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Australia

Dairy and Products

Annual

2006

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Report Highlights:
Despite a positive outlook at the beginning of the 2006/07 forecast year and a strong increase in first quarter production, the return of harsh drought conditions has resulted in an across-the-board reduction in dairy production and export forecasts. Poor pasture conditions combined with a scarcity of other key inputs such as fodder and irrigation water has precipitated an expected decline in fluid milk production together with butter, cheese and milk powders.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Canberra [AS1]
[AS]

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SECTION ONE: SITUATION AND OUTLOOK

Summary

The outlook period for the Australian dairy industry can be described as “difficult”. Despite a positive outlook at the beginning of the 2006/07 forecast year and a strong increase in first quarter production, the return of harsh drought conditions has resulted in an across-the-board reduction in production and export forecasts. Poor pasture conditions combined with a scarcity of other key inputs such as fodder and irrigation water has precipitated an expected decline in fluid milk production together with butter, cheese and milk powders. Furthermore, other agricultural sectors such as rice and cotton, which produce by-products for stockfeed, have also had production forecasts slashed due to drought conditions.

Weather conditions

Nearly all agriculturally significant regions in southern Australia are suffering drought conditions with rainfall deficiencies ranging from “serious” to “lowest on record”. Critical spring rains, which are required to produce pasture-based fodder, finish winter cereal crops, and provide soil moisture for planting summer crops, have not eventuated. Furthermore, various parts of Australia have experienced above average temperatures, which have dramatically shortened typically more productive spring conditions.

The month of September, which is a critical month for Australian grain production, experienced below average rainfall and above average temperatures for South Australia, Victoria and New South Wales according to the Australian Bureau of Meteorology. These conditions have followed historically low rainfall periods beginning with the driest June on record.

Post has assumed average weather conditions from December onward. However, even if this occurs (and average rainfall is received), it is unlikely to provide the relief necessary to achieve a return to normal production conditions. The moisture deficit created by drought conditions from June through to October will likely constrain agricultural production over the next 12 months.

Grain Production

Australian dairy production essentially remains a pasture-based system with the overwhelming majority of dairy cattle having daily access to pasture. However, supplementary feeding of grain is now widespread and anecdotal evidence suggests that the amount of grain fed to dairy cattle is increasing. Industry analysts suggest that feedgrain rations across industry have reached 1.3 MT/cow per year – notionally placing consumption of feedgrain by the dairy industry at 2.65 MMT per annum.

Australia essentially has two crop cycles, a winter crop and summer crop. The 2006/07 winter cereal grains harvest (wheat, barley and oats), due to be completed by the end of November, has been reduced by more than half. The 2007/08 summer grain crop harvest (sorghum), not due until March 2007, has also been trimmed significantly. Conditions for fodder production and storage (hay and silage) range from difficult to impossible for much of the industry.

Crops such as cotton and rice, which produce important by-products for stock feed manufacturing, are also forecast to suffer dramatic reductions in production.

Over the longer term, the Australian dairy industry sees itself to be constrained by feed grain availability. Production of feed grain, and grain more generally, has not kept pace with growing demand from intensive livestock, domestic human consumption or the newly formed ethanol industry. Lot fed cattle numbers recently reached record levels and, together with other demands, have seen domestic demand in the eastern states increase from 34 to 46 percent of grain production in just seven years.

Irrigation water outlook

Wide-ranging drought conditions have affected both coastal and inland dairy regions. Also, catchment areas adjacent to inland irrigation areas are equally affected. The Snowy mountains catchment area recently recorded its lowest water inflow in 115 years of recorded data. This will have greatest effect on inland irrigation areas that receive irrigation water supplies from the Snowy Mountain catchment area (i.e. southern NSW and Northern Victoria) – where the bulk of the dairy industry is located. The effects off this may be softened at farm level through the ownership of high security water licenses and other risk management tools.

Trade

Australia looks set to maintain its position as the world's third largest export of dairy products behind the EU and New Zealand, despite the onset of drought. According to a recent industry report, Australia accounts for around 12 percent of the world's dairy exports, largely unchanged from the decade previous.

