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# Dairymark

## Free Trade Agreements – A Perspective for Dairy

Promotional Information

June 2011



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 Shainwright



Dairymark has a new multi-client report to be published. The report is entitled 'Free Trade Agreements – A perspective for Dairy'. The report focuses on what FTAs mean for the global dairy industry.

The report is undoubtedly quite controversial. It starts by setting the scene on FTAs, and raises the spectre that the benefits of global dairy trade liberalization are, at best, marginal – in short, the report claims that advantages are not universal and accrue to no-one except a small grouping of beneficiaries.

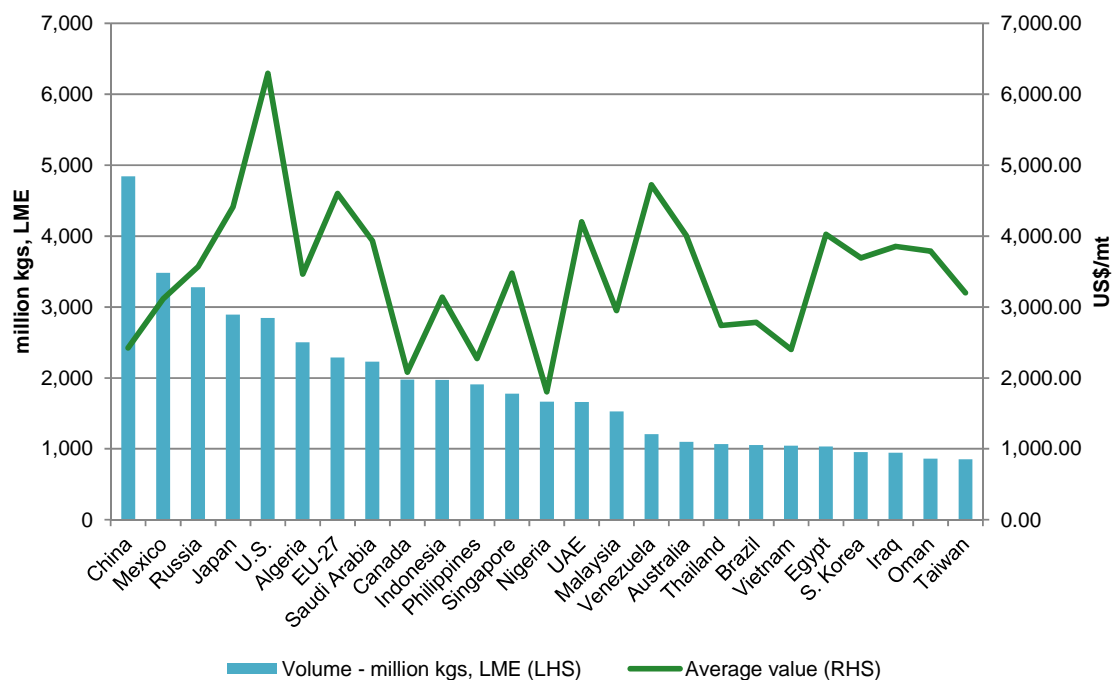
This report gives a lot of currency to the New Zealand situation – and through this, a large target focus is given to Fonterra Co-operative Group. This is not intentional – rather it is unavoidable. Accounting for such a significant share of global dairy trade leaves that target exposed.

Some extracts from the report are included here for referral:

Firstly, referring to Fonterra's interest in the U.S. market:

*Average value of product supplied onto the (U.S.) market 2009 at almost US\$6,300 per mt is well ahead of any other of the top 25 dairy import markets.*

**Figure 6: Top 25 Dairy Import Markets – Volume & Value (2009)**



Source: ITC trade data

*Thus the reason why Carolyn Mortland<sup>1</sup>, Fonterra's Washington DC-based Vice President of Government Relations & Trade and recently elected to a new three year term on the Cheese Importers Association of America, suggests that:*

<sup>1</sup> Quoted in The Southland Times, 03 March, 2009

- *Fonterra wants to promote innovation in the U.S. dairy industry*
- *Concerns continue about changes to the U.S. Farm Bill that could see the introduction of tariff rate quotas on MPC, casein & caseinates – all products that Fonterra was shipping to the U.S. market with little or no quota or negligible tariff*
- *The threat of the Dairy Import Assessment initiative will mean a levy be put on imports to pay for a U.S. dairy promotion program, with an adverse impact on Fonterra alone of US\$2 million p.a.*

Secondly, US Dairy Export Council's concerns about a 'dairy inclusive' TPP that includes New Zealand:

*Just as Fonterra and a greater New Zealand is intent on delivering an all-inclusive TPP, the U.S. Dairy Export Council insists that it opposes the initiative for dairy. More specifically:*

