

# The DairyAustralian

International edition

August 2011

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## Price recovery and demand growth good signs for industry

### Strong market recovery

International dairy prices have made a strong recovery in 2010/11 due to a combination of good demand from the developing markets, led by China and Russia, and the general weakness of the US currency. This delivered higher farmgate prices to Australian farmers.

Dairy Australia's 2011 Situation and Outlook Report, pointed to high international commodity prices, the global economic recovery and robust growth in Asia as causes for optimism.

Despite initial concerns about the effect of the Japanese disasters and Middle East unrest on dairy consumption, the demand for imported product in those regions is increasing. There has also been steady demand growth in key markets such as China and South East Asia.

The international market now appears to be consolidating at relatively high levels, with far less price volatility than has been experienced in the past three years.

However, some economic uncertainty around the US economic recovery and the sovereign debt issues facing some European Union member countries remains. Economic growth and dairy trade will instead be focused on developing countries.

For exporters, the benefits of higher commodity prices have been held back by the strong Australian dollar. With increasing pressure on margins, manufacturers will be carefully assessing the relative returns and opportunities for growth in both the domestic and export markets.

Despite sustained higher dairy products prices there has been limited substitution of lower priced vegetable oils and proteins. Consumers have shown a strong preference and willingness to pay for premium products using dairy-based ingredients.

### Farmers await sustained returns

Positive economic indicators and widespread favourable seasonal conditions have given many parts of the Australian dairy industry a platform for growth, although a sustained period of reliable returns for farmers is required before significant investment in herd growth or infrastructure can be expected.

In the past 12 months national milk production has been maintained - with a marginal gain of less than one per cent - taking the total to 9.1 billion litres. The opening farmgate price for milk announced in June is up an average of 3% on opening prices last year, though prices are expected to finish about the same as the previous year. Much will depend on the volatility of the market and seasonal conditions. The Australian dollar is a risk to the price outlook should it continue to strengthen ahead of the currencies of competitors and customers.

The larger south-eastern Australian sector of the dairy industry – Victoria, the Riverina, South Australia and Tasmania – is enjoying arguably the best conditions for a decade, with a stable international market, competition for suppliers and good seasonal conditions. The northern and western industry sectors, on the other hand, are recovering from extreme weather conditions and dealing with uncertainty created by ongoing plant closures and private label milk discounting.

The policy settings around access to water and the impact of any carbon pricing schemes will be important drivers of the Australian industry's future competitiveness and growth prospects. The ability of the industry to attract, develop and retain people will also be important drivers of the industry's future sustainability and development.

To view the 2011 Dairy Australia Situation and Outlook Report, visit [www.dairyaustralia.com.au/situation-outlook](http://www.dairyaustralia.com.au/situation-outlook)

## Better feed makes better quality milk

Australian dairy farmers need to produce milk efficiently to remain internationally competitive. Feed makes up approximately 90% of variable costs on a dairy farm. It is therefore a critical management issue in achieving productivity gains.

When it comes to managing the feed for his dairy herd, Stephen Henty knows that looks can be deceiving; the only way to be sure of the nutritional value is to refer to the lab results.

Mr Henty uses feed lab results when buying feed to compare the nutritional value-for-money of different options. He uses the results to adjust the daily feed allocation, which includes pasture and concentrates fed in the dairy and hay.

Mr Henty recently used Grains2Milk's RAPID Feed Analysis service on some hay he had purchased.

"The milk tanker picked up the sample and a few days later the results arrived by email. I was able to feed the hay out with confidence, and allow a little less pasture," he said. On the basis of the results he can also adjust the concentrates fed in the dairy, saving on feed costs.

Mr Henty and his wife, Margot, dairy near Cohuna in northern Victoria, milking 230 cows, and aiming for 8000-8500 litres/cow from their split-calving herd.

"When considering the options, I look at price and quality together," he said. "It's often worth paying more for better quality. In fact paying a higher price per tonne sometimes works out cheaper: better quality feed can be more palatable, resulting in less waste so you buy fewer tonnes overall."

