

How we Pay for Milk - Time for a Rethink

The way Irish Co-ops have paid for milk has remained unchanged for decades, and arguably, has served producers rather well, considering that on a like for like basis, Irish milk prices have compared well against, or exceeded many of our European peers.

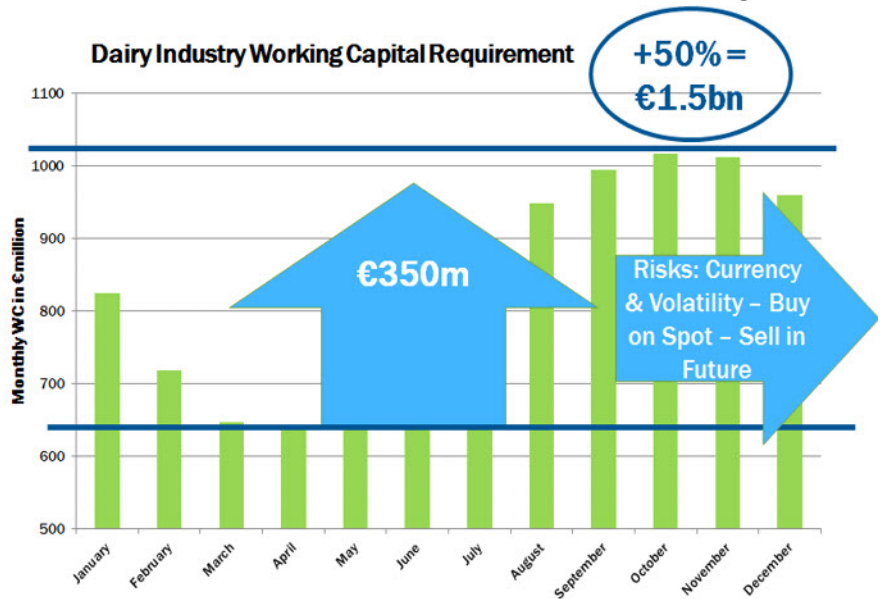
Things are about to change though, and in the context of a dramatic increase in milk production post 2015, and the necessity to look farther afield for markets for our new products, we need to re-examine how we pay for milk.

ICOS estimates that the peak Working Capital requirement for the entire Irish dairy processing industry is slightly over €1 billion, with an annual peak to trough variance of about €350 million. If we were to increase our production

by 50%, as predicted in the Food Harvest 2020 strategy, the industry would have an increased Working Capital requirement of €500 million.

This is an enormous sum, and serious consideration must be given as to how it is funded.

Continued on Pg 4.



Dairy Markets

Commodity Prices

	Butter Index	SMP Index	Fonterra Auction WMP	Holland Milk Price per litre** (Irish solids)	Ireland Milk Deliveries
August	€4,077	\$2,297	\$3,474	34.06c	5.4%
July	€4,212	\$2,430	\$3,638	33.40c	Compared with same month in 2010
June	€4,122	€2,460	\$3,780	30.81c	
	Eurex *	Eurex *	GDT	Friesland Campina - Incl. seasonal premium of 2.45c	

*: Eurex Futures Cash Settlement Price

** : Friesland Campina Price Recalculated to reflect Irish Standard Constituents of 3.6% Butterfat, 3.3% Protein.

Global Production

Global milk production from January to May 2011 is up 3.1% on the same period last year, with EU milk production up 2.5%.

In the case of Ireland production for the first five months is up 13.4% on the same period in 2010. Across the main milk producing countries of the EU milk volumes are up with production up 5.4% in France and 2.7% in Germany. Anecdotal evidence suggests that these trends should be sustained for at least the short term as grass growth conditions remain favourable throughout the main EU milk producing countries.

Markets

The market for continental cheese remained weak over the last month while cheddar prices remained stable although domestic and export demand both remain sluggish.

Butter markets have weakened further over the last month. EU, New Zealand & USA output are all stronger than prior year equivalents. Exports will be difficult at current world market prices and exchange rates.

Skim Milk Powder - after a strong start to the first half of the year activity levels have slowed recently and are currently very low both internally within the EU and for export. Prices have weakened as reflected in Fonterra gDT Auction and EU quotations.

Whole Milk Powder markets remain weak. The gap between EU and world prices is making exports very difficult. Fonterra gDT price has reduced by over \$400 per metric ton since middle of June.

Dairy Hygiene Grant Scheme Suspended

The Department terminated applications to the above Scheme with effect from 9th June 2011. At that point there were sufficient applications in the system to cover the 1st and 2nd tranche of grant payment which amounted to €10.4 million.

It is possible that all grant applications in the system on 9th June will receive a positive decision. At this stage the resumption of the Grant Scheme will be very much dependent on the Budget later this year.

