



JULY 2021

# Global Dairy UPDATE



- Start of new season in New Zealand. US, EU and Australia monthly production up.

- Farmer feedback set to shape revised capital structure proposal.



- Australia, New Zealand and US monthly exports continue to grow while EU monthly exports ease.



- Increase in imports across China, Asia and Latin America. Middle East and Africa monthly imports ease.



- Fonterra's New Zealand milk collection for the first month of the 2021/22 season was 14.6 million kgMS, less than 1% of the full season.
- Fonterra's Australian collection reached 105.8 million kgMS for the full 2020/21 season to 30 June 2021, a 1.8% decrease compared to last season.

- Cow manure to fire up the barbecue.

## Key Dates



31 July 2021  
End of Financial Year 2021

23 September 2021  
FY21 Annual Results  
Announcement

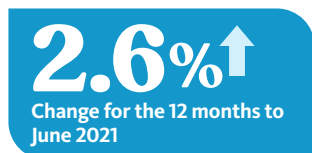
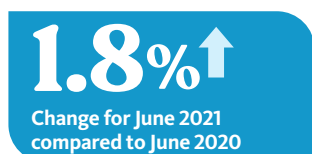
December 2021  
FCG/FSF Annual Meetings



## Start of the new season in New Zealand. US, EU and Australia monthly production up

To view a chart that illustrates year-on-year changes in production –

### NEW ZEALAND

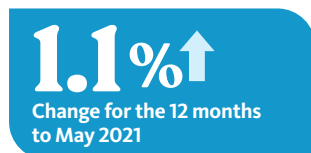
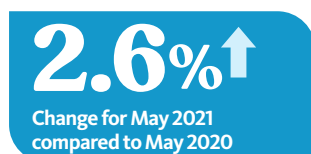


**New Zealand milk production<sup>1</sup>** increased 1.8% on a litres basis, (up 1.6% on milk solids basis) in June compared to June last year. June typically represents about 1% of the total season's production.

New Zealand milk production for the 12 months to June was 2.6% higher than last year.

Fonterra collections are reported for June, see page 5 for details.

### AUSTRALIA



**Australia milk production** increased 2.6% in May compared to May last year.

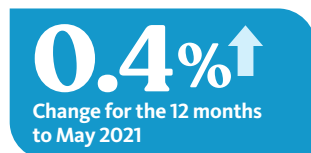
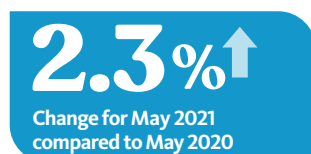
Increasing farmer confidence and good seasonal conditions are yet to materialise into significant milk growth primarily due to lower herd numbers, farm exits and labour shortage.

Dairy Australia is forecasting milk production to be -1% to +1% for the 2020/21 season.

Australia milk production for the 12 months to May was 1.1% higher than last year.

Fonterra collections in Australia are reported for June, see page 5 for details.

### EUROPEAN UNION

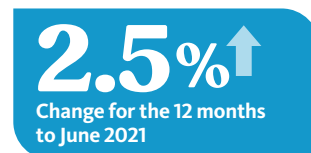
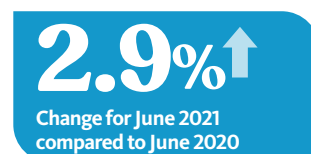


**EU milk production<sup>2</sup>** continued to improve and increased by 2.3% in May compared to the same period last year.

Strong volumes were observed in Italy, (up 10.6%) on the back of very low volumes last year, and increases in Ireland up 6.1%, Poland up 1.5% and Spain up 1.0%.

EU milk production for the 12 months to May was up by 0.4% compared to the same period last year, driven by higher volumes from Ireland, Poland, Italy and Sweden.

### USA



**US milk production** increased by 2.9% in June, compared to the same period last year.

June production continued to grow year on year, albeit at a slower pace, following extreme heat in some regions. A contraction in herd size was also observed following more than 12 months of expansion as a result of higher input costs.

Milk production for the 12 months to June was 2.5% higher compared to the same period last year.

<sup>1</sup> New Zealand production is measured in litres.