Dr Steve Little, who manages Dairy Australia's Grains2Milk program, said there were five reasons dairy farmers did not use feed analysis more: effort, cost, long turnaround time, difficulty interpreting the results and lack of confidence in the results. The RAPID Feed Analysis service, which is being trialled across Victoria, addresses the first three – effort, cost and turnaround time.

The Grains2Milk program provides dairy farmers with the training, resources and support they need to make better decisions about using grains and concentrates in their businesses. It is funded by dairy farmers through Dairy Australia.





## Don't miss out on rich nutrients in dairy foods

People who think they are lactose intolerant or are told they are lactose intolerant by a physician may miss out unnecessarily on essential nutrients contained in dairy foods.

Dairy Australia dietitian, Glenys Zucco, said people sometimes avoid milk and other dairy products due to concerns about lactose intolerance, but eliminating these nutrient-rich foods could impact diet and health.

“Dairy is a readily accessible source of calcium, and nine other essential nutrients such as magnesium, potassium and vitamin A. Inadequate consumption of these nutrients may increase the risk for chronic health problems,” she said.

In 2010 a panel of experts assembled by the Australian National Institute of Health (NIH) to review the available scientific evidence about lactose intolerance, advised that in most cases eliminating dairy foods is unnecessary.

Ms Zucco said hard cheeses (like cheddar and parmesan) contained virtually no lactose, making them generally well tolerated.

“Yogurt is also usually well digested due to the natural bacterial cultures it contains – which help to digest lactose,” she said.

“Milk can also be tolerated well by drinking it in small amounts throughout the day, as well as enjoying it with meals.”

The American Journal Clinical Nutrition recently published a study on the effects of ‘self-perceived’ lactose intolerance on calcium intake and the risk of specific health problems related to reduced calcium intakes.

The US researchers surveyed 3452 adults aged 19-70 and found participants who identified themselves as lactose intolerant had significantly lower calcium intakes than those who did not, particularly from lower intakes of dairy foods such as milk, cheese and yogurt.

Participants with ‘self-perceived’ lactose intolerance were also significantly more likely to have been diagnosed with hypertension and diabetes.

## New Dairy Australia website offers more

Australia's dairy customers can now access more information about the industry through the revamped Dairy Australia website [www.dairyaustralia.com.au](http://www.dairyaustralia.com.au)

The updated website features:

- Production and sales, including a monthly update on milk production and manufactured production.
- Dairy Australia's 'Fortnightly Update', which provides a summary of the latest dairy market news.
- Dairy exports and trade including up to date commentary on the dairy industry, import restrictions and price support.
- World market prices.
- An overview of Dairy Australia projects.

The new website is a window into the Australian dairy industry, also encompassing animals, technology, people, nutrition and even recipes.



The screenshot shows the Dairy Australia website homepage. At the top left is the Dairy Australia logo with the tagline 'Your Dairy at Work'. To the right of the logo are navigation links: Home, About us, Media, Publications, and Contact us. Below these is a search bar. A horizontal menu contains categories: Animals, feed & environment; People & business; Statistics & markets; Industry overview; Levy investment; Health & nutrition; Dairy food & recipes; and Education & careers. The main content area is divided into several sections: '2011 Dairy Feeding update' with a photo of cows and a 'Feed outdoors' link; 'Latest News' with a list of articles including 'Market news - fortnightly update', 'RAPID dairy feed test service to continue', 'Managing in wet conditions', 'Grains2000 news: 2011 Dairy Feeding Update', and 'Mastitis news: controlling Strep uberis'; 'Current projects' with a photo of a farm; 'Latest market information' with a line graph; 'Your dairy region' with a map of Australia; and 'Quick links' with a list of resources like 'Hay & grain report', 'The People in Dairy website', 'Countdown Mastitis guidelines', 'InCalf fertility advice', 'Dairy private toolkit', 'Who makes what', and 'Dairy tray'. Each section has a 'Learn more' link.



