

Liquid milk producers need 26c/l for summer milk, and 34c/l annual average

To break even in 2009, based on the winter Dairy Profit Monitor and National Farm Survey data, liquid milk producers will need an annual average milk price of **34c/l**. The summer prices, currently being negotiated, will need to reach at least **26c/l** to allow producers cover their costs until September next. However, most dairies paid well below that price for the first summer month of April (see below right). Producer groups have been faced with dairies' demands for further price cuts.

The background to this is the supermarket price wars of the last few months, escalated in early May by Tesco. The wholesale price paid by retailers to dairies have been cut over the last few months, and these cuts have come straight out of farmers' pockets, with producer prices now around 10c/l down on this time last year.

We are proving below that, even after the latest retail and wholesale price cuts, both dairies and retailers are still making massive profits from the liquid milk market, particularly relative to the level of cost each incur in the chain. Dairies operate within co-ops involved in the extremely difficult dairy commodity markets, and there is undoubtedly internal pressure to retain maximum profits. However, liquid milk producers are left to struggle to cover costs. This is unfair, as liquid milk producers are specialised to supply a market which remains very profitable. 26c/l for the summer of 2009 is fully justified.

WHO GETS WHAT FROM THE CURRENT RETAIL MILK PRICE?

We estimate current average wholesale milk prices (the price at which dairies sell milk to retailers) to be around 70c/l. Assuming that all retail prices fall by the same percentage as Private Label prices did in early May, i.e. by 9.7%, we estimate the current average retail price for a litre of milk could fall to around 96.6c/l. With the April producer price averaging around 23c/l, the bottle below outlines our best estimate of the shares received by retailers, dairies and farmers.

It is clear that both retailers and dairies receive extremely profitable margins, even taking into account the most recent price cuts.

We estimate that dairies could be pocketing up to **47c/l** at current retail and farmer prices, and retailers around **27c/l**. This is a gross margin of over **48%** for dairies and **27%** for retailers, a multiple of costs for both.

Farmers are being made pay to maintain dairies' and retailers' high profits. This is simply intolerable.

There is scope for a much fairer share-out, which would secure a viable price for farmers, good value for money for consumers, and a fair return for both dairies and retailers.

WHO GETS WHAT IN UK RETAIL TRADE?

While the Irish situation is based on our best educated estimates, the exercise below was carried out scientifically by DairyCo in the UK, and shows results which are quite similar. While UK dairies' margins were quite well protected over the last 10 years, retailers' increased hugely, entirely at the cost of farmers' livelihoods. We need to learn from the UK mistakes, and ensure that Irish producers are remunerated more fairly and their margins protected to secure milk supplies.

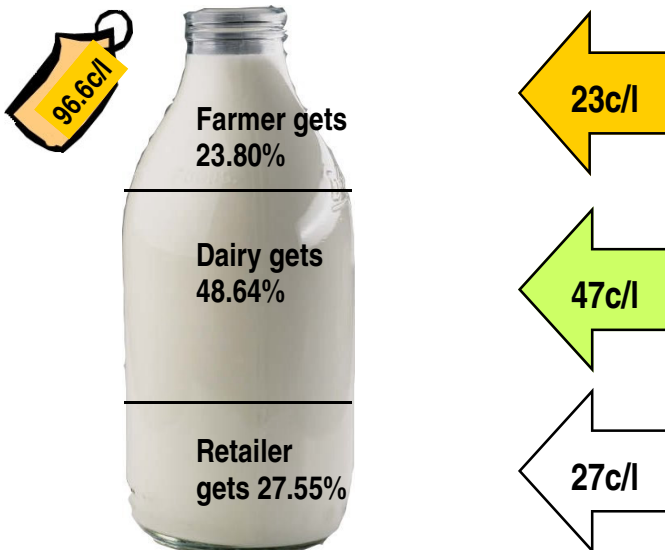
Table 1: Margins and prices for liquid milk milk²

	1998/1999		2007/2008		2008/2009	
	ppl	margin	ppl	margin	ppl	margin
Farmgate price	19.11		22.85		25.60	
Processor gross margin	16.39	46%	18.62	45%	21.53	46%
Processor selling price	35.50		41.47		47.13	
Retail gross margin	6.01	15%	15.75	28%	16.54	26%
Retail price	41.51		57.22		63.67	

WHO PAYS WHAT FOR LIQUID MILK IN IRELAND?

The table below outlines the prices paid by the main dairies for the 2008/09 season, and for the month of April 2009. Prices have fallen by around 10c/l between April 08 and April 09. Also, some dairies are paying significantly less than Glanbia, the biggest player on the market. While they may have smaller scale and lower efficiencies, they also have considerably lower distribution and advertising expenditure, and should be able to pay farmers significantly more.

	2008/09			
	Glanbia	C. Gold	Kerry	Arrabawn
Apr-08	37.00	31.00	32.32	31.05
May-08	34.00	29.90	32.32	29.60
Jun-08	33.00	29.90	30.32	29.60
Jul-08	32.00	31.4	30.32	29.60
Aug-08	32.00	29.5	30.32	28.37
Sep-08	39	29.5	30.32	27.72
Oct-08	39	44.90	30.32	30.10
Nov-08	40	44.90	41.32	37.10
Dec-08	40	44.90	41.32	37.10
Jan-09	39.00	42.00	41.32	31.60
Feb-09	34.00	38.00	41.32	31.60
Mar-09	33	38.00	21.86	31.60
Avg	36.00	36.16	32.62	31.25



Private Label sales, retailing at €1.49 for 2 l (74.5c/l), are rising fast. Estimated wholesale price of 60c/l, and farmer