



# BARRY WILSON'S DAIRY INDUSTRY NEWSLETTER

**COPYRIGHT**—All rights reserved, PHOTOCOPYING, SCANNING OR REPRODUCING ANY PART WITHOUT PERMISSION IS STRICTLY PROHIBITED  
Dairy Industry Newsletter's internet service is at: <http://dairyindustrynewsletter.co.uk> (see back page for full details)

## France/USA

### LACTALIS BUY KRAFT HEINZ CHEESES FOR \$3.2bn

Lactalis announced last week they had agreed to buy Kraft Heinz's natural cheese businesses. The US\$3.2bn acquisition covers the natural, grated, cultured and specialty cheese unit in the US, grated cheese business in Canada and entire international cheese business outside North America. It will give Lactalis a portfolio of iconic, strongly-positioned brands that include Cracker Barrel, Breakstone's, Knudsen, Polly-O, Athenos, Hoffman's and, outside the US and Canada, Cheez Whiz. "Our objective is to develop the internationalisation of these brands in many regions around the world," said Emmanuel Besnier, president of Lactalis. In addition, Kraft Heinz will partner with Lactalis on a perpetual license for Kraft in natural, grated and international cheeses and for Velveeta in natural and international cheeses. The acquisition will include three US production facilities in Tulare (Calif), Walton (NY) and Wausau (WI) and a distribution centre in Weyauwega, WI. About 750 Kraft Heinz employees will be joining Lactalis, with additional American jobs to follow completion of the transaction, expected in the first half of 2021, subject to regulatory approvals. The cheese businesses being sold contributed \$1.8bn to Kraft Heinz's net sales in the year to June 2020. Kraft Heinz are restructuring to save costs. Lactalis are currently supplied with close to 3.2bn lb (about 1.4bn litres) of milk a year by US farmers.

## Australia/Japan

### BEGA RESUME PURSUIT OF LION

Bega Cheese are reportedly racing to get ahead with a second bid for Lion Dairy & Drinks after Lion's owner, Kirin Holdings, scrapped a deal with China Mengniu Dairy Co amid political tensions. Japan's second-largest brewer has reportedly been re-engaging with parties who had previously expressed interest early this month to try and revive a sale. It is understood Bega have clearly stated their intentions to buy the circa \$500m portfolio to Kirin and Lion's local management, and are looking to negotiate terms quickly. An auction of assets is expected and Bega are understood to have already sought to start due diligence. It would be a chunky acquisition for the A\$1.16bn company, which was sitting on \$236m net debt as at June 30.

## NZ

### FONTERRA REPORT MAJOR TURNAROUND

Fonterra have posted profit after tax of NZ\$659m for 2019-20, in what appears to be a major turnaround from their \$605m loss in 2018-19, mainly due to heavy writedowns, and the shock \$196m loss—their first ever—in 2017-18. Debt was cut by 19% or \$1.1bn following the launch of an organisational 'reset' which included asset sales and cost-cutting. Fonterra report group earnings after interest and tax (EBIT) of \$1.1bn, reversing a loss of \$17m the previous year, including gains from asset sales, impairments and costs relating to the strategic review. Excluding these, normalised earnings were up 8.3% to \$879m, with profit coming mainly from Ingredients (normalised EBIT up 4.7% to \$827m) and, in the first half, strong results from the Greater China Foodservice business (EBIT up 48% to \$169m). The effects of the pandemic impacted performance in the second half, particularly in their Consumer and Foodservice businesses.

Fonterra announced a final farmgate milk price of \$7.14/kg of milksolids and a dividend of 5c per share for 2019-20—a final cash payout for farmers to \$7.19/kg MS, the highest for 6yrs. Fonterra CEO Miles Hurrell said it was "a good year": "We increased our profit after tax by more than \$1bn and reduced our debt by more than \$1bn. This has put us in a position to start paying dividends again."

Fonterra say they are making good progress in the sale of their China Farms business and selling down their share in Beimgate, and are also still looking to sell their joint venture with Nestlé, DPA Brazil.

## Germany

### SWINE FEVER CONFIRMED IN WILD BOAR

A suspected case of African Swine Fever found near the Polish border, in the Spree Neisse area around Cottbus in the south of Brandenburg, was confirmed last week, along with over a dozen new cases. The state laboratory of Berlin-Brandenburg found the first in the carcass of a wild boar. China immediately banned all German pork imports, followed by Japan, South Korea and others.

## China

### POINTER TO MAJOR SWINE FEVER RECOVERY

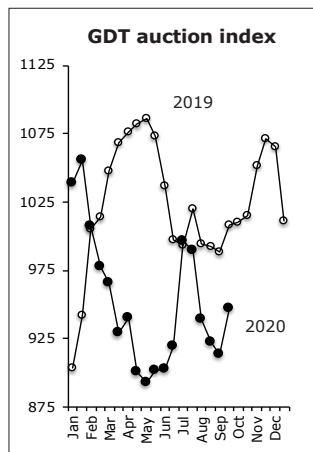
The impact of African Swine Fever on the Chinese pig herd has been dramatic. But China's imports of whey products signal a rebuilding—imports fell from around 51,000t per month in summer 2018 to just 33,000t/month the following year, according to UK agency AHDB Dairy. Over the past 3mths (May-July), those imports totalled 19,200t/month. In July, China recorded its highest level of whey product imports for at least 10yrs, at 63,900t.

## NZ/China

### CREW & 6,000 COWS PERISH AS SHIP SINKS

Only two survivors out of more than 40 crew were found after a ship, the Gulf Livestock 1, carrying almost 6,000 cattle from NZ to China capsized in stormy weather in the East China Sea early this month. The journey was expected to take 17 days. China has imported more than 46,000 head of cattle from NZ so far this year, according to data from Chinese customs, mostly to stock the country's expanding dairy farms. Last year, NZ launched a review of its live export trade, worth around NZ\$54m in 2019, after thousands of animals exported from NZ and Australia died in transit. Export applications have been suspended.

<u>In this issue</u>											
		Binggrae Dairy	3	DMK	4	FrieslandCampina	4	Milcobel	4	Saputo Dairy UK	7
Amul	3	Blue Bell Creameries	3	DOC Kaas	4	Johal Dairies	6	Millbrook Dairy Co.	6	Tom Walker & Sons	6
Arla	4	Braeforge	6	Emmi	5	Kent Foods	6	Müller	7	Wattle Health Aust.	3,7
Bayernland	4	Clandeboyte Estate Yogurt	6	Eurilait	6	Kerry Co-op	5	Nestlé	4	Westland Milk Prod.	3
Bega Cheese	1	Dairy Country	3	Fonterra	1,3	Lactalis	1	Ornua	5,7	Yili	3



**LATEST GDT RESULTS**

	\$/tonne	Change in 2020
WMP	2,985	-5%
SMP	2,889	-5%
Butter	3,282	-19%
AMF	3,910	-21%
Cheddar	3,674	-8%
Lactose	1,277	+60%
Index	907	+5%

**GDT world markets**

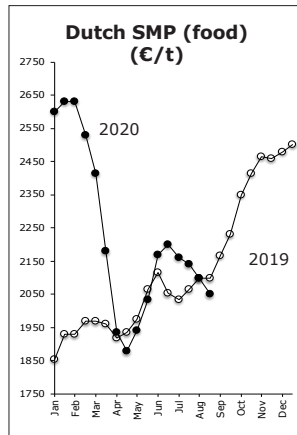
**AVERAGE GDT PRICE INDEX UP 3.6%**

After four consecutive drops, last week's GDT auction saw the overall average price index up 3.6%. The average indexed price of WMP was up 3.2% to \$2,985/tonne and SMP was up 8.4% to \$2,889 (both still lower than in early Jan). Cheddar was up 7.2% at \$3,674/t and AMF was up 2.0% at \$3,910. Butter was down 1.4% at \$3,282/t and lactose was down 2.7% at \$1,277/t—but has increased by 60% so far this year (see table above). BMP was not offered. A total 33,791t of product was sold, down 5.2% from last time and down 9.5% from this time last year despite volumes starting to ramp up.