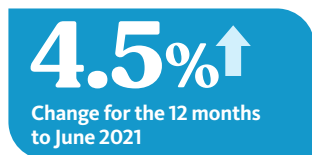
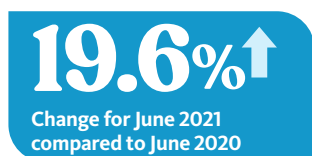
<sup>2</sup> Excludes UK.



# Australia, New Zealand and US monthly exports continue to grow while EU monthly exports ease

To view a chart that illustrates year-on-year changes in exports –

## NEW ZEALAND

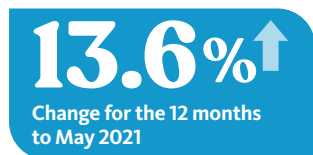
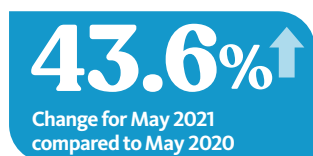


**Total New Zealand dairy exports** increased 19.6% or 51,642 MT, in June compared to the same period last year.

The increase was driven by record volumes of WMP, up 49,558 MT year-on-year, or 45%, to China and South East Asia.

Exports for the 12 months to June were up by 4.5%, or 153,613 MT, on the previous comparable period. This was primarily driven by WMP, fluid milk products and cheese but partially offset by declines in SMP, AMF and infant formula.

## AUSTRALIA



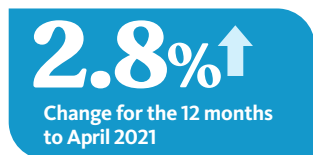
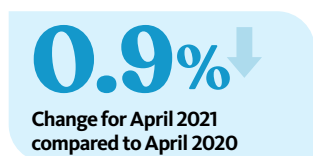
**Australia dairy exports** increased by 43.6%, or 23,398 MT, in May compared to the same period last year.

Continued strong demand, primarily from China, in fluid milk products, up 5,795 MT, SMP up 5,628 MT, WMP up 4,884 MT and cheese, up 1,782 MT are driving this increase.

Exports for the 12 months to May were up 13.6%, or 97,546 MT, on the previous comparable period.

This was predominantly driven by increases in fluid milk products, SMP and butter but partially offset by declines in infant formula.

## EUROPEAN UNION

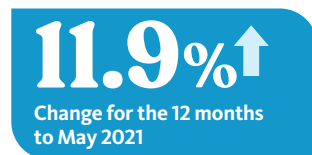
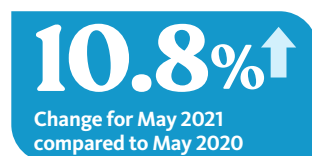


**EU dairy exports** decreased by 0.9%, or 6,030 MT, in April compared to the same period last year.

April exports saw lower demand for infant formula, cultured products, SMP and butter. This was partially offset by strong volumes of fluid milk products and cheese.

Exports for the 12 months to April were up 2.8%, or 197,726 MT, on the previous comparable period. Fluid milk products, whey, cheese and lactose were the main drivers of this growth, up a combined 364,439 MT. It was partially offset by declines in SMP, infant formula, MPC and MPI.

## USA



**US dairy exports** increased 10.8%, or 25,097 MT, in May compared to the same period last year.

Strong demand for SMP from Mexico and Algeria are driving this increase. Shipments to China of whey, SMP and fluid milk products also strengthened in May. Partially offsetting this increase was a decrease in cheese export volumes of 4,408 MT, or 12%, on the back of rising prices.

Exports for the 12 months to May 2021 were up 11.9%, or 281,232 MT on the previous comparable period, driven by SMP, whey, WPC and cheese, up a combined 267,303 MT.



## Increase in imports across China, Asia and Latin America. Middle East and Africa monthly imports ease

To view a chart that illustrates year-on-year changes in imports –

### LATIN AMERICA

**3.0%↑**

Change for April 2021 compared to April 2020

**4.3%↑**

Change for the 12 months to April 2021

**Latin America dairy import volumes<sup>1</sup>** increased 3.0%, or 3,831 MT, in April compared to the same period last year.

The increase was driven by stronger volumes across most product categories, in particular, cheese to Mexico and Chile, WMP to Peru, and WPC to Mexico. This was partially offset by a large decrease in SMP to Mexico.

Imports for the 12 months to April were up 4.3% or 75,042 MT compared to the same period last year.