Leaked CAP Proposal

In a leaked document obtained by ICOS the Commission is proposing to introduce a number of proposals that will be of help to the Irish Dairy sector.

Co-financing rates for Rural Development programmes in those Member States particularly affected by the financial crisis, of which Ireland is one, are set to be revised upwards by the Commission in August.

The Commission is also keen to encourage innovation in agriculture via the 'European Innovation Partnership' (EIP) on 'Agricultural Productivity & Sustainability'. The EIP "aims to promote a faster and wider transposition of innovation solutions in practice and fills gaps by better linking research and practical farming". These projects would be financed by the funds released in Member States as a result of the capping of direct payments received by individual farmers on larger holdings.

The 100 page document also sets out indications on risk management instruments. It presents 3 measures related to i) crop animal & plant insurance contracts; ii) mutual funds for affiliated farmers affected by economic losses caused by the outbreak of an animal or plant disease or an environmental incident; and iii) an income stabilisation tool whereby support is granted "where the drop of income exceeds 30% of the average annual income of the individual farmer in the preceding 3-year period or a 3-year average based on the preceding 5-year period". Payments to farmers "shall compensate for not more than 70% of the income lost", the draft adds. ICOS has long lobbied for such a provision to give members a safety net in the event of a milk price collapse.

Proposal on Ag Products Promotion

The EU has committed to the simplification of administrative procedures to gain access to funding for the promotion of agricultural products with the launch of its 'Green Paper' on the issue.

Dairy is a key area that qualifies for funding under this scheme and ICOS will be working with key stakeholders such as the National Dairy Council (NDC) to ensure that the Irish dairy industry gains funding that enable us to promote the benefits and quality of our products both in the domestic market and further a field.

Compulsory Dairy Labelling Avoided

With over 85% of our dairy output being exported, ICOS has worked positively to ensure that our exporting co-ops were given the choice whether they wished to put the made in Ireland stamp on their products or not. In the face of stiff demands from big countries such as Italy and France for the compulsory introduction of country of origin labelling, the European parliament has voted to exclude dairy from origin labelling.

ICOS lobbied strongly with its European dairy exporting allies, such as Denmark, The Netherlands and Germany to give our dairy producers the choice themselves as to whether they wished to use country of origin labelling in whatever European market they were attempting to sell into.

We all produce under common production standards and rules and the introduction of such compulsory labelling would go directly against the principals of the 'Common Market.'



Michael Teahan, of Kilcummin, Co Kerry was recently elected onto the ICOS Board and Dairy Expert Committee, representing Kerry Co-op.



Recently elected onto the ICOS Dairy Expert Committee, representing non-processing Societies, and Bandon Co-operative, Mr Neil O'Riordan, from Mishells, Bandon, Co. Cork.



Michael John O'Donovan, of Caheragh, Drimoleague, Co Cork has recently been elected onto the ICOS Board, representing non Processing Societies, and Drinagh Co-op. He is also a member of the Dairy Expert Committee, and the Rural Business Committee.

Rabobank



Rabobank

Rabobank's Co-operative Roots

As a co-operative, AAA rated Rabobank has its own unique organisation structure. The group is not shareholder driven but more a collection of independent local 'member' banks within the Netherlands, together with the centralised organisation Rabobank Nederland and its subsidiaries. In 2010, the bank reported €650bn in assets and a net profit of €2.77bn. It has 56,000 employees worldwide, including 320 staff in Ireland, and credits it's cooperative roots with much of its success and stability through the financial crisis.

Being a cooperative enables Rabobank to follow a conservative strategy of modest growth, modest return on equity, strong capitalisation and the highest creditworthiness, which is further enhanced by a unique cross-guarantee scheme. Rabobank's governance model makes it possible for members to make their influence felt through several levels within the central organisation, Rabobank Nederland, which has a supervisory role as the 'bank of banks' for the 141 local member banks. Rabobank is also the world's only privately owned AAA rated bank.

Rabobank is Born

In the late 19th century, the cooperative credit movement in the Netherlands was born when Dutch farmers unable to access credit for their farms took inspiration from the so-called Raiffeisen model

popular across the border in Germany. The idea behind Raiffeisen's credit societies was to support farmers and rural communities by self-help and, through savings, and sharing of financial liability. By the late 1950s, the Netherlands' two central cooperative banking organisations - the Cooperative Central Raiffeisen Bank and the Boerenleenbank (Farmers' Credit Bank) - had become major financial institutions in the Dutch market. In 1972, these two central cooperative organisations merged to create Rabobank. A move which ensured greater financial stability as banks continued to evolve into full service providers for private and business customers.

The Co-operative Ethos Spreads

During the 1970s a prospering Dutch economy and efficient production led to the opening up of export markets and Rabobank began to look further afield. The strategy was to take its decades of experience and follow its food and agribusiness customers and in 1981, a New York office was opened, followed rapidly by others across the globe. Today, Rabobank has a strong presence in all major world markets and ranks as the top financial services provider for global food and agribusiness and for agri-finance.

