

We wish all of our members and readers a Merry Christmas and a Happy New Year

Cover Story

Crazy Proposal for a Second Marketing Levy

ICOS has expressed concern at an announcement by Minister Coveney that he will launch a consultation process around the proposed establishment of a new milk levy on dairy farmers in 2012.

According to the Minister, the funding will be 'ring fenced for dairy product promotion through an Bord Bia', including the identification of new markets and opportunities to cater for expanded milk output when quotas are abolished in 2015.

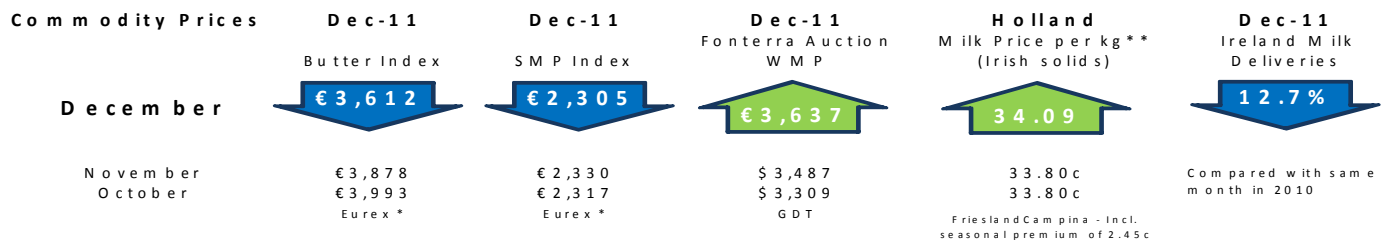
We already have a highly competent international dairy marketing, sales and distribution organisation carrying out this role and also charging a levy to dairy farmers. That is the Irish Dairy Board, which operates on behalf of the majority of Irish dairy processors and their member dairy farmers and for the Minister to propose a second such body, demonstrates a lack of understanding of the dynamics of the dairy markets in which Irish processors compete.

ICOS believes that monies levied from farmer members of Irish dairy processing co-operatives should be channeled towards projects which have specific commercial goals including market-led research, innovation and new product development. The Irish dairy industry does not need a duplication of generalised promotional expenses, which the Minister currently seems to be proposing.

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Market Insight

Dairy Markets



*: Eurex Futures Cash Settlement Price
** November figure as December figure is not available at time of publishing

Market News

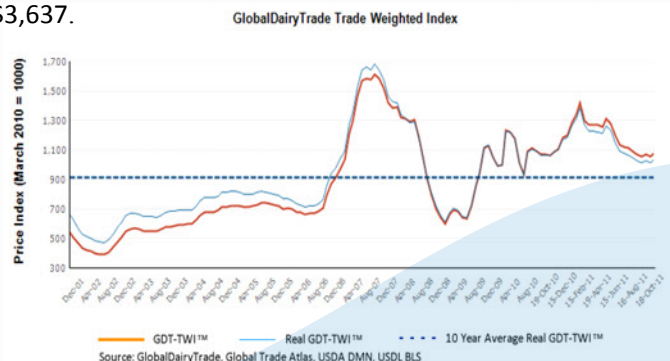
If caution was the byword for the market sentiment in last month's edition, then perhaps pessimism best sums up sentiment this month, particularly for butter markets. Weakening EU butter prices are still some way above world market prices, reducing the potential for export and prompting the likely import of over 30,000 tonnes of New Zealand product.

Protein markets seem more optimistic, with the EU SMP market reported to be steady or modestly increasing. European SMP prices are competitive on world markets with some export potential. European whey powder prices are also reported to be rising.

European butter exports for January to September are down by 23% on last year, with SMP exports up by 27%. WMP exports for the same period have reduced by 10% (a direct

loss of export volumes to New Zealand), with cheese exports reported to be stable.

The latest Fonterra Global Dairy trade auction, however, has recorded further price growth. The WMP price index rose by 2% from the last sale to a current average winning price of \$3,637.



Dairy Industry – Evolving Globally

2012 will mark another milestone in the history of the Irish dairy industry. After nearly three decades of a milk quota regime, 2012 will see us enter into the last three years of this quota system. With a quota regime in place for so long, together with the backdrop of intervention, the Irish dairy Industry has arguably been sheltered from much of the on-going change within the global dairy sector.