### ASIA

**17.0%↑**

Change for April 2021 compared to April 2020

**2.7%↑**

Change for the 12 months to April 2021

**Asia (excluding China) dairy import volumes<sup>1</sup>** increased 17.0% or 65,077 MT, in April compared to the same period last year.

The increase was driven by higher imports across most categories. There were higher volumes of SMP to the Philippines and Vietnam and lactose to Nepal.

Imports for the 12 months to April were up 2.7%, or 126,250 MT, compared to the same period last year, driven by higher volumes of SMP, lactose and cheese.

### MIDDLE EAST & AFRICA

**0.1%↓**

Change for April 2021 compared to April 2020

**3.9%↑**

Change for the 12 months to April 2021

**Middle East and Africa dairy import volumes<sup>1</sup>** decreased 0.1% or 293 MT in April compared to the same period last year.

The decrease was driven predominantly by lower volumes of SMP and WMP to Nigeria and Algeria but partially offset by higher imports of fluid milk products to Iraq.

Imports for the 12 months to April were up 3.9%, or 148,923 MT, compared to the same period last year, driven by increases in WMP, infant formula and SMP, and partially offset by declines in fluid milk products and butter.

### CHINA

**19.7%↑**

Change for June 2021 compared to June 2020

**26.1%↑**

Change for the 12 months to June 2021

**China dairy import volumes** increased by 19.7%, or 54,205 MT, in June compared to June last year and marked a record import month for June as China continues to promote the consumption of dairy products.

Strong volumes of WMP imports continued in June, sourced primarily from New Zealand as well as Uruguay and Australia. Fluid milk products and SMP also contributed to the import growth.

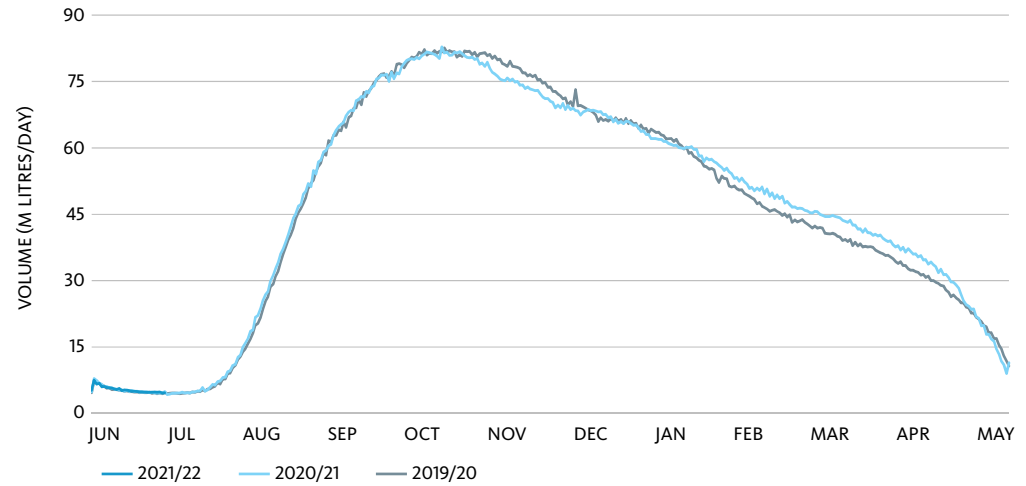
Imports for the 12 months to June were up 26.1% or 843,361 MT, driven by fluid milk products, whey, SMP and WMP.

<sup>1</sup> Estimates are included for those countries that have not reported data.



To view a table that shows our detailed milk collection in New Zealand and Australia compared to the previous season –

## New Zealand Milk Collection



### NEW ZEALAND

**0.9%** ↓

Change for June 2021 compared to June 2020

**0.9%** ↓

Season to date 1 June to 30 June

**Fonterra's New Zealand collection** for June was 14.6 million kgMS, 0.9% lower than the same month last season.

As is normal for this time of the season, collections for June represent less than 1% of the full season forecast.

### NORTH ISLAND

**9.2%** ↑

Change for June 2021 compared to June 2020

**9.2%** ↑

Season to date 1 June to 30 June

**North Island** milk collection in June was 12 million kgMS, 9.2% higher than June last season.

June collections benefitted from unseasonably warm weather. Much needed rain was seen by most of the North Island.

