



# IFA DAIRY AND LIQUID MILK NEWSLETTER

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## Manufacturing milk price May 2011

Based on John Boylan's Farmers' Journal League  
for April 2011

Co-operative	Price at 3.3%op, 3.6%f, net of coll., VAT and cond. bonuses	Change from previous month
Lisavaird	31.93	No change
Lakeland	31.74	+0.5c/l
Barryroe	31.56	No change
Bandon	31.54	No change
Kerry	31.51	No change
North Cork	31.50	No change
Dairygold	31.47	No change
Boherbue	31.40	No change
Arrabawn	31.39	No change
Centenary Thurles	31.38	No change
Glanbia	31.37	No change
Drinagh	31.35	No change
Tipperary	31.27	No change
T. of Monaghan	31.12	No change
Connacht Gold	30.79	No change
Wexford	30.00	No change
Donegal	29.73	No change

## Superlevy no excuse to evade justified price increases when markets are strong

Dairy Chairman Kevin Kiersey said the German IFE index of dairy commodity prices confirmed a rise in both May and June, with the June SMP/butter average price 1c/l up on May. He added that the average EU market butter/SMP prices for last week of June, reported by the EU Commission at €3920/t and €2390/t respectively, would return 39c/l before processing costs, which justified a price increase of 1.5c/l to 33c/l +VAT for most co-ops. EU prices may have peaked, but late June spot quotes show returns from the main commodities of between 38 and 41c/l, and medium term market forecasts from experts at an early July joint EU industry and governmental representatives meeting in Brussels were unanimously positive that relatively high price levels would persist. "I welcome Lakeland's decision to lift their May milk price by 0.50 c/litre to 31.74c/l, but it is disappointing that no other co-op followed. Some co-op representatives have commented that milk price increases would only worsen the superlevy. This is insulting and patronising to farmers. Co-ops must not let fear of superlevy prevent justified price lifts, as farmers face increased production costs, and the need for on-farm investment" Mr Kiersey said. EU markets remain stable as robust demand sustains continued high prices for both protein and butterfat—see DDB quotes below left. Warm weather in Europe has lifted ice-cream consumption, impacting cream and butterfat prices. Drought conditions have restricted April-May supplies, at a time of low stocks. Dairy product prices have recovered after mid-May. An impending powder tender for Algeria and demand from Russia, could underpin demand for the next number of weeks. The longer term outlook will depend on global supply/demand influenced by production mostly from the US, EU and Oceania, the build up of stocks, demand from China and SE Asia, the interaction of currencies, and of course potential economic and climatic shocks.

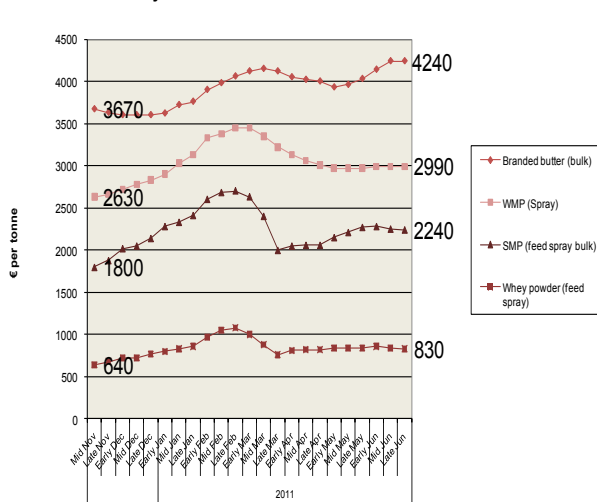
## July Fonterra dairy price adjustment

The first July Fonterra auction saw a weighted average dip of 6.7% in contract prices. Most industry experts see this as a price adjustment rather than a fundamental trend reversal. The July auctions deal with trade over 3 contract periods, the last one of which is January to March 2012. The table below shows that AMF (butteroil) prices are actually up 1.3% for the Jan-Mar 2012 period compared to the previous auction, rennet casein prices are also up 1% for the first period, with no trade for the other two periods. SMP prices are almost unchanged for the Jan to Mar 2012 period (-0.7%), though the prices struck for the first two periods are significantly weaker than in the previous auction. Whole milk powder, the product traded longest through this platform and in the largest quantities, is showing consistent price reductions through all three periods.

## Fonterra Auction - 5th July 2011

Price Changes from Previous Event				
Changes in Price Indices	Contract 1 (Sep11)	Contract 2 (Oct11-Dec11)	Contract 3 (Jan12-Mar12)	All Contracts
Anhydrous Milk Fat (AMF)	-2.30%	-1.50%	1.30%	-1.40%
Butter Milk Powder (BMP)	n.a.	n.a.	n.a.	n.a.
Milk Protein Concentrate (MPC70)	-5.90%	-1.30%	n.a.	-3.60%
Rennet Casein (RenCas)	1.00%	n.a.	n.a.	1.00%
Skim Milk Powder (SMP)	-15.50%	-8.90%	-0.70%	-7.20%
Whole Milk Powder (WMP)	-7.40%	-6.80%	-6.30%	-6.80%
All Products (Trade-Weighted)	-10.90%	-7.40%	-3.60%	-6.70%

Dutch Dairy Board Quotes - Mid Nov 2010 to Late Jun 2011



## DAIRIES MUST SELL HARDER TO SUPERMARKETS

Liquid Milk Chairman Padraig Mulligan said dairies should stop undermining specialist liquid milk production systems to secure cheaper milk. They must stop catering to the greedy whims of supermarkets and start selling harder to secure sustainable prices for specialist liquid milk suppliers.

