THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 5/15/2015

GAIN Report Number: NZ1502

New Zealand

Dairy and Products Semi-annual

New Zealand Semi-Annual Dairy and Milk Supply Report 2015

Approved By:
Hugh Maginnis

Prepared By:
David Lee-Jones

Report Highlights:
Milk Production for New Zealand in 2015 is likely to be reduced by 2.2% from 2014 to consolidate down to 21.4 million metric tons. While dairy commodity production is also likely to be reduced by 1% but exports in total are forecast to increase by 1.2% owing to stocks reducing slightly and increased liquid milk exports being forecast.

Executive Summary

Note: the Marketing Year (MY) is the same as the calendar year (CY)

It does appear that New Zealand dairying is undergoing a period of consolidation in terms of milk output. Ostensibly this is in response to the lowest farmgate milk price in seven years for the production year to May 31, 2015 but also because milk production drifted below the previous year in the dry conditions experienced during January through March 2015. Milk output for 2015 is now forecast at 21.4 million (m) metric tons (MT), which will be 2.2% less than 2014. The outlook for farmgate prices in 2016 is somewhat brighter but farmers are knuckling down to a changed [tougher] operating environment that may persist for another 18 months yet.

Dairy commodity and consumer goods production in New Zealand is likely to level off in 2015, a direct result of the reduced milk supply. At 2.99m MT this forecast would be one percent less than the 2014 total, which itself at 3.02m MT was a seven percent jump up from 2013. However exports in total are forecast to increase by 1.2% to 3.08m MT owing to stocks reducing slightly and increased liquid milk exports being forecast.

Whole milk powder (WMP) production, predictably, leads the way with a forecast 1.44m MT in 2015, which would be 1.4% below the 2014 figure. Exports of WMP are forecast to reach 1.425m MT in 2015 basically the same as 2014. The lion's share of new processing capacity either just coming on stream or being built at present are still powder driers.

Fat products, butter and anhydrous milkfat (AMF), are doing relatively better in this low price environment especially in Asian markets for food service ingredients and consumer ready packs. It is forecast production will be stable at 580,000MT (butter equivalents) in 2015. Exports are forecast to be up 3,000MT from 2014 to be 559,000MT (butter equivalents) in 2015.

Skim milk powder (SMP) production is likely to be reduced five percent from 2014's level to 375,000MT, mainly in response to the oversupply of SMP in world trade at present. Exports at 375,000MT will be down 2% from 2014. Stocks are likely to be run down slightly to achieve this. Protein production will be directed to Casein and Milk Protein Concentrate (MPC) channels instead.

Cheese production is forecast at 308,000MT in 2015, 2.5% below the estimated 2014 production. From this 275,000MT is expected to be exported, 3,000MT or one percent below 2014. Cheese production is moving steadily to fresh cheeses like Mozzarella in response to demand from Asia again for food service ingredients and consumer ready packs.

New Zealand has concluded a free trade agreement with Korea which should come in to force before the end of 2015. Access for dairy products is not really advanced very much in this agreement.

Milk Supply

2015

Total milk production for 2015 is now forecast at 21.4 million (m) metric tons (MT). This is 3.2% less than the original forecast for 2015 which was 22.1m MT. It will also be 2.2% less than the actual total achieved in 2014 of 21.9m MT.

The reasons for this decline in production are:

- The January to June 2015 milk supply is tracking to be 2.25% down on the previous period in 2014 due to generally dry conditions over most of the country from January through March and the early sale of cull cows.

- It is forecast that dairy cow numbers going into the 2015 spring (August to December) will be 50,000 head less than was milked in the spring 2014.

- Average per cow per day milk yields for the Spring 2015 are expected to be less than 2014 and be closer to the average of the last three years because: it is very unlikely that the benevolent spring weather experienced for the last three years will persist; and farmers will be unwilling to spend money on extra supplements in the low milk price environment.

It should be noted that a better level of management on farm during the spring, which has recently become the norm, and continual genetic improvement to the national herd for protein and fat yields has enhanced productivity which will tend to counter to a degree the negative elements outlined above.

