2012 gave Irish dairy farmers their second taste of price volatility after the very traumatic 2009. However, this time, global markets were underpinned by more robust demand growth, and so prices did not fall as low. The weak prices did not last quite so long either in the face of major production cutbacks precipitated by weather factors and high feed costs. Those very high feed costs, compounded in Ireland by the weather impact on fodder availability, made 2012 a very difficult year.

With a rapid summer rebalancing of markets, by October 2012, milk prices had recovered to between 28.5 c/l to 31.3 c/l, but that was still 1 to 3 c/l below last January (top graph). In contrast, most EU average commodity prices are currently higher than they were in January 2012 with the exception of butter which is priced slightly lower (bottom graph). This was confirmed by the IDB 2 points index increase for December trade (see overleaf), and the further 1.1% price lift in the second January Fonterra auction (middle graph). Also, the outlook this time last year was poor: surplus global production was outpacing demand, leading to weaker markets and falling prices. Today, the factors which restricted supplies (weather, costs) continue to do so in all regions but New Zealand, now past peak. The short to medium term forecast (Q1 and Q2) is for firmer prices (see Rabobank report overleaf).

The Dairygold decision to pay a 0.35c/l top up on 2013 milk supplies proved that further price increases for November and December milk are both possible and fully justified. While co-ops did support milk prices for some of the spring/summer period, the market recovery in the autumn and winter helped them rebuild margins.

“I urge co-ops to lift their milk prices from December to set the 2013 Irish milk season on a strong footing, in the best interest of the sector,” Kevin Kiersey said.

Commenting on the Dairygold milk supply agreement, Kevin Kiersey said: “Milk supply agreements are necessary to ensure farmers know the milk they plan to produce will be bought and paid for, while processors know what processing capacity is needed. IFA has made strong policy recommendations on this topic. Our legal advice confirms that co-op rules give the Board very extensive rights, including on the setting of the milk price and milk supply conditions. The provisions in the Dairygold agreement are about securing the investment for milk production expansion. The legalistic nature of the agreement has raised farmers’ hackles, and it is vital that Dairygold show a reasonable level of flexibility, and ensure that farmers are dealt with fairly.

“I welcome the decision by Dairygold not to penalise farmers who fail to sign their milk supply agreement. We had raised the 2c/l penalty in a pre-Christmas meeting as an unfair and provocative measure and asked Dairygold to reconsider it. The penalty is being replaced by a bonus of 0.35c/l on all 2012 supplies for those who sign up and carry out their production forecast. The Co-op will also pay farmers a €5/tonne of compound feed purchased from them during 2012,” Mr Kiersey said.

“The one-to-one sessions aimed at helping farmers forecast production will allow farmers concerned about the new supply agreement to understand how they will be affected. Our legal advice indicates that the agreement is rooted in the rules of the Society. Farmers have until 31st March next to sign their milk supply agreement. Dairygold must use the one-to-one sessions to listen to farmers’ legitimate concerns. IFA has made it clear that the co-op must live up to its strong track record of fair dealings with farmers, and show flexibility”. Mr Kiersey concluded: “After the recent restructuring of Glanbia dairy processing, Dairygold and Glanbia must explore more actively joint investment options to ensure best use of very scarce farmer resources—much of which will be needed for on-farm investment.”
The global milk supply will continue to contract into mid-2013, sustaining continued upward price movements, Rabobank predicts. In its December 2012 Dairy Quarterly Report, Rabobank said the slow recovery in international dairy prices that began in August continued into the final quarter of 2012. The fact that the first contraction in milk supply in export regions since August 2010 failed to generate faster price increases suggests slightly weaker consumption and stocked up buyers. However, the global supply is continuing to tighten, and Rabobank expects it will do so further in the first half of 2013. A weak back end to the production season in the Southern Hemisphere is likely to coincide with low production levels through winter in the Northern Hemisphere. Rabobank states: “While current buyer inventories (stocks) will provide temporary protection from supply shortages, the market will inevitably tighten further if there is even a modest improvement in demand for imports from key buying regions -- which appears highly likely”. Milk production levels in key export regions is likely to remain below year-ago levels through at least the first quarter of 2013 and are expected to undershoot domestic demand in surplus regions. A substantial reduction in exportable surpluses is expected in early 2013. “With less new product to go around and limited supply-side stocks in storage, any increase in import requirements in the first half of 2013 will substantially tighten the market,” the report stated. The Rabobank prediction for a 2013 price peak matches the peak Irish milk production season—all the more reason why co-ops would pass back improved prices straight away, setting the scene for a strong 2013 spring.