- *U.S. Dairy Export Council notes that the U.S. has in place FTAs with four of the prospective TPP participants, being: Australia, Chile, Singapore & Peru*
- *The only new FTA partners would be N.Z., Vietnam, & Brunei – and of these Vietnam is the sole market that offers any real new economic opportunity*
- *As the U.S. dairy industry is currently framed, the present TPP proposal would be one-sided – benefitting only N.Z.*
- *U.S. Dairy Export Council vehemently voices its opposition to a situation whereby<sup>2</sup>: '(the) U.S. dairy industry (would be) pitted against the monopolistic practices that exist in New Zealand. Under this regime one company is permitted to control over 90% of the country's milk production, which has given it a competitive advantage and has allowed it to account for more than 1/3 of global dairy trade'*

Thirdly, the essence of the TPP from a dairy perspective:

*Given current U.S. milk production at ~ 86 billion kg, this represents a reduction of 0.43 billion kgs. Given that total N.Z. milk production is ~ 19.9 billion kg, the fall in U.S. milk production represents around 2% of N.Z. milk output. The bare facts from the Petersen report indicates direct substitution – N.Z. milk for U.S. milk - with N.Z. milk directed towards the highest value export market in the world. Good for N.Z. if this can be achieved, and little wonder that U.S. dairymen are up in arms over the threat.*

Next, with regards to a new supply/demand equation in global dairy trade terms:

*Thus, and with relevance to the current report, these include:*

- *Net global dairy inflows are expected to expand at a faster rate than export trade flows through the forthcoming 10 year period*
- *Strengthening demand for dairy is expected to arise from developing economies – these will be located in Latin America, Asia, North Africa and Middle East regions*
- *Low cost producers such as Brazil and Ukraine are expected to get greater traction in terms of global export supply within the foreseeable future – such is expected to unsettle conventional suppliers (Oceania, EU – more recently U.S.), and especially those that do not have a low cost supply (milk, processing) base*

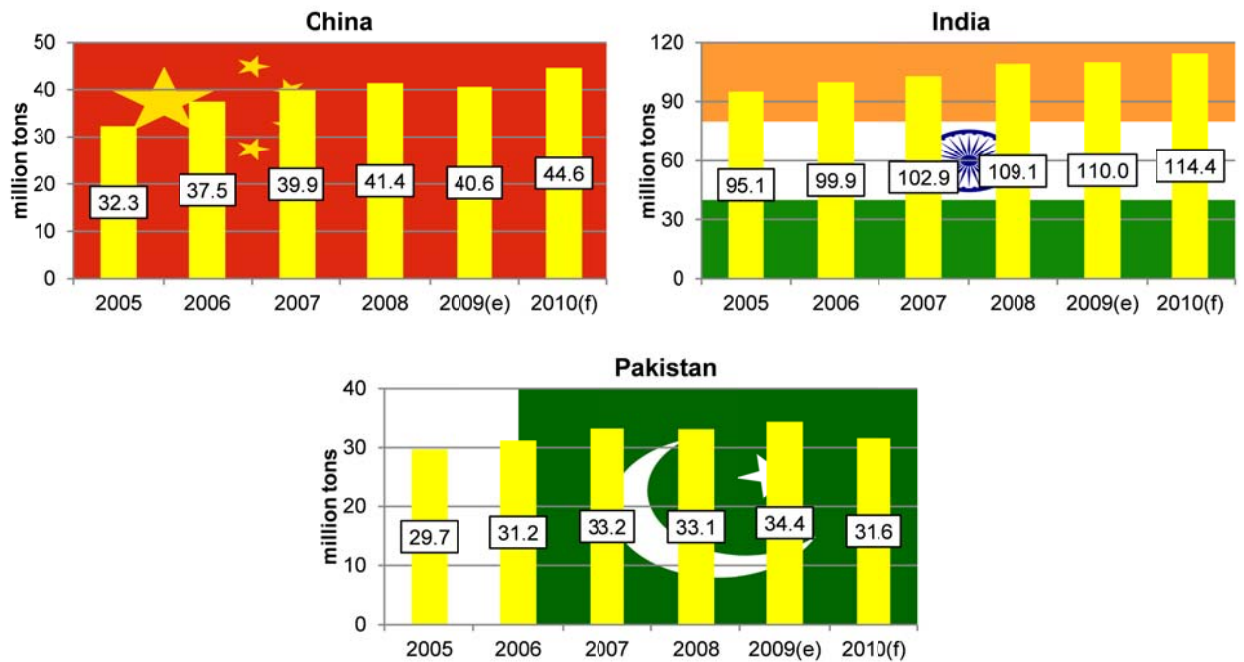
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<sup>2</sup> Quoted in U.S. Dairy Export Council Backgrounder to the Trans-Pacific Partnership Free Trade Agreement

