

**March 2008**

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**Lamb carcase weights hit record in February**

Despite a decline in lamb slaughter during February, lamb production remained unchanged for the month as improved seasonal conditions contributed to record average carcase weights.

Production for the month totalled 35,962 tonnes (cwt) with average carcase weights for February up 4pc year-on-year to a record 21.5kg a head (Australian Bureau of Statistics).

Contributing to the record average weights during February was the improvement in seasonal conditions throughout summer which enabled many producers to finish lambs quicker and to heavy weights than in previous years.

Weights for February were up year-on-year across all States, most notably in NSW (20.5kg a head) and Victoria (21.6kg a head) which both increased 4pc while weights in SA jumped 3pc to 23.2kg head. WA average weights also increased, up 2pc year-on-year, to 20.2kg a head.

In contrast to average carcase weights, total lamb slaughter for February declined 4pc, to 1.67 million head, with the largest falls for the month registered in Victoria (down 8pc) and WA (down 11pc).

While lamb turnoff has remained steady throughout March and early April, numbers are still forecast to tighten in late autumn and throughout winter.

While Australian lamb production for the first two months of 2008 was up 3pc on the same period last year, production for the eight months from July was up 11pc, to a record 300,373 tonnes.

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**Beef production lagging behind 2007**

Australian beef and veal production was again lower during February following on from January's decline as cattle supplies remained tight in the eastern States due to widespread rain, particularly in the north.

Production for the month was down 8pc on the same period last year, to 170,552 tonnes, with the largest decline in Queensland (Australian Bureau of Statistics).

An increasingly positive seasonal outlook across Queensland during February boosted buying interest as widespread rain reduced turnoff.

Production for the month was back 16pc year-on-year, to 74,189 tonnes with the lack of heavy grain finished cattle also continuing to impact volumes.

Production in both NSW (39,638 tonnes) and Victoria (33,372 tonnes) declined only 1pc on the same period last year as processor demand and cattle supplies remained relatively steady in the south.

The only State to record a jump in beef production for the month was WA, as cattle turnoff increased due to severe water shortages. WA beef production rose 12pc on February, 2007, to 10,856 tonnes.

MLA's NLRS weekly slaughter figures indicate that beef production will again be lower in March, as the early Easter period saw shorter trading weeks. Looking further ahead, production should start to increase throughout April, with many producers likely to turnoff cattle before winter. (MLA)

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**Dairy firm Parmalat eyes expansion in Australia**

Italian dairy firm Parmalat is looking at deals in Australia, Chief Executive Officer Enrico Bondi said, without specifying any targets in the country where Dairy Farmers is up for sale.

"In Australia there is a consolidation process which we need to participate in," Bondi told shareholders at the annual meeting on Wednesday. "If there are (opportunities) we will buy."

Bondi added that the No. 2 two operator in the dairy sector was for sale in Australia, without mentioning a name.

Analysts have cited Parmalat as a potential bidder for Australian milk and cheese producer Dairy Farmers, which put itself up for sale in February.

The Australian company had said there was wide interest in a potential deal, which could be worth A\$800 million-A\$1 billion (\$743 million to \$929 million).

Parmalat is worth about 4.1 billion euros -- about the same size as the hole in its accounts which triggered its collapse under a mountain of debt in 2003. Bondi has turned it around, selling non-strategic assets and improving its product mix.

Parmalat has also successfully sued several banks that worked with the previous management, and proceeds from lawsuit settlements helped the company more than triple its consolidated net profit in 2007.

"We are not predators but we have cash, which allows us to consider expansion," Bondi told shareholders.

Analysts have said other potential bidders for Dairy Farmers include unlisted New Zealand dairy firm Fonterra, Australian food group Goodman Fielder and Singapore's Olam International. (Reuters)

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### **WA dairy industry unites**

The Western Australian dairy industry has united to form a single vision for the State's future milk requirements and the as-yet untapped export market opportunities.