RABOBANK OPTIMISTIC ON GLOBAL DAIRY MARKETS FOR 2013

Improved market returns as highlighted by IFA have led to a further 2 point increase in the December 2012 IDB Product Purchasing Index (PPI). The Irish Dairy Board have stated that improved cheese and butter returns for product traded on behalf of co-ops during the month of December, more than making up for slightly weaker SMP prices, had justified the increase. In light of continued firmness for cheese, butter and powders in the early days of 2013, and the positive forecast from Rabobank and other analysts, it is not unreasonable to expect that the IDB will further improve its PPI, and co-ops their milk prices, in advance of the main 2013 season.

IDB INCREASE DECEMBER INDEX 2 POINTS

The VAT refund on agricultural produce, which compensates farmers for the fact that most are not VAT registered and cannot claim VAT on inputs, has been reduced from 5.2% to 4.8% in the 2013 Budget. On a 30c/1 + VAT price, this will cost farmers 0.12c/l with effect from January (i.e. 31.44c/l vs 31.56c/l incl. VAT). The reduced level reflects the application of a formula calculating the difference between VAT received and paid by farmers over a 3 year rolling average. This happened to coincide with relatively strong farm gate prices, and while input costs have risen, feed and fertiliser are not actually subject to VAT—hence the reduction in the refund rate.

VAT REFUND CUT WILL TAKE 0.12C/L OFF JAN 13 MILK PRICES

The Dairy Efficiency Scheme, which incentivised participation in dairy discussion groups in the last 3 years and was financed from €18m unspent SFP funds has just ended. Minister Coveney announced in his Budget presentation that he would not extend it, but would provide national exchequer funding of €1m (i.e. not subject to modulation, unlike previous scheme) for a smaller one-year scheme targeted to newcomers to dairy discussion groups, i.e. new entrants and existing dairy farmers who have not participated in the DES in the last 3 years. Also included are farm managers whose farm owners have not participated.

Details of the scheme have yet to be announced. We expect them to include the following:

- Max payment €1,000, therefore max 1,000 participants
- Mandatory attendance at 6 discussion group meetings between Feb and Oct 2013
- List of tasks including completion of summer grass wedge, participation in Herd Plus, Profit Monitor and completion of Safety Statement

We expect applications will have to be lodged by mid February, and the scheme will most probably rely on existing discussion groups taking on the new members—although it will also be possible for new discussion groups to be set up.

Watch the farming press in coming days and www.agriculture.gov.ie for full details.

NEW SCHEME TARGETED TO FARMERS NEW TO DAIRY DISCUSSION GROUPS

IVA President John Bryan said a strong live export trade is essential for the €2bn Irish beef and livestock sector in terms of cattle price competition with the factories and to secure market outlets for the extra cattle in the system, including Friesian calves.

Mr Bryan was speaking in the context of the progress made in re-opening the live trade to Libya, Egypt and the Lebanon, but he added: “The experience from 2011 and 2012 has shown that the best outlet for male calves from the dairy herd is the veal trade in Holland and Belgium”. “Security of payment is hugely important. Farmers should sell their cattle through their local livestock mart where payment is secure, and insist on payment upfront if selling off the land.”

LIVE EXPORTS FOR VEAL TRADE CRUCIAL FOR FRIESIAN CALVES—BRYAN

While Budget 2013 held few good news, it did include a provision long sought by IFA: the relief from Capital Gains Tax on disposals occurring for farm consolidation, including in the case of farm land swaps. This new relief will be helpful to farmers trying to consolidate their land in the context of their expansion plans in particular. The detailed provisions require that the sale and purchase of the farm land must occur within 24 months of each other and the initial sale or purchase transaction must occur within the period commencing 1 January 2013 and ending on 31 December 2015. The relief will also apply to farm land swaps, subject to certification by Teagasc for all transactions seeking relief.

CGT RELIEF FOR FARM CONSOLIDATION IN BUDGET 2013

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