SECTION TWO: STATISTICAL TABLES

PSD Table Dairy, Milk, Fluid										
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006	MM/YYYY
Cows In Milk	2041	2041	2041	2045	2045	2045	0	0	2040	(1000 HEAD)
Cows Milk Production	10429	10429	10429	10250	10250	10395	0	0	10000	(1000 MT)
Other Milk Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Production	10429	10429	10429	10250	10250	10395	0	0	10000	(1000 MT)
Other Imports	3	3	3	3	3	3	0	0	3	(1000 MT)
Total Imports	3	3	3	3	3	3	0	0	3	(1000 MT)
Total Supply	10432	10432	10432	10253	10253	10398	0	0	10003	(1000 MT)
Other Exports	84	84	84	88	88	86	0	0	84	(1000 MT)
Total Exports	84	84	84	88	88	86	0	0	84	(1000 MT)
Fluid Use Dom. Consum.	2083	2083	2083	2116	2116	2065	0	0	2000	(1000 MT)
Factory Use Consum.	8265	8265	8265	8049	8049	8247	0	0	7919	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	10348	10348	10348	10165	10165	10312	0	0	9919	(1000 MT)
Total Distribution	10432	10432	10432	10253	10253	10398	0	0	10003	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)

PSD Table
Dairy, Cheese

	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006	MM/YYYY
Beginning Stocks	51	51	51	26	26	25	14	14	14	(1000 MT)
Production	375	375	375	341	341	341	0	0	328	(1000 MT)
Other Imports	50	50	49	52	52	50	0	0	51	(1000 MT)
Total Imports	50	50	49	52	52	50	0	0	51	(1000 MT)
Total Supply	476	476	475	419	419	416	14	14	393	(1000 MT)
Other Exports	227	227	227	195	195	202	0	0	195	(1000 MT)
Total Exports	227	227	227	195	195	202	0	0	195	(1000 MT)
Human Dom. Consumption	223	223	223	210	210	200	0	0	185	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	223	223	223	210	210	200	0	0	185	(1000 MT)
Total Use	450	450	450	405	405	402	0	0	380	(1000 MT)
Ending Stocks	26	26	25	14	14	14	0	0	13	(1000 MT)
Total Distribution	476	476	475	419	419	416	0	0	393	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	12	12	12	12	12	12	0	0	11	(1000 MT)

PSD Table
Dairy, Butter

	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006	MM/YYYY
Beginning Stocks	8	8	8	14	14	14	16	16	10	(1000 MT)
Production	131	131	131	132	132	129	0	0	124	(1000 MT)
Other Imports	10	10	10	11	11	11	0	0	12	(1000 MT)
Total Imports	10	10	10	11	11	11	0	0	12	(1000 MT)
Total Supply	149	149	149	157	157	154	16	16	146	(1000 MT)
Other Exports	70	70	70	75	75	82	0	0	74	(1000 MT)
Total Exports	70	70	70	75	75	82	0	0	74	(1000 MT)
Domestic Consumption	65	65	65	66	66	62	0	0	62	(1000 MT)
Total Use	135	135	135	141	141	144	0	0	136	(1000 MT)
Ending Stocks	14	14	14	16	16	10	0	0	10	(1000 MT)
Total Distribution	149	149	149	157	157	154	0	0	146	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	2	2	2	2	2	2	0	0	2	(1000 MT)

PSD Table
Dairy, Dry Whole Milk Powder

	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006	MM/YYYY
Beginning Stocks	28	28	28	46	46	46	44	44	44	(1000 MT)
Production	189	189	189	180	180	160	0	0	154	(1000 MT)
Other Imports	15	15	12	15	15	15	0	0	16	(1000 MT)
Total Imports	15	15	12	15	15	15	0	0	16	(1000 MT)
Total Supply	232	232	229	241	241	221	44	44	214	(1000 MT)
Other Exports	161	161	161	170	170	150	0	0	145	(1000 MT)
Total Exports	161	161	161	170	170	150	0	0	145	(1000 MT)
Human Dom. Consumption	25	25	22	27	27	27	0	0	29	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	25	25	22	27	27	27	0	0	29	(1000 MT)
Total Use	186	186	183	197	197	177	0	0	174	(1000 MT)
Ending Stocks	46	46	46	44	44	44	0	0	40	(1000 MT)
Total Distribution	232	232	229	241	241	221	0	0	214	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)