This was a long auction—2hrs 40 minutes, only 1min shorter than last time, which was the longest since Dec 2019. Why so long to shift a smaller volume while buyers were lining up to pay more? The number of qualified bidders was 483, within the range of the past seven auctions, with numbers at their lowest since Dec 2011. The peak count of qualified bidders was Oct 2013 at 888—so a 50% decline since then. However, there were 123 winning bidders, more than in Oct 2013.

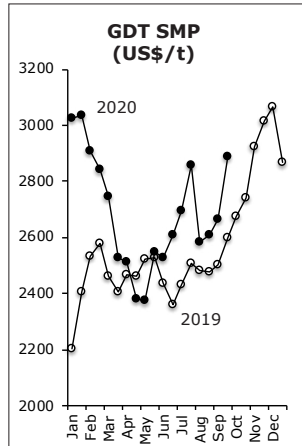
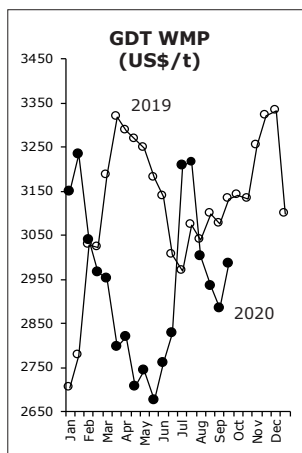
**MARKETS IN BLITHE DENIAL?**

A month ago the storm clouds were gathering on Covid across Europe, with a resurgence of the disease and the threat of further lockdowns being on the cards. Now the clouds have burst, with increasing local lockdowns being imposed in the UK as well as mainland Europe as the number of daily infections reaches new record highs. Another national lockdown is also on the cards for the UK. As if this wasn't enough, the Brexit 'negotiations' are back with vengeance. There are exactly 100 days to go until the separation of the UK from the EU—with or without a deal. And still there's no clarity. Amid these two giga-problems sits the market, which would be forgiven for being in turmoil but is seemingly immune—nervous, perhaps, but remarkably stable. The last time the benchmark EU butter price fell was as far back as the third week of April, when it dropped to €2,583/t in the early lockdown panic. Three weeks ago, the price rose and then flatlined to €3,385/t. Since then it has taken small steps onwards and upwards to average €3,430/t now, according to the Dutch, French and German listings. But the real market for fresh butter is higher than that, say some, at €3,500/t, albeit with frozen or PSA butter nearer to €3,300/t.



Either way there's not much being traded, by all accounts, with fourth-quarter trading either in the bag or being conducted at a dignified pace on the grounds that few people (if any) can see prices racing away.

In the UK both Covid and Brexit woes are making life interesting for traders due to the rollercoaster that is currency. While the EU price may be stable to firming, UK prices have varied by as much as £150/t depending on which side of the bed currency traders have fallen out on. At current rates UK butter is £3,100/t. It's the same with cream—prices had risen as high as £1.60/kg recently, but currency and slightly weakening demand on the Continent has eroded the price down to the mid-£1.50s. There's also stability when it comes to powders, with even tinier steps when it comes to WMP, which was averaging €2,760/t some 2mths ago and is now €2,770/t. SMP is faring much better. It was €2,130/t 2mths ago and is now €2,160/t, although this modest €30 gain masks a steady fall to below €2,100/t, so progress has in reality been greater. It also received a useful 8% boost on last week's GDT auction, thanks to some \$3,000+ trades. The gap between WMP and SMP is now below \$100 for the first time since April 2015.



Whey continues to unexcite—it was €700/t 2mths ago; it's €690/t now. Cheesemakers will be happy despite whey's woes. Edam and Gouda continue to strengthen, possibly on the back of pretty decent EU exports. They have crossed the €2,900/t threshold again, and are dragging both Mozzarella and curd up too, as high as €3,200/t for curd and €2,800 for Mozzarella. Curd price increases will also be boosting Cheddar fortunes—not that they need it as stocks are still tight and manufacturers under no pressure to sell. The market is the epitome of stability, in fact, and still at £2,950/t in the UK for mild. Spot milk also remains pretty static in the 30ppl zone, with liquid processors short of farm supplies keeping the price high, and with cheesemakers still nonchalant about paying those prices.

**NZ**

**NZX HIT BY CYBER-ATTACKS**

NZX has seen significant cyber-attacks for over 3wks, rendering the website unavailable at times. Additional cybersecurity counter-measures have been put in place and contingency arrangements to allow trading to continue include a new market announcement page (announcements.nzx.com) which will carry the 200 most recent announcements if the main website (nzx.com) goes down.

**FAO index**

**BUTTER & SMP FIRMER**

The FAO Dairy Price Index averaged 102.0 points in August, almost unchanged from July and up 1.7 points (1.7%) from the same month last year. Cheese and WMP quotations were down while butter and SMP increased.

**Weekly market prices @18.9.20**

**EU OBSERVATORY PRICES**

(€/t)	Sept 16 v. Aug 26	2020	2020
		high	low
Butter	3490 +2.6%	3720	2880
WMP	2740 -1.1%	3070	2610
SMP	2150 +1.4%	2620	1910
Cheddar	2980 +0.7%	3190	2960
Whey powder 720	=	830	710

**US QUOTES, CHICAGO MERC.\***

(\$/t)	Sept 18 v. Aug 28	2020	2020
		high	low
Butter (AA)	3365 +2.4%	4300	2540
SMP (grdA)	2335 +5.0%	2850	1800
Cheddar			
—40lb blcks	5195 +27%	6245	2275
—500lb bar.	3565 +14%	5330	2260

\*Conv. from US ¢/lb@1 tonne = 2,205lb

**European indicators**

**MILK POWDER PRICES UP**

The Dutch Dairy Board/ZuivelNL raised their official weekly price of WMP last week by €30 to €2,730/t and their SMP (food) price by €30 to €2,150 and their SMP (feed) by €20 to €2,070 and their whey powder price by €10 to €700/t. The butter price was left unchanged at €3,400/t—now up €850 since April.

The German IFE institute has estimated an **average EU raw milk value** for the current week up 0.2c to 29.7c/kg, based on the official prices of butter and SMP in Germany, France and the Netherlands. Higher SMP prices in all three countries pushed the SMP average up €22 to €2,160/t and the butter price average was up €8 to €3,433/t.

Dutch trade in **phosphate quotas** in August was low. Maximum prices reached €142/kg, up €1-€2 on July.

**NZ****WASTEWATER PIPELINE GETS GO-AHEAD**

A decision by an Environment Canterbury-appointed independent panel has granted coastal marine and land use consents to Oceania Dairy to build their controversial proposed 7.5km pipeline to take wastewater from their Glenavy, South Canterbury, factory into the Pacific Ocean. The panel heard submissions during a four-day hearing in Waimate, with 117 out of the 126 petitioners opposed to the plan. The ocean outfall will discharge up to 10m litres of treated wastewater per day. The panel said the effects of the discharge on the marine environment (and the effects of the installation and occupation of the pipeline on both terrestrial and marine environments) will be "minor". Greenpeace called the decision "disgusting".

