IFA DAIRY AND LIQUID MILK NEWSLETTER

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Unchanged Manufacturing Milk Prices For September 2011

c/litre , 3.3% p, 3.6%f, ex. VAT, collec, and cond. bonuses, but incl. levies

Co-op	September change	September price
Boherbue	No change	32.50
North Cork	No change	32.45
Dairygold *	No change	32.42
Barryroe Co-op *	No change	32.37
Arrabawn *	No change	32.34
Cent. Thurles Co-op	No change	32.32
Glanbia *	No change	32.32
Kerry Group	No change	32.32
Bandon Co-op *	No change	32.31
Lisavaird Co-op *	No change	32.30
Tipperary Co-op	No change	32.22
Lakeland Dairies *	Lactose bonus - see below	32.21
Drinagh Co-op *	No change	32.11
Monaghan Co-op	No change	32.07
Connacht Gold *	No change	31.33
Wexford	No change	30.00
Donegal	No change	29.73

Above based on John Boylan League

Conditional bonuses not included above:

Glanbia: *4c/l lactose related for suppliers who do not exceed 16% of quota in June NB: lactose must be at or above 4.35%)*

Con Gold: *0.44c/l 7-milk cap; 0.3c/l <200k SCC; 0.3c/l <30k TBC.*

West Cork Co-ops: *0.88c/l <200k SCC - for Nov to Feb milk, 0.4c/l other months*

Dairygold: *0.4c/l <200k SCC*

Tipperary: *Coll free for capacity for 3 days' milk; 0.1c/l <200k SCC*

Lakeland: *0.28c/l lactose bon. Oct to Mar for test >= 4.35%. Brought fwd for Sep 11*

**** Those co-ops pay on the basis of the A+B-C system***

DAIRY COMMITTEE AGENDA ON CAP REFORM— CHANGE REFERENCE YEAR, MINIMISE PAYMENT REDUCTIONS AND PROTECT MARKET SUPPORTS

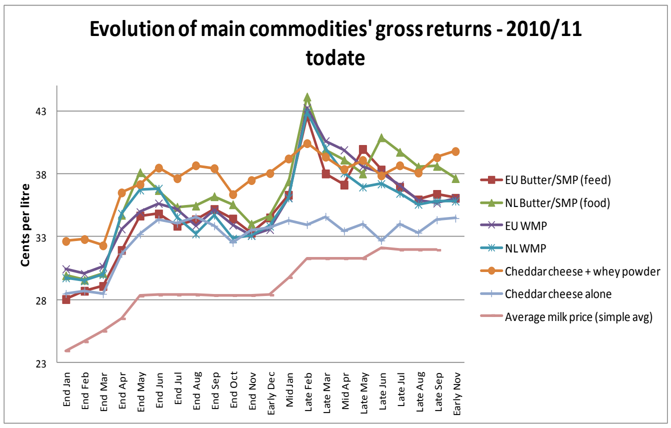
CAP supports are vitally important to the income of all dairy farmers, large or small. The current CAP reform negotiations are therefore of huge interest to the National Dairy Committee. "The optimum outcome for the Irish agriculture sector must be that farmers in vulnerable sectors and those farming in regions which are geographically disadvantaged must be supported, while commercial farmers must be able to retain as close as possible to current payment levels to sustain and even expand production capacity," Chairman Kevin Kiersey said.

Criticising the EU Commission proposals, he said that the 2014 reference year would promote land speculation and would severely disrupt the business of dairy farmers, who lease an average of 21% of the land they farm. He said the proposals to "flatten" payments by 2019 would irreparably damage Ireland's productive capacity and must be rejected out of hand. Greening measures should be voluntary, calculated at national rather than on-farm level, and remain practical to avoid interfering with normal good farming practice.

Last but not least, market supports, especially schemes such as APS, intervention and export refunds, should have specifically identified budget lines. They should also have clear, swift implementation mechanisms if they are to provide the dairy sector with the type of ongoing support it requires even in the absence of major crises. The provision for those schemes exclusively from the Agriculture Crises Fund, outside of CAP, is inadequate and unacceptable, Mr Kiersey said.

MANY POSITIVES IN 2012 MARKET OUTLOOK

Increased global production running ahead of rising demand has led to fears of building surpluses. The reduction in the 2012 Fonterraconcerns about dairy price levels for 2012. The fear is that surpluses are building, demand is slowing, with reports of worsening economic outlook and austerity measures impacting retail spend all over Europe and the Western world. There has clearly been some weakening in EU commodity returns since the peak of Feb/Mar (see graph right), but commodity prices have remained on a higher average plain than in 2010—and the two IDB index lifts from 106.9 in Aug to 107.6 in Oct confirm slightly improved market returns, especially from cheese, whey and certain powders.



For 2012, the outlook is not all bad: the USDA expects Chinese SMP and WMP imports in 2012 to rise by around 15%, while Russian cheese imports could rise by 5%. They are also expecting that 'La Nina' weather patterns early in 2012 could restrict NZ expansion to 2 % for the whole season. World milk powder prices, which had been falling since spring, have been rallying in recent weeks, and while European powder prices are stable, whey powder prices have been rising steadily since summer. EU butter prices are weakening somewhat, but remain around 60% above intervention. "It is simply too early to predict what milk prices 2012 will bring," Kevin Kiersey said. "We can't forget the reality of volatility, but equally we can't talk down prices when we have as yet no real visibility of markets for next spring," he warned.

