



**IFA**  
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# IFA DAIRY AND LIQUID MILK NEWSLETTER

Issue 3  
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Quantity Temporary Under-quota Fine Supplies Fleximilk  
New Quota Milk Once-A-Day Permanent Superlevy Over-quota Allocation  
Reference Pricing Milk Over-supply Exposure  
Drying-off Scheme Trading Entrant Leasing

## THE END OF MILK QUOTAS



With quotas ending, we will be able to produce more milk, and perhaps more importantly, to run our dairy farms more efficiently because we will no longer need to worry about drying off early or holding back when the grass starts growing. However, in the short to medium term, the overhang of the regime will be with us. We will have to pay our highest ever superlevy bill. Different commentators have put it anywhere between €50m and €100m—the truth is no-one rightly knows, because we have still to account for February and March milk, and while a pick up in supplies has been reported, there will also be a lot of careful management at the end of March to limit exposures to the extent that it is prudent and possible. Irish farmers have paid a total of €144m in superlevy bills since 1984, with the highest bill €18m in 1995/96.

The only certainty for this year is that we will pay a multiple of that. As the legal liability is on us farmers, it will challenge cash flow at least for this year, which will already be under pressure from lower milk prices, relatively high input costs, tax liabilities and financial repayments.

Despite extensive lobbying by IFA over the last 5 years, getting more than the “soft landing” which yielded around 7% extra quota for Ireland between 2008 and 2014 has proven impossible thus far. Very recently, the new EU Commissioner Phil Hogan has done what his predecessor had refused to do: he has made a proposal to member states (MS) to give over quota-farmers some relief. Commissioner Hogan’s proposal (see below right) is for a 3-year payment term, interest free to farmers. He must now lobby MS governments to ensure that they vote the proposal through on 11th March to help dynamic EU farmers transition out of quotas.

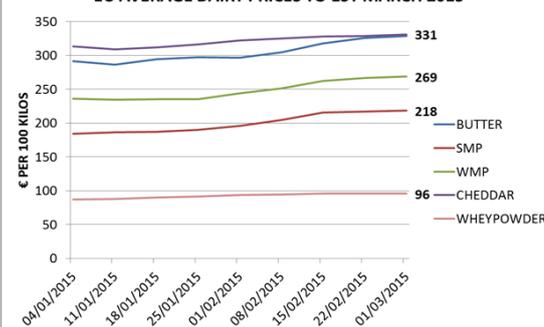
### DAIRY PRICES FIRING FURTHER

EU average returns, spot prices and GDT results have all continued to increase in recent weeks (see below and overleaf). Some buyers are trying to dampen prices by speculating on a major EU milk output increase from 1st April, but this is far from certain. Ireland could capitalise on good grazing conditions to lift output, but most expanding EU regions rely on bought-in feed, and with an average 19% price fall in 12 months, most don’t break even. It is important not to be complacent, but for the moment, EU returns are on the rise at just under 36c/l gross before processing costs for a representative Irish product mix, nearly 4c/l up since early Jan. This should allow co-ops to at least hold milk prices in the short term.

Percentage change in GDT Price Index



EU AVERAGE DAIRY PRICES TO 1ST MARCH 2015



### PHIL HOGAN PROPOSES 3-YEAR PAYMENT

EU Commissioner Phil Hogan has put forward a draft Commission Implementing Regulation to allow Member States (MS) provide farmers with an interest free, 3-year payment scheme for superlevy fines. If supported in the EU Management Committee vote on 11th March next, this would ensure that, in those MS who choose to avail of it, farmers would be able to spread their payments in 3 thirds in 2015, 16 and 17 with no interest cost.

The proposal is welcome: Phil Hogan’s predecessor always cited lack of political support to avoid making any proposal to give some relief to over-quota farmers. However, it is as yet a draft proposal, and it is not certain that it will get the required support, with or without amendments.

Furthermore, it passes the cost of financing the extended payment to MS, as the EU Commission insists on being paid the superlevy fine in full in October/November 2015 to meet CAP-related budgets.

This is a missed opportunity by the Commission to make a gesture as quotas end and growing global markets beckon. It could also make it more difficult to get support even from over-quota MS worried about exposing their national exchequer to the cost of financing the scheme.

Commissioner Hogan must work hard to foster the necessary political support and deliver for over quota farmers.



IFA Dairy Chair Sean O’Leary and President Eddie Downey recently met EU Agri Commissioner Phil Hogan in Brussels to discuss options to give farmers some relief from superlevy, and the need for re-valuing market supports to reflect rising costs.

### CO-OPS MUST WORK WITH FARMERS TO LIMIT EXPOSURE

In its series of top level meetings with Co-ops in the last few months, IFA has urged them to work closely with their suppliers to manage the last few days’ collections of March, and the first few days of April, in order to help reduce exposure. There are limits to the quantities and the time for which milk can be stored on farm safely, and co-ops must communicate this clearly to their suppliers. They must also, in collaboration with farmers, manage collection routes and timings strategically to help reduce both the overall co-op’s and famers’ exposures.

## FRIESLAND CAMPINA PRICE UP AGAIN

Friesland Campina, who had lifted its Feb milk price to €31.50/kg, is upping the March price by €2.50 to €34/kg. FC said €1.75 of the €2.50 increase was to compensate for understating the January price estimates.

This is for milk at 3.47% pr, 4.41% bf, and 4.51% lactose.