**YILI + WESTLAND STILL IN DOUBT**

The NZ government's involvement in the controversial decision to approve the sale of Westland Milk Products to Hong Kong Jingang, a company wholly-owned by Chinese conglomerate Inner Mongolian Yili, who also own Oceania Dairy in NZ, was under the spotlight in the High Court last week. A hearing of Social Credit's judicial review of last year's Overseas Investment Office decision to approve the sale got under way, challenging the basis on which the OIO made their decision. Social Credit's position is that the OIE applied the wrong legal test. If the correct test had been applied the decision should have been made by the responsible ministers, not OIO officials.

**FONTERRA HOLD FINAL PAYOUT AT \$5.90-\$6.90**

Fonterra are maintaining their forecast range of \$5.90-\$6.90/kg of milksolids for the current season, keeping their advance rate at the midpoint of \$6.40/kg MS. Outgoing Fonterra chairman John Monaghan said the global market was finely balanced, with both demand and supply increasing, but had the potential to change as a result of forecast economic slowdown, increasing global unemployment and weaker consumer demand.

- Fonterra's Te Awamutu site is now up and running on wood pellets, after some delay due to Covid-19 challenges. Fonterra announced the move to renewable energy at the beginning of the year, having previously used a mix of coal, gas and electricity to process milk at the site.

**Australia/NZ****FONTERRA BUY DAIRY COUNTRY**

Fonterra are to buy Melbourne-based secondary cheese-processing company Dairy Country for A\$19.2m. Dairy Country has done much of the shredding and grating of Fonterra Australia's retail cheese products, so this acquisition brings those function in-house. Fonterra Australia managing director Rene Dedoncker said the acquisition would support their core strengths in the \$2.6bn Australian retail cheese category, where they hold a 23% market share with brands including Perfect Italiano, Mainland and Bega. Dairy Country are owned by Queensland-based food and beverage company Retail Food Group. The acquisition includes Dairy Country's processing and packing facilities at Campbellfield and Tullamarine in Victoria, along with related services, intellectual property and the Dairy Country brand, subject to regulatory approvals and standard closing conditions.

**Australia****WATTLE HEALTH REPORT MASSIVE LOSSES**

A year of disaster for Wattle Health Australia has culminated in the listed dairy company posting a massive A\$58.9m after-tax loss for 2019-20. Income was only \$1.05m for 2019-20, a slight rise from the \$887,000 recorded the previous year. About \$49m of the losses were writedowns on asset impairments and transaction termination fees resulting from failed deals—including a \$21.3m writedown on the plant and equipment used in constructing the Corio Bay Dairy Group spray dryer facility in North Geelong in Victoria. The plant was a joint venture by WHA, Niche Dairy and Organic Dairy Farmers of Australia. ODFA were placed in administration in May and were recently sold to The Remarkable Milk Co. WHA still need \$20m to complete the \$70m CBDG plant. CBDG, whose two remaining directors are WHA CFO George Karafotias and Niche Dairy's Andrew Grant, are now in administration (see I Hear, p7).

**India****AMUL CHALLENGE SOUTHERN RIVALS**

Amul are expanding into southern India with plans to sell up to 4m litres of milk a day across the region in competition with numerous smaller regional co-ops who have dominated milk supply in the five southern states. Amul, who have already been selling other dairy products such as cheese and butter in South India, will base its activities in Andhra Pradesh. "We started with the west, then went to the north, and east... Somehow we had not gone to the south," said R.S. Sodhi, managing director of Gujarat Cooperative Milk Marketing Federation, which owns the Amul brand. Sodhi said the aim is to take the business to around Rs10,000 crore (US\$1.36bn). They will invest Rs200-300 crore (about \$30m-\$40m) over the next 2yrs, Sodhi added.

**South Korea****BINGGRAE GET BOYCOTT THREATS**

Binggrae Dairy have been facing growing pressure from consumers to join a boycott against Namyang Dairy. Binggrae are South Korea's no.4 dairy with a market share of 7%-8%, after Seoul Dairy Co-op, Namyang and Maeil Dairies, and are popular with young consumers. Last month, the Seoul Jongno Police Station summoned Namyang chairman Hong Won-sik for questioning over a case in which the dairy company allegedly paid professional trolls to disparage a rival company online last year.

**US****BLUE BELL FINED \$17.25**

The US Department of Justice announced last week that ice cream manufacturer Blue Bell Creameries have been ordered in a Texas federal court to pay \$17.25m in criminal penalties. In May they agreed to plead guilty to charges they shipped products linked to a 2015 listeriosis outbreak and then tried to cover up their actions.

**DOJ GETS HEAVY WITH DFA CRITICS**

The US Department of Justice told an Illinois federal judge to disregard lone voices still raising concerns about DFA's \$433m purchase of assets from bankrupt milk producer Dean Foods. The DOJ's filing last week, part of the Tunney process by which deals are submitted for public scrutiny, said a lone commentator does not change the analysis of the transaction.

- **US DAIRY EXPORT VOLUMES** were up 16% in the first 7mths of 2020 and up 14% by value compared with 2019, according to USDEC. Most of the growth over the last 4mths came from increased shipments of NFDMSMP to Southeast Asia and whey products to China. But these gains were partially offset by continued weakness in sales to Mexico.

- **DAIRY CONSUMPTION INCREASES**—Higher dairy consumption is still being squeezed out of Americans, reaching an all-time high in 2019, according to the USDA ERS. Annualised per capita consumption data show the upward trend has continued for five decades in a row since the 1970s, increasing 21% since 1975. In the past decade, consumption of cheese is up 19%, butter up 24% and yogurt up 7%. Ice cream per capita consumption rebounded in 2019, increasing by 0.5% over 2018. Overall US dairy consumption was up 6% over the past 5yrs, up 10% over the past 15yrs, and up 16% over the past 30yrs.

**Australia****MILK PRODUCTION DOWN 10% IN 5yrs**

Australian milk production was up 4.1% from last year in June to 623.5m litres, but production for the 2019-20 season (July-June) was down 0.2% compared with the previous year, down 10% compared with 5yrs before and was the lowest for 10yrs. In this period production fell in four states: by 3% in Vic, by 6% in NSW, by 22% in SA and by 412% in Qld. Only in Tasmania did production increase, by 54%.

- July milk production in Australia, the first month of the new milk season, has been estimated by Dairy Australia up 2.9% from last year to 620.4m litres. Production was up in all states apart from QLD (-7.4%).

**US****MILK PROD. UP 1.8%**

US milk production in August is estimated by USDA up 1.8% from last year to 18.6bn lb (8,190m litres) with production in the 24 major producing states up 1.9% to 17.8bn lb (7,822m litres). July data was revised upwards.



**Netherlands/Germany****BOERDERIJ SAY DOC SHOULD CLOSE DOWN**

Dutch farming paper Boerderij questioned the viability of Dutch dairy co-op DOC Kaas despite their merger with giant German co-op DMK 5yrs ago. DOC was forced into merger with DMK because of their chronically poor milk price. Their milk price still lags. DOC chairman Arjan Schimmel says the merger is going well and their milk price will catch up, but members are still leaving; since 2013 the number of members has halved. Boerderij say DOC are slowly bleeding to death and the big question is: should DOC continue like this or find a solution in which DOC is dissolved with members then free to choose another milk processor? Boerderij say this would also relieve the chairman of his task of having to say every year that things were getting better now.