- A belief that N.Z. will be limited in expanding its milk production base by much more than 30% over the next five years – as Fonterra currently accounts for ~ 92% of total N.Z. milk production, this is a direct reference to limitations regarding Fonterra supply from its home base

The report talks about the strong growth in milk supply from the three Asian tigers:

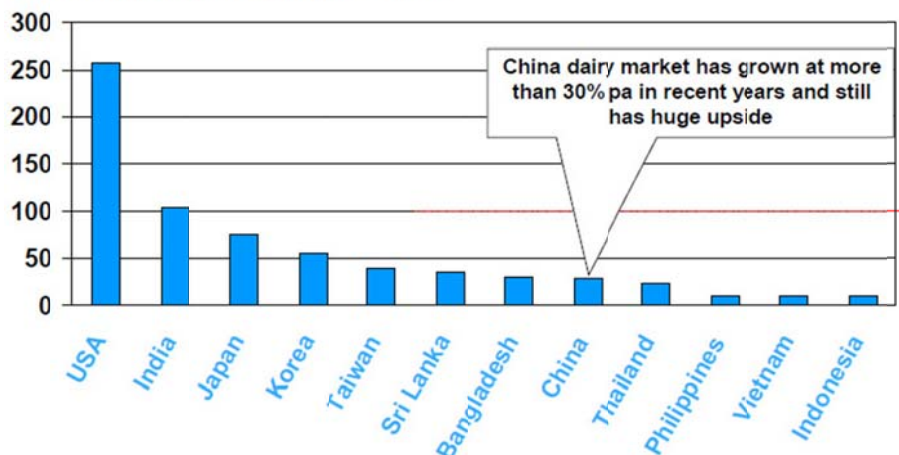
**Figure 15: Recent Trends in Growth in Milk Production – Asia’s Leading Milk Producing Nations**



Source: IDF, FAO

And the considerable upside in Asian market demand:

**Figure 19: Per Capita Consumption of Dairy – Key Asian Markets**  
Consumption per capita per annum



Source: Fonterra Co-operative Group

## 11. Argentina - A Global Dairy Industry & Trade Overview

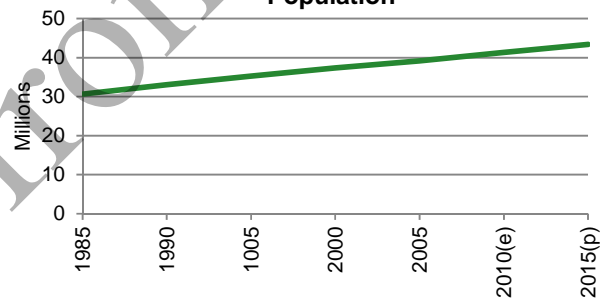
Argentina is a republic. It is located in southern South America, bordering the South Atlantic Ocean, between Chile & Uruguay. The nation as we now know it has origins in the 1816 declaration of independence from Spain by the Rio Plata. Immigration from Europe, and especially Italy and Spain, has populated the country through to the 1930s. Political instability and political power shifts have hallmarked much of Argentina's 20th century history. Democracy returned in 1983 following the failed attempt to gain control of the Falkland Islands – challenges to democracy have persisted, the most serious arising from a response to the economic crisis that shook the country in 2001-02; this saw violent civil unrest and a succession of presidents



### Economic Summary

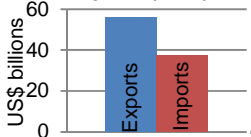
Argentina is rich in natural resources, has a highly literate population, an export-focused agricultural sector & a diversified industrial base. Through the 20th century the nation suffered recurring economic issues (high inflation, growing external debt, capital exodus, fiscal & current account deficits). A serious economic, social, and political crisis occurred in the early-2000s (GDP in 2001 ~ 18% lower than 1998, & 60% of inhabitants below the poverty line). Then GDP grew strongly with economic restructuring. Since 2007 growth slowed with the GFC. Nationalisation of private pensions occurred late-2008 to lift government reserves - but the move negatively impacted private investment expenditure

### Population



Source: [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_past\\_and\\_future\\_population](http://en.wikipedia.org/wiki/List_of_countries_by_past_and_future_population)

### Trade Profile – Exports vs. Imports (2009)



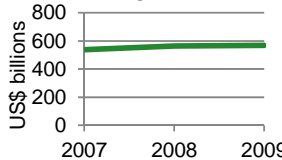
Notes: Exports are based on FOB value on an exchange rate basis  
Imports are based on CIF value on an exchange rate basis  
Source: <https://www.cia.gov/library/publications>

### Trade Profile – Surplus/Deficit (2009)



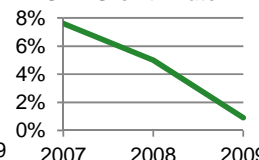
Source: Calculated from various data sources

