IFA DAIRY AND LIQUID MILK NEWSLETTER

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(There was no August 2011 newsletter)

JUNE/JULY MILK PRICES LIFT 0.95C/L + VAT

Most co-ops have lifted milk prices by a total of 0.95c/l + VAT over the last three months. While Lakeland were first off the blocks by lifting both their May and June prices by 0.5c/l (incl. VAT), Kerry announced their price increase next, backdating it to April, followed by Glanbia who committed to hold the increase to end December. Most other co-ops then also increased their June milk price by 0.95c/l + VAT. The West Cork Co-ops, which have paid a strong price all year and are heavily dependent on cheese, held for June, but lifted their July price 0.95c/l, while Wexford continued with their on-account Apr-Nov price. Only Donegal Creameries' suppliers have seen no increase since March.
Dairy Chairman Kevin Kiersey said that the price lift was evidence that market returns this year had allowed for a bit more being passed back to farmers. This will help them with rising costs and, unfortunately, superlevy fines.
"Commodity market prices are now stabilising, and most analysts are positive on the outlook to year end, which augurs well for milk price stability for coming months," Mr Kiersey said.

Manufacturing Milk Prices—June 2011

In c/l, net of VAT, conditional bonuses and collection charges, at 3.3% protein and 3.6% fat
Below based on John Boylan/Farmers' Journal League data

Co-op	June change	June price
Dairygold*	+0.95c/l	32.72
Boherbue	+1.10c/l	32.50
North Cork	+0.95c/l	32.45
Connacht Gold*	+0.95c/l	32.37
Arrabawn	+0.95c/l	32.37
Centenary Thurles	+0.95c/l	32.32
Glanbia*	+0.95c/l	32.32
Kerry	+0.95c/l	32.32
Lakeland*	+0.48c/l	32.23
Tipperary	+0.95c/l	32.22
Lisavaird	No change (but up in July)	32.15
Monaghan	+0.95c/l	32.08
Barryroe	No change (but up in July)	31.98
Bandon*	No change (but up in July)	31.95
Drinagh*	No change (but up in July)	31.75
Wexford	No change (on acct price)	30.00
Donegal	No change	29.79

Notes:
* Co-ops paying based on A+B-C formula
Glanbia: 4c/l lactose related for suppliers <16% of quota in June
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-Feb milk, 0.4c/l other months
Dairygold: 0.4c/l <200k SCC
Tipperary: Coll free for 3-days' milk capacity; 0.1c/l <200k SCC
Lakeland: 0.28c/l lactose bonus Oct to Mar for test at or above 4.35%

MARKET OUTLOOK GOOD AS DEMAND PICKS UP AND PRICES STABILISE

Demand is picking up as the summer holiday and Ramadan now come to an end. Dairy prices had weakened since early summer, but are now stabilising. The mid-August Fonterra auction saw a small 0.9% fall as buyers return to the market, NZ 2011 supplies are fully committed, and cold weather may delay the new season. SMP prices for EU and US product have also steadied, while whey powder is benefiting from good export demand. US milk supply growth is slowing, but EU supplies are still growing—though falling seasonally towards the November trough. Supplies of fresh butter and powder are falling below regular demand, with stocks being depleted (APS and intervention). Despite recent falls, butter prices remain 80% over intervention at around €4,000/t, while SMP is 30% above at around €2,200/t. This is a substantial reduction from peak for SMP, but it is now competitive on export.
UK sources estimate spot Cheddar + whey net returns (milk price equivalent) to be around 33p/l (37c/l). **(Continued back page)**

CRIPPLING SUPERLEVY FINE INCREASINGLY CERTAIN

With end July adjusted milk deliveries 3.76% over quota, a superlevy fine is now almost certain. While Irish farmers paid superlevy in 4 of the last 10 years, exceptionally strong production means it is the first time this is so serious so early. Some producers have already filled their annual quota, and face immediate deductions by their co-ops, to be used to pay their bill at quota year-end, or returned with interest in the unlikely event that superlevy does not arise. IFA has asked co-ops to examine farmers' situations case by case if required, to minimise cash flow crises for farm families.
IFA has also spoken to banks, who have indicated they would work with farmers with moderate superlevy exposure which does not affect their repayment ability. "Though we will continue to lobby for a softer landing from Brussels, it is absolutely certain that there will be no extra flexibility this year or next," Dairy Chairman Kevin Kiersey said "Farmers must take every possible action to avoid financially crippling fines. Some may need comprehensive business planning advice to keep themselves afloat for the coming years. Quota availability and cost will remain an issue while milk prices are strong. Farmers who are considering options such as cow leasing should get the best possible advice to avoid falling foul of costly legal, animal health or other implications".