## Leading a growth industry

International demand for Australian dairy products is expected to outstrip supply over the next 5-10 years. The role of Dairy Australia in driving growth across the industry is in the hands of Ian Halliday.

Eighteen months can seem like a very long time in an industry that is going through momentous change.

When Ian Halliday was appointed managing director of Australia's peak dairy services organisation, Dairy Australia, the industry was emerging from 10 years of drought – one of the most severe on record.

While many dairy farmers left dairying all together, many of those who stayed on had accumulated large debts purchasing feed to keep their cows going. Then came a major and unexpected fall in international dairy prices and they found themselves receiving less milk payments than they had in a long time.

Now 18 months into the job, Mr Halliday has seen the dairy business turn full circle. In most dairy regions there has been good rain and pasture is plentiful, although there have been damaging floods in parts of Queensland and northern Victoria. Global demand for dairy products has picked up and prices are on the rise.

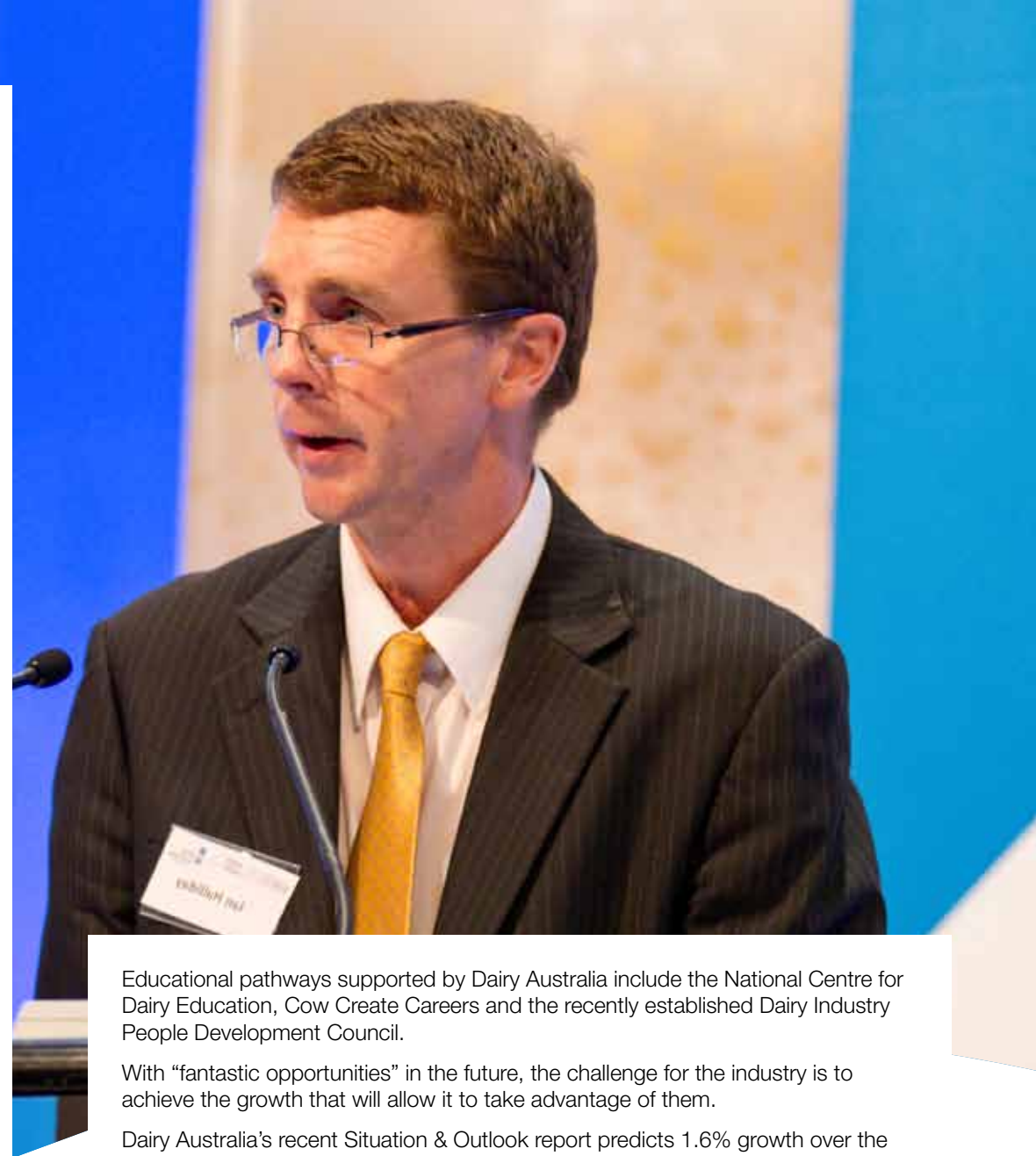
With the international demand for dairy products expected to outstrip supply over the next 5-10 years, Mr Halliday sees the biggest challenge as "how to reboot the industry to take advantage of new opportunities".