### GDP



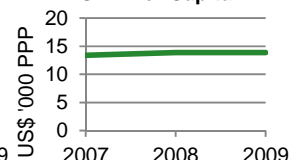
Source: <https://www.cia.gov/library/publications>

### GDP Growth Rate



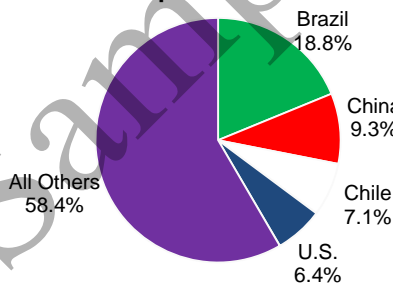
Source: <https://www.cia.gov/library/publications>

### GDP Per Capita



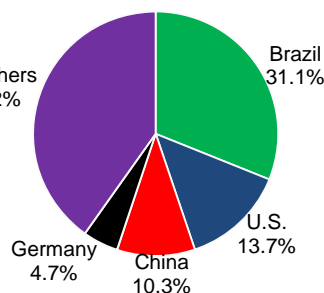
Source: <https://www.cia.gov/library/publications>

### Export Partners

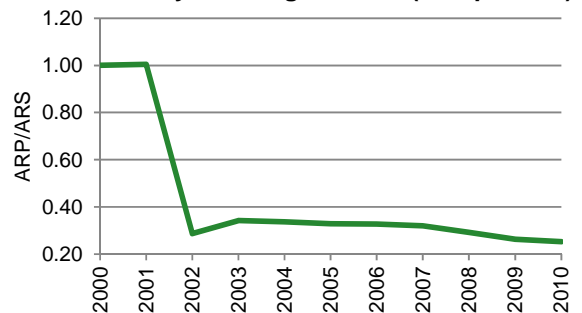


Source: <https://www.cia.gov/library/publications>

### Import Partners



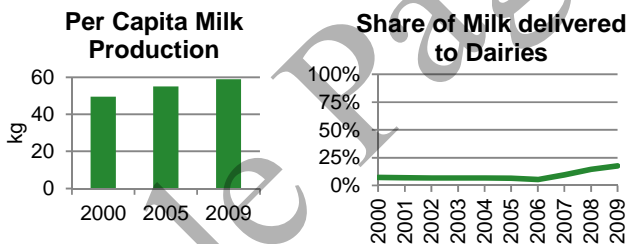
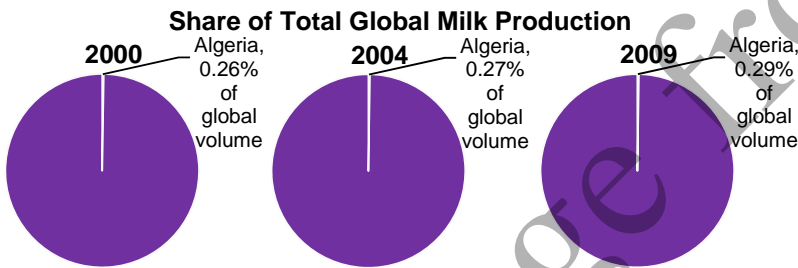
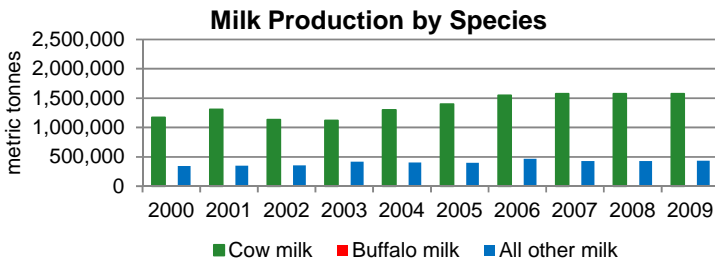
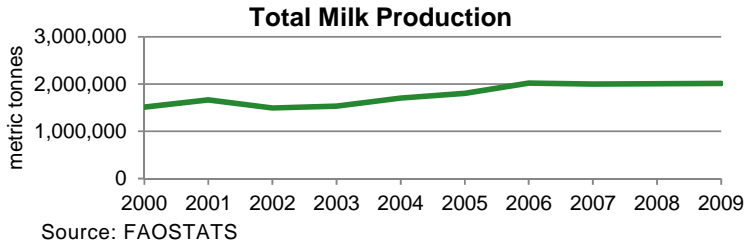
### Currency Exchange Trends (US\$ per unit)



Note: Currency exchange rate as at December 20 each year, rounded to 4 decimal points  
Source: <http://www.xe.com>



10.1. Milk Production Overview



Major Milk Processors

**Giplait SPA** (est. 1998) has 20 plants (incl. cheese project at Es-Senia). Capacity > 1.4 billion litres p.a., LME. Produces: fresh milk & reconstituted dairy from imported materials. Product range: fresh milk, flavoured milk, UHT milk, milk powder, soft cheese, processed cheese, cream, butter, laban. Market leader in reconstituted milk