### SOUTH ISLAND

**30.1%** ↓

Change for June 2021 compared to June 2020

**30.1%** ↓

Season to date 1 June to 30 June

**South Island** milk collection in June was 2.6 million kgMS, 30.1% behind June last season. Although a large variance in percentage terms, South Island volumes are low at this time of the season.

The central and lower South Island saw significant rain in June and this, coupled with frosty mornings, impacted milk flows.

### AUSTRALIA

**13.7%** ↓

Change for June 2021 compared to June 2020

**1.8%** ↓

For the 2021/20 Season compared to the previous season

**Fonterra's Australia collection** in June was 5.9 million kgMS, a 13.7% decrease on June last season.

Farm milk collections were reduced as isolated storms and flooding impacted production in Victoria. Third-party volumes were also actively reduced.

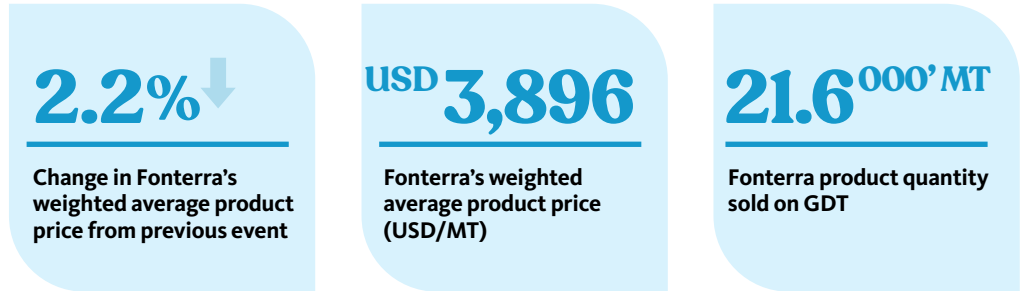
Full season collections were 1.8% down on last season, with favourable on-farm conditions throughout stabilising milk production.

OUR MARKETS

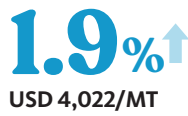
# Fonterra Global Dairy Trade Results



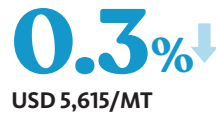
Fonterra GDT results at last trading event  
**20 July 2021:**



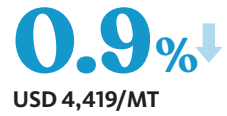
**CHEDDAR**



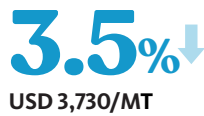
**AMF**



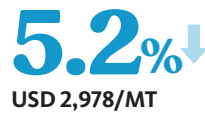
**BUTTER**



**WMP**

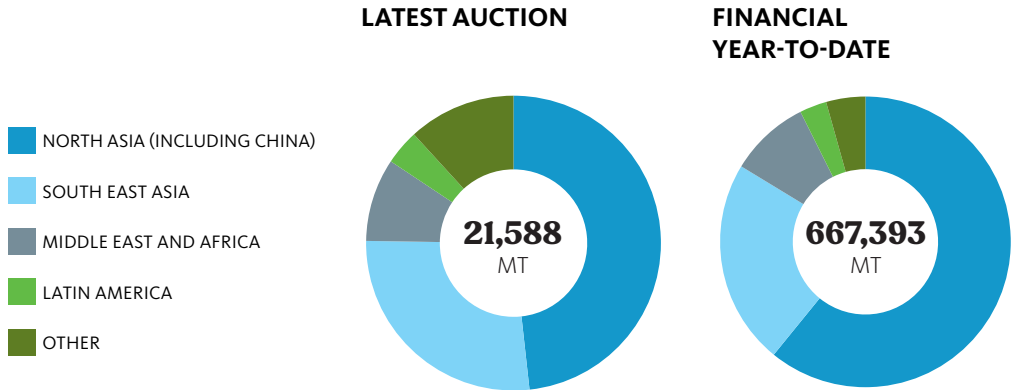


**SMP**



Fonterra GDT sales by destination:

