

Time to concentrate on your Co-op



As we enter 2012, the UN International year of Co-operatives, it is timely that we consider the state of our co-operatives and not just the businesses they own. Co-op members and their representatives on boards devote much energy to the running of the businesses they

operate (in milk processing, consumer foods, agri-trading etc.), and rightly so.

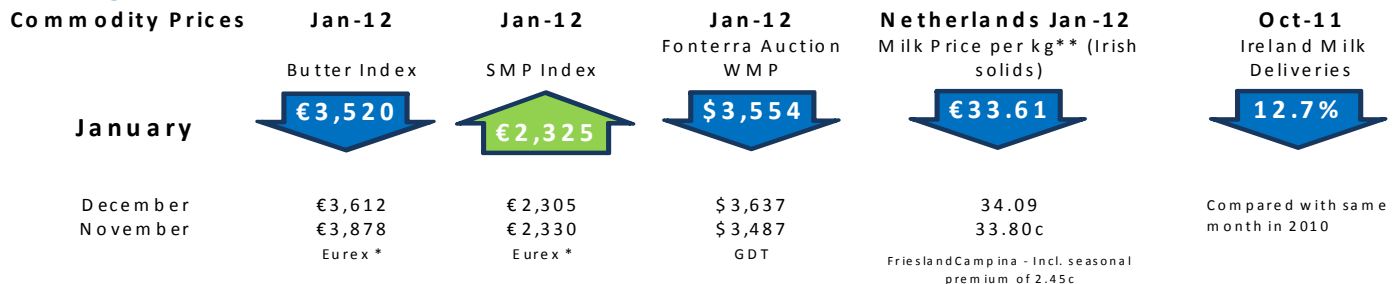
Do they, however, devote enough attention to the co-operative itself? It is crucial, particularly in the context of post quota expansion and the necessity to invest significant capital in the dairy business, that active dairy farmers retain ownership and control of their business. Over the past 30 years the connection between milk supply and shareholding has been weakened and typically, milk

suppliers now only represent about 30% of shareholders.

While the remainder of the shareholder base does include very valuable grain suppliers and feed customers, there are also retired or inactive members, who retain their shares and a degree of control over the business. Indeed, given another generation, with some expected further reductions in dairy farmer numbers, the proportion of members who are active dairy farmer members could drop further.

Continued on page 4

Dairy Markets



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

European Dairy Markets have reopened and appear to be holding steady at levels close to those at which they closed. Against the backdrop of a weakening world market, the current weakness of the Euro is helping to support European prices. The Eurex Exchange Indices, based on spot price quotations in France, the Netherlands and Germany, report spot butter values at €3520 (down 2.5% in a month) and spot SMP prices at €2325 (up 1% in a month). The most recent Global Dairy trade auction illustrated the current weakness of world markets, with the trade weighted index of all products dropping by 0.7%.

It is notable that while there was a range of price movements for the various contracts, the most significant drops take place

in the farthest out contract period (April-June), for AMF and for SMP, just when Irish volumes of butter and SMP start to build.

Changes in Price Indices	Contract 1	Contract 2	Contract 3	Contract 4	All Contracts
	Feb12	Mar12	Apr12-Jun12	Jul12-Sep12	
Anhydrous Milk Fat (AMF)	n.a.	-2.8%	-6.7%	-6.4%	-5.1%
Butter Milk Powder (BMP)	n.a.	9.3%	n.a.	n.a.	9.3%
Cheddar	n.a.	-1.1%	1.4%	n.a.	0.2%
Milk Protein Concentrate (MPC70)	n.a.	0.9%	3.7%	n.a.	2.3%
Rennet Casein (RenCas)	n.a.	-4.7%	-3.4%	n.a.	-4.0%
Skim Milk Powder (SMP)	-1.7%	-0.1%	-0.5%	-9.5%	-0.6%
Whole Milk Powder (WMP)	n.a.	-0.7%	-1.7%	1.8%	-0.8%
All Products (Trade-Weighted)	-1.7%	-0.6%	-0.9%	-3.9%	-0.7%

Bertie O'Leary elected Dairygold Chairman



Congratulations to Mr Bertie O'Leary who has been elected Chairman of Dairygold Co-operative. Congratulations also to Mr James Lynch who was elected as Vice-Chairman at the January Board meeting.

Bertie is currently the ICOS Vice-President and Chairman of the ICOS Dairy Expert Committee, as well as being a long standing Dairygold representative and former Vice Chairman of the co-operative. He balances his leadership roles with being an active dairy farmer in Ballyvourney and has been a strong advocate for the co-operative structure and its benefits to active farmers.

James Lynch, the newly elected Vice-Chairman from Six Mile Bridge, in County Clare, was elected to the Dairygold Board in 2008 from the Limerick region. He is also an active dairy farmer, and has served in a wide range of organisations prior to assuming his new role.

Denmark takes hold of EU Presidency for first half of 2012



In advance of Ireland taking up the reigns of the European Presidency in 2013, Denmark has outlined an Agriculture programme that will focus on bringing forward the reform of the Common Agriculture Policy (CAP).