2014

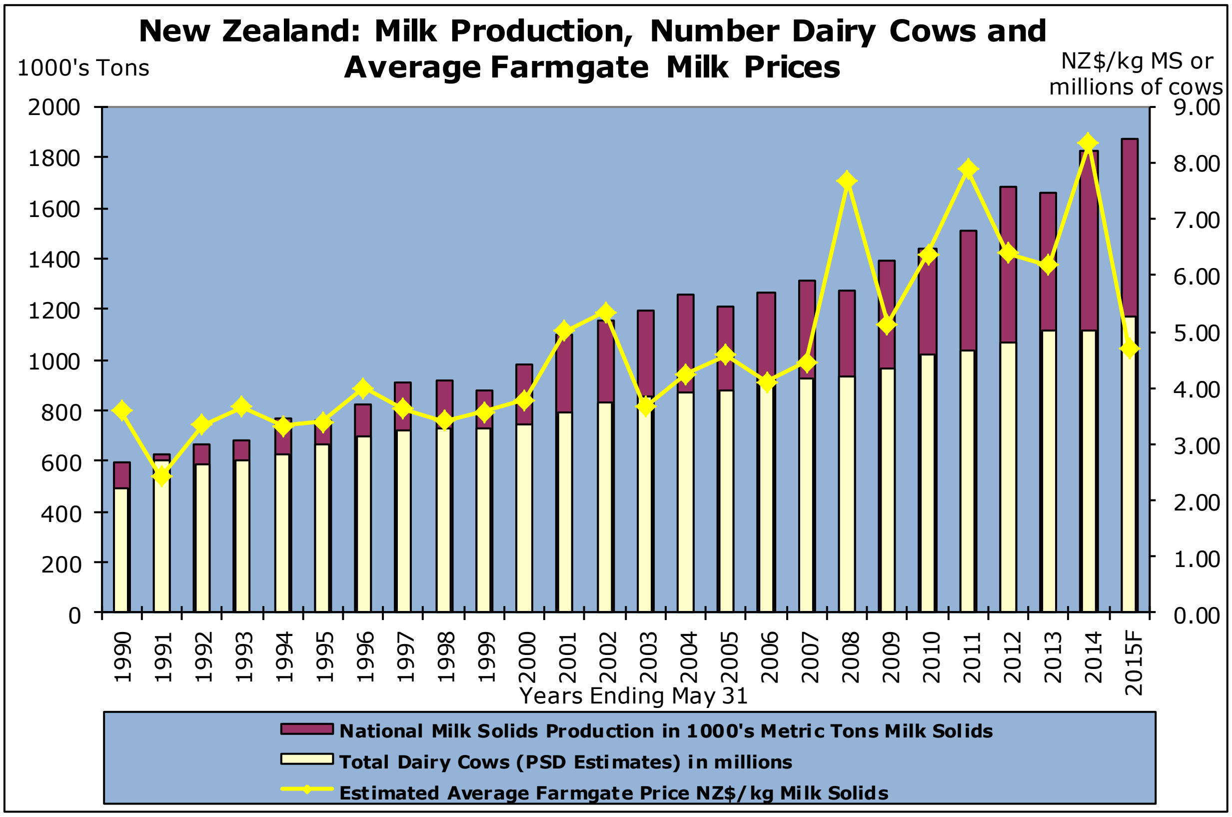
The final actual total for milk production in 2014 was 21.9m MT. This was nearly 1% better than had been forecast in October 2014 and a significant 8.4% ahead of the total for 2013. The better than expected result in 2014 was down to the last four months (NZ spring) of the year getting significantly better results than had been expected because:

- Cow numbers going into Spring were 172,000 head (3.4%) greater than had been previously estimated;

- Generally the Spring weather over the whole country was beneficial for pasture growth;

- Farmers, having just come from the highest milk price payout ever, were prepared to feed supplements if short term feed deficits showed up during the spring and;

- The national cow herd responded with the highest ever average daily per cow milk yields in September and October; and close to that in November and December.



Source: Post, DairyNZ

PSD Milk

Dairy, Milk, Fluid (1000HD, 1000MT)	2013 Market Year Begin: Jan 2013			2014 Market Year Begin: Jan 2014			2015 Market Year Begin: Jan 2015		
New Zealand	Official	Old Post	New Post	Official	Old Post	New Post	Official	Old Post	New Post
Cows In Milk	5103	5005	5005	5092	5092	5264	5137	5137	5214
Cows Milk Production	20200	20200	20200	21742	21742	21893	22120	22120	21410
Other Milk Production	0	0	0	0	0	0	0	0	0
Total Production	20200	20200	20200	21742	21742	21893	22120	22120	21410
Other Imports	1	1	2	1	1	2	1	1	2
Total Imports	1	1	2	1	1	2	1	1	2
Total Supply	20201	20201	20202	21743	21743	21895	22121	22121	21412
Other Exports	131	131	131	150	150	136	200	200	160
Total Exports	131	131	131	150	150	136	200	200	160
Fluid Use Dom. Consum.	450	450	451	494	494	495	495	495	495
Factory Use Consum.	19570	19570	19570	21049	21049	21214	21376	21376	20707
Feed Use Dom. Consum.	50	50	50	50	50	50	50	50	50
Total Dom. Consumption	20070	20070	20071	21593	21593	21759	21921	21921	21252
Total Distribution	20201	20201	20202	21743	21743	21895	22121	22121	21412
CY Imp. from U.S.	0	0	0	0	0	0	0		0