2006 Groupe Danone lifted stake in **Danone Djurdjura** from 51% to 95% citing growth opportunities & furthers Danone's aim to consolidate in North African & Middle East region. Leads Algerian fresh dairy sector ~ 40% share. Key brands Danao, Petit Gervais aux Fruits, Activia, Danette and Fruix. A founding partner in the jv (est. 2001), Boussad Batouche, holds 5% share

**Mitidja Laitage** (est. 2000), manufactures milk and laban at Boumerdes plant

**Coprolait EurL**, manufactures milk and dairy products at Boumerdes factory

- Milk production has grown significantly - up from 1.5 million mt 2000 to ~ 2.0 million mt 2009, representing average annual growth of 0.056 million mt (averaging +3.6% volume growth p.a.) – responding to GOA plans (PNDA & PNDAR) & policy driving agricultural development & advancing food security in line with an agricultural renewal strategy to lessen dependence on imports
- Volume growth will continue, forecast to achieve ~ 2.45 million mt by 2015 – in response to market signals (Ministry of Agriculture incentive payments to producers) & also support & infrastructure (extending pasture land, irrigation infrastructure, importing joined heifers, AI programs, supply of genetically superior breeding stock, embryo transfer technologies, growing number of milk collection centres)
- Dairy producers are typically small enterprises, with > 80% producing < 25,000 litres p.a.
- 78% of milk output is from cows - smaller volumes are from sheep, goats & camels
- Atlas Brown is the main cattle breed (four sub-breeds: Guelmoise, Cheurfa, Chélifienne & Sétifienne). Exotic breeds are Dutch Friesian (66% of improved breeds, common through coastal areas), French Friesian, Pie Rouge de l'Est & Montbéliarde - introduced for genetic improvement, but performance fails to reach full potential due to metabolic difficulties coping in local environment
- Ongoing concerns abound, incl: shortage of forage resources, pasture constraints, high feed costs, low productivity of local cattle breeds, poorly developed milk collection system
- Share of global milk production has risen from 0.26% 2000 to 0.29% 2009, & per capita production advanced from 49.7 kg 2000 to 59.1 kg 2009
- There has been significant growth in milk delivered to dairies – up from 7.4% 2000 to 17.6% 2009, indicating that milk growth is targeting the processing sector
- Private sector interests dominate Algeria's dairy industry – an estimated 120 factories operate throughout the country

A partnership agreement has been signed between CNMA and Danone Djurdjura, with the goal of reducing milk imports - raising milk production & productivity with modern farm operations