PSD Table Dairy, Milk, Nonfat Dry										
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006	MM/YYYY
Beginning Stocks	5	5	5	19	19	39	15	15	48	(1000 MT)
Production	206	206	206	216	216	221	0	0	213	(1000 MT)
Other Imports	2	2	4	4	4	5	0	0	6	(1000 MT)
Total Imports	2	2	4	4	4	5	0	0	6	(1000 MT)
Total Supply	213	213	215	239	239	265	15	15	267	(1000 MT)
Other Exports	174	174	141	204	204	182	0	0	177	(1000 MT)
Total Exports	174	174	141	204	204	182	0	0	177	(1000 MT)
Human Dom. Consumption	20	20	35	20	20	35	0	0	35	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	20	20	35	20	20	35	0	0	35	(1000 MT)
Total Use	194	194	176	224	224	217	0	0	212	(1000 MT)
Ending Stocks	19	19	39	15	15	48	0	0	55	(1000 MT)
Total Distribution	213	213	215	239	239	265	0	0	267	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)

SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

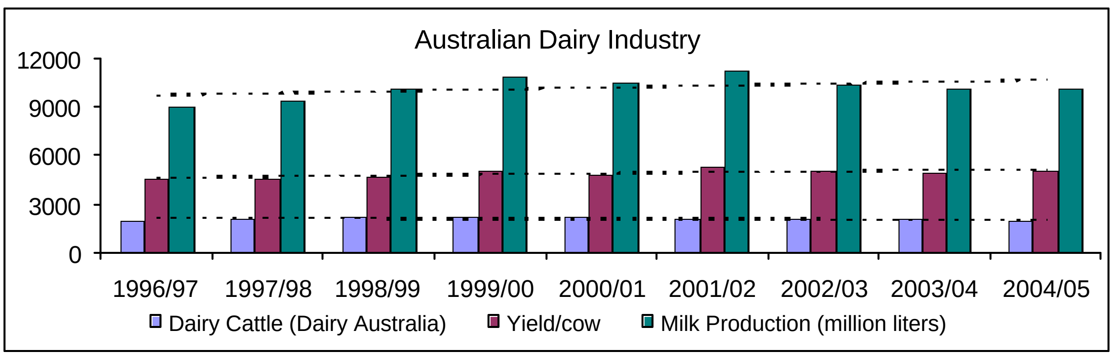
Fluid Milk

Production

Fluid milk production in 2006/07 is forecast at 10.0 MMT, down about 4 percent from the 10.4 MMT for the previous year, and down sharply from the 10.43 MMT for 2004/05. Severe drought conditions have deteriorated pasture and greatly reduced the availability of irrigation water and fodder. A forecast of 10.0 MMT would equate to around 9.7 billion liters, using a conversion factor of 1.03.

Production for 2006/07 is expected to fall despite a five percent increase for the first quarter of the forecast year (although falling on a monthly basis). According to industry data, the month of July in 2006/07 saw a 7.7 percent increase in milk production over the same period for the previous year and August showed a 6.3 percent increase. However the month of September showed an increase of only 2.3 percent over the same period for the previous year as drought conditions began to take effect. October figures were not available at time of writing this report, however poor climatic conditions experienced during this period will likely lead to a decline compared to year previous.

According to historical data, Australian dairy production peaked at 11.6 MMT in 2001/02, or 11.26 billion liters when high rainfall and cooler summer conditions boosted production. The 2006/07 forecast of 10.0 MMT, or 9.7 billion liters, is considered below the ten year average of 10.5 million liters or 10.2 MMT.