### Focusing project investment

Dairy Australia has identified key areas where it will focus project investment. Two of these are the newish field of genomics to improve plant and animal performance and attracting, retaining and developing people in the industry.

Through the Dairy Futures CRC, research is well advanced into using genomics to select elite cows and bulls. Projects are also underway in improving the digestibility, drought resistance and yields from a variety of plants. Substantial productivity improvements are expected from the outcomes of these projects.

Today's careers in dairy farming involve both physical labour and a knowledge of various technologies, requiring a range of skills including feed and nutrition management, understanding reproduction and fertility and natural resource management, as well as financial management and, often, some marketing knowledge. Finding and developing the people who will take on dairy farming as a career is a challenge for dairy communities.



Educational pathways supported by Dairy Australia include the National Centre for Dairy Education, Cow Create Careers and the recently established Dairy Industry People Development Council.

With "fantastic opportunities" in the future, the challenge for the industry is to achieve the growth that will allow it to take advantage of them.

Dairy Australia's recent Situation & Outlook report predicts 1.6% growth over the next 12 months. Mr Halliday is hopeful the industry will exceed that prediction and regain a steady growth platform.

## Consortium will accelerate research on nutrition benefits of dairy

A new international research group will collaborate to gain a better understanding of how major nutrients and other components in milk may provide greater health benefits and improved disease prevention.

Australia has joined five other dairy organizations from across the globe to form the International Dairy Research Consortium for Nutrition and Health, a new partnership to accelerate pre-competitive research on the nutrition and health benefits of dairy.

The founding partners, all of whom are significant funders of dairy research, are the Centre National Interprofessionnel de l'Économie Laitière (France), Dairy Australia, Dairy Farmers of Canada, the Dairy Research Institute (US), the Danish Dairy Research Foundation and the Dutch Dairy Association.

The consortium will identify research projects with the largest potential to increase dairy demand. It will then bring together the knowledge and resources needed to advance research projects rapidly and for the broadest application.

Interest areas potentially include better understanding of how major nutrients and other components in milk may provide benefits related to metabolic health and chronic diseases.

“There is mounting evidence that dairy’s benefits extend beyond good nutrition,” said Isabel MacNeill, Group Manager Value Chain Innovation at Dairy Australia.

“Building international alignment through this consortium will accelerate our ability to establish new benefits of dairy and confirm its position as an essential part of a healthy diet.”





## Refining automatic milking systems makes more milk

Automatic milking systems are designed to increase production and reduce labour costs, keeping the dairy industry competitive in global markets.

As Australian dairy farmers increase the installation of automatic milking systems, researchers aim to ensure they achieve optimum productivity from these systems.

Late last year a trial was conducted at the Automatic Milking Systems farm at the University of Sydney's dairy research centre to evaluate the impact of two different grazing management options on overall cow and system performance.

Preliminary results indicate that when cows are offered more allocations of feed per day they increase the number of times they are milked, producing less milk for each milking but more milk in total over a 24 hour period, according to trial leader, Nicolas Lyon.