Danone Djurdjura plant

18.2. Trade Trends

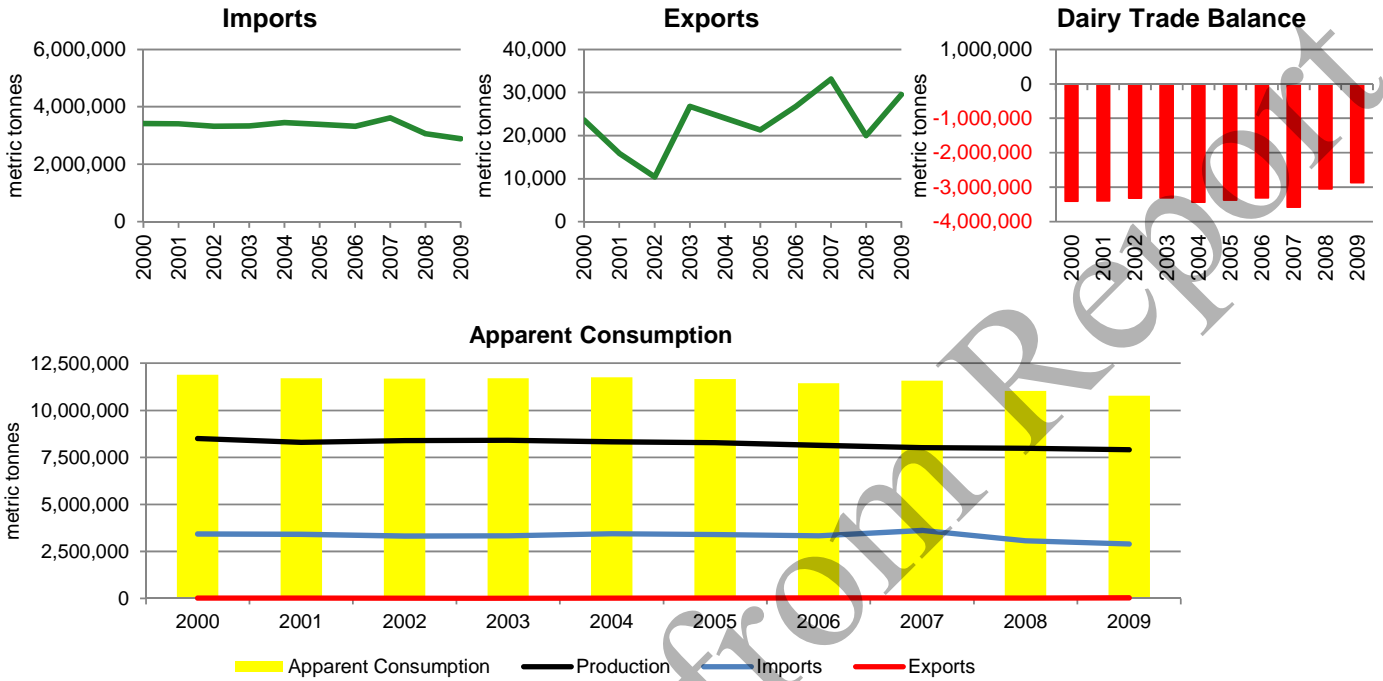
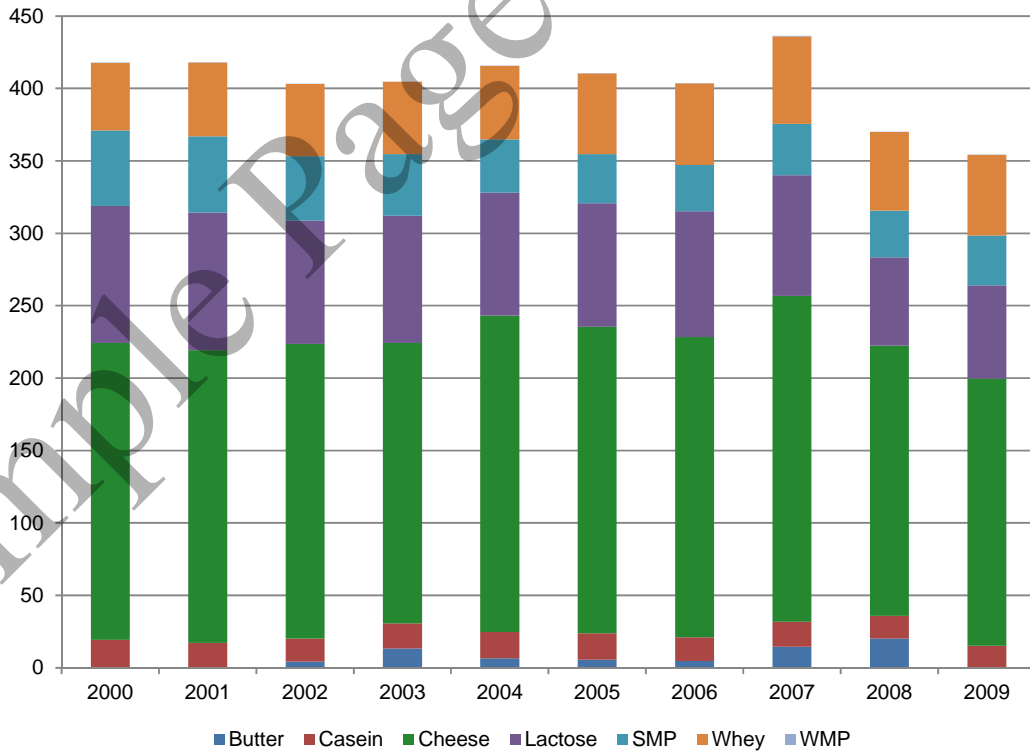
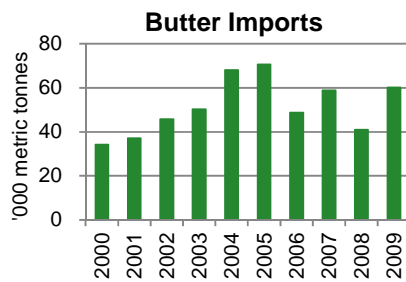


Figure 38: Japan Trade Trends – Share of Total Imports by Key Category (2000-2009, '000 mt)

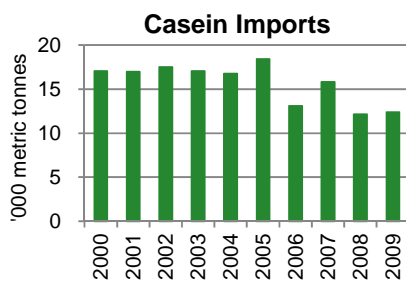


Source: Global Trade Data (ITC)