SUSTAINABLE PRICING NEEDED TO SECURE LONG TERM FUTURE OF LIQUID MILK SECTOR

After some of the toughest ever winter milk price negotiations, liquid milk producer groups have achieved 2011 annualised average price increases of around 3c/l to 35c/l + VAT (see table below right). Most of this was on the back of increased manufacturing milk prices, but with much increased private label sales with tighter margins between retailers and dairies, the actual winter liquid milk premium to be paid to farmers has been squeezed to unprecedented levels. In fact, the 2011 annualised liquid milk price will fall around 4c/l short of the cost for a liquid milk supplier to produce milk and pay himself an average industrial wage.

IFA Liquid Milk Chairman Padraig Mulligan said he had met retailers and dairies to urge them all to adopt sustainable pricing policies allowing farmers to secure viable liquid milk prices. "This year has been tougher than ever. The winter liquid milk premium paid to some farmers still leave many of them receiving a better manufacturing price for milk with good constituents. This makes liquid milk specialist production systems unsustainable" he said.

"I have made it my business to bring retailers and dairies to recognise that the cost of producing liquid milk in an environment of rising costs is currently around 39c/l. None have been able to contradict the strong case I have made. Yet, after some of the hardest ever negotiations between farmers and their dairies, farmers will, at best, receive 36c/l for the 2011/12 liquid milk production season (see table right). I urge dairies and retailers to rethink their pricing policies, and to extract a fairer share from the retail price to be passed back to producers in order to secure long term viable supplies for Irish consumers".

Liquid milk prices, main dairies, c/l @3.3% p 3.6% f ex VAT
NB—assumes no manufacturing price changes to April 2012

	Glanbia	Con Gold	Kerry	Arrabawn*
Calendar year 2011	**35.24**	**34.52**	**35.92**	**35.20**
Mar 2011 to Apr 2012	**35.99**	**34.94**	**36.21**	**35.67**

SUPERLEVY—PULLBACK NEEDS TO CONTINUE DESPITE PROGRESS

The Department of Agriculture reported end September adjusted deliveries just 2.41% over quota, a 0.4% improvement on the end August figures, which themselves were one full percentage point lower than the end July figures. Early indications by co-ops for October are that farmers have continued to pull back, and the end October official figures to be published later this month should show this.

However, supplies at the end of September 2010 were 4.08% under quota while the 2009/10 quota year came in at just 0.43% under quota. This would indicate that, with milk production 8.5% up for the January to September 2011 period, the likelihood is that supplies will exceed the national quota at the end of March next, with all large co-ops significantly over quota. However, producers should remain in close touch with their co-ops to establish their own situation. Producers who have exceeded their quota, especially where their co-op is over quota, should take every possible measure to reduce or eliminate their exposure. At 28.6c/l, superlevy is very penal, and the legal liability if the country, the co-op and the farmer are over quota—in that order—is on the individual farmer concerned.

Dairy Chairman Kevin Kiersey said: "Pulling back at this relatively early stage is difficult for farmers, bearing in mind that they will also have to minimise supplies in early spring. However, the consequences of ignoring superlevy, at 28.6c/l, could amount to €14,300 for a 250,000 litre supplier who exceed their quota by just 20%".

WORLD CLASS MILK TESTING MUST BE PART OF INDUSTRY EXPANSION AGENDA

World class milk testing facilities, capable of delivering reliable and timely farm management information to help lift milk quality and value added of our exports must be part of the industry expansion agenda. Last month, the National Dairy Committee visited the 1-year old IML laboratory—a JV between Progressive Genetics and the UK's National Milk Records— in Bailieborough. IML will soon be the only fully accredited milk testing lab in the country, and open for business. "Co-ops must take milk testing seriously, and offer world class testing standards to their suppliers" Mr Kiersey said.

Dairy Committee Chairman Kevin Kiersey and members around IML lab manager Seamus Marron, with Progressive Genetics' Laurence Feeney by the door.

BEWARE: BASELESS SPECULATION INFLATING QUOTA PRICES

There were 4151 buyers in phase one of the 2012/13 milk quota trading scheme for which the deadline for application closed on 7th October last. This is almost as many as applied to buy quota in last year's two phases put together, and with only 222 sellers, the imbalance between supply and demand is clear for all to see.

"I fear that the price of quota in certain co-ops where the supply/demand balance is tightest will rise very substantially," Kevin Kiersey said.

"With less than 4 years left of the milk quota regime, farmers should decide how much to pay for quota on the basis of what they can afford, remembering all the time that the cost of superlevy is 28.6c/l," Mr Kiersey said.

Beliefs among some that quota may have a residual value after 2015 "is pure, unsubstantiated speculation," he said.

The EU Commission has provided for the end of quotas on 31st March 2015 in Council Regulation 1234/2007, Articles 66 and 204.4 Later provisions for "soft landing" measures—even if they are not working effectively in Ireland and a handful of other member states— were meant to reduce the value of quotas towards zero. The EU Commission has also made it clear over the years that it has no plan to compensate farmers for loss of quota value. Farmers who are prepared to pay hefty prices for milk quotas less than four years before they end must understand that they are doing so on the basis of unfounded speculation.

"For the next 3 quota years, it will only make sense to purchase quota to avoid superlevy. I urge farmers to take a realistic and economic view on this, bearing in mind that they will need to make major investments in stock and facilities on their farms if they plan to expand production in the context of the Food Harvest 2020 targets," he said.

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