Source: ABARE data

Post has trimmed cows numbers for 2006/07 in line with early industry reports. However, it should be noted that post has assumed a return to more normal weather conditions from the month of December onwards, and although this is not expected to reverse the effects of the current drought situation, continued below average rainfall over the course of the outlook period would likely further reduce cow numbers. Industry analysts are concerned that although many producers have culled cattle in response to drought conditions, continued below average rainfall could see the cull cattle increase significantly.

Exports

Exports of fluid milk in 2006/07 are forecast to fall to 84 TMT, consistent with the drop in fluid milk production. Fluid milk exports are forecast to remain at about one percent of total production.

Consumption

Domestic consumption of fluid milk for 2006/07 is forecast to fall to 2000 TMT, or about 20 percent of total production, in line with the decline in fluid milk production. Post considers that fluid milk consumption is unlikely to change greatly in the foreseeable future and is generally not considered a growth market compared with uses such as cheese for export.

Post uses industry figures for supermarket sales of fresh milk for domestic consumption numbers.

Marketing

A recent industry report stated that although fresh milk consumption remains steady at around 20 percent of total production fluid milk consumption, domestic consumption of dairy products accounts for the equivalent of another 30 percent of whole milk production.

The marketing of milk domestically continues to face many challenges with major supermarket chains handling about 30 percent of total production and around 62 percent of domestic dairy consumption. Supermarkets are expected to continue branding their own milk, thus improving control over margins.

Dairy consumption via food service (fast food) channels is expected to grow at higher rates than via retail chains but is more sensitive to changes in disposable income. Post believes that overall domestic market growth has been slower than export growth in the past and is expected to remain fairly steady in the foreseeable future.

Policy

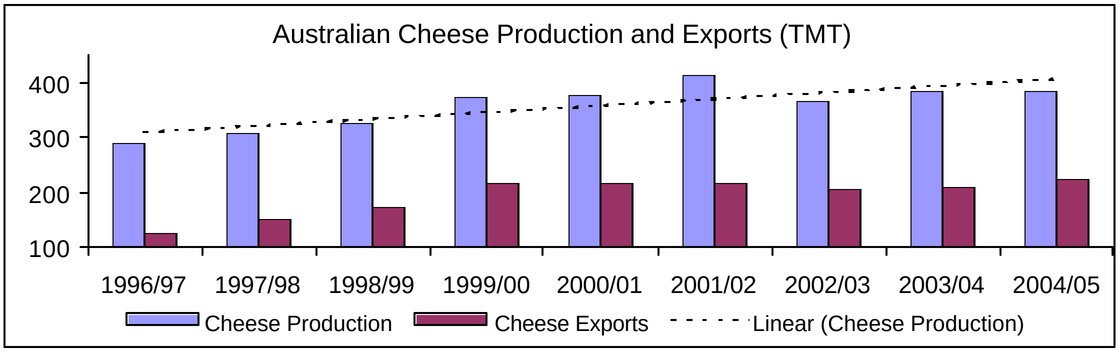
About one in every ten liters of milk produced in Australia is consumed in Japan. Dairy Australia, the industry's service providing body, considers maintaining access to existing foreign markets to be as important as opening new markets. One example of market maintenance is how closely Dairy Australia worked with Japanese authorities on the new food safety laws in Japan setting maximum residue limits for agricultural and veterinary chemicals. Dairy Australia's strategy was to demonstrate the comprehensive nature of Australian veterinary and chemical management systems.

Cheese

Production

Total cheese production is forecast at 328 TMT, down almost four percent from the previous year and in-line with projected declines in fluid milk supply over the forecast period. The forecast decline comes despite increased production in the first quarter of 2006/07 and the longer-term trend of increased cheese production over the past decade.

Historically, strong prices for cheese over the past five years have seen production rise at the expense of other dairy commodities.