The cows enter the milking stalls on a voluntary basis. As they move around the milking system more, they create opportunities for other cows to enter the stalls for milking. This increases the overall number of milkings across the herd and boosts total milk production.

When offered more feed allocations (two vs three) the interval between milkings was reduced by an average of 28%, and milking frequency increased by 36%. This led to a 20% increase in milk production. Total utilisation of the automatic milking system under the three-feed system reached 83% of capacity.

"Grazing management can have a big impact on cow traffic," Mr Lyon said.

## Dairy fat gets a new lease on life

Dietary fat, which includes the fats in dairy products, is making a welcome return to the list of good, healthy food after a lengthy period in which many scientists blamed the intake of saturated fats for increasing the risk of heart disease.

In 2010, an invitation-only international expert panel reviewed the evidence behind the recommendation to reduce the intake of saturated fatty acids (SFAs) in order to reduce cardiovascular disease (CVD) risk. Their consensus paper, published in the American Journal of Clinical Nutrition late in 2010, concluded that there is no evidence to support the benefit of substituting refined carbohydrates for SFAs.

The panel found that substituting polyunsaturated fatty acids (PUFAs) for SFAs is likely to be beneficial for lowering total and LDL cholesterol and for cardio-vascular disease (CVD) prevention.

Professor Arne Astrup was the lead author and co-organiser of the symposium on saturated fat. He is head of the Department of Human Nutrition at the University of Copenhagen and Director of the Danish Nordea Foundation OPUS Research Centre.

“Replacing saturated fat with carbohydrates does not reduce the risk of coronary heart disease (CHD), and may even increase the risk,” he said.

The reasons for the change of opinion among nutrition experts have much to do with the role of trans fats in food. When the early studies of saturated fats were conducted, researchers were still unaware of trans fats as a significant sub-category.

“Several of the previous studies have overlooked the content of trans fats in certain foods. CHD rises dramatically with trans fat consumption, but only slightly with saturated fat consumption,” said Professor Astrup. “Monounsaturated fat consumption yields a non-significant decrease in heart disease risk, while the protective effect of polyunsaturated fat consumption against heart disease does reach statistical significance.”

Professor Astrup believes the outcomes from the symposium will lead to a more relaxed view of saturated fat, and greater focus on reducing total fat to reduce the energy density of the diet.

“Dark chocolate and cheese, for example, are both high in saturated fat, but other nutrients in both foods are more important, so the total effect is protective,” he said.

Award winning science writer Gary Taubes, a correspondent for the journal *‘Science’*, believes dietary fat, whether saturated or not, is not a cause of obesity, heart disease, or any other chronic disease.

Taubes reviewed the published evidence relating to dietary fat intake and heart disease and showed that there is no justification that fat (saturated or otherwise) causes heart disease.

“In the 1960’s, we swapped the paradigm that carbohydrates make us fat for the paradigm that dietary fat causes heart disease.” He concluded that this was a mistake.

“The science tells us it is refined carbohydrates, like white flour, and sugars that are responsible for obesity and many other chronic health problems,” he said on a recent visit to Australia.

“For decades we have been told fat, especially saturated fat, is bad for us and carbohydrates are better. Yet despite this, the incidence of obesity in the US and Australia have risen in the past 10 years,” Mr Taubes said.

The latest Australian figures suggest 25 per cent of children aged 5-17 years and 61 per cent of adults are overweight or obese.

Dairy Australia Dietitian Glenys Zucco said sometimes people limited their intake of dairy foods, particularly regular fat varieties such as whole milk and cheese, due to concerns about weight gain.

“However, recent science indicates that people with a lower intake of dairy food have a greater risk of weight gain than those with a higher dairy intake,” Ms Zucco said. “Also people who restrict their intake of calcium-rich foods such as dairy are putting their bone health at risk.

“Cut the refined carbs and enjoy three serves of dairy foods (milk, cheese and yogurt) every day.”