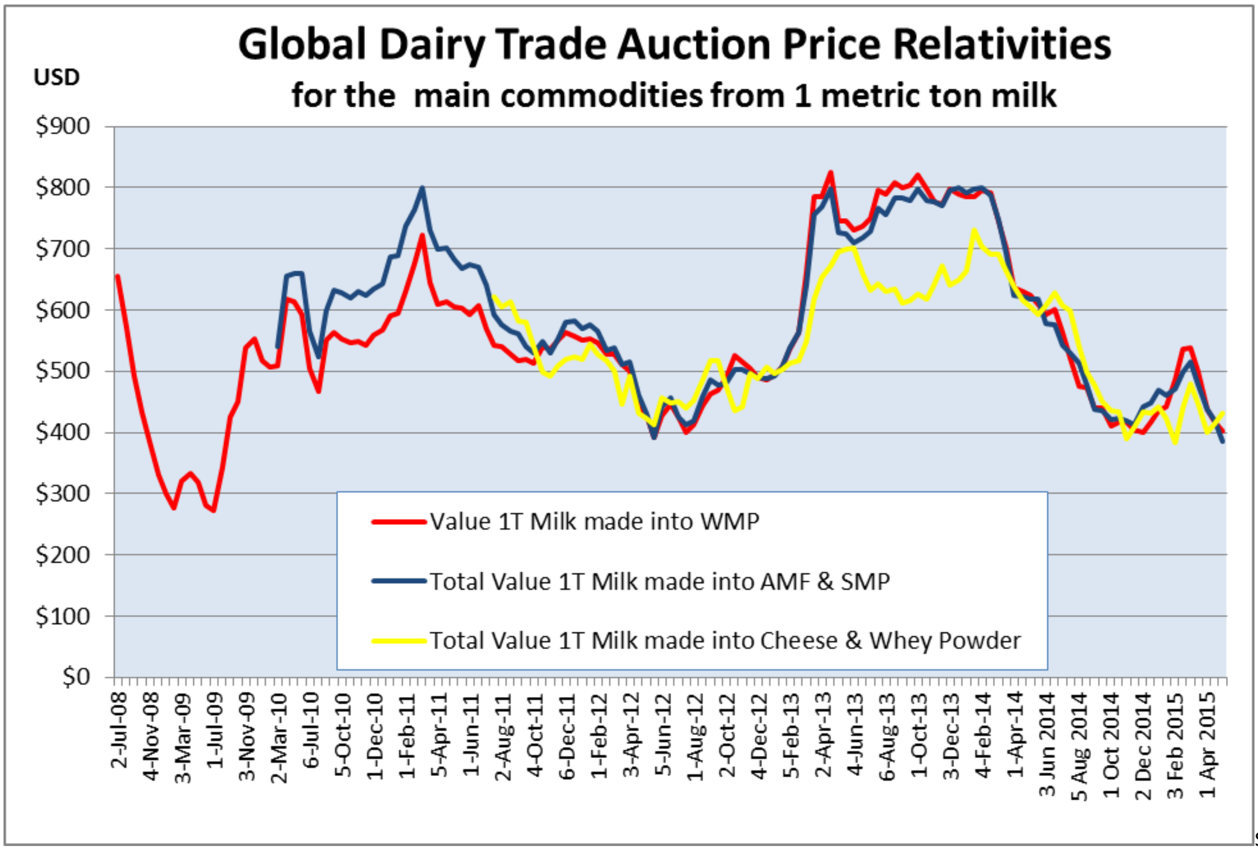
CY. Exp. to U.S.	0	0	0	0	0	0	0		0
TS=TD	0	0	0	0	0	0	0		0

Not official USDA estimates

Liquid Milk Exports

Several processors have installed new UHT liquid milk packaging lines and it is expected there will be a significant lift in liquid milk exports in 2015 up to 160,000 MT (18% increase.)

Farmgate Milk Prices



Source: GDT, GTA, Post estimates

Farmgate milk prices for New Zealand farmers have tumbled to their lowest level in seven years. At the end of April Fonterra cut its forecast milk payout for the production season, June 2014 to May 2015, to NZ$4.50 per kilogram (kg) milksolids (MS) plus the forecast dividend now set at NZ$0.20 to NZ$0.30/kg MS. Westland Dairy Coop, the second largest dairy processor also cut its forecast payout to NZ$4.90 to NZ$5.10/kg MS before retentions which will probably mean a net farmgate return similar to Fonterra.

The outlook for the next NZ production season (June 2015 to May 2016) has various commentators predicting MS prices in the range of NZ$5.40 to NZ$6.00/kg MS with recent forecasts closer to the lower end of the range. A lot of the gain is forecast to come from the NZD currency being at an average level, lower to the main traded currencies in the 2015/2016 NZ production year than for the 2014/2015 NZ production year.

The MS payout for the 2014/2015 production season will probably result in cash deficits for many dairy farmers between NZ$0.50 to NZ$1.50/kg MS. The average annual production per herd is around 150,000 kgs MS. So the cash deficits many farmers will be facing will be in the NZ$75,000 to NZ$225,000 range.

Domestic Consumption Liquid Milk

Domestic liquid milk consumption is expected to remain stable at 495,000 MT in 2015, the same as 2014.

Dairy Production and Inventories

General Overview

Total dairy commodity and consumer goods production for New Zealand in 2015 is forecast to be 2.99m MT compared with 2014 at 3.02m MT. This amounts to a 1.0% reduction, which reflects the forecast reduction in 2015 milk supply.

