the fact that processors, in the regulated environment in which they operate, are required to accept all milk from their suppliers. As a result, processing co-operatives have been forced to build ever-bigger factories to cope with a 60-day flood, based on the differing times when individual farmers' production peaks in the North and South Islands, with the flow declining to the end of the normal seasonal supply in April-May. To allow for this specific peak NZDG plans to issue the peak rights based on production over a 70-day period. Anyone peaking outside this period will not be required to pay peak rights.

New Zealand's smallest dairy company, Tatua, a niche dairy company based in Waikato that

produces specialized dairy products, rather than supplying mass markets, is also in the process of tackling the problem of seasonal milk floods. Due to the specialized production of Tatua, this dairy company posted the largest 1999/00 milksolids payout out of all the dairy co-operatives, at NZ$4.20 per kilogram of milksolids. To deal with peak milk production problems Tatua has changed its constitution to bring in milksolids supply entitlements and a new share standard. The entitlements, which will be allocated to each of Tatua's 140 shareholders and will be required by anyone who successfully applies to supply Tatua, are based on the size of a farmer's historical investment in Tatua plant. The entitlements can only be traded among shareholders. As a further incentive for Tatua farmers to think twice about increasing milk production, and as a safety net for the new system, the share standard has been raised to NZ$2.50 from NZ $1.50 a kilogram of milksolids. The changes have been approved by Tatua's shareholders, and will apply from next June.

New Dairy Industry Initiative Targets Productivity

During the past 7 years, productivity on New Zealand dairy farms has been falling at an average of 2 percent, as a consequence of ongoing decline in commodity values and static or increasing costs. The New Zealand Dairy Board has recently announced a strategy designed to ensure a 4 percent on-farm productivity improvement target, which is crucial to future growth in New Zealand's dairy industry, is achieved. A Centre of Excellence is to be established which will focus on realigning and re-focusing the New Zealand dairy industry's research and extension activities with the urgent objective of achieving the 4 percent on-farm productivity goal. The Centre of Excellence will undertake core functions such as extension, economic modeling, strategic planning, whole farm systems research, and will co-ordinate a number of other functions such as animal improvement, forage and feeding research, education and animal welfare. Initial funding for the Centre will be provided by the Dairy Board, but in preparation for the expected deregulation of the industry, levy-based funding would eventually be introduced and generic R&D funding from the Government was also expected. A 6-member transition board will have responsibility for establishing the Centre, this board will decide the extent of physical resources and seek farmers' approval for ongoing levy funding. Initial costs would be contained within current spending on dairy production extension research, about NZ$7.5 million (US$3.2 million) per year.

TRADE AND MARKETING

In the 1999/00 season the New Zealand Dairy Board embarked on a comprehensive global reorganization labeled "Winning Worldwide". The most important change bought about by the Winning Worldwide strategy was the establishment in 1999, of New Zealand Milk and NZMP, respectively the dairy board's consumer/foodservice and ingredients business.

NZMP

Record sales volumes of 1.1 million tonnes were achieved during 1999/00. Driving this result were strong sales growth into Asia as it recovered from the currency crisis of 1997/98 and a significant increase of sales into North America. At NZ$4.6 billion (US$1.97 billion), sales revenue in New Zealand dollar term was a record achievement despite lower average international selling prices for all commodity products.

The growth in sales embraced nearly all business and product categories. Sales of NZMP's

specialty ingredients, those which deliver significant functionality and benefits in a food system, grew by 40 percent to 60,000 tonnes over the year. In terms of product, one of the biggest areas of gain was cream products. Global sales of butter, AMF and other milkfat-derived products increased 12 percent in volume terms over the previous year, largely due to strong performances from AIME (Africa, Indian sub-continent and Middle East) and the Americas regions. Sales of protein products also rose significantly, up 14 percent in volume terms will all regions contributing to this result.