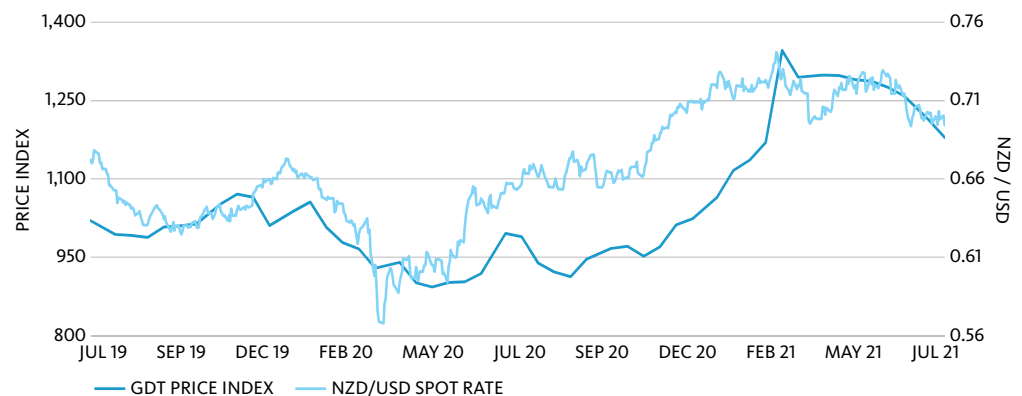
To view more information, including a snapshot of the rolling year-to-date results –



▶ The next trading event will be held on 3 August 2021. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

## Dairy commodity prices and New Zealand dollar trend

The NZD declined towards 69 US cents as a global resurgence of COVID-19 infections saw increased demand for safe haven assets such as USD; a more pronounced decline was curtailed as increasing inflationary pressures in New Zealand resulted in higher interest rates, which in turn supported the NZD.







## Farmer feedback set to shape revised capital structure proposal

With the first phase of Fonterra's capital structure consultation now complete, the Co-op is drawing up a revised proposal that aims to reflect farmers' views.

A number of changes are being considered to the preferred option initially put forward in the Consultation Booklet in May – including adjusting the proposed minimum shareholding requirement for farmers and enabling sharemilkers and contract milkers to own shares.

"It's a good time for the Board to step back and reflect on the feedback as most farmers will now be busy with calving. Once they've come through this particularly busy time of the season, we'll be ready to consult on the updated proposal," says Chairman Peter McBride.

Consultation has been extensive to date, starting with the initial communication on 6 May and the Consultation Booklet being sent to every farmer owner. Since then:

- Directors have held 90 farmer meetings, attended events such as the My Connect conference and Field Days as well as leading seven online webinars and speaking with many farmers directly.
- Over 5,000 farmers have directly engaged through feedback channels, in addition to discussing the options with each other.
- Members of Fonterra's Board and management

have also been talking with other groups such as the Co-operative Council (formerly the Shareholders' Council), the Fonterra Shareholders' Fund, the Government, major banks and rural professionals. This engagement will continue as the consultation progresses.

"We would like to thank our farmer owners for getting involved and approaching the consultation with open minds," says McBride.

"We also want to acknowledge the uncertainty that comes along with us considering changes to our capital structure and the significant challenges that it's creating for some farmers. The best way to give certainty is to ensure we have a full discussion as a Co-op and get to a quality outcome.

"The Board maintains its belief that, in a flat or potentially declining milk environment, making changes early will put us in the best position to provide farmers with more flexibility while protecting farmer ownership and strengthening our Co-op's financial sustainability."

### Summary of farmer feedback

Many farmers said that additional information on the Co-op's business strategy and future performance would help them form a clearer view on capital structure.

"In August and September, we will provide further information on our long-term strategy including the types of activities we will invest in, the returns we are targeting, and the measures

against which we will track our progress."

McBride says farmers' views have been varied and heartfelt, but with some clear themes coming through.

"We will seek to cater for the diversity within our ownership base, but it is impossible to incorporate every piece of feedback. As a Co-op, we need to be pragmatic and open to compromise in order to find a way forward together that is in our best long-term interests."

A summary of the feedback is available [here](#), while a high-level overview of alternative proposals submitted by farmers is available [here](#).