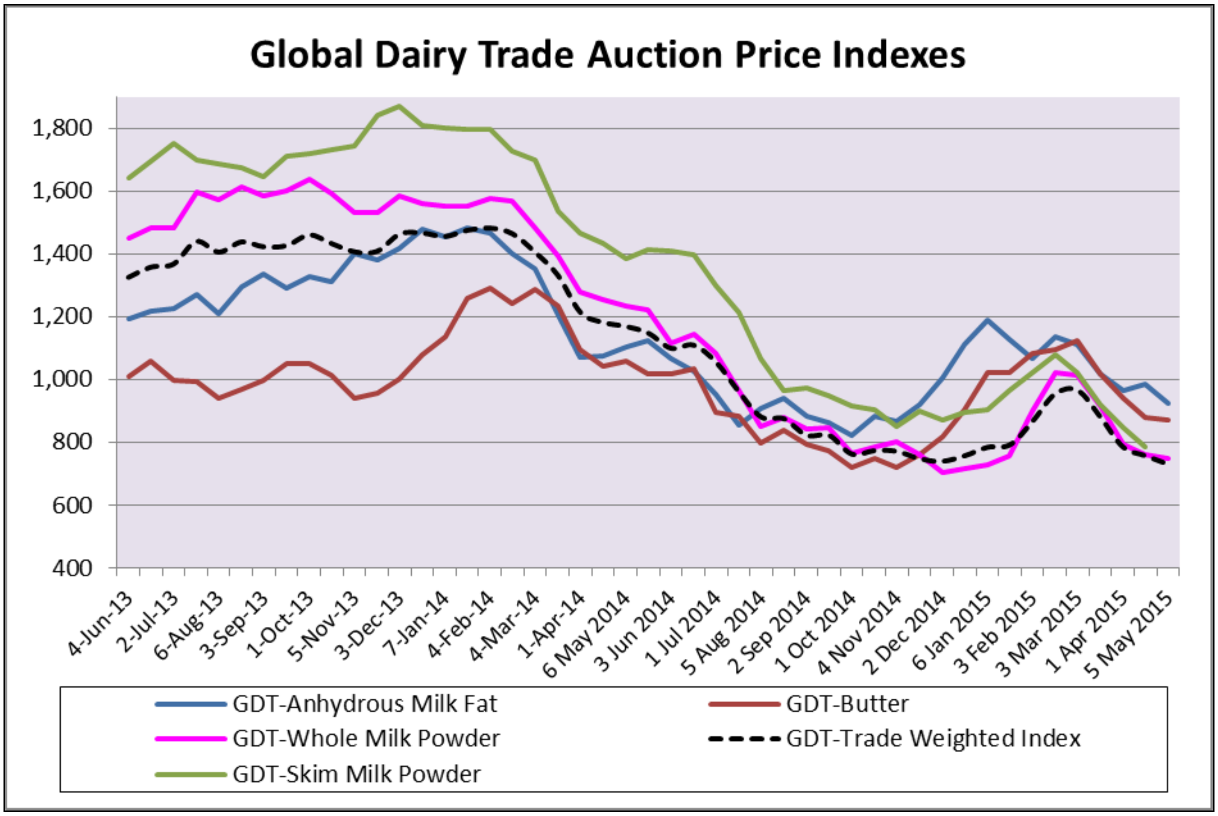
The basic mix of products made won't alter much from previous years. However analysis of trade trends; the Global Dairy Trade (GDT) auction results; and recent processing capacity additions offers a few clues to marginal changes. It should be noted that because 97% of the dairy production is exported changes to production directly transfer through to exports. Relative export prices and export competiveness ultimately determine production.

Whole Milk Powder (WMP) production will continue to be the main commodity produced. It is likely the volume produced in 2015 will be stable with or just slightly less than 2014. If export demand does pick up materially during 2015 stocks could be reduced to maintain export supply.

The lion's share of new processing capacity either just coming on stream or being built at present are still powder driers.

Fat, Butter and Anhydrous Milkfat (AMF), production will be maintained, if not increased, because the fat price indexes are now relatively higher than the powders (see the chart below). Butter and AMF exports recorded a 10% jump in 2014 over 2013 and demand in Asia from food service businesses and for consumer ready packs is reportedly still increasing.

It is the Skim Milk Powder (SMP) leg of the SMP/AMF combination which is holding back the value of this product stream. All indications are: with extra SMP from the E.U. on world markets that SMP prices will remain depressed in 2015. In contrast the minor protein commodities Casein, Whey, and Milk Protein Concentrate (MPC) all recorded export volume gains in 2014 for New Zealand indicating production was up. And by manufacturing Casein and MPC there is extra fat production available for export. It is envisaged, even though SMP production will be reduced, protein will be channeled into Casein and MPC which will allow Butter and AMF production to be maintained or increased slightly. Fonterra is commissioning a new 15,000 MT per annum MPC facility later in 2015 in the South Island.



