

## Soft Landing ..... Getting Harder!

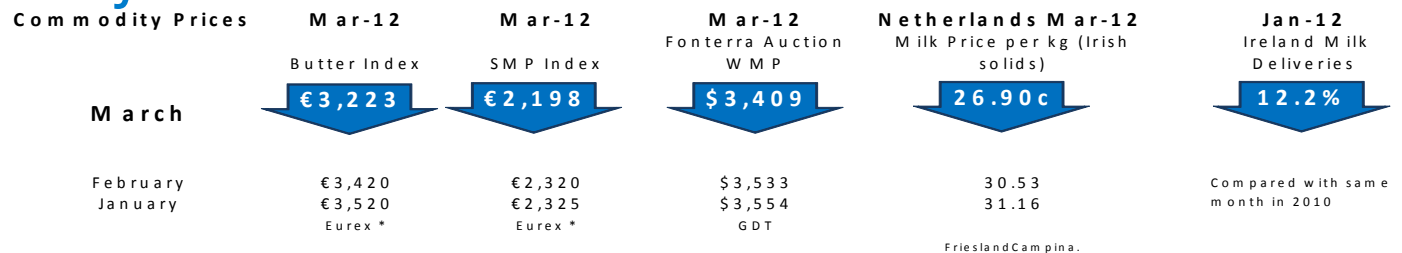
Efforts to secure a soft landing for milk quotas intensified in Brussels this week, as it emerged that eight countries are now facing super levy fines for the 2011/12 marketing year. As well as the Netherlands, Denmark, and, perhaps Ireland, it now seems likely that Germany, Austria, Belgium, Luxembourg and Cyprus will also exceed their milk quotas. This significant grouping of countries, representing almost 42% of total EU

milk production, will create a stronger argument for re-examining the quota removal steps outlined in the Health Check. Moves to force COPA-COGECA, the European Farm/Co-op body to request the Commission to investigate removing the butterfat adjustment (which would free up around 2% more quota) failed this week, as a combination of French, Finnish, Mediterranean, and Eastern

European interests blocked the initiative, quoting fears of a negative market reaction to any milk supply increase. It had been hoped to get the butterfat adjustment onto the agenda of the Milk Management Committee, a group which could actually bring about the necessary changes at technical level, without having to engage in the politics of pursuing quota increases.

*cont'd on page 4*

## Dairy Markets



\*: Eurex Futures Cash Settlement Price

Market sentiment continues to dis-improve, with Tuesday's Global Dairy Trade Auction Trade Weighted Index down a further 0.9%, and the greatest weakness occurring in the farther out contracts.

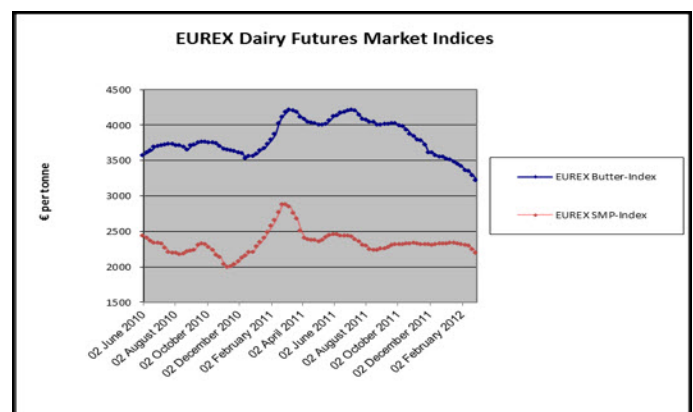
New Zealand milk continues to flow at record rates, with December 2011 production up by 14.7% on December 2010 (which was drought effected) and 8.4% up on December 2009.

NZX Agrifax reports that for the calendar year 2011, New Zealand Milk production was up by 10.8%.

The Eurex Exchange reports further weakness in European price quotes, with the French butter quotation down by €100 to €3300, and SMP quotes down 2.3% to €2198.

Meanwhile, Friesland Campina have dropped their March milk price by approx. 1.5c per kg. This is the third monthly price drop in a row, with prices now down by 3.25c per litre from their December high. The March price, inclusive of a 2.3c seasonality deduction, is 26.9c per kg (or 27.7c per litre), on the basis of Irish standard constituents (3.6% fat, 3.3% protein).