After 18 months of consultation between farmers, all four of the State's dairy processors and the Agriculture Department, the WA dairy industry recently launched the first stage of the Dairy Invest initiative, outlined in a prospectus.

WAFarmers Dairy section president Peter Evans was one of the initiative's lead proponents. He said the power of the united position has been evident with the collaboration on research and agreement on the business case for investment in the WA dairy industry.

Demographics were a sound starting point for more investment in the industry, he said.

"For a start, we are seeing on average 41,000 people per year move to Western Australia," Mr Evans said.

"That's over one new person every 15 minutes.

"And these people will consume, on average, a total of between 250 litres and 270 litres of milk products each year, including 100 litres of drinking milk.

"The industry has committed through Dairy Invest to determine as much of that consumption as possible is fresh WA dairy product." (Farm Weekly)

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### **Growth in China's meat and dairy consumption may provide trade opportunity**

Big increases in China's consumption of meat and dairy products and growing concern about the sustainability of its domestic livestock industry could mean opportunities for our exporters, says Professor Allan Rae from the University's Centre for Applied Economics and Policy Studies.

As China's livestock revolution has gathered momentum, Professor Rae, in collaboration with Chinese researchers, has been studying the implications for global markets. The research team is studying livestock productivity developments in China, the influence of livestock production on rural household incomes, and a survey analysis of the dairy farming situation in inner Mongolia.

"A big unknown is to what extent the domestic industry can continue to supply this growth, and especially as sustainability becomes a more important issue in China. Environmental problems are already occurring, with some large-scale livestock operations having been relocated away from suburban locations, such as dairy farms moving out of Beijing area and medium/large scale hog farms being forbidden in Shanghai."

Professor Rae says China seems likely to have continuing self-sufficiency in most livestock products. (Massey News)

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### **S. Korea, U.S. to resume beef import talks Friday**

South Korea and the United States will resume beef import talks that have been halted since October, the government said Thursday.

The Ministry for Food, Agriculture, Forestry and Fisheries said Washington requested the talks scheduled for Friday in Seoul.

It said South Korea will be represented by Assistant Agriculture Minister Min Dong-seok, while the U.S. will send Ellen Terpstra, deputy under secretary for farm and foreign agricultural services as its chief negotiator.

The United States has asked for unfettered access to South Korea's beef market and a revision to the current import regulations that ban bone-in-beef and various cow parts that some say pose risks of transmitting mad cow disease to humans.

Seoul has balked at such requests, but hinted that it may allow bone-in-beef products such as ribs into the country. It also wants to maintain the 30-month age limit on animals that can be slaughtered for export to South Korea. The two sides met Oct. 11-12 with little headway being made on the differences. The revision of South Korea's beef import regulations is important because Washington has made clear that its lawmakers will not ratify the free trade agreement signed last June with South Korea unless this issue is resolved.

South Korea allowed U.S. beef imports to resume last year after imposing an outright ban following the confirmation of a case of mad cow disease in late 2003. However, it halted all quarantine inspections after a package of backbones were discovered in a shipment in early October. (YonHap News)

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### **Russia opens wheat futures market**

The first wheat futures contract has traded on the Moscow Commodities Exchange. The new contracts may help stabilise prices and cut risks for wheat producers.

Russia is the world's fourth largest wheat producer, with output of 81 million tonnes last year.

Until now, the price has been set by individual contract. Now producers and consumers can see the price of Russia's key commodities, including wheat and oil, denominated in roubles.

Alexander Potemkin, the President of the Moscow Interbank Currency Exchange, says it took them four years to set up the whole system.

"Now a center with a recognised price for Russian wheat has emerged on the exchange markets map," he said.

The volatility on the world's wheat market in 2007 reached 32%.

Over the past half-a-year the price in Russia has varied more than 60% - from a minimum of \$US 212 per tonne to a maximum of \$US 365.