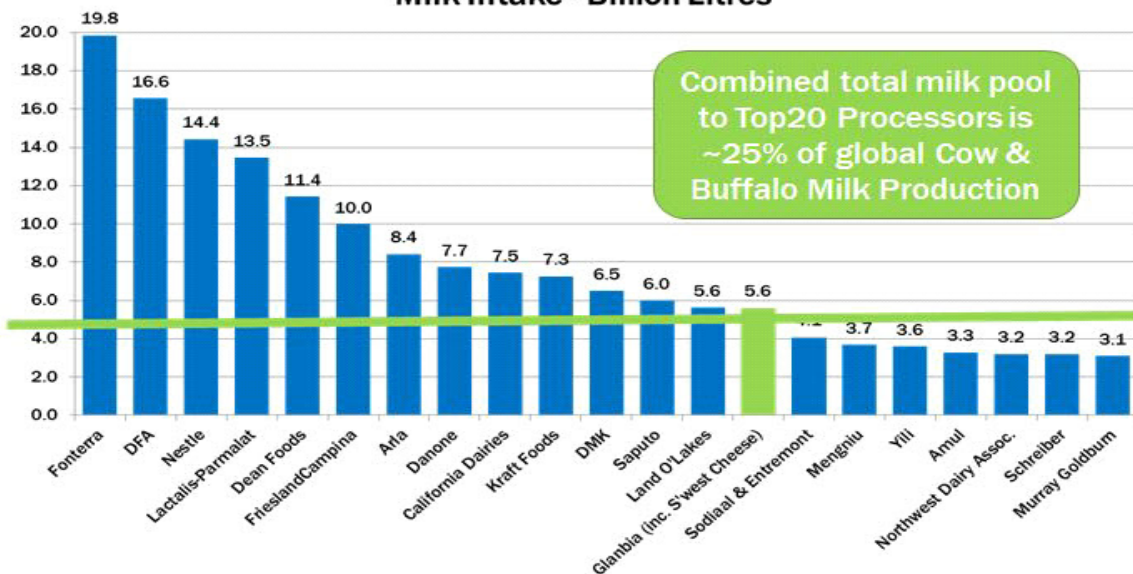
All this has changed in the last number of years. Co-ops and farmers are now more in tune with the global market. There is a greater awareness of the industry world-wide. What may not be as well appreciated is the pace with which the industry is evolving. The following tables give an insight into how the industry has evolved in recent years.

Top20:

The following tables illustrate the World's Top20 Milk Processors by both Milk Intake and Revenue