## Australian production summary

### Further production growth expected

Favourable seasonal conditions across the south-east corner of Australia, combined with milk prices that were over 20% higher than the previous year, meant the season finished well in the key dairy product export regions.

Milk production for the 2010/11 season finished at approximately 9.1 billion litres – an increase of around 80 million litres or 1% on last year. The outlook for the new season is for growth of 1 - 2%, based on farmer intentions to expand their dairy herds and the likelihood of positive margins above feed costs for southern producers. This would indicate a milk production volume around 9.25 billion litres.

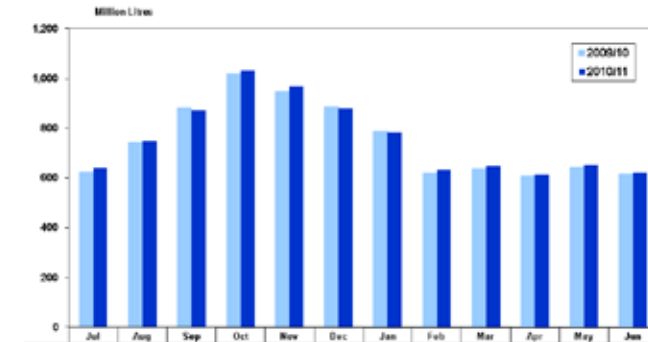
Farmers remain cautious in their approach to further investment in productive capacity as they consolidate and rebuild their financial situations.

Farmgate milk prices for the 2011/12 season opened up around 3 – 4% on last season in southern regions – reflecting strong world dairy commodity prices and increased demand for milk from competing companies within Australia. Full year prices are expected to finish around a similar level to the season just finished. While international dairy fundamentals support this price outlook, the wider global economic situation remains a threat to the current stability in world dairy markets.

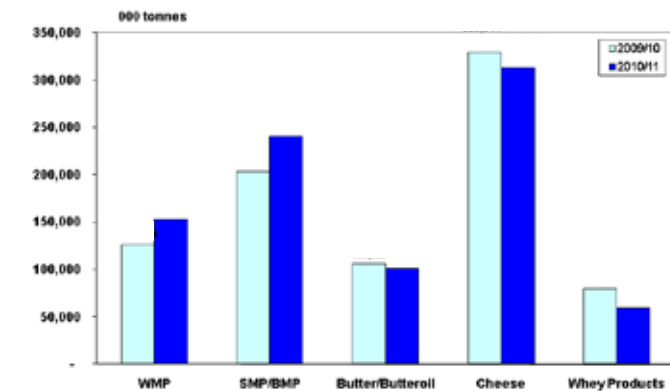
Preliminary estimates of manufactured product volumes show butter / butteroil volumes down 4% and cheese down 5%. While cheddar cheeses were down 5%, the pattern across the non-cheddar cheese types was very mixed. On the other hand, milk powder volumes were up strongly during the season - with skim milk powder up 18% and whole milk powder up 21%. These high growth rates reflected Australian processors trying to maximize export returns from the strong increases in dairy commodity prices over the previous season.



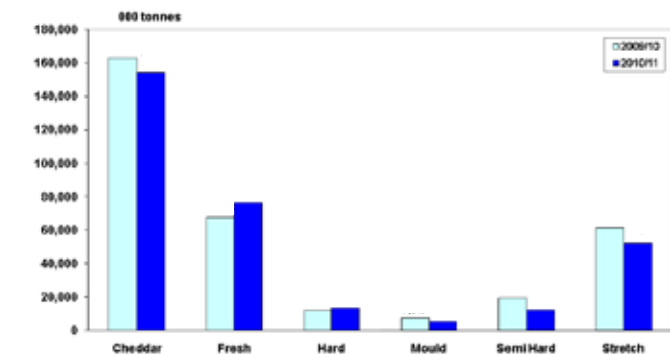
Australian Milk Production - July 10 to June 11



Australian Production Figures - July 10 to June 11



Australian Cheese Production - July 10 to June 11



## International Market Update

### Supply guiding the market

Global milk supply has remained a focus for many buyers over the last three months as milk production in the northern hemisphere approached peak production. Preliminary data shows that slower production in the US may be balanced by increases in the EU which finished their production season quite strongly with an overall increase in EU-27 milk production of 2.57% to 136,351t for the season from April 2010 to March 2011. People will be watching to see how the season unfolds in the southern hemisphere as this will be the key to markets later this year.