Source: GDT, GTA, Post estimates

Note: SMP, WMP, AMF, & the TWI had index commenced at 1000, March 10, 2010. The butter index commenced at 1000 in Feb, 2013

Dairy Production at a Glance

New Zealand Summary Table for Dairy Production					
Commodity Group	2013	2014		2015	
(1000s Metric Tons)	Firm Estimate	Firm Estimate	% change from prev. year	New Forecast	% change from prev. year
WMP	**1,300**	**1,460**	12.3%	**1,440**	-1.4%
SMP	**404**	**395**	-2.2%	**375**	-5.1%
Butter/AMF	**535**	**580**	8.4%	**580**	0.0%
Cheese	**311**	**316**	1.6%	**308**	-2.5%
Sub-Total PSD Commodities	**2,550**	**2,751**	7.9%	**2,703**	-1.7%
Casein	**81**	**86**	6.5%	**86**	0.0%
Whey Products	**24**	**28**	16.6%	**28**	0.0%
Milk Protein Concentrates	**72**	**74**	3.1%	**85**	14.9%
Other Products	**52**	**48**	-7.6%	**50**	4.2%
Infant Milk Formula	**42**	**31**	-26.2%	**36**	16.1%
Total Production	**2,820**	**3,018**	**7.0%**	**2,988**	**-1.0%**

source: Post estimates Note: Butter/AMF line has the AMF adjusted to butter equivalents

PSD

Dairy, Dry Whole Milk Powder New Zealand	2013			2014			2015		
	Market Year Begin: Jan 2013			Market Year Begin: Jan 2014			Market Year Begin: Jan 2015		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	161	161	161	157	157	157	150	200	181
Production	1,300	1,300	1,300	1,456	1,410	1,460	1,515	1,450	1,440
Other Imports	1	1	1	2	2	2	2	2	2
Total Imports	1	1	1	2	2	2	2	2	2
Total Supply	1,462	1,462	1,462	1,615	1,569	1,619	1,667	1,652	1,623
Other Exports	1,291	1,291	1,291	1,450	1,354	1,423	1,500	1,415	1,425
Total Exports	1,291	1,291	1,291	1,450	1,354	1,423	1,500	1,415	1,425
Human Dom. Cons.	2	2	2	2	2	2	2	2	2
Other Use, Losses	12	12	12	13	13	13	15	15	15
Total Dom. Cons.	14	14	14	15	15	15	17	17	17
Total Use	1,305	1,305	1,305	1,465	1,369	1,438	1,517	1,432	1,442
Ending Stocks	157	157	157	150	200	181	150	220	181
Total Distribution	1,462	1,462	1,462	1,615	1,569	1,619	1,667	1,652	1,623
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	3	2	2	0	0	3	0	0	2
TS=TD	0	0	0	0	0	0	0	0	0
(1000 MT)									

Not official USDA estimates

Dairy, Milk, Nonfat Dry New Zealand	2013 Market Year Begin: Jan 2013			2014 Market Year Begin: Jan 2014			2015 Market Year Begin: Jan 2015		
(1000 MT)	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	70	70	70	83	85	83	131	93	93
Production	404	404	404	410	430	395	400	430	375
Other Imports	5	5	5	2	2	2	2	2	2
Total Imports	5	5	5	2	2	2	2	2	2
Total Supply	479	481	479	495	517	480	533	525	470
Other Exports	392	392	392	360	420	383	395	435	375
Total Exports	392	392	392	360	420	383	395	435	375
Human Dom. Cons.	4	4	4	4	4	4	4	4	4

Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Cons.	4	4	4	4	4	4	4	4	4
Total Use	396	396	396	364	424	387	399	439	379
Ending Stocks	83	85	83	131	93	93	134	86	91
Total Distribution	479	481	479	495	517	480	533	525	470
CY Imp. from U.S.	0	0		0	0	0	0		0
CY. Exp. to U.S.	0	0		0	0		0		
TS=TD	0	0	0	0	0	0	0	0	0

Not official USDA estimates

Dairy, Butter New Zealand	2013 Market Year Begin: Jan 2013			2014 Market Year Begin: Jan 2014			2015 Market Year Begin: Jan 2015		
(1000 MT)	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	48	48	48	54	57	57	33	50	60
Production	535	535	535	570	570	580	580	570	580
Other Imports	1	1	1	1	1	1	1	1	1
Total Imports	1	1	1	1	1	1	1	1	1
Total Supply	584	584	584	625	628	638	614	621	641
Other Exports	508	505	505	570	556	556	560	539	559
Total Exports	508	505	505	570	556	556	560	539	559
Domestic Cons.	22	22	22	22	22	22	22	22	22
Total Use	530	527	527	592	578	578	582	561	581
Ending Stocks	54	57	57	33	50	60	32	60	60
Total Distribution	584	584	584	625	628	638	614	621	641
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	30	30	20	30	30	31	0	30	30
TS=TD	0	0	0	0	0	0	0	0	0