Top 20 Milk Processors by Intake

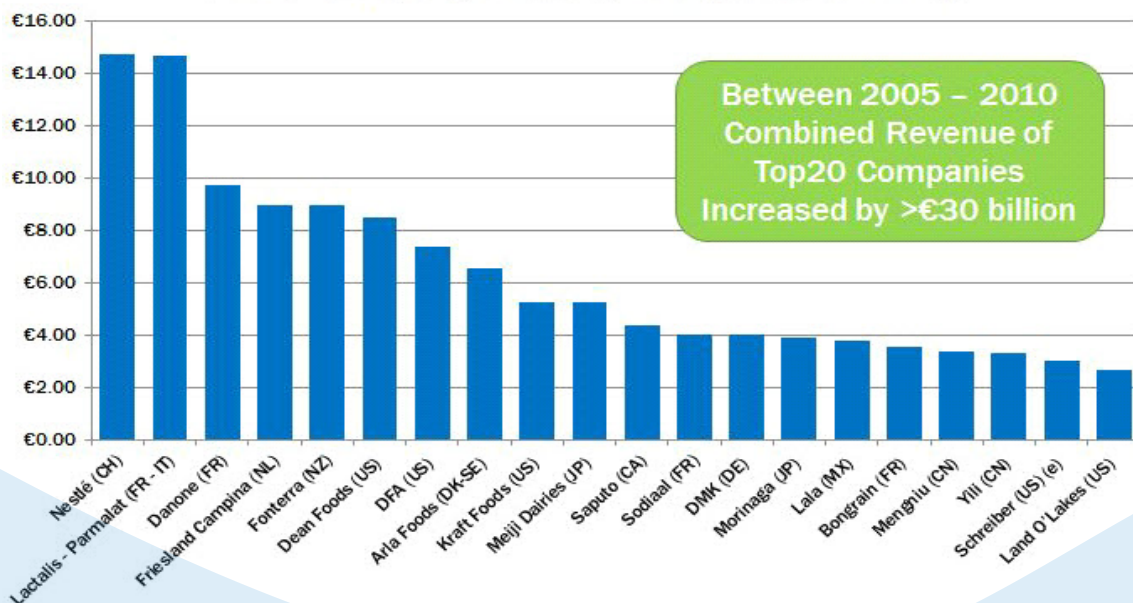
Milk Intake - Billion Litres



The Top20 Milk Companies process approximately 25% of the total cow & buffalo milk produced in the world. Ireland's total milk production of 5.4 billion litres is marked with the green line above.

Top 20 Milk Processors by Revenue

2010 – billion € (Converted from \$ to Dec'11 rate)



Between 2005 and 2010, the combined revenue of the Top20 dairy companies increased by >€30 billion. Of the 2011 Top20:

- European Based → 8 (2005 – 11) – minus 3
- North America → 6 (2005 – 6) – same
- Asia → 4 (2005 – 2) – plus two
- Other → 2 (2005 – 1) – plus one

Growth

The following table shows 2010 sales in US\$. The second

Company (country)	2010	4 yr diff.
Yili (China)	\$4.4	176%
Lala (Mexico)	\$5.0	172%
Sodiaal (France)	\$5.3	171%
Amul (India)	\$2.1	162%
Mengniu (China)	\$4.5	161%
Agropur (Canada)	\$3.2	139%
Morinaga (Japan)	\$5.2	130%
Fonterra (NZ)	\$11.9	127%
Saputo (Canada)	\$5.8	121%
Murray Goulburn (Aus)	\$2.0	118%

column illustrates the % revenue growth by these companies over the previous four reported years.

Further Consolidation

In last months *icos DairyDigest* we detailed the Connacht Gold – Donegal Creameries deal. This month we look at global dairy company mergers and acquisitions over the past 18 Months including:

Lactalis → Spain: French company Lactalis bought three companies in Spain with a combined turnover of €600* million. Lactalis now #1 in Spain for both liquid milk and milk collection.

Lactalis → Italy: Lactalis and Parmalat merge. Combined company will have sales >€14 billion.

Sodiaal → France: Dairy Co-operative Sodiaal took over Entremont (€1.5 bn), the top European producer of emmental cheese

General Mills → USA / France: Took control of 51% of Yoplait for €900 million. Remaining 49% with Sodiaal

DMK → Germany: Nordmilch and Humana Merge to form 6.5 billion litre co-ops in northern Germany

Arla → Germany: Arla acquires Hansa milk. Milk pool of 0.65 billion litres. Arla now processes milk in six northern European countries.

Danone → Russia: Formed partnership with Unimilk. 2011 forecasted turnover €1.5 billion.

PepsiCo → Russia: took control of Wimm-Bill-Dann. Turnover - €1.8 billion.

LBR → Brazil: Two companies come together to form the #2 dairy company in Brazil with combined annual sales of €1.35 billion.

Chinese Dairy Companies → Internationally: Bright Dairy took control of Synlait in NZ. Ausnutria took control of Hyproca in Holland. Synutra plan to build a powder producing plant in partnership with Sodiaal of France.

* Prices Converted from \$ to € using rate quoted on 28/11/11.



From time to time *icos DairyDigest* profiles major international dairy companies. In this edition, we look at the Australian co-operative Murray-Goulburn Co-operative.

Murray Goulburn has its origins in northern Victoria. Returned servicemen, many of whom had never farmed, called a meeting in May 1949 to gauge public interest for establishing a new co-op dairy factory. From the 14 pioneering dairy farmers that formed the co-operative, Murray-Goulburn has evolved to being owned by 2,580 dairy farmer shareholders. The co-op processes about 2.9 billion litres per annum (equivalent of 50% of the Irish milk pool). Shareholder equity is approximately 19c per litre (Euro).