• **DMK BONUS**—DOC Kaas have been ordered to pay the DMK merger bonus to a group of approximately 60 farmers who left DOC in the period 2016-2018. The Dutch court in Assen ruled that co-op members who wanted to leave in this period should not have been hindered by additional conditions, with the main issue being the retention of their share of the €20m merger bonus promised by DMK.

• DMK have merged their whey products subsidiaries DVN (Hoogeveen, Netherlands) and Wheyco (Germany). The new unit will continue to be called Wheyco. A total of 69 workers in Hoogeveen are now employed by DMK. They process 120,000 litres of whey from DOC Kaas per hour into WPC and permeate.

**Germany****BAYERNLAND'S €55m CHEESE PLANT ON TRACK**

The construction of a new cheese plant at Bayernland's Bayreuth site is on schedule, despite the pandemic. The plant will be adjacent to the existing building and equipped with a fully automatic salt bath facility with bridge crane, a high-bay warehouse for ripening, a continuous cooling system for Cagliata cheese and a dispatch and office building. Construction started in October 2019 and the investment amounts to €55m. The installation of the processing technology is scheduled to start in October. Bayernland have not shut down the Kemnath site, despite earlier plans, although operations have been sharply curtailed with the number of staff was reduced from 90 to 7. Most of the former employees in Kemnath will be moved to the new cheese plant.

**Belgium****MILCOBEL CLOSE SCHOTEN**

Belgium's Milcobel have announced that they plan to close their loss-making dairy drinks division based in Schoten, Antwerp, including ceasing operations at the outdated Schoten production facility. The plans will also see associated support services in Schoten and Bruges discontinued. The closure could lead to the loss of 167 jobs.

**EU****EU MILK PRODUCTION UP 2.1% IN JULY**

EU-27 milk production was up 2.1% year-on-year in July, with the highest increases in France (+2.7%), Italy (+4.5%), Ireland (+4.4%) and Poland (+2.2%). Production in the first 7mths of this year was up 2.0%, with all major producing states increasing their production, including Belgium (+4.3%), Ireland (+3.8%), Poland (+2.7%) and Netherlands (+2.2%). EU cheese manufacture in Jan-July was up 2.0%, butter +1.6%, SMP +1.9% and drinking milk +3.7%.

**Netherlands****CHINESE MARKET COULD SCUPPER F/C RESULTS**

Last week, after long discussions, FrieslandCampina took a subordinated, listed loan of €300m. Financial news sources report that the loan was oversubscribed more than five times, which is why the originally expected interest rate was reduced from 3.375% to 2.875%. The issue was delayed due to the corona crisis and is supported by five banks, ABN Amro, Citigroup, ING, JP Morgan and Rabobank. According to rating agency Fitch, the subordination of one month's milk money has strengthened F/C's creditworthiness. F/C are in the process of restructuring their debts. According to Fitch, F/C must cut payments to members. Fitch believes that the Chinese market could destroy F/C results.

• **SEPT MILK PRICE CUT**—F/C will to pay milk supplying members a guaranteed milk price of 33.75c/kg (excl. VAT) for September—down 0.25c from Aug—for milk with 3.47% protein and 4.41% butterfat for annual delivery of 850,000kg. Constituent values are: protein 54.147c/kg, butterfat 27.074c/kg and lactose 5.415c/kg. F/C's average monthly guaranteed price for 2020 so far is 34.42c/kg. This is 3.5% less than the 2019 average. The average F/C guaranteed price for the past 10yrs is 35.1c/kg. The F/C average price paid according to the LTO survey is 36.32c/kg. F/C are paying a guaranteed price of 47.50c for organic milk in September, down 0.5c.

• **LACTOFERRIN LEADER**—F/C Ingredients are to increase their lactoferrin production capacity in Veghel (Netherlands) by 60t-70t by 2022 to enable strategic growth in their Early Life Nutrition and Adult Nutrition segments. This would make them the largest lactoferrin producer in the world. F/C say global demand for lactoferrin almost doubled between 2014 and 2019. Their product is 96% pure, directly extracted from raw milk at Veghel and spray dried, and recognised for high consistency and dry blending properties. Shortage of lactoferrin hit F/C's 2019 performance.

• F/C are to supply **PlanetProof** milk to other dairy companies in response, they say, to the increasing demand for milk that meets stringent requirements in relation to animals, nature and climate. The milk will be supplied direct from farm. F/C say their farmers want to produce greater volumes of 'sustainable' milk. The programme has been rolled out across more dairy products in supermarkets, including own label. More than 600 F/C members are PlanetProof certified, for which they get paid a 2c/kg bonus.

F/C MILK PRICE (c/kg)		
	2019	2020
Jan	36.25	35.75
Feb	36.50	36.50
Mar	36.50	36.25
Apr	36.00	35.00
May	35.25	33.00
Jun	35.75	32.50
Jul	35.00	33.00
Aug	35.00	34.00
Sep	35.00	33.75
Oct	34.75	-
Nov	35.50	-
Dec	36.40	-
<b>Avg</b>	<b>35.66</b>	<b>34.42</b>

**Netherlands****CHINA COULD WRECK F/C RESULTS**

After long discussions, FrieslandCampina have taken a subordinated, listed loan of €300m. The bonds are listed at Euronext Dublin. Financial news sources report that the loan was oversubscribed more than five times, which is why the expected interest rate was cut from 3.375% to 2.875%. The issue, delayed due to the pandemic, is supported by ABN Amro, Citigroup, ING, JP Morgan and Rabobank. According to rating agency Fitch, the subordination of one month's milk money has strengthened F/C's creditworthiness. F/C are in the process of restructuring their debts. According to Fitch, F/C must cut payments to members. Fitch believe that the effect of the pandemic and stiff competition Chinese market could wreck F/C results.

**Denmark****ARLA PROFIT FROM BUTTER HOARDING**

Arla reported a 34% jump in profit in the first half of the year as consumers stockpiled products including butter in the midst of the Covid-19 crisis.

**Battle lines drawn for 'dairy'****NESTLÉ JOIN CALL TO DROP 'DAIRY' TERMINOLOGY PROTECTION**

Dairy companies including Nestlé and Unilever as well as plant-based Oatly and Upfield have written to European MEPs calling for the protection of original dairy product designations to be eased. As part of the implementation of the Farm-to-Fork strategy, the EU Parliament will vote next month on a reform of market regulation which, among other things, would continue the protection of descriptions such as milk, cheese, yogurt, butter or whey exclusively for dairy-origin products. The signatories argue that such designations are only a description of the nature, function or taste of a product and say that their continued protection runs against developing market demand and prevents consumers from making informed choices. They say it is creating barriers to innovation that would aid climate protection. Protection of dairy terms has been enshrined in the Codex Alimentarius for more than 30yrs. Alexander Anton, secretary general of the European Dairy Association, said: "If I were with Nestlé, a company claimed to be world dairy's no.1, I would feel ashamed to see the Nestlé logo on such a letter."

Germany—Meggle have named **Alfred Mayr**, 52, head of raw material procurement, succeeding Dr Franz Mayer, 63, who is about to retire after 27yrs in the position. Mayr comes from Müller where he was head of procurement for Continental Europe.



the transition. Crystal employs 431 staff at their Kansas Avenue plant, which produces fluid milk, sour cream, butter and ice cream.

Germany—**Carsten Schlachta**, 49, head of finance, administration & IT at DMK Baby, left the company on Thursday (Sept 17). His team will take over responsibilities in the interim.