Note AMF product weight tonnages are multiplied by 1.22 to get butter equivalents; not official USDA estimates

Dairy, Cheese New Zealand	2013 Market Year Begin: Jan 2013			2014 Market Year Begin: Jan 2014			2015 Market Year Begin: Jan 2015		
(1000 MT)	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	50	50	50	50	50	50	67	67	55
Production	311	311	311	325	325	316	320	320	308
Other Imports	5	5	5	6	6	7	6	6	7
Total Imports	5	5	5	6	6	7	6	6	7
Total Supply	366	366	366	381	381	373	393	393	370
Other Exports	277	277	277	275	275	278	290	289	275
Total Exports	277	277	277	275	275	278	290	289	275

Human Dom. Cons.	39	39	39	39	39	40	39	39	40
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Cons.	39	39	39	39	39	40	39	39	40
Total Use	316	316	316	314	314	318	329	328	315
Ending Stocks	50	50	50	67	67	55	64	65	55
Total Distribution	366	366	366	381	381	373	393	393	370
CY Imp. from U.S.	0	1	1	0	1	1	0	1	1
CY. Exp. to U.S.	1	1	1	1	1	7	0	1	6
TS=TD	0	0	0	0	0	0			0

Not official USDA estimates

Dairy Exports

Dairy Exports at a Glance

New Zealand Summary Table for Dairy Product Export Quantities					
Commodity Group (1000s Metric Tons)	**2013**	**2014**		**2015**	
	Actual	**Actual**	**% change from prev. year**	**New Forecast**	**% change from prev. year**
WMP	**1,291**	**1,423**	10.2%	**1,425**	0.1%
SMP	**392**	**383**	-2.3%	**375**	-2.1%
Butter/AMF	**505**	**556**	10.1%	**559**	0.5%
Cheese	**277**	**278**	0.4%	**275**	-1.1%
Liquid Milk	**131**	**136**	3.8%	**160**	17.6%
Sub-Total PSD Exports	**2,596**	**2,776**	6.9%	**2,794**	0.6%
Casein	**81**	**86**	6.5%	**86**	0.0%
Whey Products	**24**	**28**	16.6%	**28**	0.0%
Milk Protein Concentrates (MPC)	**72**	**74**	3.1%	**85**	14.9%
Other Products	**52**	**48**	-7.6%	**50**	4.2%
Infant Milk Formula	**42**	**31**	-26.2%	**36**	16.1%
Total Exports	**2,866**	**3,043**	**6.2%**	**3,079**	**1.2%**

Source: GTA, Post estimates. Note: Butter/AMF line has the AMF adjusted to butter equivalents

Whole Milk Powder

WMP exports for 2015 are forecast at 1.425m MT basically the same as 2014. Exports in 2014 were 10% ahead of 2013 reflecting the production capacity increases made over the last two years together with huge demand for powder from China early in the year and as prices dropped the second tier purchasers increased their imports. Before Chinese importers ramped up their purchases in 2013 and 2014, over 30% of New Zealand exports went to destinations outside the top ten purchasers. During 2013 and 2014 this proportion dropped to 23% but looks to be recovering to be back over 30% in 2015. These second tier purchasers seem to maintain healthy demand levels at prices between USD3,000 to USD4,000/MT. However once it goes over that their demand gets burnt off.

The surge in Chinese demand in 2013 and into 2014 was the result of several factors including a rapid reduction in domestic production. It may take several years for Chinese demand to match the levels reached in 2013 and 2014 which suggests that export price recovery, which will make significant difference to farmgate prices, may be slower than many farmers and commentators are hoping for.

New Zealand Export Statistics for Whole Milk Powder						
Calendar Year: 2012 - 2014						
Partner Country	2012		2013		2014	
	Quantity (metric tons)	FOB Price USD/T	Quantity (metric tons)	FOB Price USD/T	Quantity (metric tons)	FOB Price USD/T
China	423,435	$3,238	622,133	$4,435	587,631	$4,363
United Arab Emirates	91,893	$3,442	76,635	$4,067	112,579	$4,338
Algeria	75,426	$3,319	32,752	$3,882	95,030	$3,750
Malaysia	41,703	$3,467	36,829	$4,030	59,448	$4,035
Sri Lanka	56,927	$3,438	45,339	$3,789	47,154	$4,466
Saudi Arabia	42,512	$3,295	27,548	$4,075	45,485	$4,259
Thailand	30,132	$3,178	31,609	$4,302	38,799	$4,370
Nigeria	30,777	$3,433	27,123	$4,254	35,094	$4,293
Indonesia	32,690	$3,379	24,086	$4,219	33,371	$4,258
Singapore	30,635	$2,884	35,123	$3,686	39,331	$3,579
Rest of World	405,148	$3,639	332,283	$4,296	329,019	$4,252
World Total	**1,261,278**	**$3,404**	**1,291,460**	**$4,290**	**1,422,941**	**$4,255**