From a regional perspective, rapid sales expansion across several sectors has seen China become NZMP's third largest ingredients market. Elsewhere in Asia, proof of the region's economic recovery was provided by the excellent EBIT results produced by NZMP's two Japanese companies, as well as operating companies in Taiwan, Korea and Thailand. In Japan, NZMP formed its biggest global operating company by merging the wholly owned subsidiary NZMP (Japan) with Nippon Proteins KK, the 50/50 joint venture established with Nissei Kyoeki KK in 1982.

In North America, strong sales in the cheese ingredients, nutrition and chilled dairy categories resulted in a strong performance. A partnership has been formed with the giant US dairy co-operative, Dairy Farmers of America (DFA). The new joint operation, DairiConcepts, combines the cheese technology and ingredient resources of NZMP Key Ingredients Inc. with the manufacturing and marketing resources of DFA. DairiConcepts' products range covers cheese and dairy powders, dairy-based seasoning blends, fast-maturing cheese and cheese pastes. DairiConcepts is expected to lift NZMP's US turnover by NZ$150 million (US$65 million).

In the AIME region milk powder sales grew significantly, boosted by the recovery in oil prices. This factor also underpinned a huge lift in sales of cream products to the region, up 37 percent from last season.

New Zealand Milk

New Zealand Milk, the foodservice/consumer foods business, reported revenue of NZ$2999 million (US$1290 million) for the 1999/00 year, an increase of 6 percent from the previous season. Contributing to this result was a stronger performance from the Asian markets, which grew by 12 percent, and a 14 percent revenue growth from New Zealand Milk Foodservice. The AUSAPAC (Australia, South Africa and Pacific) region has grown by eight percent over the year. This was chiefly driven by positive results from the Australian consumer market and the Pacific region. In the UK, however, New Zealand Milk was hard hit by pricing declines as a result of retail market consolidation and the entry of multinationals into the market. These factors combined to put pressure on both margins and profits.

New Zealand Milk achieved a turnaround in the CIS, where the business returned to profitability during the last quarter of 1999/00 after several years in decline. Underpinning this upturn were moves to lower costs by downsizing the in-market infrastructure and outsourcing distribution. Moderate revenue growth was achieved in the AIME (Africa, Indian sub-continent, Middle East) region, driven chiefly by the performance of the core Sri Lankan market.

The 1999/00 year also saw the increasing extension of New Zealand Milk's brands into dynamic,

fast-growing categories such as liquid milk. This was well illustrated in Venezuela where, through the acquisition of 51 percent of Inlaca, New Zealand Milk acquired several local brands which are market leaders in the pasteurized milk, juice and yoghurt sectors. These brand assets complement the global and local brands of New Zealand Milk's existing Venezuelan company Cadipro Milk, which already dominates various segments of the milk powder market.

Another initiative of the Winning Worldwide strategy is the global reorganization of the New Zealand Dairy Board's operations functions, everything from product purchasing, to the supply chain, to in-market manufacturing. The net effect of initiatives in these areas has been efficiency gains in the order of NZ$137 million (US$59 million). This represents a 16 percent advance over the previous year; the Dairy Board's goal is to achieve 10 percent efficiency gains year on year through better global supply chain management.

International Expansion

The New Zealand dairy industry strategy has been refocused in the past season to place more emphasis on expanding the business internationally. The first stage of this strategy begun with the New Zealand Dairy Board announcing plans to merge with Bonlac Foods Limited, Australia's second largest dairy company. Directors of both organizations have signed a Heads of Agreement, outlining proposals under which parts of each organizations operations will be merged. The agreement is still subject to the parties completing due diligence, finalizing commercial terms and the approval of regulatory authorities and shareholders. A decision is expected to reached early in 2001 (for more information see NZ0026). Sources have recently reported, however, that the merger has been delayed by licensing talks going on between Bonlac and leading cheese brand Bega.