### Proposed areas for change

The Board is considering a number of changes as it thinks about what a final proposal could look like. These include:

- Setting the minimum shareholding requirement at 33% of milk supply (or 1 share per 3 kgMS), rather than 25% (or 1 share per 4 kgMS) as originally set out in the preferred option.
- Enabling sharemilkers and contract milkers to hold shares if the Co-op moved permanently to a farmer-only market.
- Extending the entry time-frame from five to six years.
- Extending exit time-frames for all farmer owners on the date of the vote to up to 10 or 15 years, including those who have already ceased in the past few seasons but who still hold shares.
- Reviewing the market maker role and looking further at how potential

share buy-back options might support liquidity in a farmer-only market.

- Maintaining the share maximum at 4x milk supply to also help support liquidity.
- "We have also reconsidered voting rights in light of some feedback and at this stage our preference is for voting to continue to follow share-backed supply as it currently does," adds McBride.

### Next steps for consultation

Fonterra is committed to moving as quickly as it can through the capital structure review while also taking the time needed to consider all views.

Over the next couple of months, the Co-op plans to do surveys and hold focus groups to ask farmers specific questions and test different aspects of the potential changes.

"This will help us as we continue to develop a more detailed proposal to present to farmers around the time of our annual results in late September for further consultation. At this stage, we are still aiming for a farmer vote at our Annual Meeting, which will be held in December."

### For further information –



## Cow manure to fire up the barbecue

A study between Fonterra, Beca, Firstgas Group and EECA has found using organic waste is a viable, untapped solution to provide an alternative to New Zealand's current residential gas supplies, with the potential to replace nearly 20% of the country's total gas usage by 2050.

Biogas is created by anaerobic digestion, where bacteria breaks down organic matter (such as food waste or cow manure) to create a gas, which, once cleaned, can be used in existing pipeline networks, appliances and equipment, while saving up to 19 times the emissions.

Fonterra already has biodigesters at its Tirau and Darfield sites where bugs work to process fats and proteins in wastewater, cleaning the wastewater and creating a gas. As well as creating a gas there's also a nutrient dense product that can be spread to paddocks and crops as fertiliser.

Fonterra Head of Energy and Climate, Linda Mulvihill says the study provides another potential option to help the Co-operative get to net zero emissions by

### [Biodigester at Fonterra's Darfield site](#)

2050 "We're committed to playing our part to help the country transition to a low carbon future.

"We know the more alternative energy sources we have, the faster we will be able to transition our manufacturing operations onto renewable energy sources and off coal. This study is a good example of how government and industry can work together – sharing science, expertise and experience – we can find solutions for the good of New Zealand."

The Co-op recently committed to getting out of coal at its manufacturing sites by 2037. Nine sites out

of 28 currently use coal, with Te Awamutu being converted to wood pellets last season to reduce Fonterra's coal use by around 10 per cent, the equivalent of taking 32,000 cars off the road.

[To read the Executive Summary –](#)

[To read the full study –](#)



# Supplementary Information

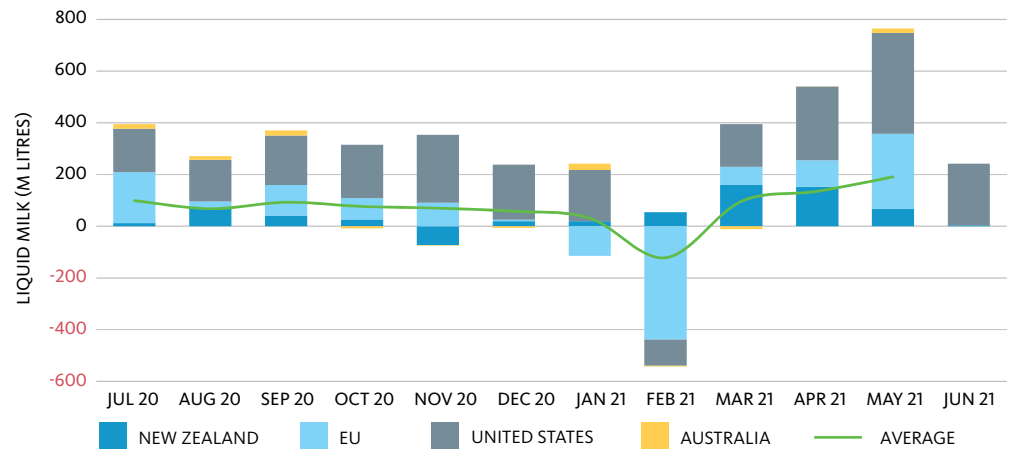
## Global Dairy Market

The charts on the right illustrate the year-on-year changes in imports, exports and production for a range of countries that are important players in global dairy trade.