From an ICOS co-operative perspective, the work the Danes are trying to complete on the Single Common Market Organization (CMO) which will dictate a new model for market crisis instruments and the role and status of co-operatives and producer organizations. The first meeting of Agriculture Ministers on the issue will be in the 23rd of January.

Other priorities for the Danes will be CAP simplification, which ICOS will be strongly supporting, but the Dane's stated goal of pushing forward a 'Green Agenda' will be closely watched by the Brussels office.

ICOS addresses key EU Committee

Conor Mulvihill, ICOS addresses the European Parliament Agriculture Committee, Polish European Presidency and Agriculture Commissioner Dacian Cioloș on the reform of the Common Agriculture Policy, on a number of topics, including Young Farmers and Innovation investment. To view this video, please visit:

<http://www.youtube.com/user/cooperativeshireland>



Minister Coveney endorses ICOS co-op Director Training



Minister Simon Coveney visited the Charleville Park Hotel yesterday, January 10th, to endorse the training programme being delivered by ICOS. He paid tribute to the 56 co-op directors from the southern region who have come together to develop their skills as co-op Directors and to exchange views on the strategies to be adopted to build a co-op Dairy sector which can profitably handle the additional milk supplies expected under Food Harvest 2020.

Russia joins WTO

	Ireland	Ukraine	Russia
Area	70,273 km ²	403,390 km ²	17,075,400 km ²
Population	4.6 million	46 million	141.9 million
GDP	€168 billion	€150 billion	€1,477 billion
Annual Milk Prod.	5.4 billion/L	10.5 billion/L	31.9 billion/L
% Milk Processed**	98%	39%	52%
Cheese Consum pt.*	7.2 kg	6.1 kg	6.1 kg
Butter Consumption*	2.4 kg	2.2 kg	2.2 kg

*- Consumption per capita per annum

** - Milk processed in factories (consumer, liquid)

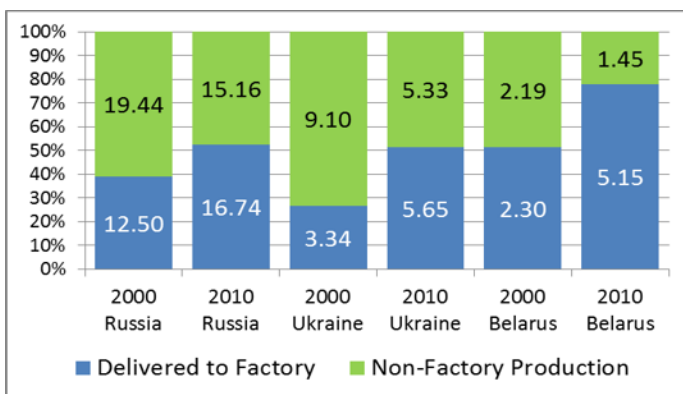
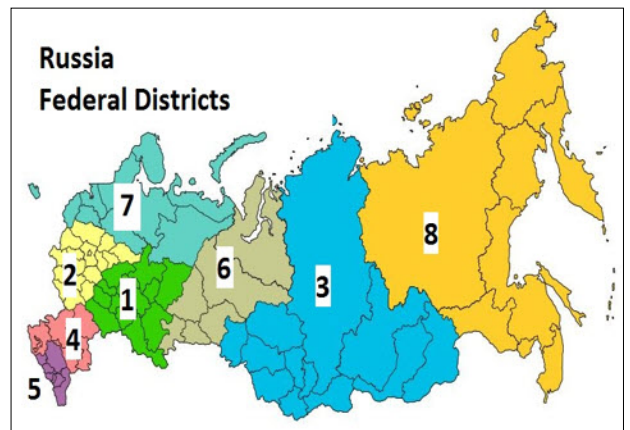
Russia is a huge country. It is approximately 200 times the size of the island of Ireland. It is divided into eight federal regions. The Russian dairy market was worth €14.4 billion in 2010. Table 1 gives a breakdown of the key population and dairy statics in these regions.

At farm level, Russia experienced a dramatic reduction in milk output since the fall of the Soviet Union in 1991.

Between the collapse of the Soviet Union in 1991 and 2001, Russian milk production dropped from close to 50.5 billion litres per annum to just over 32 billion litres per annum. Production today is just under 31 billion litres per annum. The average yield per cow in Russia is about 3980 kgs of milk per annum. Average cow Milk Fat and Protein is 3.6% & 2.9% respectively. Only 52% of Russian milk production is sent to factories for processing into fresh products or ingredients (compared with 98% in Ireland). However, this is up from just 39% in 2000. Looking at neighbouring Belarus and Ukraine, Table 2, we see a net increase of >9 billion litres of milk processed in factories per annum in these three countries over the past 10 years.

In recent years, a number of larger dairy companies are emerging, e.g. Unimilk, Wimm-Bill-Dann and Molvest. However, there seems to be considerable scope for further consolidation. In the Whole Milk Products categories, the Top-5 players account for 40% of market. In the Cheese category, the Top-5 players account for 20% of market share.