Analysts say the futures contract should encourage price stabilisation and give an indicative price to producers, consumers and the government.

"The first futures contract prices are lower than the spot price by about 20%. The price of between 6,000 and 7,000 roubles will attract investors into the agricultural sector and will increase the production of wheat," Russia's Agriculture Minister, Aleksey Gordeev said. (Russia Today)

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### **Cotton market on wild ride**

Cotton growers searching for the best market prices of the day are finding the job more difficult than usual.

Even as cotton finally joins the grains and oilseeds commodities boom, Australian growers have suddenly found themselves in a position where there is less competition for their bales.

Cotton prices have traded in a \$US150/bale range in recent weeks, leaving many merchants wary, sitting out of the market.

According to market analysts, this is a result of the unusually volatile range of cotton futures in recent weeks, where prices have ranged about US30c/pound or \$US150/bale.

That wide variance put "enormous pressure" on merchants as they sought credit to fund margin calls on their hedged futures position.

The result, depending on the day, was many of Australia's major cotton merchants sitting out of the market and offering "no quote". Where typically there would be about 10 merchants trading in the markets, some days of recent weeks have seen scant few prices on offer for growers.

According to general manager at FarMarCo, Rob Imray, the pattern is due to the speculative investment push into agricultural commodities, forcing these commodities to the "heady heights" of recent weeks.

"On the other side of that in cotton, the trade was sitting on a lot of physical cotton which was hedged in the futures market," Mr Imray said.

"The fund money kept pouring in and it got to the point where the merchants had to fund significant margin calls in order to hold their hedgers on the bales they owned.

"And that put tremendous pressure on merchants because they found it extremely difficult to unload physical cotton in order to get cash in the door."

He said, then, as merchants looked to sell cotton, but with few buyers available at the high prices, the basis market weakened.

And while prices appear to be returning to more predictable levels this week, it remains unknown how long the wariness will remain in the market. (Australian Cotton Outlook)

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### **Rocky road for cotton futures causing headaches for growers**

Futures traders in soft commodities will hold a public meeting in the United States this month following concerns from various agricultural industries that futures markets aren't working as intended.

Last month, the cotton futures exchange went electronic, with widespread interest from speculators and hedge fund investors generating a rocky ride for stocks, with similar volatility in grains.

Because of the turmoil in pricing, Australia's cotton growers are now finding it hard to work out the price of their crop.

Head of the Cotton Shippers Association, Pete Johnson, says the see-sawing market is affecting sellers world-wide.

"It's very difficult to know how to price Australian cotton at the moment, but I guess until we can get that price discovery, we're probably being a little more conservative than we normally would," he says.

"My company is not offering prices.

"We've made a decision to wait until we can sell a decent whack of cotton to work out what it's worth." (ABC Rural)

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### **Autumn rain key to NSW grain crop**

In New South Wales, grain producers are closely watching the skies for what is expected to be a record-breaking winter crop planting.

The Department of Primary Industries is still confident of three and a half million hectares of wheat and three quarters of a million hectares of barley, and a big increase in many other crops, from last year.

Frank McRae, cereal specialist with the DPI, says it all now comes down to the autumn rain.

"The key to it is going to be rain and more rain," he says.

"We're expecting a big crop right across the state, but there are very few areas that have got seed bed moisture.

"We've got good subsoil moisture in some areas, less in a lot of others, but overall things are looking pretty good providing we can get a good general break to get most of our crop in on time." (ABC Rural)

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### **Restockers rush northern NSW weaner cattle**

Queensland backgrounders busy restocking their paddocks after good summer rain are setting the scene for an optimistic northern weaner selling season, with almost half Casino's annual two-day weaner and grower steer sale yarding heading over the border last week.

The 4970 cattle sold at the George and Fuhrmann sale averaged \$546 a head and weaners topped at \$765 – up \$30 to \$50 a head on many vendors' expectations.