The absolute size of the bars represents the change in imports, exports or production, relative to the same period the previous year.

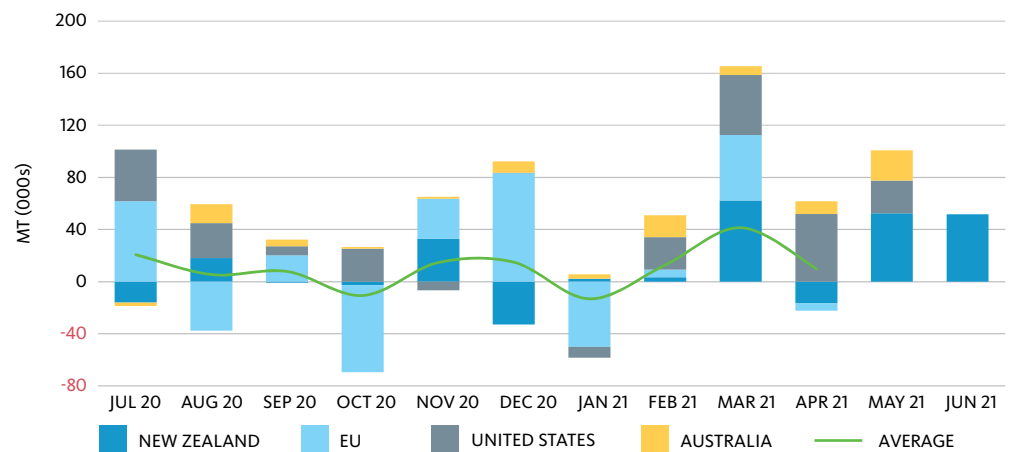
Averages are shown where data is complete for the regions presented.

### PRODUCTION



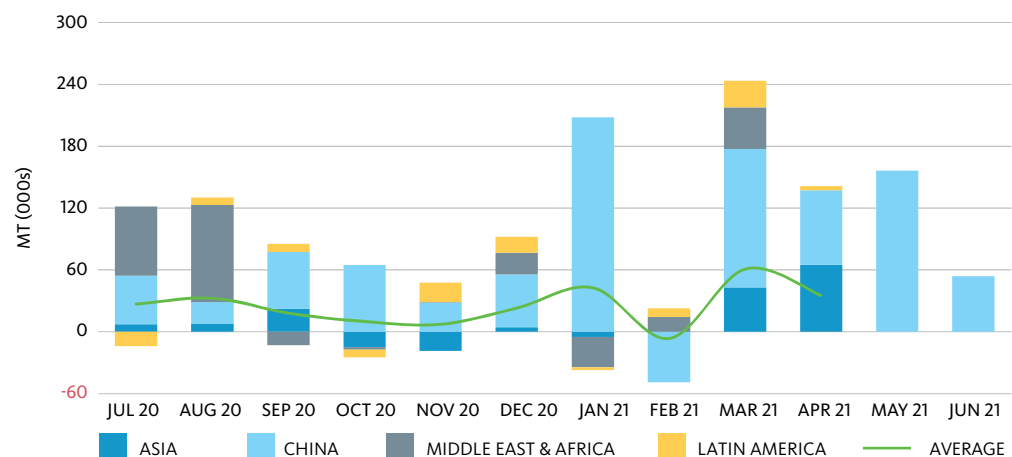
NOTE: Data for EU and Australia to May; New Zealand and US to June.

### EXPORTS



NOTE: Data for EU to April; US and Australia to May; New Zealand to June.

### IMPORTS



NOTE: Data for Asia, Middle East & Africa and Latin America to April; China to June.

SOURCE: Government milk production statistics/GTIS trade data/Fonterra analysis.

# Supplementary Information

## Fonterra milk production

The table on the right shows Fonterra milk solids collected in New Zealand and Australia compared to the previous season.