Ireland—Outspoken MEP **Mairead McGuinness** has been chosen to be Ireland's next EU Commissioner and has been appointed to the Financial Services portfolio. **Charlie Conalogue** has been appointed Ireland's new Minister for Agriculture.

US—**Dennis Roberts**, 54, has been appointed the new president and CEO at Crystal Creamery in Modesto, Calif., where he has worked on and off since 2002. He succeeds **Marty Devine**, who had led the company since 2018; Devine will stay on as a consultant during

Ireland/UK—Ornua have appointed **Patrick Blake** as CFO of Ornua Ingredients Europe, their Nantwich-based cheese and dairy powder ingredients business for Europe. He succeeds **Mike Cullen**.

US—Idaho Milk Products have appointed **Florian Middelhuis** to the position of vice-president of sales and marketing.

**Russia/Finland**

**CHEESE SMUGGLING NOW RIFE**

Russian demand for Finnish cheese has prompted supermarkets near the border to limit sales to 11kg per household. Months of coronavirus-related border restrictions have kept Russian visitors from heading to Finland to buy their own supplies of the Havarti-like Oltermanni cheese. Smuggling is now rife. Some independent cheesemongers are charging customers as much as €20/kg for products that cost as little as €5/kg in Finland.

**Italy**

**PARMIGIANO SALES GROW BUT STILL A SURPLUS**

Sales of Parmigiano Reggiano grew 1.5% to 3.75m loaves last year with sales reaching €2.6bn. Exports were up by 12% and sales in Italy were up 6%. Top export destination was Germany with sales up 16%. Exports to the Netherlands were up 32% and those to the UK up 15%.

However, there is currently an oversupply and the Consorzio Parmigiano Reggiano will buy in 320,000 loaves from manufacturers to be stored until market prices have recovered.

**Italy/Czech Rep.**

**BRAZZALE POST SALES OF €222m**

The Brazzale group, an Italian cheesemaker founded in 1784, posted sales of €222m and an EBITDA margin of 7.6% in 2019. Main production is in Litovel, Czech Rep, where Brazzale process up to 650,000kg of milk per day for ripening in Zané, Italy, and also turn 100,000kg of milk per day into cheese.

**Switzerland/US**

**EMMI ACQUIRE INDULGE DESSERTS**

Emmi are acquiring NY-based desserts maker Indulge Desserts Intermediate Holdings, adding to their growing desserts business in the US. The company generates annual sales of \$80m-\$90m.

**Switzerland**

**BUTTER ANGER**

Swiss dairy farmers are protesting that imported butter is being sold by Branchenorganisation Milch (BOM) as the established Swiss 'Die Butter' brand.

**Ireland/UK**

**'NO GOOD NEWS IN BREXIT'—HANLEY**

Michael Hanley, CEO of Lakeland Dairies, one of the fastest growing dairy co-ops in Ireland, said the Brexit Withdrawal Agreement signed in January, in which the UK and the EU agreed Northern Ireland would continue to follow EU rules on agricultural and manufactured goods, while the rest of the UK would not, was crucial to the dairy industries in Ireland and Northern Ireland. The EU has made it clear there will need to be checks on goods entering the UK from Northern Ireland, amid fears it could distort competition in the market. Hanley said that after 4yrs he was no closer to knowing what the final trade deal would look like. He said: "We have 60% of our milk in Northern Ireland... so Brexit is very, very important for us. We're looking for unfettered access for our products. There is no good news for anybody in Brexit, so the consequences are that there is less return from the market and an extra cost of doing business."

**KERRY CO-OP DAIRY DEAL MOVES CLOSER**

The Kerry Co-op board is understood to have voted in favour last week of pursuing the purchase of a 60% majority share in Kerry Group's primary dairy business in a potential joint venture. It would be the first time the board has officially voted in favour (by 14 votes, with nine against) of proposals for the co-op to buy a 60% majority stake in the business, valued at around €660m-€670m. The deal would involve the purchase of Kerry Group's main milk processing/trading facilities at Listowel, Farranfore, Newmarket and Charleville, plus the company's dairy spreads business at Ossett in West Yorkshire.

**NEW MEP GOT €90,000 IN EU FARM PAYMENTS**

Ireland's newest MEP is Colm Markey, a dairy farmer who has benefited from EU subsidies to the tune of €90,000 over the past 2yrs, who succeeds Mairead McGuinness, who has been appointed Ireland's new EU Commissioner (see PEOPLE above). Markey has rejected any suggestion that the payments could amount to a conflict of interest, with the future of the CAP currently the subject of ongoing talks in Brussels. Markey will go from a councillor's salary of €17,000 to an MEP's pay of around €100,000.

**Ireland**

**ORNUA AGREE BOARD CHANGES**

The Ornua board agreed at a special general meeting last week to governance changes that will provide for greater diversity on the board, "starting with gender diversity". The current 15 (male) directors—including the CEOs of the eight co-ops that sell product to Ornua—will make way for each of the eight to nominate a non-conflicted director who has not served as a senior exec or board member of that co-op in the past 6mths. In addition there will be one representative from each of the three farmer organisations (IFA, ICMSA and ICOS), the Ornua CEO and CFO, and three independents, one of whom will chair. Critics say three independents is not enough to ensure there is no conflict of interest.

- Ornua's **Purchase Price Index** for August was up 0.1c to 101.8c/litre (including VAT), based on their product purchase mix less assumed average processing costs of 7c/litre. The Ornua Value Payment to member co-ops was €3.4m, which equates to 3.8% of gross purchases during the month. The PPI is down 8.7% since January and equates to a farmgate milk price of 25.4c/litre.

- Ornua have set an ambitious target of reaching €2bn in **Kerrygold butter sales** by 2025, up from €1bn reached last year.

**LTO**

**JULY AVGE =32.51c/kg**

The July average for the LTO EU milk price league was up 0.27c from June (and down 1.1c from a year earlier) to 32.51c/kg. Seven of the prices were up in July, all by less than 1c/kg except for Danone, due to a seasonal supplement. Arla of Denmark (-0.7c) and Saputo UK (-0.19c) posted the only cuts.

(c/kg)	July	v. June
Granarolo (It)	37.87	=
Valio (Fin)	35.88	=
Danone (Fr)	37.10	+2.85
Sodiaal (Fr)	34.66	+0.46
Savencia (Fr)	34.46	+0.49
Lactalis (Fr)	33.48	+0.09
Hochwald (Ger)	32.63	=
F/C (Neth)	32.00	+0.48
Arla (Den/Swe)	31.83	-0.73
Kerry (Ire)	31.27	=
DMK (Ger)	30.40	=
Dairygold (Ire)	30.80	+0.50
Müller (Ger)	30.68	+0.29
Glanbia (Ire)	30.29	=
Milcobel (Bel)	28.73	=
Saputo UK (UK)	28.06	-0.19
<b>Average</b>	<b>32.51</b>	<b>+0.27</b>
Capsa (Sp)	31.69	+0.32
Emmi (Switz)	55.37	+3.57
Fonterra (NZ)	28.82	+1.10
US Class III	52.67	+6.59

Source: LTO (Netherlands)  
Ranked according to July prices. For milk with an average of 4.2% butterfat and 3.4% protein.