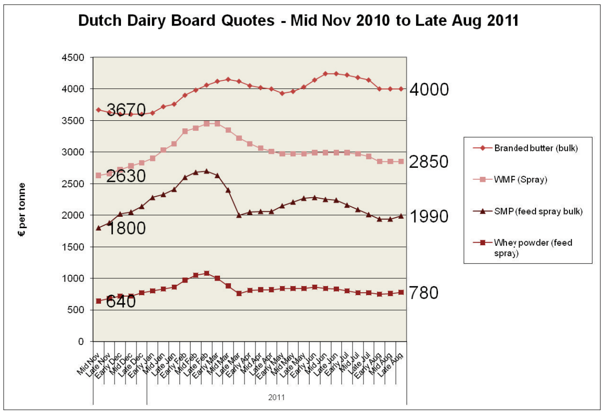
PRODUCING LIQUID MILK COSTS 39C/L IN 2011

A study carried out by IFA in co-operation with Teagasc has shown that the cost of producing liquid milk, when one isolates the dilution factor of the creamery milk element, is at least 39c/l. This study was based on a typical year-round liquid milk producer supplying 500,000 litres on a 50%/50% liquid/creamery ratio. **(Continued back page)**

MARKET OUTLOOK GOOD AS DEMAND PICKS UP AND PRICES STABILISE

(continued from front page) EU dairy commodity prices have stabilised in recent weeks, with SMP and whey powder even staging a small recovery (see Dutch quotes below). Food SMP quotes from the DDB come at a premium of about €230/t over feed (quoted below), currently at €2220/t. The outlook for the end of 2011 is therefore reasonably positive.

It is too early to look beyond year end, however. Carried by strong milk prices, global milk supplies for the first half of 2011 were up 3% - somewhat ahead of normal demand growth. There is also concern over the impact on demand of national austerity measures in many markets in response to the economic and financial crisis. However, the long term outlook remains bright: demographic and economic trends point to constantly rising global demand, especially from rising middle-classes in Asia and Africa, which will ensure continued market opportunities for Irish dairy products.



IFA REGIONAL DAIRY MEETINGS ON MILK PRODUCTION POST 2015

The ongoing series of IFA regional dairy meetings has seen farmers and co-op representatives discuss the future organisation of milk production post 2015 in Kilkenny, Macroom, Tullamore and Claremorris. **Two more meetings will take place in Cavan on 29/09 and Limerick on 03/10.** Kevin Kiersey said: "Farmers need to think of how to ensure that, post 2015, on-farm expansion investment is as much as possible in tune with industry developments. The Dairy Committee is currently considering this issue, and later this year will produce a policy document following from the series of meetings".

At the fourth IFA Regional Dairy Meeting on the Future of the Dairy Industry Post Quota in Claremorris on 29th August were: L-R: Jim O'Boyle, Claremorris, Kevin Kiersey, Chairman, IFA National Dairy Committee, Michael Flaherty, Arrabawn Co-op Chairman and Padraig Divilly, IFA Connacht Vice-President.

(continued from front page) PRODUCING LIQUID MILK COSTS 39C/L IN 2011

Costings were based on the winter profit monitor (WPM) results for 2010, and those were filtered down to 54 farms most closely matching the liquid milk profile. Teagasc and IFA then co-operated to identify and isolate the elements of cost directly related to the daily liquid milk contract, excluding those relating to the "surplus", or 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 minimal annual investment provision of 3% of turnover (more than maintenance, but less than major investment) were also included. Steep feed, fertiliser and energy cost increases in 2010/11, as assessed by IFA based on CSO and international sources, 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 Padraig 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".

"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 todate 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 **		
VARIABLE COSTS		2010	2011	2011 inc.
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	
Total variable	12.32	12.32	14.28	
FIXED COSTS				
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	
Total fixed	9.66	11.98	12.22	
Total costs	21.98	24.30	26.51	
Dilution of costs by manuf. milk		3.40	4.08	+20%
Remun. of farmer's own labour* **		7.20	7.20	
Normal re-investment on farm** **		1.00	1.00	
Minimum liquid milk price needed		35.90	38.79	

Notes:
* 54 farms selected from WPM for closeness to year-round liquid producer profile
**Isolates manuf costs v liquid costs. Works out at 3.4c/l, mostly feed related.
***to achieve average industrial wage of around €36,000
**** based on 3% of turnover, to keep farm ticking over

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