

SE FrontPage
HD **Down but not out Industry is watching prices and sanctions**
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Dairy prices have fallen but the industry is not crying over spilt profits just yet, according to processors and industry analysts.

The Fonterra Global **Dairy** Trade has declined sharply by more than 20 per cent in the past month.

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Rabobank senior analyst Michael Harvey said the majority of product **sold** at GDT auctions was New Zealand product and predicted the fall in Australia's fortunes would not be as drastic.

Mr Harvey said good growing conditions, especially in Europe and New Zealand, had put downward pressure on prices.

"Strong **milk** production growth, that's what's been putting pressure on the market," he said.

In the wake of season 2013-14, the **milk** price was about \$7/kg **milk** solids, inflated by strong demand from **China**.

"The reality was we were always going to come off the record prices," Mr Harvey said.

He said the current four-year forecasts of between \$6.10 and \$6.30 had some potential to be reduced due to the risks associated with Russian sanctions — currently the world's second largest **dairy** importer.

Russia has cut Australian **dairy** products for a year, along with beef, pork, fruit and vegetable produce, fish and poultry.

Mr Harvey said this could further oversupply global markets, particularly in **cheese**.

"The trade between Australia and Russia is not huge, rather it's the knock-on effect we're all worried about.

"Russia imports a lot of **cheese**, mostly from Europe, and if they impose this ban, a lot of European cheeses will be diverted to other products or other markets and that's a real threat to Australia as a large exporter of **cheese**."

He said there was uncertainty on whether Russia would impose the ban for an entire year, potentially creating food shortages in the country.

"We think things will remain weak the rest of the year, then see signs of recovery early next year."

Murray Goulburn managing director Gary Helou said Russia was an important market for the **company** with almost \$95 **million** in **business** last financial year, particularly in **butter**.

"The trade sanctions announced by the Russian Government on food exports from Australia will have some impact on our ability to maximise returns as we place this product into other markets," Mr Helou said.

“Given the importance of Russia as an importer of **dairy** products, particularly from the EU, we will monitor the impact of the sanctions on global **dairy** market settings.”

Australian **Dairy** Industry Council chair Noel Campbell said Russia was an important market for the Australian **dairy** industry.

VFF president Peter Tuohey said he trusted the Federal Government to deliver a free trade agreement with **China** with reduced tariff barriers.

For example, **China**'s tariff for Australian **milk** powders is 10 to 15 per cent while New Zealand is charged 4.9 per cent.

“What’s happened in Russia, just highlights the need for us to get strong FTAs in place that open up more markets for Australian exports, such as **China**,” Mr Tuohey said.

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