Source: ABARE Data (July-June)

Export

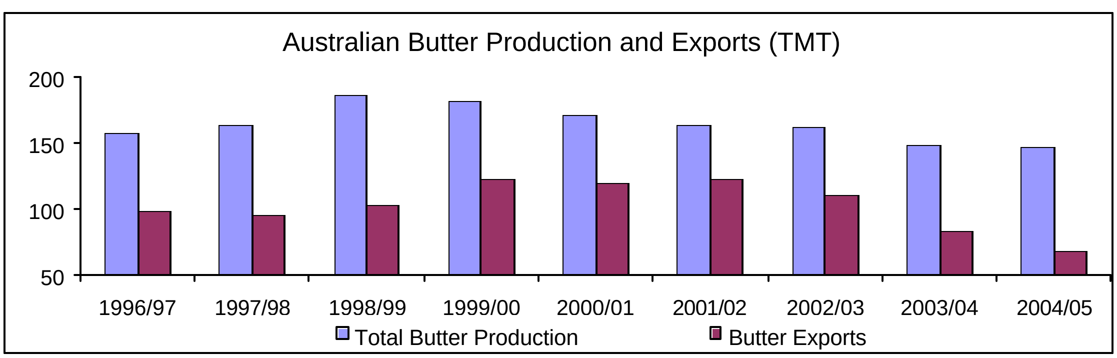
Exports of cheese in 2006/07 are forecast at 195 TMT, a decrease that reflects the decreased production. This forecast relies on recent price relativities. Post advises that stocks of cheese remain significant and that exports could remain firm if world prices were to rise significantly.

Butter

Production

Butter production for 2006/07 is forecast at 124 TMT, down on the previous year. Year-to-date industry data also shows sharp increases in cheese production. However, monthly figures show the production growth diminishing rapidly on a month-by-month basis. Post expects monthly production to begin declining on year-previous levels from November onwards.

According to ABARE reports, butter prices have fallen relative to the prices of other dairy products in recent times and if this trend were to continue, butter production could fall below the current forecast.



Source: ABARE Data (July-June)

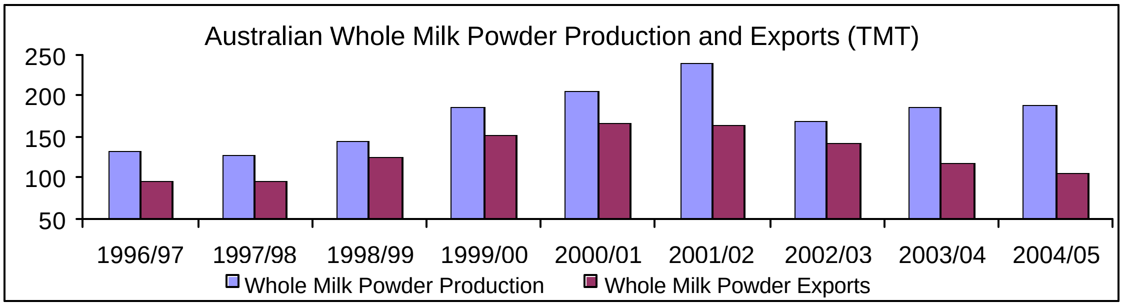
Exports

Butter exports for 2006/07 are forecast at 74 TMT, a reduction in line with forecast declines in butter production. ABARE reports forecast butter prices to fall further in 2006/07 and this will likely see exports slow.

Whole Milk Powder

Production

Whole milk powder production for 2006/07 is forecast to fall to 154 TMT, down from the 160 TMT produced the previous year and in line with the forecast fall in fluid milk production. Year-to-date data show a strong increase over the same period for the previous year, however the rate of increase falls sharply on a monthly basis and is expected to end the overall forecast period with a four percent decline in production.



