



# IFA DAIRY AND LIQUID MILK NEWSLETTER

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Millstreet  
Special  
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## SPECIAL EDITION—MILLSTREET DAIRY SHOW 2011

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## AUGUST MILK PRICES UNCHANGED

### Manufacturing Milk Prices - August 2011

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

Co-op	August change	August 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
Centenary 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
Lisavaid Co-op *	No change	32.30
Tipperary Co-op	No change	32.22
Lakeland Dairies *	No change	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 bonus Oct to Mar for test at or above 4.35%.

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

## SUPERLEVY: ONLY GENERAL PULLBACK WILL ELIMINATE FINES

Milk supplies were 2.86% over quota at the end of August, a 1% improvement on July. Co-ops have reported some pullback in September, but all remain over quota at the end of that month. Only a determined pullback by all over quota producers would eliminate the risk of national oversupply at the end of March. To manage a difficult end of quota year:

- ◆ Approach your co-op early and regularly to check your and their quota situations. IFA has asked co-ops to help minimise cash flow pressure on farm families, including by modulating the amount of levy applied early, and dealing with over-quota farmers case by case if necessary.
- ◆ Seek quality production management advice from farm advisor to find the best way to reduce production and exposure (once a day milking, feeding protocols, strategic herd reduction, etc.).
- ◆ Seek advice from a Teagasc or private consultant to review the farm's business plan, including all incomings and out-goings, cash flow, repayment capacity, day-to-day family expenses, and sustainable exposure to superlevy. IFA has met with banks, and they have indicated they would work case by case with farmers.
- ◆ Consider reducing stock numbers temporarily at least to adjust production closer to quota. This may be an opportunity to selectively cull high cell count cows. The option may also exist to lease cows to a fellow-dairy farmer with unused milk quota. (Please note animal health regulations as the cows must be moved to and milked on the lessee's holding)

Finally, farmers should note that Min. Coveney has, from Wednesday 5th October, amended the quota legislation to reinstate the land and quota link to 31<sup>st</sup> March 2015.

## MARKET SUPPORTS IN CAP REFORM PROPOSALS: PROCESSING AIDS FOR SMP AXED, NO RINGFENCED BUDGET, AND NON-CAP FUND FOR AGRI CRISES

Apart from the very serious concerns created by the EU CAP reform proposals regarding the Single Farm Payment and Rural Development measures (see overleaf), it has also emerged from the final proposals that while market support measures will be retained, there does not appear to be a ring-fenced budget for them in the proposals as they stand. This is particularly worrying for the dairy sector, which is the last agriculture sector to still have a real reliance on market supports—even if most are currently either zeroed (export refunds and powder/casein processing aids) or in the case of intervention, not currently involved in purchasing product.

Under the new CAP reform proposals, the aids for the processing of SMP and skimmed milk into animal feed and casein, both of which have been historically used by the Irish industry, but set at zero level since 2006, will disappear from the arsenal of EU dairy market support legislation. Other market supports are retained, including intervention, APS, which will now also include SMP, export refunds until such time as a WTO agreement is finalised, and school milk. The proposals are unclear as regards the budget available for these measures, apart from the fact that it is to come from Pillar I. The proposals also provide further emergency support by way of a "Reserve for Agricultural Crises" budget of between €530-€598m per annum which is to be financed from the general EU budget (i.e., not from within the CAP). It is also unclear what mechanism is to be used to determine when the market supports or the crisis fund comes into play. It appears the EU Commission envisages that the crises fund would help deal with the market consequences of food scares. Dairy Chairman Kevin Kiersey said that, in the forthcoming negotiations, Minister for Agriculture Simon Coveney must fight to secure properly funded and swift market support mechanisms to help mitigate volatility in the dairy sector: "In 2009, massive recourse to intervention, APS and export refunds was required to help rebalance markets. With increased volatility, as recognised by the High Level Group on Milk in 2009, it will be vital that swift and ready access to market supports would be available for the dairy sector, and Minister Coveney must ensure this issue remains a strong part of our national negotiation stance". (continued overleaf)

## CAP REFORM PROPOSALS

(from front page) The new CAP post 2014 will not differentiate between sectors, so that every aspect of the proposals is relevant to all farmers. In 2010 the SFP made up over 33% of the average dairy farmer's pre-tax income. The details of how the new post 2014 SFP is going to be distributed within the national ceiling will therefore significantly affect dairy farmers' future incomes. The National Dairy Committee has started a comprehensive assessment of the proposals, and has already identified a number of areas in which significant improvements need to be negotiated in the context of the industry and government plan to expand production by 50% by 2020:

The **2014 reference year** will potentially prevent dairy farmers from holding on to leased land.

The **greening provisions** could impact on dairy farmers' productivity in general, while those who grow feed crops other than permanent pasture on more than 3 ha would have to engage in 3-crop rotations. Compulsory set-aside type measures for 7% of the land would also stand in the way of expansion. The Dairy sector is the last mainstream agricultural sector to have a reliance on **market supports**. The proposals are unclear as to how and to what extent those are to be funded.

The National Dairy Committee will ensure that these and other concerns specific to dairy farmers will form part of the IFA negotiation policy on CAP. "There are at least 18 months of negotiations ahead of us. We in IFA, in a common front of all agriculture sectors, will lobby our Government and our fellow-farm organisations in Europe to secure the best possible deal for an expanding agrifood sector," Kevin Kiersey said.