The Casino event – the largest single-agent weaner sale in the north and the biggest line-up of European Union-accredited weaners in the country – signalled the start of the northern autumn weaner sales, and this year attracted a much larger contingent of Queensland buyers, both backgrounders and bullock producers, from as far as Roma.

Roma stock agents say their region has had its best season for almost 60 years.

Feedlot backgrounders are looking south to get their numbers up again because the drought has meant there are simply not enough weaners now available in Queensland.

Elders Roma livestock agent, Mick Connell, said buyers were looking for cattle with a bit more British breed content than was available in Queensland at present.

Demand seen at Casino is likely to continue in NSW as lotfeeders become more active in Queensland again, he said. (The Land)

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### **Tick deaths hit Far North NSW cattle region hard**

Deaths of at least 14 cattle from tick fever and quarantine bans slapped on Far North Coast properties this week have left NSW stock owners furious that warnings of a major disease threat have fallen on deaf ears.

They're demanding an immediate emergency meeting with State Government agriculture representatives.

They say it is vital legislation be drawn up quickly to ensure all Queensland cattle with the virus are sterilised with Imidocarb, which kills tick fever, before entering known tick infestation areas of northern NSW.

The deadly tick fever disease, caused by a parasite of red blood cells which is spread by ticks, is on the verge of becoming endemic on the North Coast and producers warn this could shut down the region's beef and dairy industries.

The North Coast shock comes as the Federal Government is forced to send resources to New Caledonia to help the Pacific island country rid its beef herd of tick fever after a shipment of Queensland cattle inadvertently spread the disease.

For the past month northern NSW producers have warned the same disaster was about to hit this State. Now a response team has been sent to Queensland border properties to try and shut down the spread of the disease after a NSW dairy operation lost 12 head in a fever outbreak.

Infected cattle were traced to a second property near Alstonville, where another two head died, and the team is now investigating six other properties which had bought cattle from the Alstonville producer.

But far from feeling vindicated, producers who sounded the alarm say nothing is being done to prevent a major crisis.

This is in contrast to an earlier news report saying 'Quick response to NSW North Coast tick outbreak', referring to the NSW's NSW Department of Primary Industries action to curb the outbreak. (The Land)

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### **China gears up to battle wheat, rape diseases**

China is enhancing its efforts to battle plant diseases spreading in the country's wheat and rape plantations.

As of April 1, 9.52 million mu (634,666.7 hectares) of the country's wheat has developed stripe rust, a serious disease caused by a soil-borne fungus, according to Ministry of Agriculture statistics released on Monday.

Meanwhile, 17.33 million mu of rape have been affected by a devastating disease called sclerotinia.

The situation might get worse as the April-June period was a season prone for plant diseases and insect pests with warm weather and frequent rainfalls expected.

According to a ministry forecast, the current disease reports would only account for 24 percent and 39 percent of the total areas of wheat and rape plantings, respectively, that would develop such diseases this year.

However, the ministry did not say the proportion of the disease-affected area count in the sown area.

The ministry has told local governments to beef up its control of the spread of such diseases and intensify monitoring. Local governments were required to quickly report new infections to higher-level authorities. (China View)

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### **Alert on risks of ethanol subsidies**

The Productivity Commission wants the Rudd Government to urgently review the multi-million-dollar assistance for the ethanol industry amid growing warnings the program is pushing up the price of feed grain.

The commission's latest trade and assistance review estimates the commonwealth will spend \$31.9 million on the ethanol production subsidy scheme this financial year and demands a review of the program as a matter of priority.

It warns that ethanol assistance is increasing feed grain prices, echoing a research paper by the Commonwealth Parliamentary Library that found diverting feedstock to mandated ethanol production would increase the trade deficit.

Domestically produced ethanol enjoys an excise advantage under the ethanol production grants scheme, a subsidy that offsets the 38.143c a litre excise on ethanol.