“Milk will not be produced below costs: to get fresh, quality milk all year round, dairies will have to start selling it harder to supermarkets, and pay us a sustainable price for it. Getting cheaper milk to fill retailers pockets makes no sense,” he said.

Mr Mulligan said dairies want to undermine specialist liquid milk production, assuming that in the context of the planned dairy expansion, a small correction in the peak manufacturing milk production season will suffice to deliver milk of the right quality and freshness year-round cheaply.

“This is simply not possible. We have demonstrated, in an exercise carried out with the help of Teagasc, that to produce quality milk, cover rapidly rising variable and fixed costs, pay themselves a modest wage, and make minimum reinvestment on their farms, liquid milk producers need an annualised price of at least 38c/l in 2011. This year, we are receiving no more than 32c/l on average, with some even getting a lower price for liquid milk than for manufacturing milk,” he said.

“Do our dairies really want to give supermarkets cheaper milk to help retailers increase their margins at our expense? We need sustainable pricing. The wholesale prices agreed between many dairies and retailers are unsustainable, as are the “distress” retail sales of milk by small shops hit by the recession desperately trying to bring the punter in,” he added.

“We need a major review of our liquid milk industry strategy, similar to that undertaken by ICOS and KPMG for the processing and marketing of our main commodities. This must start with the recognition that farmers need to be paid a sustainable price of at least 38c/l, and that dairies must secure that return from retailers. I intend to pursue this issue with ICOS and the NDA,” he said.

## HOW MUCH DO EU DAIRY PRICES RETURN BASED ON IRISH PRODUCT MIX?

In this exercise, we have tried to estimate what the national product mix, roughly based on the 2010 national milk utilisation, might yield for Irish dairy products which sell at average EU commodity prices.

Please note that:

- ◆ This is based on a simplified national product mix, not the IDB purchases mix, nor any individual co-op’s mix;
- ◆ It relies on prices which are accurate EU averages at the stated date as reported by the EU Commission but may differ up or down from prices available for Irish products;
- ◆ Our calculation relies on the assumption that the “other” category, which includes added value products, returns no more than SMP/butter—which is credible when basic commodity prices are high.
- ◆ Yields etc. are as recognised by industry and normally used by IFA in our calculations.

For this exercise we have used the most recent (**week ending 19th June**) EU Commission-reported average market prices for SMP, butter, WMP, cheddar cheese and whey powder.

	Current price/t	Approx share of national product mix
Butter	€3930	)
SMP	€2420	) 55%
WMP	€3010	) 5%
Cheddar Cheese	€3130	)
Whey powder	€ 880	) 30%
Others	Same as SMP/butter	) 10%

The above average EU market prices would be equivalent to a gross price per litre of milk of **38.65c/l**—before processing costs.

## NEW IDB INDEX—MORE OR LESS INFORMATIVE?

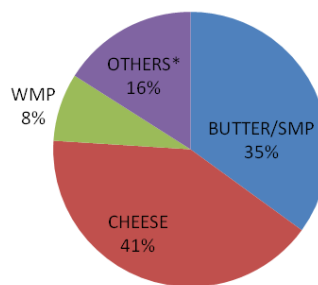
From July 2011, the Irish Dairy Board will cease to communicate the butter and SMP price on the basis of which the old “SMP/butter index” used to be calculated. This will be replaced by an index reflecting the full IDB product mix. The new index and its make-up are outlined below.

SMP and butter make up a progressively reducing share of what the IDB trade, and a falling share in the national product mix. The old index gave no insight into the other products, and was becoming increasingly unrepresentative. Another reason for the change is commercial sensitivity: price information published by international media has been used against us by our European and global competitors. The new index will be based on the IDB purchases from co-ops in 2010: 35% SMP/butter, 41% cheese, 8% WMP and 16% others. The IDB include the whey element in their calculation of the cheese return. The “others” category includes added value products such as fat filled powders (an added-value skimmed milk powder with vegetable fat added, a big seller for reconstitution into drinking milk with many of our Middle Eastern customers), and chocolate crumb (a dairy powder preparation which forms the base for the manufacture of milk chocolate). These are products into which we have had little insight until now.

The new index should give more comprehensive information, but it is a real index, expressed in percentage evolutions rather than in cents per litre—and therein lies the challenge in terms of transparency. However, the old index has often been criticised by co-ops for failing to represent their product mix, or used as a reason to reduce milk prices when only butter or SMP prices were weakening. IFA has never depended solely on the IDB for market intelligence, and we will continue to inform farmers on European market returns in cents per litre (see front page and below left).

The new IDB index also has the scope to evolve with the developments in the national product mix, so that increased added value actually registers—this should help farmers get a better picture of the increased value added to their milk, and get paid accordingly.

IDB purchases 2010



IDB PURCHASING PRICE (PP) INDEX TO MAY 2011