**Company news****NEW DEVON TRADER SCORES £15m IN 1st YEAR**

Significant contract wins in the UK and overseas have helped drive growth at Bideford, Devon-based Millbrook Dairy Co in their first year of trading. The company has reported inaugural annual turnover of £15.5m and has now revised growth forecasts for their second year of trading. Founded in 2019 by respected former Ornuu UK trading director David Evans (previously he was business development director at Adams Foods before the company was taken over by Ornuu) and his colleague Kevin Beer, Millbrook supply British and Irish cheese and butter to domestic customers and internationally to the US, China, Canada and South America. The business is supported by a £1.6m funding package from Lloyds Bank—an invoice finance facility and loan have helped the business to maintain their operations during the coronavirus crisis, and enabled them to accelerate growth and expand contracts, they say.

**Company reports****BRAEFORGE TURN DOWN £16m OFFER**

Southampton-based **Braeforge**, who also trade as **Pensworth**, have reported pro rata sales up 5% to £58.1m for the year to June 2019 (actually 2018 sales were reported as £68.9m for 15mths). Pro rata operating profits were down from £3.0m to £1.64m in 2018 (actually £3.82m for the 15mths to June 2018). Pro rata pre-tax profits were down from £2.6m to £0.9m. Net assets were up 10% at £6.4m. Dividends were down 20% at £267,000. Braeforge closed their Southampton dairy in Nov 2018 and since then have obtained 80% of milk supplies from Medina's Watson's dairy (now being closed). Remuneration of the highest paid director was unchanged (pro rata) at £155,000. Directors report that during the year they made a strategic decision to convert from being a dairy manufacturer and focus all their resources on expanding

their foodservice operations for dairy-related products. Management said they believed that this transition significantly enhanced the group's value which was demonstrated by an unsolicited £16m offer for the business after the end of the reporting year. The offer was not accepted as their objective to build the group into a £100m foodservice business. Braeforge said Covid-19 had cost them a 27% cut in sales but they expected a 75% return of this business by January. Staff numbers were cut from 280 to 248.

Wolverhampton-based liquid milk business **Johal Dairies** reported

**EURILAIT TOP £71m**

Shepton Mallet, Somerset-based **Eurilait**, a subsidiary of Brittany-based French dairy co-ops Eurial and Laita—who mainly import French cheeses into the UK—have reported sales up 5.4% to £71.3m for calendar year 2019, with operating profits up 11% at £851,000 and pre-tax profits up 17% at £790,000. Dividends paid to their French parent were unchanged at £500,000. Staff numbers were up from 85 to 105.

sales down 1.1% to £33.0m for the year to September 2019, but operating profits were down 11% to £1.52m, cutting their overall operating margin from 5.1% to 4.6%. Pre-tax profits were also down 11% at £1.47m. Net assets were up 10% at £11.7m. Average staff numbers during the year were up from 35 to 38. Highest paid director was paid £75,000. No dividends were paid.

The Walker family's Stockton-on-Tees-based cheese distribution business **Tom Walker & Sons** have reported sales down 22% to £5.9m—and down 33% in 5yrs—for the year to January 2020 and operating profits down 45% to £104,000 and pre-tax profits down 51% to £77,000. Dividends of £96,000 were paid, down from £144,000 the previous year. Interest charges were cut by 18% to £27,000.

**UK milk prices****MEDINA INCREASE OCTOBER MILK PRICE**

Medina Dairy are increasing their October farmgate milk price by 0.3ppl; they have increased their milk price by +5.3ppl since June, after a 5ppl cut in May. **Wyke Farms** are to increase their October farmgate milk price by 1ppl. **Belton Farm** are increasing their October milk price by 0.5ppl, their first price change this year.

**Milk contracts****CONSULTATION ENDS, MONTHS MORE STANDOFF?**

Defra are expected to take the rest of the year to collate and analyse responses to the 12-week consultation on contractual relationships in the UK dairy industry, which closed last week. The consultation, promised for 2yrs by then farm minister and now Environment Secretary George Eustice, was in response to concerns about possible abuse of power by milk processors, with the devolved NFUs calling for contracts between processors and farmers to be agreed, not imposed, for the benefit of the supply chain. DairyUK said they were "supportive" of moves to regulate contracts to ensure a level playing field—including issues such as termination, force majeure, dispute resolution, minimum standards and the need for "clear and accessible language". But they said members were wholly opposed to any moves that would end or impinge on purchaser discretion and flexibility through mandatory fixed prices or the introduction of price formulae. To bolster their case, DairyUK have submitted an independent review of the market by Ernst & Young, which highlights the competitiveness of the industry in an EU and global context, alongside their own response. DairyUK say the processing industry operates on thin margins—an average 0.7ppl net margin over the past 5yrs—and is not making excessive profits. The NFU is keen to see non-exclusive contracts become a choice for dairy farmers and a new role created that is akin to the Grocery Code Adjudicator to oversee new regulation.

**Northern Ireland****CLANDEBOYE YOGURT QUADRUPLE OUTPUT**

Luxury yogurt business Clandeboye Estate hopes to push production up to more than 4,000t of product a year following the investment of over £2m in a new factory in Co Down. The Bangor-based company is creating 13 new jobs as they build new premises in the grounds of Clandeboye Estate, the ancestral home of Lady Dufferin. The milk comes from the estate's pedigree herds of Holstein and Jersey cows. Bryan Boggs, general manager of Clandeboye Estate Yogurt, said: "Our mission is to grow Clandeboye yogurt as sustainably as possible." The latest expansion includes new machinery to produce up to 80t of yogurt a week—over four times what it currently produces. Invest NI are supporting the investment with £470,000.

**Kent Foods hit****ESSEX WAREHOUSE DESTROYED IN MASSIVE FIRE**

A huge blaze has destroyed Kent Foods' flagship warehouse in Basildon Essex. The custom-built depot had only been open for 5yrs and housed the company's chocolate compounding machine, along with Kent Edible Oil manufacturing plants. It was also the base for their bulk transport fleet and had significant dairy ingredient storage facilities from which Kent Foods supplied the south east of England. Only small sections of the building's external wall was left standing. Paisley, Scotland-based Kent Foods are one of the UK's largest dairy trading companies with annual sales of more than £200m. They are using Bristol and Leeds depots while an investigation is carried out and plans for a new base in the Essex area drawn up.

**Coronavirus impact****DAIRY EXPORTS DOWN 8%**

Exports of UK dairy products (excluding liquid milk and cream) totalled 330,800t in the first 7mths of this year, down 8% on the same period in 2019, but up 6% on the 3-year average (2017-2019), according to AHDB Dairy analysis of HMRC data. Cheese and fermented dairy were the categories worst affected. However, butter exports rose and exports of powders and concentrates held steady. UK imports totalled 616,500t (leaving a trade deficit of 285,700t) in Jan-July.

This was down 8% on 2019 and down 7% on the 3-year average. There has been some uplift in recent months, according to AHDB, with June imports up on the year and July in line with last year.

**NEW AHDB REVIEW**

AHDB, now chaired by Nicholas Saphir, former chairman of OMSCo, has pledged another review of farmer levies and how they are spent, with regular ballots to be held thereafter. A new five-year strategy is being published feedback from stakeholders sought by this autumn. Management structure will also be under scrutiny.



**Brexit****DEFRA TO BE GRILLED**

Defra's preparedness (or lack of) for Brexit will be under scrutiny by the parliamentary Environment, Food and Rural Affairs Select Committee today (Sept 22). The committee, led by Neil Parish, MP, will question Secretary of State George Eustice and Tamara Finkelstein, Defra's Permanent Secretary. The session can be viewed on parliamentlive.tv.