In 2006, the then Opposition spokesman for resources, Martin Ferguson, sought "a review of the taxation regime on ethanol to ensure its tax-free status remains in place long enough to guarantee its success in Australia's fuel market".

The Howard government set an objective in 2001 that ethanol and other biofuels would contribute at least 350 million litres to the total fuel supply by 2010.

Assistance for the development of ethanol and other alternative fuels has been driven by environmental, health and regional development concerns, along with a desire to reduce reliance on fossil fuels.

The Productivity Commission says the effects of such policies on feed grain prices are already driving up prices, with a report in December describing the price increases as "extraordinary".

The commission cites research from Meat and Livestock Australia that estimated mandatory blending of ethanol with petrol and diesel would increase the average price of grain by more than 25 per cent.

"The provision of assistance to ethanol production would be expected to increase demand for land and feedstock, thereby bidding up the price and/or diverting supply away from other agricultural activities," it warns.

The commission refers to an OECD study that has estimated biofuels production needed to replace 10 per cent of fossil fuels in transport in the US, Canada and the European Union could require between 30 and 70 per cent of existing crop areas. (The Australian)

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### **Corn Hits \$6 a Bushel on Tight Supplies**

Corn prices jumped to a record \$6 a bushel Thursday, driven up by an expected supply shortfall that will only add to Americans' growing grocery bill and further squeeze struggling ethanol producers.

Corn prices have shot up nearly 30 percent this year amid dwindling stockpiles and surging demand for the grain used to feed livestock and make alternative fuels including ethanol. Prices are poised to go even higher after the U.S. government this week predicted that American farmers — the world's biggest corn producers — will plant sharply less of the crop in 2008 compared to last year.

"It's a demand-driven market and we may not be planting enough acres to supply demand, so that adds to the bullishness of corn," said Elaine Kub, a grains analyst with DTN in Omaha, Neb.

Corn for the most actively traded May contract rose 4.25 cents to settle at \$6 a bushel on the Chicago Board of Trade, after earlier rising to \$6.025 a bushel — a new all-time high.

Worldwide demand for corn to feed livestock and to make biofuel is putting enormous pressure on global supply. And with the U.S. expected to plant less corn, the supply shortage will only worsen. The U.S. Department of Agriculture projected that farmers will plant 86 million acres of corn in 2008, an 8 percent drop from last year.

Moreover, cold, wet weather in parts of the U.S. corn belt may force farmers to delay spring planting, potentially sending prices even higher.

While corn growers are reaping record profits, U.S. consumers can expect even higher grocery bills — especially for meat and pork — as livestock producers are forced to pass on higher animal feed costs and thin their herd size.

"Higher corn prices is going to affect meat prices. If you're feeding with \$6 corn, you'll definitely have some (cost) pressure," Kub said.

Another loser in higher corn costs is ethanol producers, who are struggling to squeeze out gains as corn's record-setting run outpaces the price of ethanol, currently at around \$2.50 a gallon.

"For years, corn was cheap and fermentation processes for ethanol production came to completely dominate the biofuel industry in North America," Michael Jackson, president and chairman of Vancouver-based ethanol maker Syntec Biofuel, said this week. "Now, with corn prices well over \$5 a bushel, corn ethanol economics have gone out the window."

The nation's 147 ethanol plants now have the capacity to produce 8.5 billion gallons of fuel a year, according to the Renewable Fuels Association. Corn is the basic feedstock for most of the plants and about 20 percent of last year's 13 billion bushel corn crop was consumed by ethanol production. That percentage is expected to increase to 30 percent for the next crop year, which ends Aug. 31, 2009, according to Terry Francl, a senior economist for the American Farm Bureau Federation.

There are still plans to build or expand another 61 plants, which will add about 5.1 billion gallons of capacity. However, as corn prices have climbed over the past year or so, construction of several plants has been halted or delayed, shaving about 500 million gallons worth of capacity off the original figure, according to Broadpoint Capital analyst Ron Oster. (Associated Press)