Source: GTA

New Zealand Export Statistics for Whole Milk Powder						
Year To Date: January - March						
Partner Country	2013		2014		2015	
	Quantity (metric tons)	FOB Price USD/T	Quantity (metric tons)	FOB Price USD/T	Quantity (metric tons)	FOB Price USD/T
China	168,748	$3,297	261,264	$5,083	91,565	$2,487
United Arab Emirates	26,155	$3,349	30,768	$5,169	45,560	$2,664
Algeria	14,775	$3,340	5,765	$5,161	30,786	$2,741
Malaysia	8,656	$3,118	11,310	$5,251	29,765	$2,631
Venezuela	9,902	$3,642	653	$4,859	12,576	$5,094
Vietnam	8,950	$3,303	8,433	$5,093	19,376	$2,695
Nigeria	8,464	$3,506	10,468	$5,365	17,688	$2,713
Thailand	8,319	$3,235	12,160	$5,046	17,186	$2,576
Saudi Arabia	9,920	$3,193	11,202	$5,127	12,765	$2,587

Bangladesh	8,666	$3,242	8,228	$5,002	12,693	$2,553
Rest of World	118,762	$3,540	80,707	$5,202	129,374	$2,697
World Total	**391,317**	**$3,380**	**440,958**	**$5,121**	**419,334**	**$2,706**

Source GTA

Cheese

Cheese exports for 2015, forecast at 275,000 MT, will be one percent less than 2014. Even though the relative value of cheese is keeping pace with the powder streams the manufacturing cost for cheddars and Colby cheese is higher especially once coupled with the maturation time needed. New Zealand manufacturers can't compete with the large scale U.S. and E.U. manufacturers in this category.

New Zealand Export Statistics for Cheese by Destination						
Calendar Year: 2012 - 2014						
Partner Country	2012		2013		2014	
	Quantity (metric tons)	FOB Price USD/T	Quantity (metric tons)	FOB Price USD/T	Quantity (metric tons)	FOB Price USD/T
Japan	64,754	$3,874	64,296	$4,092	57,515	$4,526
Australia	45,619	$4,019	37,661	$4,420	43,174	$4,764
China	17,852	$4,284	21,367	$4,533	28,923	$4,877
Korea South	25,457	$3,958	21,728	$4,259	12,110	$4,688
Saudi Arabia	18,862	$3,515	11,775	$3,914	12,749	$4,311
Philippines	12,545	$3,650	11,729	$3,935	12,335	$4,169
Indonesia	13,352	$3,697	11,036	$4,037	10,959	$4,442
Egypt	10,361	$3,471	7,527	$3,852	8,876	$4,364
Taiwan	5,936	$3,822	7,464	$3,980	8,069	$4,354
Chile	5,054	$3,492	10,502	$3,880	7,790	$4,409
Rest of World	85,855	$3,831	71,801	$4,204	75,472	$4,625
World Total	**305,647**	**$3,855**	**276,886**	**$4,179**	**277,972**	**$4,591**

Source: GTA

However New Zealand is changing the nature of its cheese business. It is moving steadily toward fresh (mozzarella, cottage, and cream types) and prepared (grated and powdered) cheese production and exports. The table below showing exports by type illustrates this. The key to the fresh cheese business are the new manufacturing techniques put into practice by Fonterra, which are considerably more cost-efficient than previous processes. Fonterra has recently announced it is building another Mozzarella plant in the South Island that will double its processing capacity for this cheese category. Demand for fresh cheese for food service and in consumer ready packs in Asia has been identified and is being responded to.

New Zealand Export Statistics for Cheese by Type				
Calendar Year: 2012 - 2014				
Commodity	Description	2012	2013	2014

HS Code		Quantity (metric tons)	FOB Price USD/T	Quantity (metric tons)	FOB Price USD/T	Quantity (metric tons)	FOB Price USD/T
0406	**Cheese And Curd Total**	**305,647**	**$3,855**	**276,886**	**$4,179**	**277,972**	**$4,591**
040690	Cheese, Nesoi, Including Cheddar And Colby	213,058	$3,773	174,406	$4,181	172,191	$4,625
040610	Cheese (Unrpnd/Uncurd) Fresh Incl Whey Cheese Curd	48,194	$3,861	51,683	$4,061	51,709	$4,333
040620	Cheese Of All Kinds, Grated Or Powdered	23,893	$4,092	29,359	$4,117	31,594	$4,625
040630	Cheese, Processed, Not Grated Or Powdered	20,364	$4,328	21,284	$4,439	22,331	$4,818
040640	Cheese, Blue-Veined, Nesoi	138	$16,278	155	$17,450	147	$13,975

Source: GTA

Skim Milk Powder (SMP)

SMP exports are forecast at 375,000 MT for 2015 down 2% from 2014.