The EU-27 have started the new production season well with April milk production of 12,129t increasing 2.8% on April 2010. Production in 15 of the 27 member states increased, while the largest producers in the EU (Germany, France, Italy, UK and the Netherlands) increased production by 3.0% compared with the previous season. Ireland showed the largest increase in milk production, leaping by 19% compared to April 2010.

On the other hand the pace of milk production growth in the United States has started to slow, with milk production in April increasing by just 1.5% (to 7.3 bn litres) and May increasing 1.3% (to 7.6 bn litres) compared to the same months last year. This is the first time since May 2010 that US milk production has grown less than 2% month on month.

For the first five months of 2011, US milk production was 36.3bn litres, up 1.8% or 670 million litres on the corresponding period last year. High feed prices appear to be the primary driver behind slowing US milk production growth.

High cotton and soybean prices are reducing planted area and subsequent availability of corn and alfalfa hay – supporting higher prices. While feed was much cheaper earlier in the season, many large producers in California were reported not to be able to take advantage because they didn't have the cash flow (and financiers wouldn't increase credit) to facilitate forward buying. Margin pressure appears to be the primary reason behind slowing US milk production growth.

New Zealand milk production finished the year more strongly than expected and it appears as though the conditions will be right for a good start to the 2011/12 season. Estimates for the Australian milk production season ending June 30 suggest a production volume of 9.1bn litres, around 1% up on last season. South America appears to be the wildcard for the time being with Argentina production ahead of last year and processing capacity for powders (mostly destined for other South American nations) running out. Depending on how the Argentinians process the extra milk (probably into cheese) this may affect prices on commodity markets.

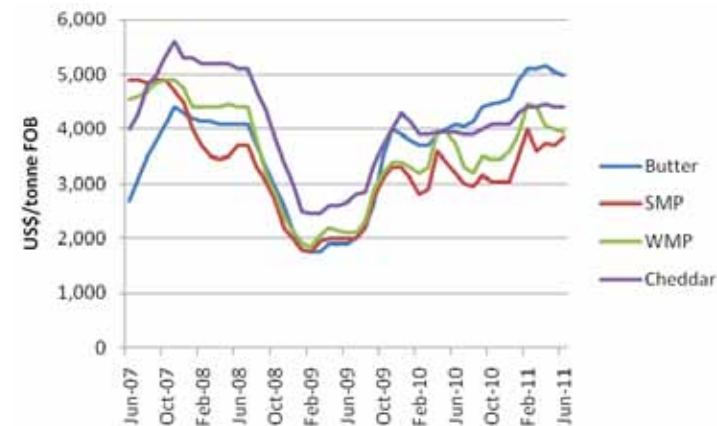


### Outlook remains positive

The net effect of supply changes has varied across the four major dairy exports. Butter prices remain firm, easing 2% over the last quarter as increasing supply from the northern hemisphere took some heat out of the market. SMP prices increased 7% driven by solid demand and strong competition for the limited volume of product available on globalDairyTrade, while cheddar prices have remained steady.

The outlook for global dairy prices still appears positive as we look toward the southern hemisphere production peak in spring. There may be some short term softening as buyers temporarily halt normal buying patterns, but robust demand and limited commercial inventories will keep upward pressure on commodity prices for the balance of 2011.

### Indicative Australian Dairy Export prices



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Dairy Australia Ltd ABN 60 105 227 987  
Level 5, IBM Centre  
60 City Road, Southbank VIC 3006  
T + 61 3 9694 3777 F + 61 3 9694 3888  
[www.dairyaustralia.com.au](http://www.dairyaustralia.com.au)