Source: ABARE Data (July-June)

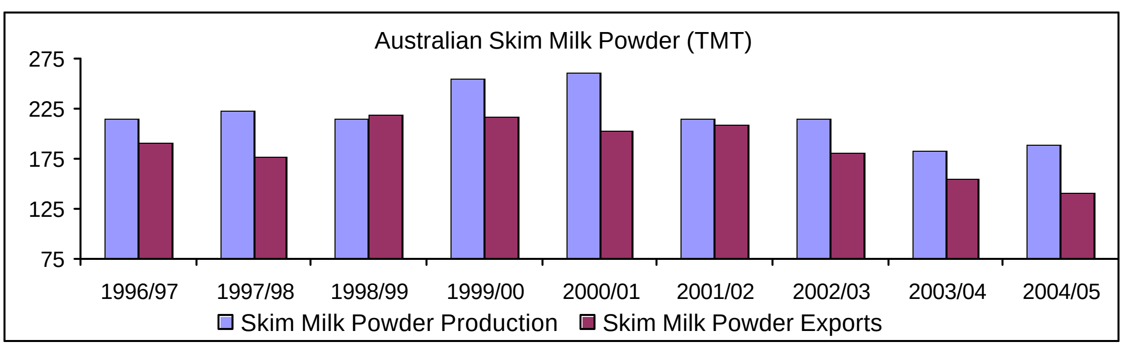
Exports

Exports of whole milk powder in 2006/07 are forecast at 145 TMT, down almost four percent on the previous year and in-line with the forecast decline in Whole Milk Powder production.

Skim Milk Powder

Production

Skim Milk Powder production in 2006/07 is forecast at 213 TMT, down on the 221 TMT estimated for the previous year. Year-to-date industry data shows sharp increases in production, however the rate of increase has fallen on a monthly basis. Post anticipates monthly production to fall from the previous year's level with overall production almost four percent lower overall.



Exports

Skim Milk Powder exports for 2006/07 is forecast to fall to 177 TMT. This reduction in exports is reflective of the forecast decline in production over this period due to drought conditions.

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:
http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp.

Report Number	Title of Report	Date
6071	AWB Rejects Export Applications for 3 MMT, Sparks Controversy	11/09/06
6070	Australia Revises Import Conditions for California Table Grapes	11/06/06
6069	Ag DownUnder Vol. 16	11/03/06
6068	Australia Considers Grain Imports; Additional Drought Aid Announced	10/31/06
6067	Government Announces Changes to Import Risk Analysis Process	10/31/06
6066	Grain Quarterly Update	10/20/06
6065	Frost Affects Fruit Production in Goulburn Valley, Victoria and Tasmania	10/18/06
6064	A$350m Additional Drought Aid	10/17/06
6063	Ag DownUnder Vol. 15	10/12/06
6062	Corish Report: Australian Government Response	10/04/06
6061	Sugar Semi-Annual	09/29/06
6060	Exporter Guide	09/29/06
6059	Export Certificate Report	09/27/06
6058	Ag DownUnder Vol. 14	09/26/06
6057	Livestock Annual	09/13/06
6056	Ag DownUnder Vol. 13	09/08/06
6054	Drought Update	09/05/06
6053	Cotton Quarterly Update	08/31/06
6052	Ag DownUnder Vol. 12	08/25/06
6051	Australia Launches Strategy to Gain Access to Southern Indian Food Market	08/10/06
6048	Food & Agriculture Import Regulations & Standards	08/03/06
6047	Grain Quarterly Update	08/01/06
6046	Ag DownUnder Vol. 11	07/21/06
6045	Citrus Update	07/17/06
6042	Australian FTA with Gulf States	06/30/06
6041	Poultry Meat IRA Released	06/28/06
6040	Worst Frost in 20 Years Affects Australian Citrus Production	06/27/06
6039	Agricultural Biotechnology Annual	06/28/06
6038	Ag DownUnder Vol. 10	06/23/06
6037	Sugar Smut Outbreak in Queensland	06/20/06
6036	Wine Annual	06/08/06
6035	Australia Actively Pursuing FTAs	06/07/06
6034	Ag Down Under Vol. 9	06/02/06
6033	Wheat Australia sells 350,000 MT to Iraq	05/31/06
6032	Dairy Semi Annual	05/30/06
6031	Ag Down Under Vol. 8	05/19/06
6030	Review of Permitted Seeds List for Australia	05/19/06
6028	Justification for Requirement for Wood Packaging Material to be Bark Free	05/15/06
6027	Cotton & Products Annual	05/15/06
6026	Ag Down Under Vol. 7	05/09/06