Russia is a major importer of dairy products. It is the largest importer of cheese and butter in the world. Cheese imports have been growing for many years, up from ~50,000 tonnes in 2000 to 421,000 tonnes in 2010. Over a quarter of the cheese imported into Russia in 2010 came from Belarus.



Map Key	Federal District	Milk Production billion / L	% Milk Production	% Population	% Land Mass	Administrative Center
1	Volga	10.13	33%	21%	6%	Nizhny Novgorod
2	Central	5.60	18%	27%	4%	Moscow
3	Siberian	5.45	18%	13%	30%	Novosibirsk
4	South	3.16	10%	10%	2%	Rostov-on-Don
5	North Caucasus	2.30	7%	7%	1%	Pyatigorsk
6	Urals	2.05	7%	8%	10%	Yekaterinburg
7	North West	1.70	5%	10%	10%	St. Petersburg
8	Far East	0.57	2%	4%	36%	Khabarovsk

Russia is a major importer of dairy products. It is the largest importer of cheese and butter in the world. Cheese imports have been growing for many years, up from ~50,000 tonnes in 2000 to 421,000 tonnes in 2010. Over a quarter of the cheese imported into Russia in 2010 came from Belarus. 98% of Belarussia's 119,000 tonne cheese exports in 2010 were shipped to Russia. Belarus is now the 5th largest cheese exporter in the world. Butter & butteroil imports stood at 134,000 tonnes in 2010. Belarus exported 53,000 tonnes of Butter to Russia in 2010. Due to a severe drought in Russia in 2010, we saw a significant spike in milk powder exports to Russia, e.g. SMP imports increased >65,000 tonnes to 117,000 tonnes. This trend seems to have reversed in 2011, with milk powder imports back 59% between January – November 2011.

Time to concentrate on your Co-op

While it is probably unrealistic to wish to turn back the clock and concentrate ownership of dairy co-ops solely in the hands of dairy farmers, we should nonetheless not weaken the ownership and control structure further by developing post quota supply relationships that don't protect the supply shareholding link. In this context, ICOS welcomes the recent policy statement from the IFA, where it supports the concept of maximising ownership and control of the dairy business by active dairy farmers. It is important that dairy farmers be prepared to invest in their expanding business, through shareholding and/or other mechanism and it is also important that the Board should be supported in making the difficult necessary Rule changes to protect the interests of active dairy farmers.

It would be easier to let the supply shareholding link slip and just deal with milk suppliers through simple business contracts, but in this instance would the business continue to be a real co-op?

The business of co-operation centres around economic viability and democratic participation. It also requires innovation, competitiveness, operational excellence and the provision of the highest possible quality of products and services in meeting the market demand at home and abroad. This requires investment that all members must collectively share.

In the Year of the Co-operatives, we should all devote greater efforts to the general wellbeing of our co-ops. We need to work harder to engage with younger and new members. We need to ensure that the next generation of suppliers are as enthusiastic and as energised with the co-op ethos as their predecessors. Co-ops need their members to be loyal; to see the benefit of supporting their co-operative; and this can be best achieved by active communication and engagement programmes for members.

2012 Nuffield Scholar Announced



Congratulations to Andrew Gow, Murroe, Co. Limerick on being awarded the 2012 ICOS Nuffield Scholarship. His chosen topic of study is 'How Co-operatives can Grow and Work Together'.

Andrew is a Dairygold Co-operative milk supplier and has combined building up his home dairy enterprise with active participation within his co-op, in farm organisations, in his discussion group, and the broader community.

	€1 : US\$	1€ : GB£	Oil Price (Brent) - Carbon Spot: 1 US\$ pbl	EUA
January	\$1.270	£0.823	\$112.0	€6.31
December	\$1.34	£0.856	\$110	€7.16
November	\$1.37	£0.856	\$111.89	€10.35



From time to time *icos DairyDigest* profiles major international dairy companies. In this edition we will take a look at the Russian dairy company Danone-Unimilk.

In November 2010, Danone and Unimilk announced the agreement to merge Danone's fresh dairy product businesses in the CIS area with those of Russian company Unimilk. With 28 factories in Russia, Ukraine, Kazakhstan and Belarus, the merger of Danone-Unimilk lead to the creation of one of the largest dairy companies in the region, with a combined annual sales >€1.5 billion.

Danone hold a 57.5% controlling interest of the new entity, while the current Unimilk shareholders hold 42.5%. Danone's net financial debt increased by €1.3 billion as a result of the merger. The company employs 18,000 people. Russia now becomes Danone's second largest market for dairy products after France. In November Danone-Unimilk announced a €55 million investment in their Labinsk plant. The plant currently processes about 170 tonnes of milk per day, with plans to increase to 250 tonnes per day in the future.

More Information:

www.unimilk.ru



LinkedIn

Find us on LinkedIn:
Irish Cooperative
Organisation Society

twitter

Follow us on Twitter:
ICOS_BXL

icos
Irish Cooperative Organisation Society

Contact us at:

The Plunkett House, 84
Merrion Square, Dublin 2
Tel: +353 (0)1 6764783

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!

Copyright Note - The content of DairyDigest can be republished and used in any other media but ICOS must be credited as the source.