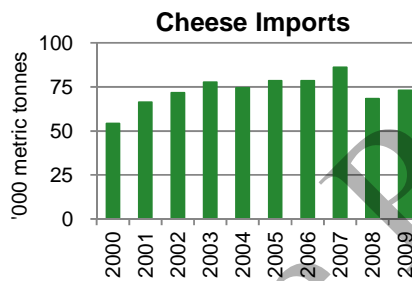




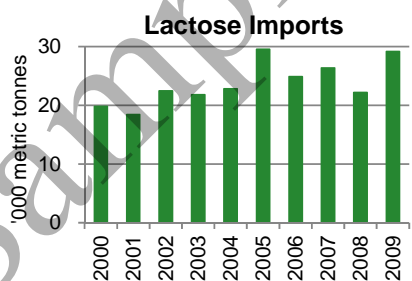
Butter Imports by Source	2005		2006		2007		2008		2009	
	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share
New Zealand	33,552	47.5%	25,454	52.3%	39,197	66.6%	26,534	64.9%	44,594	74.1%
United States	324	0.5%	2,434	5.0%	5,365	9.1%	8,013	19.6%	7,762	12.9%
Australia	6,209	8.8%	5,284	10.9%	3,598	6.1%	1,213	3.0%	4,451	7.4%
Uruguay	1,527	2.2%	1,137	2.3%	1,352	2.3%	1,534	3.8%	1,411	2.3%
Belgium	9,768	13.8%	6,125	12.6%	4,283	7.3%	2,277	5.6%	919	1.5%
All Others	19,200	27.2%	8,263	17.0%	5,025	8.5%	1,292	3.2%	1,020	1.7%
<b>Total</b>	<b>70,581</b>	<b>100.0%</b>	<b>48,698</b>	<b>100.0%</b>	<b>58,820</b>	<b>100.0%</b>	<b>40,862</b>	<b>100.0%</b>	<b>60,157</b>	<b>100.0%</b>



Casein Imports by Source	2005		2006		2007		2008		2009	
	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share
New Zealand	2,822	15.3%	3,914	29.9%	4,574	28.9%	1,883	15.5%	3,542	28.6%
Ireland	3,500	19.0%	1,462	11.2%	3,158	20.0%	2,878	23.7%	2,289	18.5%
France	2,374	12.9%	1,120	8.5%	692	4.4%	1,077	8.9%	1,660	13.4%
United States	3,494	19.0%	2,375	18.1%	3,902	24.7%	4,034	33.3%	1,434	11.6%
Germany	1,028	5.6%	728	5.6%	766	4.8%	594	4.9%	817	6.6%
All Others	5,198	28.2%	3,510	26.8%	2,718	17.2%	1,665	13.7%	2,640	21.3%
<b>Total</b>	<b>18,415</b>	<b>100.0%</b>	<b>13,110</b>	<b>100.0%</b>	<b>15,809</b>	<b>100.0%</b>	<b>12,131</b>	<b>100.0%</b>	<b>12,381</b>	<b>100.0%</b>



Cheese Imports by Source	2005		2006		2007		2008		2009	
	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share
United States	24,984	31.8%	34,991	44.6%	39,816	46.3%	40,989	60.1%	42,945	58.8%
Chile	17,345	22.1%	12,746	16.2%	16,033	18.6%	11,056	16.2%	8,614	11.8%
Uruguay	11,610	14.8%	7,396	9.4%	9,494	11.0%	7,025	10.3%	6,517	8.9%
New Zealand	10,858	13.8%	13,977	17.8%	10,257	11.9%	1,488	2.2%	6,192	8.5%
Netherlands	3,769	4.8%	3,498	4.5%	8,198	9.5%	6,066	8.9%	5,173	7.1%
All Others	10,023	12.8%	5,925	7.5%	2,238	2.6%	1,621	2.4%	3,633	5.0%
<b>Total</b>	<b>78,588</b>	<b>100.0%</b>	<b>78,533</b>	<b>100.0%</b>	<b>86,036</b>	<b>100.0%</b>	<b>68,245</b>	<b>100.0%</b>	<b>73,074</b>	<b>100.0%</b>



Lactose Imports by Source	2005		2006		2007		2008		2009	
	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share	Volume (mt)	% share
United States	28,225	95.6%	21,049	84.6%	19,200	72.8%	20,651	93.2%	27,392	93.8%
Germany	563	1.9%	1,278	5.1%	3,941	14.9%	660	3.0%	864	3.0%
Netherlands	608	2.1%	1,404	5.6%	1,679	6.4%	645	2.9%	700	2.4%
New Zealand	141	0.5%	146	0.6%	221	0.8%	67	0.3%	182	0.6%
Canada									40	0.1%
All Others			1,004	4.0%	1,339	5.1%	144	0.7%	18	0.1%
<b>Total</b>	<b>29,538</b>	<b>100.0%</b>	<b>24,881</b>	<b>100.0%</b>	<b>26,380</b>	<b>100.0%</b>	<b>22,168</b>	<b>100.0%</b>	<b>29,195</b>	<b>100.0%</b>

### 20.3. New Zealand's FTA Status

N.Z. has a comprehensive framework of FTAs – including FTAs ‘in play, and others at various stages of negotiation. The following table highlights the current status of N.Z.’s FTAs. In addition N.Z. is a party to the proposed Anti-Counterfeiting Trade Agreement.