**Brand development****MÜLLER ANNOUNCE FRIJJ MILK DRIVE**

Müller have announced plans to build their share in the UK branded milk drinks sector, consolidating FRijj within the Müller Yogurt and Desserts division alongside their branded portfolio with effect from January 2021. Within Müller Milk and Ingredients, FRijj has already benefitted from increased shelf-life, without compromising on taste, by using advanced packaging technology. The bottle and cap are now fully recyclable, with more than half of the bottle made with recycled plastic.

**Retail****SAPUTO LAUNCH CATHEDRAL CITY IN US**

Saputo Dairy UK have announced the launch of Cathedral City in the US, following its launch in Canada last month. Listings are being secured for the Cheddar brand in national retailers across the US and it is expected to be on sale in over 2,000 stores by Thanksgiving in November. The cheese will continue to be made in Cornwall. New, premium packaging shows the brand's Royal Warrant alongside the Union flag to emphasise its British heritage. The reclosable pillow pack is also expected to help set it apart from the shrink-wrapped formats more typically used in the US. At launch the product will be sold in Mature, Extra Mature and Vintage 200g block formats.

**ORNUA CUT PLASTICS**

Ornu Foods UK have announced the launch of the Megablock, a new packaging solution that will deliver a saving of over 40% of plastic per pack of Pilgrims Choice cheese, with a projected reduction of 83t of plastic a year. Tesco are adopting the new format for their own-label Cheddar ranges supplied by Ornu. The 'Same Weight...40% less plastic' campaign will be backed by a £3m marketing campaign.

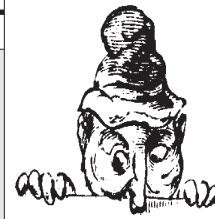
**Oceania v. China**—How things have changed. Until recently, after years of suspicion in Australia and NZ over Chinese takeovers of their dairy companies, all had become sweetness and light, leading to Australia looking favourably on Mengniu acquiring Lion Dairy and the Kiwis seemingly happy about Yili taking Westland. But sentiment has now turned

sour. The facts on the ground have not changed but public sentiment has taken a turn for the worse, with public sympathy towards China turning noticeably hostile. It seems that both Australia and NZ are beginning to realise that China now probably needs them more than they need the Chinese market. The Chinese, who are not fools, have probably noted the change in the way the wind is blowing. For the last three decades the Chinese have played the role of everyone's friend. They might have to start playing this game again soon.

**Corio Bay**—Wattle Health Australia are still hoping to find a new partner to complete the Corio Bay Dairy Group's new milk plant in Geelong, despite plunging the joint venture company into administration. WHA say that in return for a majority shareholding in CBDG, they would consider holding a minor stake—presumably very minor, given the state of their finances (see p3). The first creditors' meeting with the Australian Securities and Investments Commission, held last week, put CBDG's debt at \$52m, of which WHA accounted for \$44m through a secured loan. The company that is building the Geelong factory—George Rydell Constructions—is owed just over \$4m, the Australian Taxation Office \$66,000, and 13 other companies and individuals involved in setting up the spray dryer are owed the remainder. The company ran out of money in April, had a huge fallout with its major joint venture partner—Organic Dairy Farmers of Australia, themselves now also in receivership—and ultimately failed to secure \$20m in funding needed for CBDG.

—ODFA's assets (the land and their own Geelong milk processing plant) were sold to The Remarkable Milk Company last month. RMC are controlled by the Mulcahy family's Kyvalley Dairy Group, whose factory at Kyabram will be expanded and upgraded as a result of an extended supply contract with a2 Milk, who will fund the upgrade. Kyballey have supplied over half of a2's Australia milk since 2003; they also pack all a2Milk products sold in Vic, SA and Tas. They have already installed a milk bottling plant inside the ODFA factory and are supplying Aldi with fresh milk. Might they yet be drawn to partner with WHA in the CBDG plant? RMC have registered three business names in the past 2wks: Australian Organic Dairy Processing Centre, Australian Organic Processing Centre and Organic Dairy Farmers Australia. Coincidence?

**Pandemics**—Pandemics among pigs are not quite as alarming as pandemics among humans, wherever they started. The African Swine Fever in China has been headline news in the pig industry and among exporters of whey, who took a huge hit. But, as with Covid-19, the Chinese don't mess about when it comes to finding solutions. As we report on p1, it appears that they are getting to grips—assuming whey imports are a reliable indication—with the swine fever pandemic, which, happily, this time, has not jumped a species (yet). The bad news is that swine fever has now emerged in Germany. We



**I hear....**

can now only hope that the Germans prove as efficient at dealing with swine fever as they have (so far) been in dealing with Covid-19.

**UK milk contracts**—Will Defra's dairy contracts consultation (see facing page) be transformational or just another damp squib in the face of 'greater' issues, not least the ongoing pandemic?

Given that the great milk price contract debate, driven by the devolved NFUs, has sallied to and forth for years, and farmers were being asked to fill in over 20 pages of an online-only questionnaire during peak summer working weeks, much will rest on how many will have been bothered to fill it in, especially given the recovery in post-lockdown milk prices. Defra have intimated that it will be the end of the year before they will be able to come back with any kind of response—and this, of course, will slam straight into the end of the Brexit transition period and a likely no-deal exit. The NFU (32-page submission, including evidence of increasing legal support sought by dairy members over the past 5yrs) and DairyUK (43-page submission) both show signs of a desire to smooth fractious relations, with DairyUK expressing support for some tighter protection for farmers but fiercely protective of their processor members' wafer-thin margins—and will be anxious to prevent any more member walkouts (and levy losses) à la Müller.

**Faded jewel**—Farewell Emerald Debtco, finally dissolved almost 3yrs after the demise and dismissal from the Arla amba board of directors of Jonathan Ovens, who was joint chairman at the time and a huge presence on the British dairy farming scene, over "issues of corporate governance" within Emerald. The company was all that was left of the old Arla Foods Milk Partnership, also chaired by Ovens, before AFMP members were absorbed into Arla amba. Ovens vowed he would fight his sacking, but not a pipsqueak has been heard since.

**From Mendip to Lactalis**—Eons ago, Frome-based Mendip Foods—set up by former Unigate exec Simon Oliver as Coombe Farm Foods, which went into partnership with Dairy Crest to develop the Cathedral City brand before the whole business was sold to DC in 1995—had the contract to cut and pack Kraft's Cracker Barrel Cheddar for the UK market. That was until DC decided they didn't need the aggravation of dealing with the world's biggest food manufacturer. And now Lactalis have acquired the brand, so we assume the cutting and packing operation will soon be moved into the McLelland's operation at Stranraer. Swings and roundabouts!

**Brexit**—As the biggest-selling German daily newspaper reported recently, Britain has become the laughing stock of the world over its handling of Covid-19 and hasn't done much better with its handling of Brexit, with Prime Minister Boris Johnson seen as little better than a clown, with his own chief law officer, followed by other legal eagles, resigning in the past week over government's ignoring of their colleagues' frank admission that international law would be broken by reneging on the Withdrawal Agreement—and the last five British prime ministers supporting the rebels. Suddenly the EU has all the friends it needs in its dingdong with the seemingly friendless Brits. For months Boris Johnson has called on the might of the British Empire to come to the aid of the Mother Country. This is beginning to look like an increasingly flimsy call to arms.

**LACTALIS NOW CLOSE TO GETTING TO No.1**

By Mary Ledman & Saskia van Battum, Rabobank Research

Rabobank's annual listing of the Global Dairy Top 20 companies by turnover highlights the strategic movements within one of the world's most valuable food sectors. Exchange rate fluctuations, modest commodity price appreciation, below-trend increases in milk production in key exporting countries, and limited organic growth in major dairy categories contributed to relatively modest gains in the combined turnover of the Global Dairy Top 20, which, in US dollar terms, increased by 1.3% in the year, compared with the 2.5% increase posted in 2018.