The co-op accounts for approx. 1/3 of Australian milk volume, has annual sales of approximately €1.7 billion. >50% of their sales revenue relates to export sales. Their FY11 Farmgate Milk Price was ~31.2 cents per litre (Euro). MGC's International business accounts for approx. 9% of world dairy trade and they trade in over 100 countries. Within their ingredients portfolio the co-op processes; milk powders (SMP & WMP), cheese products, whey powders, lactose, anhydrous milk fats (AMF) and cream. Their nutritional products include: caseins and caseinates, whey & milk protein concentrates, whey protein isolates, colostrum, lactoferrin, natural milk minerals, sports proteins and milk replacers/ supplements.

Murray-Goulburn also has 24 Farm and Hardware supply stores. The co-operative employees 30 field services support staff, assisting members on a wide range of matters including farm budgeting and milk quality support. It is also work nothing that Murray-Goulburn helped pioneer the use of Liquid Natural Gas (LNG) across their 160 milk trucking vehicles.

Murray Goulburn has also become the third company to use the Fonterra Global Dairy Trade auction platform to market product. Murray Goulburn will start offering lactose products in April on the GlobalDairyTrade sales platform, joining Fonterra and Dairy America.

Lactose is not currently offered for sale on the platform by either Fonterra or Dairy America, and according to Murray Goulburn, offering Lactose on GDT will further develop the market for the product and has the potential to reduce volatility and provide more reliable price discovery for buyers and sellers.

More information

<http://www.mgc.com.au>

For the past fifty years, the Irish Dairy Board has built a global brand, Kerrygold, and has developed routes to market in over 80 countries. Over the past 18 months, further intensive efforts have been made in conjunction with member co-ops to strengthen marketing strategy, distribution channels and product development. The Irish dairy industry cannot afford to be distracted or diverted from this ongoing focus at this critical time.

Meanwhile, the current Director Training Programme being run by ICOS is proving to be very successful, with participants engaging very positively in the different

sessions. The extent to which farmer directors benefit from external training, as well as engaging with colleagues from other co-ops, is very evident. The experience should prove very valuable to Directors as they grapple with the challenges faced by their own Boards. In addition, the Macra na Feirme Young Leaders variant of the Training Programme was enormously well received and has the potential to contribute enormously to the development of successive generations of positive, clearly focussed young leaders who will contribute to the development of their own co-ops.

Internships

In recent weeks have had contact with a couple of Universities offering placements for students:



The University of Limerick has a long established 6 – 9 month placement program in which their students from a number of faculties and courses, including: Food Science; Business, Finance & Accounting; Production Management, IT & Engineering, and Media are given experience. For further information please go to:

<http://www3.ul.ie/coop/coop/employers/forms/requirements/English.pdf>

The University has a dedicated team to work with employers on providing candidate CV's and arranging interviews with potential placement students. Contact details are as follows:

<http://www3.ul.ie/coop/coop/employers/coopmanagersemployers.shtml>



University College Dublin is looking to place BSc Ag. Science students undertaking Food and Agri-business Management. Suitable host organisations within the Agri-Food Industry for work experience include organisations engaged in food processing, agri-trading, agri-finance, public sec-

tor bodies and those organisations engaged in policy analysis and/or advocacy. Contact details are as follows:

Dr. James Breen at james.breen@ucd.ie. Tel: 01-7167764



Another option available to co-ops is the Government Sponsored JobBridge Program. JobBridge is a new National Internship Scheme that will provide work experience placements for interns for a 6 or 9 month period. The scheme will provide for up to 5,000 work experience placements in the private, public and voluntary sectors. 2884 have already started Internships. There are currently 2460 internships available.

For further details on this JobBridge program, please go to: <http://www.jobbridge.ie/>

We encourage all our members to review the advantages of taking on interns that have an aptitude and skillset to add value to your business and the future success of the Irish Dairy industry.

ICOS itself has recently taken on an Intern. Ruth O'Connor has joined ICOS to assist in the Administration Department and to assist with projects. Ruth holds a BSc (Honours) in Horticulture from Waterford Institute of Technology.

Diary Dates

Director Training

Carrick-on-Shannon - commence 6th Dec – Spaces Available

Charleville – commence 10th Jan – limited space available.

December	Oil Price (Brent) - Carbon Spot: 1			
	€1 : US\$	1€ : GB£	US\$ pbl	EUA
	\$1.34	€0.856	\$110	€7.16
November	\$1.37	€0.856	\$111.89	€10.35
October	\$1.33	€0.86	\$102.26	€10.27



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

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