**Figure 47: The current status of N.Z. FTAs**

Name of Agreement	Significant Dates	General Commentary
Australia-New Zealand Closer Economic Relations	In force since 01 January 1983	This CER is widely recognized as one of the most open economic and trade relationships in force between any two nations, helping to build a strong flow in merchandise trade, services, investment, labour and tourism between the two. CER replaced a long-standing NZAFTA, with further agreements and arrangements between the two countries that substantially extend CER
New Zealand-Singapore Closer Economic Partnership	In force since 01 January 2001 – negotiations were completed within 1 year of announcing intention to negotiate	The most comprehensive trade agreement that N.Z. has outside the CER, building upon a strong longstanding relationship and historical ties between the two countries. A comprehensive agreement encompassing goods, services, investment, and technical & hygiene/quarantine barriers to merchandise trade
New Zealand-Thailand Closer Economic Partnership	In force since 01 July 2005	In parallel with the CEP, the two countries have concluded Arrangements on Labour, Environment and Customs Cooperation.
Trans-Pacific Strategic Economic Partnership (P4)	P4 – more latterly referred to as TPP – originated as an agreement between Brunei Darussalam, Chile, N.Z. & Singapore, and was signed in 2005	Negotiations for an expanded agreement (TPP) to include U.S., Australia, Peru & Viet Nam began in March 2010, with a round of negotiations completed early December 2010 in Auckland (N.Z.) – then the sixth round of negotiations took place in Singapore 24 March to 01 April, 2011, with a further round expected in June 2011 to be held in Ho Chi Minh City
New Zealand-China Free Trade Agreement	In force since 01 October 2008	The negotiation process spanned 15 rounds of negotiation, liberalising & facilitating trade in goods and services, and improving the business environment and promoting cooperation between the two parties in a broad range of economic areas
ASEAN-Australia-New Zealand Free Trade Agreement	In force since 01 January 2010 for the following nations: Australia, Brunei, Myanmar, N.Z., Singapore, the Philippines, & Viet Nam. The Agreement entered into force for Thailand on 12 March 2010	The Agreement will enter force for the remaining ASEAN Parties after they have notified completion of their respective internal ratification protocols
New Zealand-Malaysia Free Trade Agreement	In force 01 August 2010	Aimed at liberalising and facilitating trade in goods, services and investment between N.Z. and Malaysia, supported by Agreements on trade and the environment, and trade and labour matters
New Zealand-Hong Kong, China Economic Partnership	Signed on 29 March 2010, but yet to come into force	Hong Kong is a SAR of China but remains autonomous in terms of trade matters. As well as boosting trade between N.Z. and Hong Kong it is expected that this will enhance the potential for Hong Kong to be used as a platform for supply into the Mainland China market
New Zealand-Gulf Co-operative Council Free Trade Agreement	Negotiations successfully concluded on 31 October 2010 – officials are completing legal verification pending Government ratification	Aimed at securing access between N.Z. and GCC markets (Bahrain, Oman, Kuwait, Saudi Arabia, UAE, Qatar)

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## About Dairymark

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- Soy versus dairy protein – a review of health and physico-chemical properties
- Review of key indicators of dairy farm performance in Australia
- Bangladesh dairy market study
- An overview of global dairy supply & demand
- A longitudinal dairy pricing study
- A strategic review of dairy industry patent activity
- A strategic review of dairy R&D activity
- A strategic review of trends in whey permeate utilization
- A study of the Australasian dairy industry
- Strategic research identifying trends and opportunities in Asian feed markets for dairy ingredients

In addition, the company has published an expanding portfolio of multi-client reports, including:

- Milk ingredients – a strategic review of opportunities and applications in the oral care industry
- Dairy carbohydrates – a strategic review of opportunities and applications
- Dairy permeates – a strategic review of opportunities and applications
- Buttermilk solids – a strategic review of opportunities and applications
- Colostrum – a strategic review of opportunities and applications
- Global ice cream industry – strategic market, international trade & production review
- Dairy ingredients – a strategic review of opportunities and applications in the cream liqueur industry
- Galacto-oligosaccharides – a strategic review of opportunities and applications
- Dairy spray drying in Oceania – industry, company & plant profiles

More information on Dairymark, its capabilities, experience, geographic coverage and multi-client reports is available on the company website – visit at **[www.dairymark.com](http://www.dairymark.com)**

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