MILK COLLECTION (MILLION KGMS)	JUNE 2021	JUNE 2020	MONTHLY CHANGE	SEASON-TO-DATE 2021/22	SEASON-TO-DATE 2020/21	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	14.6	14.8	(0.9%)	14.6	14.8	(0.9%)
North Island	12.0	11.0	9.2%	12.0	11.0	9.2%
South Island	2.6	3.8	(30.1%)	2.6	3.8	(30.1%)

MILK COLLECTION (MILLION KGMS)	JUNE 2021	JUNE 2020	MONTHLY CHANGE	SEASON-TO-DATE 2020/21	SEASON-TO-DATE 2019/20	SEASON-TO-DATE CHANGE
Australia	5.9	6.8	(13.7%)	105.8	107.8	(1.8%)

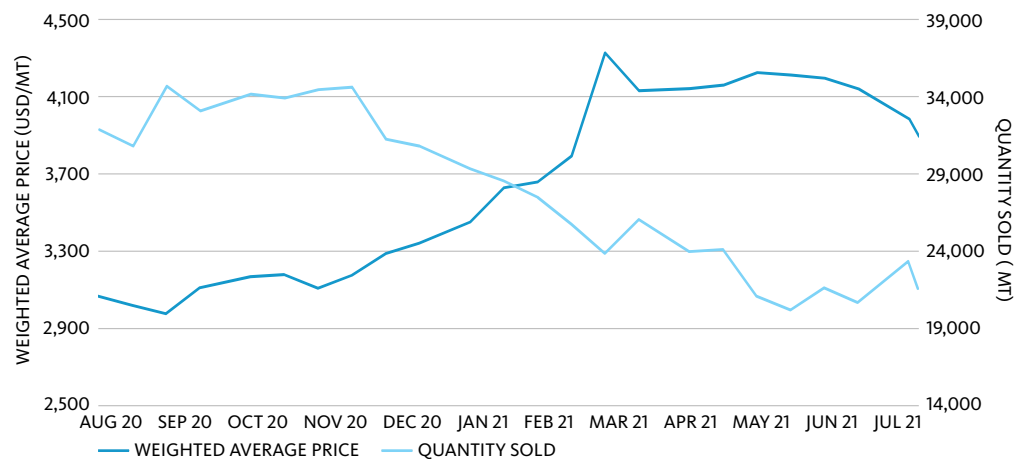
## Fonterra GDT results

This table provides more information on the latest results, including a snapshot of the year-to-date results.

	LAST TRADING EVENT (20 JULY 2021)	YEAR-TO-DATE (FROM 1 AUGUST 2020)
Quantity Sold on GDT (Winning MT)	21,588	667,393
Change in Quantity Sold on GDT over same period last year	(7.3%)	(3.0%)
Weighted Average Product Price (USD/MT)	3,896	3,562
Change in Weighted Average Product Price over same period last year	20.5%	9.0%
Change in Weighted Average Product Price from previous event	(2.2%)	-

## Fonterra GDT results

This chart shows Fonterra GDT prices and volumes over the past 12 months.



# Glossary

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## AMENA

Africa, Middle East, Europe, North Asia, Americas.

## AMF

Anhydrous Milk Fat.

## BMP

Butter Milk Powder.

## DIRA

Dairy Industry Restructuring Act 2001 (New Zealand).

## Farmgate Milk Price

The price for milk supplied in New Zealand to Fonterra by farmer shareholders.

## Fluid Products

The Fonterra grouping of fluid milk products (skim milk, whole milk and cream – pasteurised or UHT processed), concentrated milk products (evaporated milk and sweetened condensed milk) and yoghurt.

## GDT

Global Dairy Trade, the online provider of the twice monthly global auctions of dairy ingredients.

## kgMS

Kilogram of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra.

## MPC

Milk Protein Concentrate.

## Non-Reference Products

All dairy products, except for Reference Products, produced by the NZ Ingredients business.

## NZMP

New Zealand Milk Products.

## Reference Products

The dairy products used in the calculation of the Farmgate Milk Price, which are currently WMP, SMP, BMP, butter and AMF.

## Season

New Zealand: A period of 12 months to 31 May in each year.

Australia: A period of 12 months to 30 June in each year.

## SMP

Skim Milk Powder.

## WMP

Whole Milk Powder.

## WPC

Whey Protein Concentrate