The New Zealand Dairy Board has also recently announced that it is to buy a controlling share in a Brazilian milk products company. The Board's subsidiary, Milk Products Holdings (Latin America) Ltd, has signed an agreement with Carlos Mansur, the owner of S.A. Fabrica de Produtos Alimenticios Vigor to purchase 51 percent of the company. The transaction is subject to normal due diligence and also to regulatory approvals from the Brazilian Commerce Commission and final documents being signed. The due diligence process is expected to be finalised by the end of 2000 (for more information see NZ0046).

Kiwi Dairies, New Zealand's second largest co-operative with 39 percent of New Zealand's milk supply, is in the final stages of negotiations to buy a majority shareholding in Perth-based Peters and Brownes, Australia's 4th largest consumer dairy-foods company. Kiwi's shareholding in Peters and Brownes could be between 50-100 percent (for more information see NZ0046).

The New Zealand Dairy Board has also opened a new office in Brussels as part of its efforts to expand its operations in the EU. The Dairy Board chairman has also announced significant reinvestment in the Anchor business in Britain and moving the Dairy Board's European ingredients business to Germany. The chairman said that the Board was committed to being in Europe for the long term and was investigating opportunities to work with European partners in the EU and elsewhere.

POLICY

Domestic

The structure of the New Zealand dairy industry still lies in balance after the failure of New Zealand's two largest dairy companies to agree to merge, a move that would have enabled the integration of the dairy industries marketing and manufacturing operations. New Zealand Dairy Group (NZDG) and Kiwi Dairies, the two largest dairy companies, went their own separate ways back in April, after the failure of merger negotiations. NZDG and Kiwi hold 58 and 39 percent market share respectively of New Zealand's milk production. However, since then, the two companies have reached an agreement in principle to work together. Both companies have announced that the merger of the three operations (including the New Zealand Dairy Board) to integrate manufacturing and marketing processes is their priority, but not at any cost. Both companies agree that if the merged industry is not structured right from day one, rather than generating an additional NZ$300 million (US$129 million) it would lose that sum, plus more.

The two companies believe that any new structure must have the commercial viability to match it with international competition in a deregulated environment. Government and Commerce Commission conditions will play a large part in any decision to merge. If conditions are put on the two companies, by the Commerce Commission in particular, that are not viable, then the companies are suggesting that the industry may need two separately vertically-integrated companies. It was primarily the Commerce Commission conditions that led to the failure of the two companies to merge in April.

The two companies agree that the co-operative structure of the New Zealand dairy industry must be maintained and are working on an appropriate commercial vehicle for new industry investments like those of the Dairy Board in South America, so that value can be realized by New Zealand dairy farmers. Details of this investment vehicle have not been released.

Kiwi Dairies has stated that farmers should get an indication by the end of 2000 if the negotiations to form an integrated company will be successful. New Zealand Dairy Group believe that a proposal for the integrated company will be set before the Commerce Commission in under 12 months.

Biotechnology

On July 28, health ministers comprising the Australia New Zealand Food Standards Council approved a resolution requiring strict mandatory labeling requirements for genetically modified foods. The standards are expected to go into effect in October 2001, covering both domestiv and imported products. U.S. food exports to these markets will face labeling where novel DNA and or protein is present in the final food or has altered characteristics, with a few exemptions. The standard also allows an ingredient to contain up to 1 percent of unintended presence of genetically modified product (for more information see www.anzfa.govt.nz). It has been noted by the New Zealand Government that the requirements may give New Zealand exporters a marketing advantage in the EU market.

A Royal Commission of Inquiry into Genetic Modification is underway with the mandate to produce a report by June 2001 for the Government with recommendations on the strategic options available to enable New Zealand to address genetic modification (including changes in legislation, regulatory or policy arrangements). During this time, a moratorium on new field

trials of GMO's, with limited exceptions has been imposed, along with a moratorium on commerical release of GMO's into the environment. The New Zealand Dairy Board will make a presentation to the Commission. For more information see www.gmcommission.govt.nz.