## POST 2015 PRODUCER/PROCESSOR AGREEMENTS MUST NOT CREATE EXTRA COSTS

IFA's Summer/Autumn series of 6 regional seminars to discuss new markets for milk expansion and how to align investment on farm with industry development, came to an end early this month in Limerick.

Drawing the preliminary conclusions from those meetings, Dairy Chairman Kevin Kiersey said he was confident about the real market opportunities which will be available for Irish dairy farmers. He said generally, farmers had expressed support for the idea of a system of agreement, allowing them to align their on-farm investment plans with the real expansion opportunities which their co-op has capacity to deliver. He added that farmers did not want this to be used to restrict their ability to expand but rather very simply to ensure that real developing outlets for our dairy products are identified by the Irish Dairy Board and processors, and communicated back to farmers to determine their production decisions. It was clear, also, that farmers did not want such a system to add to their costs or damage

their competitiveness—30 years of costly and restrictive quotas were more than enough.

The National Dairy Committee will publish in November guidelines for the post 2015 era regarding those necessary producer/milk purchaser agreements.



At the IFA regional dairy meeting in Limerick on 3rd October were IFA Munster VP Chris Hayes, Dairy Committee Secretary Catherine Lascurettes, Irish Dairy Board's Liam O'Neill, and IFA Dairy Chairman Kevin Kiersey.

## PRODUCING LIQUID MILK COSTS 39c/L IN 2011

A liquid milk costing exercise was this year carried out by IFA in conjunction with Teagasc's Joe Patton. The aim was to isolate the precise cost of producing liquid milk, which is normally diluted by cheaper manufacturing milk costs. The study was based on the winter profit monitor (WPM) results for 2010, which were filtered down to 54 farms most closely matching the liquid milk profile. Teagasc and IFA co-operated to identify and isolate the elements of cost directly related to the daily liquid milk contract, excluding those relating to the creamery milk balance. This was estimated at 3.4c/l, mostly feed related. A modest remuneration of the farmers' own-labour, at the average industrial wage (€36,000) and a small annual investment provision of 3% of turnover (more than maintenance, but less than investment) were also included. Steep feed, fertiliser and energy cost increases in 2010/11 were also factored in. The study shows that to cover all costs including the farmer's own labour and a minimum level of reinvestment would have required a price of **36c/l in 2010, increasing 3c/l to 39c/l in 2011** due to feed, fuel and fertiliser inflation. (see table right).

IFA National Liquid Milk Committee Chairman Pdraig Mulligan said that this high figure came as no shock to him: "There is a very substantial additional feeding, labour and energy cost in producing liquid milk, much of this concentrated in the Autumn/Winter months. Dairies all factor in the dilution of costs by the creamery milk produced by their suppliers, but forget that, unless they remunerate viably the liquid milk element in its own right, it will soon cease to make economic sense for a supplier to continue with a specialised liquid milk production system. This will decimate the high quality milk from freshly calved cows the market needs".

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"In the coming weeks, dairies and producer groups will start negotiating winter liquid milk prices. Strong winter milk prices are critical in delivering an annualised liquid milk price which at least covers production costs. Prices paid this year to date barely average out at around 33 or 34c/l—and only Glanbia have committed to specific winter prices which will deliver a 2011 annualised average liquid milk price of 35.25c/l + VAT. Clearly, all dairies have a way to go to improve their winter milk prices to allow liquid milk producers cover costs and make a legitimate margin this year," he said. **Mr Mulligan said the National Liquid Milk Committee has been in touch with all member producer groups to present to them the results of the IFA/Teagasc study, with a view to strengthening their arguments when negotiating milk prices with their dairies for the coming months.**

### LIQUID MILK COSTING MODEL SUMMARY

Based on work by Teagasc's J. Patton, based on 2010 Winter Profit Monitor

Cents per litre	54 selected farms*	Realistic liquid costings **	
		2010	2011 2011 inc.
<b>VARIABLE COSTS</b>			
Feed	6.06	6.06	7.27 +20%
Fertiliser	1.51	1.51	2.11 +40%
Vet	1.13	1.13	1.13
AI	0.52	0.52	0.52
Contractor	1.47	1.47	1.62 +10%
Other	1.63	1.63	1.63
<b>Total variable</b>	<b>12.32</b>	<b>12.32</b>	<b>14.28</b>
<b>FIXED COSTS</b>			
Machinery	1.53	1.90	1.90
Car/ESB	0.99	1.23	1.47 +20%
Depreciation	2.09	2.59	2.59
Hired Labour	1.75	2.17	2.17
Leases	0.89	1.10	1.10
Other	2.41	2.99	2.99
<b>Total fixed</b>	<b>9.66</b>	<b>11.98</b>	<b>12.22</b>
<b>Total costs</b>	<b>21.98</b>	<b>24.30</b>	<b>26.51</b>
<b>Dilution of costs by manuf. milk</b>		3.40	4.08 +20%
<b>Remun. of farmer's own labour***</b>		7.20	7.20
<b>Normal re-investment on farm****</b>		1.00	1.00
<b>Minimum liquid milk price needed</b>		<b>35.90</b>	<b>38.79</b>