The strategic question for some companies has been whether to invest or divest, as ten of the Global Dairy Top 20 reported lower year-on-year sales in US dollar terms. Privately-held global dairy titan Lactalis answers that question with a strong affirmation, growing their dairy empire by adding 41 deals since 2013, and more recently expanding their global footprint in the Middle East and Africa and North and South America.

Conversely, the long-time leading global dairy company chose to divest some of its non-core dairy assets. Nestlé's parring of their \$1.8bn US-based ice cream business, along with other assets (some of which were acquired by Lactalis), has resulted in a significant narrowing in the gap between the top two global dairy companies. Nestlé remains no.1 but the \$3.5bn gap between it and Lactalis in 2018 closed to just \$1.1bn in 2019.

The US's largest dairy co-op, DFA, made a strategic and significant acquisition, leapfrogging from no.6 to no.3 in our rankings by acquiring previously ranked no.11 Dean Foods in early 2020, securing a home for a substantial portion of their members' milk, and boosting year-on-year sales by 47.5%. DFA will experience additional organic growth later this year, with the commissioning of a large-scale cheese plant (135,000t pa) in Michigan, which is a joint venture with Select Milk and Glanbia.

Organic growth was not enough to retain Danone's ranking, and the company slipped to no.4. Danone ranked as high as no.2 in 2017, after several acquisitions that year.

Asian companies made some major moves in this year's list. China's largest dairy company, Yili, moves to no.5, with year-on-year growth of nearly 20%, due in part to acquisition of the NZ-based Westland co-op. Increasingly fierce competition in China's domestic market forces companies to look overseas for growth, but this is becoming more challenging. China's second-largest dairy company, Mengnui, rose from no.10 to no.8, on the heels of acquiring Australia-based Bellamy's and entering into a joint venture with Coca-Cola to sell chilled milk in China. However, Mengnui's planned acquisition of another Australian business, Lion Dairy and Drinks—currently owned by Kirin of Japan—failed to gain approval from Australia's Foreign Investment Review due to rising tensions between the two countries.

Consolidating of key dairy assets by Fonterra and FrieslandCampina resulted in lower year-on-year sales in both US dollars and euros, and each slipped two notches in this year's survey. Likewise, Arla Foods also dropped two spots in the rankings. Co-op members in NZ and Europe are facing greater environmental constraints. As a result, these companies are likely to focus on value strategies and plant rationalisation.

Entering the Global Dairy Top 20 this year, from the world's largest milk-producing country, is India's Gujarat Co-op, with \$5.5bn in 2019, up 17% from the prior year. GCMMF recorded a 17% compound annual growth rate in the past decade although their accounts are limited.

Looking forward to the next year, we expect the continuation of below-trend milk production gains in most of the major exporting countries—due in part to rising costs of production, as farms comply with environmental regulations. Slower economic growth in China and a post-Covid-19 global recession will cause consumers to trade down. One of the challenges of operating in the pandemic is that it is more difficult to get deals done. As a result, companies risk being trapped in declining margins, unless they can capitalise on a 'winning in home markets' strategy, as consumers alter their purchasing habits with greater attention to health and wellness and less away-from-home dining. At the same time, companies may reconsider their global strategies in the light of growing trade tensions around the globe, along with more inwardly focused domestic food security policies, resulting in future-proofing market share with more on-shore manufacturing than trade.

**GLOBAL DAIRY TOP 20 DAIRY BY ANNUAL TURNOVER**

US\$bn		Company	HQ	2019	'19 v.' 18
'20	'19				
1	1	Nestlé	Switzerland	22.1	-9.1%
2	2	Lactalis	France	21.0	+1.0%
3	6	DFA**	US	20.1	+47.8%
4	3	Danone	France	18.2	+2.3%
5	8	Yili	China	13.4	+19.6%
6	4	Fonterra**	NZ	13.2	-7.7%
7	5	FrieslandCampina**	Netherlands	12.6	-8.7%
8	10	Mengniu	China	11.9	+15.5%
9	7	Arla Foods**	Denmark	11.8	-4.8%
10	9	Saputo	Canada	11.3	+2.7%
11	13	DMK**	Germany	6.5	-3.0%
12	12	Unilever	Netherlands	6.4*	-4.5%
13	16	Meiji	Japan	5.9	+1.7%
14	15	Sodiaal**	France	5.7	-5.0%
15	17	Savencia	France	5.6	-1.8%
16	-	GCMMF/Amul**	India	5.5	-
17	18	Agropur**	Canada	5.5	+5.8%
18	14	Kraft Heinz	US	5.4	-10.0%
19	19	Schreiber Foods	US	5.1*	=
20	18	Müller	Germany	4.9*	-3.9%

Turnover data is dairy sales only, based on 2019 financials and M&A transactions completed between January and June 2020. Pending mergers/acquisitions not incorporated include FrieslandCampina's acquisition of Nutricima and Unilever's sale of their ice cream business in Chile. Merger and acquisition activity in the global dairy arena during 2019 totalled 115 deals, just outpacing the prior year's 112. The majority of 2019 transactions—which include investments, divestments, acquisitions, joint ventures, and strategic alliances – took place in Europe (64), followed by North America and Asia (39 and 25, respectively). As of mid-2020, the number of dairy deals stands at 52, impeded by Covid-19 and foreshadowing a more active deal environment for 2021.

\*Estimate. \*\*Co-op. Source: Rabobank 2020

**DAIRY INDUSTRY NEWSLETTER (DIN)**

Editor: Catherine Paice, tel: +44 (0) 1892 882 794. Email: catherine@dairyindustrynewsletter.co.uk  
 Publisher: Barry Wilson, tel: +44 (0) 203 432 1998. Email: barry.din@gmail.com

**All subscription, payment and conference enquiries should be addressed to:**

Carolyn Moore: tel: +44 (0) 203 773 8794. Email: carolyn@dairyindustrynewsletter.co.uk  
 Payments by BACS: HSBC Bank, 240 Lavender Hill, Clapham Junction, London SW11 1LH.  
 Account no. 52016427, sort code 40-02-16, IBAN: GB46HBUK40021652016427, SWIFTBIC: HBUKGB4115C.  
 Payments can also be made in euros and US dollars, please contact Carolyn for details (see above).

**Website:** <https://dairyindustrynewsletter.co.uk>—Our website includes a daily, comprehensive, regularly updated news service, with market prices from more than 20 products worldwide, international milk price comparisons, company reports and pdf copies of the newsletter. If you already subscribe to the printed version of DIN, you can add website access for £200 or €230 or \$240.

**Digital subscription:** Online only, no hard copy mailed to subscriber; full access to our website where recent editions of DIN are available as pdfs.

Dairy Industry Newsletter (Eden Publishing): PO Box 1215, Cambridge CB1 0UR.  
 Published every two weeks (25 issues/year) and printed by Tavistock Printmaster, 20 Cheddars Lane, Cambridge CB5 8LD.

**ANNUAL DIN SUB. RATES**

**Print edition:**

UK	£520
Europe	€600
Elsewhere	\$660

**Combined print copy & website access**

UK	£720
Europe	€830
Elsewhere	\$900

**Digital (website) only**

UK	£680
Europe	€770
Elsewhere	\$830

Digital subscription includes DIN online, website, access to our daily updated news service, market prices, UK company reports and archives.