

FINANCIAL REVIEW

HD Farmers need **China dairy** deal

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The **dairy** industry has a lot to gain from an anticipated free-trade agreement between Australia and **China** as it plays catch-up with rival markets like New Zealand, in the race to tap demand from Asia's growing middle classes for products like **cheese** and infant formula.

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Dairy farmers, hurting from plummeting **milk** prices in a market which has seen production declining since 2001, have been lobbying hard for an agreement that puts Australia on a level playing field with New Zealand.

China dominates global demand for **dairy** products, but Australia has long been disadvantaged compared with New Zealand. That country has had a free-trade deal since 2008, which is reflected in its **dairy** exports.

The challenge now for the industry is finding ways to ramp up production and tapping the demand from **China**'s middle classes for safe and reliable sources of products like baby formula, **cheese** and long-life **milk**.

Foreign investment has been flooding into the Australian dairy industry, but rarely the other way round. Producers like Warrnambool **Cheese & Butter** and Devondale Murray Goulburn must find ways to build scale to compete on a global scale. The competition watchdog's opposition to Murray Goulburn's bid for Warrnambool **Cheese** earlier this year was a big blow for the exporter, quashing hopes of creating a national champion in **dairy**.

But producers have still not given up on Asia as they explore partnerships in **China**. Bega **Cheese** in September signed a \$100 million supply and distribution agreement with **China**'s Chongqing General Trading **Group** to supply Bega-branded long-life **milk** to **China**.

Australia still has an important role to play in **China**, even without an FTA, but an agreement would be a big win for an industry that has been trying to compete with New Zealand industry champion Fonterra.

Weak global fertiliser demand and challenging conditions for explosives manufacturers mean Orica, Incitec Pivot and GrainCorp are unlikely to post stellar results over the next two weeks as the industry seeks to lower costs and address funding shortfalls.

A decision on the **sale** or spin off of Orica's non-mining chemicals division is also close with bids from private **equity** suitors closing late last week. Investors are putting money on a \$1 **billion** spin-off rather than a **sale** if Orica does not get the price from private **equity** bidders it wants.

Orica reports results on November 19, but a decision could be announced before then.

Incitec Pivot reports full-year results on Tuesday and Deutsche Bank analysts say the fertiliser and explosives manufacturer may disappoint slightly given lower global fertiliser demand and pricing, as well as challenging market conditions in the Australian explosives market.

Incitec chief James Fazzino is building a \$US850 **million** (\$977.5 **million**) ammonia plant in the US rather than Australia.

This is because of a more favourable regulatory environment, access to cheap natural gas and lower construction and labour costs in the United States.

While Incitec Pivot's beef is about Australia's high cost base and too much red tape, GrainCorp is worried about the lack of badly needed investment in grain infrastructure. It is spending \$200 **million** over three years to improve its storage

Mark Palmquist is taking over as chief executive as chairman Don Taylor prepares to step down from the role he has held on an interim basis since Alison Watkins left in January to head up Coca-Cola Amatil.

While a failed takeover bid for the **company** by Archer Daniels Midland upset the **company's** succession-planning process, it has taken too long to install a permanent chief executive.

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