In Ireland, Rabobank has three entities: Rabodirect, the online savings and investments provider; Rabobank Ireland plc, offering corporate banking services to Food and Agribusiness customers; and ACCBank, which was acquired in 2002 and serves the farming and SME food business sectors.



Pictured recently with Minister Simon Coveney, were Pat McLoughlin (second left), who was recently re-elected as ICOS president, and Bertie O'Leary who was recently re-elected as Vice President. Bertie O'Leary has also been elected as the Chairman of the ICOS Dairy Expert Committee. Also pictured are TJ Flanagan (left) and ICOS CEO, Tom O'Callaghan (second right). The ICOS delegation met the Minister to keep him informed as to developments in the ICOS Dairy Industry development process, as well as to discuss ICOS and the Department's approaches to pursuing a soft landing for milk quotas. Speaking after the meeting, ICOS president Pat McLoughlin welcomed the Ministers efforts on the soft landing, but reiterated the difficulties associated with delivering a resolution to the problem, He emphasised that farmers must act responsibly with regard to their own quotas and milk production.

How we Pay for Milk - Time for a Rethink

This also means that the industry would be carrying an additional €500 million worth of stock every autumn, just when our Southern Hemisphere competitors come into their production season. In recent years, it is this autumn period which has seen the greatest volatility in markets, and even a 10% fall in markets in this period, (which is not excessively dramatic in the context of 2007 and 2008 market turnarounds), could see €50 million written off the value of Irish dairy stocks.

It is useful to consider how our Southern Hemisphere competitors approach Working Capital and stock risks. Fonterra adopt a very tough approach to the problem, by only paying on account for milk, with less than 60% of the final price being paid on account, in the early months of production season. Even by the end of the season, they are only paying around 80%, month on month, for deliveries, and farmers are only paid the full value for their milk about 5 months into the following season. It is important that farmers

understand the advantage that this puts the New Zealanders at when we meet them in Asia or other markets. Particularly in the context of our expected expansion, we will increasingly have to compete with them right around the globe.

Australian dairies, too, have on account payment systems, with farmers being paid around 85% of the expected final payout in the early season, and a greater proportion being paid out as the year progresses, when the full market position becomes clearer.

Irish Co-ops and their members need to engage fully to develop a payment system which maximises the return to members, while addressing these new Working Capital and stock risks. ICOS believes that strong consideration should be given to the Australian model of milk payment, which, right throughout the year, attempts to deliver to farmers, strong signals as to the final value for all their milk, while reducing Working Capital and the stock risks.



The United Nations General Assembly has declared 2012 as the **International**

Year of Cooperatives, highlighting the contribution of cooperatives to socio-economic development, in particular recognising their impact on poverty reduction, employment generation and social integration.

ICOS has been granted special permission to use this logo and associated graphic tag. You will see this logo over the coming months in respect of events taking place in 2012.

The logo of the International Year of Cooperatives 2012 evokes the definition of cooperative enterprises as autonomous associations of persons united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise. For further information on this, check out the website: www.rural2012.coop/international-year-cooperative

One of the events taking place has been organised by The Plunkett Foundation. The Conference is entitled: **The World of Rural Co-operation Conference 2012** in Trim Castle, Co Meath on the 11th/12th September 2012. For further information on this event, go to: www.rural2012.coop

National Position

Figures published by the Department of Agriculture, Food and Forestry indicate the country was 3.98% over quota at 30th June. This corresponds to a 4.5% under quota position at the end of June 2011.

Considering a 1% quota increase has been applied from 1st April, figures represent a 9% increase over the 2009/2010 period.

Trading Scheme

In August the Department of Agriculture, Food and Forestry will announce details of the 1st Phase of the 2012/2013 Milk Quota Trading Scheme. The closing date for the 1st

Phase will be the end of October while the 2nd Phase will have a closing date at the end of January 2012. Quota purchased under both Phases will be available to producers from 1st April 2012.

	€1 : US\$	1€ : GB£	Oil Price (Brent) - Carbon Spot: 1 US\$ pbl	EUA
August	\$1.41	£0.868	\$107.96	€11.55
July	\$1.43	£0.895	\$116.34	€13.38
June	\$1.461	£0.893	\$114.48	€16.70



Find us on LinkedIn:
Irish Cooperative Organisation
Society



Follow us on Twitter:
ICOS_BXL



Contact us at:
The Plunkett House, 84 Merrion
Square, Dublin 2

If you wish to be added to the icos Dairy Digest mailing list, please contact TJ Flanagan at t.flanagan@icos.ie

Please forward this newsletter to your colleagues, farmer friends & discussion group members!