## MANY DON'T AGREE WITH US ON SUPERLEVY

The total superlevy to be paid by over-quota MS in the final year could reach €800m to €1b—from €409m in 2013/14. Ireland could account for 5% to 10% of that, and up to 12 MS may be over quota. It is difficult for Irish dairy farmers to understand why, in the last year of the quota regime, with real long term opportunities for much greater exports of value to the economy of the EU, there is an insistence on fining over quota farmers to the very last cent.

But our views are not shared by all. Politicians and farmers in many underproducing MS, and even in some that will overshoot quotas this year, have shown no sympathy or inclination to give political support for any relief to over quota farmers to date. In Finland, France and many southern MS, there is a belief that the end of quotas will cause surplus output growth and exacerbate price volatility. While an objective analysis of the global markets which now dictate EU dairy prices would suggest that this would happen anyway were other countries such as NZ and the US grow output to excess, this is a prevalent, difficult to challenge viewpoint in these countries. Others, especially in the EU Commission services, but also among under-quota EU MS, take the view that the end of quotas on 31st March 2015 was decided in 2003 and was reaffirmed in the Health Check of 2008 with various "soft landing" measures which were worth approx 7% extra quota for Ireland. They consider that all farmers know the rules, and can therefore not expect to be spared the consequences if they choose to ignore them.

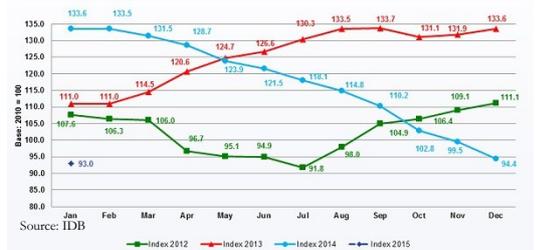
## DAIRY MARKET RECOVERY CONTINUES

AT 93 points for January, the IDB PPI was close on 7 points higher than earlier forecasts had suggested. It is not unreasonable, in light of the 4c/1 EU return increase since early January, to expect that the PPI for February will increase.

With returns now coming up to meet falling milk prices, it is fair for farmers to argue that co-ops can at least hold milk prices at current levels.

Also, some co-ops have already committed to pay at least the same for milk in April as in March, to avoid influencing superlevy behaviour negatively. It is early to speak of price increases before we have better insights into the levels of EU milk output post 31st March. Also, returns for SMP/butter are still below average raw milk prices (see graph bottom right). However, with different product mixes, some European processors, like Friesland Campina (see above), have started to reflect increased returns by lifting farm milk prices.

The IDB Purchasing Price Index for Jan. 2015 was 93.0 (2010=100)



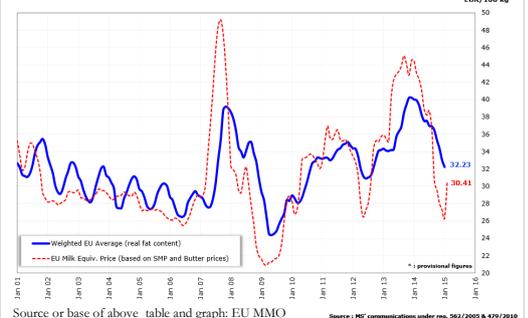
1st March 2015

### ESTIMATE OF RETURNS FOR REPRESENTATIVE IRISH PRODUCT MIX (GROSS RETURNS, BEFORE DEDUCTION OF PROCESSING COSTS)

Calculations 06/03/2015	Trend		Estimated coeff.	
	Avg EU mkt price at 01/03/15 - €/t	prev c/1equiv		
BUTTER	3280	↑		
SMP	2180	↑	34.13	35%
CHEESE	3310	↑		
WHEY PWDR	960	↔	39.85	41%
WMP	2690	↑	33.37	8%
OTHER*		↑	29.01	16%
				35.60

ASSUMING THAT "OTHER" RETURNS 15% LESS THAN SMP/BUTTER

### EU Raw Milk Prices Evolution (up to January 15\*)



Source: base of above table and graph: EU MMO



IFA President Eddie Downey, Deputy President Tim O'Leary, Dairy Chairman Sean O'Leary and Liquid Milk Chairman Teddy Cashman led a delegation from the National Dairy Committee to attend the Daif debate on dairy earlier this month in Leinster House.

## CellCheck Tip of the Month: The California Mastitis Test (CMT)

The CMT is a quick and easy 'cow-side' test for detecting subclinical mastitis by estimating the milk SCC. It is good practice to use it on all cows (first lactation or not) before including their milk in the bulk tank for the first time to pick up problem cows before they cause more trouble. The test mixes milk with a reagent to rupture the somatic cells in the milk, and the DNA released coagulates the milk to a slimy consistency. The more cells in the milk, the more "jelly-like" the result.

### 3 easy steps!

1. After discarding the first 3-4 squirts of foremilk, collect 2-3 squirts of milk from each quarter in each separate well. Holding the paddle almost vertical, allow excess milk to pour out just until the line becomes visible. This is the correct amount of milk to have in the well.
2. Add an equal amount of reagent to each well. Swirling the paddle gently, mix for 10 seconds.
3. Look at the consistency of the fluid in each well (not the colour), and record the amount of gel reaction that occurs within 20 seconds (from none to almost solidified).

### What do the results mean?

Results are generally categorised as follows: negative, trace, 1, 2, 3.

This test is subjective! i.e. what you score as 1, your neighbour might score 2.

Any positive reaction (1,2 or 3) indicates a high SCC in that quarter.

To become accurate and consistent, practice on cows with a known high SCC.

CMT kits are available from most co-op retail stores and veterinary clinics and are very inexpensive. Replacement bottles of reagent can be purchased separately. This is one of the best investments to make in your dairy. Get one and start practising!



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