New Zealand Export Statistics for Skim Milk Powder						
Calendar Year: 2012 - 2014						
Destination Country	2012		2013		2014	
	Qty (MT)	Av. FOB Price/MT	Qty (MT)	Av. FOB Price/MT	Qty (MT)	Av. FOB Price/MT
China	100,851	$3,224	132,527	$4,251	114,949	$4,051
Malaysia	34,593	$3,472	36,106	$4,195	33,376	$4,280
Philippines	30,738	$3,229	34,958	$4,179	30,591	$4,273
Indonesia	37,413	$3,180	33,780	$4,083	26,918	$4,321
Singapore	21,269	$3,169	23,575	$3,920	29,049	$3,873
Thailand	22,545	$2,995	15,816	$4,086	20,580	$4,044
Saudi Arabia	23,761	$3,192	10,112	$4,201	17,768	$4,432
Taiwan	12,055	$3,246	14,841	$4,216	18,674	$4,215
Japan	5,929	$3,549	7,251	$3,958	16,480	$3,883
UAE	3,900	$3,143	6,322	$4,196	9,710	$3,992
Rest of world	96,570	$3,285	76,681	$4,045	64,875	$4,049
World Total	**389,624**	**$3,244**	**391,969**	**$4,149**	**382,970**	**$4,110**

Source: GTA

Butter and Anhydrous Milkfat (AMF) Exports

New Zealand Export Statistics For Butter, Anhydrous MilkFat, & Dairy Spreads						
Calendar Year: 2012 - 2014						
Partner Country	2012		2013		2014	
	Qty (MT)	Av. FOB Price/MT	Qty (MT)	Av. FOB Price/MT	Qty (MT)	Av. FOB Price/MT
China	43,349	$3,683	52,508	$4,186	67,905	$4,275
Egypt	37,746	$3,329	32,111	$3,765	34,556	$4,132
Iran	40,791	$3,593	30,378	$4,071	26,680	$4,404
Saudi Arabia	21,720	$3,513	17,394	$3,769	27,153	$4,142
United States	26,862	$3,377	16,474	$3,792	25,880	$4,099
Philippines	15,482	$3,589	14,521	$4,218	21,449	$4,606
Azerbaijan	17,509	$3,431	13,247	$3,966	21,876	$4,152
Russia	23,672	$3,145	22,270	$3,857	16,479	$4,789
Australia	18,957	$3,574	18,675	$3,895	19,696	$3,955
Algeria	9,120	$3,677	14,278	$4,218	15,911	$4,893
Rest of world	207,870	$3,483	229,290	$3,931	232,294	$4,112
World Total	**463,078**	**$3,486**	**461,146**	**$3,960**	**509,879**	**$4,214**

Source: GTA; Note: all quantities are by actual product weight

Imports

Lactose

Used to standardize WMP production, lactose imports have grown considerably during 2014. At 102,567 MT (including MPC from USA which is actually lactose made as a by-product from the MPC manufacture process) they are 37% ahead of the previous year. Forty one percent or 42,213 MT of the total volume was sourced from the U.S. Lactose makes up approximately 10% of the volume of WMP. So the amount imported standardizes approximately one million metric tons of the total. There is still some WMP produced un-standardized as the amount of lactose available domestically would not cover the balance of WMP production. One of the by-products of the new MPC facility Fonterra has built in the South Island is lactose.

Trade Policy - Market Access Issues

Korea FTA

After nine formal rounds of negotiations which commenced in 2009 South Korea and New Zealand (NZ) have concluded negotiations on a free trade agreement that was announced November 15, 2014. The agreement is still to be ratified by the respective Governments before it can come into force. It is expected to come into force by the fourth quarter 2015.

New Zealand dairy product exports to Korea are generally 6% to 10% by value of total merchandize exports going to Korea. Cheese exports comprise 60% to 75% of all dairy exports from New Zealand and totaled 11,149 metric tons (MT) for the year ending September 2014. The FTA will obligate Korea to establish an initial country specific 7,000 MT cheese TRQ with an in-quota tariff of zero. The quota volume will increase by 3% per annum until year 15 when all tariffs will be removed. Similarly, Korea will establish an 800 MT TRQ with a zero in-quota tariff for butter exports from NZ, again increasing by 3% per annum until year 10 when all tariffs will be removed. Exports of butter from New Zealand in excess of the TRQ will still attract a tariff of 89% at entry into force but this will be progressively phased out by year ten. Currently NZ exporters ship around 3,000MT of butter per year to Korea.

Whole and skim milk powder, which are generally New Zealand's flagship dairy products, are not going to gain significant free access. The tariff on powders is 176%. The agreement requires Korea to establish a relatively small (1,500 MT) TRQ with an in-quota tariff of zero. The quota volume will increase each year by 3% but will be capped by year ten at 1,957MT. Both the NZ Prime Minister and Trade Minister have said that if they had held out for a better deal on dairy the FTA would not have been concluded. Total dairy exports in 2014 to Korea were US$141m which was 1.2% of the value of total dairy exports of USD13.54 billion.

Obviously exporting businesses in NZ would have preferred an agreement that did away with tariffs far more quickly and didn't have the quota elements. However there is a realization that this agreement is reasonably competitive with other agreements Korea has signed in recent times and will restore a level of price competitiveness for NZ exporters.