Changes in Price Indices	Contract 1 Apr12	Contract 2 May12	Contract 3 Jun12-Aug12	Contract 4 Sep12-Nov12	All Contracts
Anhydrous Milk Fat (AMF)	n.a.	2.2%	6.3%	-4.3%	3.7%
Cheddar	n.a.	-1.0%	-1.5%	n.a.	-1.3%
Milk Protein Concentrate (MPC70)	n.a.	-10.5%	-5.1%	n.a.	-7.6%
Rennet Casein (RenCas)	n.a.	-2.4%	-2.5%	n.a.	-2.5%
Skim Milk Powder (SMP)	-3.2%	-1.4%	-2.7%	-2.6%	-1.9%
Whole Milk Powder (WMP)	n.a.	-0.6%	1.9%	-3.5%	-0.3%
All Products (Trade-Weighted)	-3.2%	-0.9%	-0.3%	-3.1%	-0.9%



## ICOS Attains Commission Report on Dairy Market Short Term Outlook

EU dairy production is set for continued growth on the back of rising world demand, cereal stocks should recover slightly & meat prices will remain high throughout 2012, these are some of the key projections from DG AGRI's short term market outlook attained by ICOS.

According to the analysis, the dairy sector faces the most positive outlook, with strong world demand assisting growth in cheese production for 2012-2013 (+0.8%) as well as a slight increase for milk deliveries to dairies (+1% for 2012). SMP production is seen to expand by 4% in 2012, but WMP is seen to decline slightly. Rises in milk yields will compensate for contractions in the dairy herd, the report notes.

Meanwhile in the same report, EU meat production will fall slightly in 2012 (-1.1%) but will remain stable in 2013.

The report can be downloaded from the following link.

[http://ec.europa.eu/agriculture/analysis/markets/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/markets/index_en.htm)

## Milk Package gets Council Approval: ICOS Secures concessions for Irish Dairy Co-ops

The Milk package was passed by last week's European Council, with amendments to protect Irish Dairy Co-operative structures secured by ICOS.

Firstly, the imposition of compulsory contracts between the co-op and its farmer members was gotten rid of. Now Co-operatives are exempt from such contracts.

ICOS also worked to ensure individual member states would have flexibility to enforce such contracts at national level also.

Another area where ICOS gained success was the protection of non-processing dairy co-operatives, as there were proposals from the commission to down grade the status of these Co-ops to the level of ordinary producer groups.

It must be pointed out that ICOS's effort on this package were largely offensive as the thrust of the legislation was aimed to protect dairy farmers who were not in co-operative structures who were getting a raw deal in the food chain from retainers and private processors.

The 'one size fits all' approach of the Commission was resisted as ICOS felt it interfered with functioning co-operative based national Dairy economies such as Ireland.

## Serbian Dairy Gears Up for EU Entry

Serbia could begin official EU accession talks as early as December if corruption concerns are addressed & relations with Kosovo improve, after EU leaders gave the former Yugoslav country the green light at the recent EU Summit.

Serbian Dairy is having 10% year on year increases and it is projected that the country will be a net exporter of Dairy products by the end of this year.

Currently, the Serbian Dairy Industry is a fraction of the Irish industry with a pool of 800 million litres.

ICOS will be making links with Serbian Dairy to ascertain are there opportunities for our dairy co-ops in the future in a key country for the Balkan region.

## Danes Continue Animal Welfare Drive

Danish Farm Minister & current Agriculture Council chair Mette Gjerskov told a conference this week that she would use her time in office to try to raise EU animal welfare standards "beyond the legal requirements", singling out animal transport as one area where "legislation can be improved".

Speaking at a 2-day conference that ICOS attended as an Irish Dairy Industry Stakeholder in Brussels entitled '*Empowering consumers & creating market opportunities for animal welfare*', Gjerskov told participants – that included industry, policy-makers & NGOs – that the economic crisis should not be used as an excuse for avoiding further reform.

The Danish Minister pointed to a European petition, calling for an 8-hour limit on animal transport to slaughter & signed by over a million citizens.

Other speakers and groups at the conference called strongly for new laws to be introduced to specifically govern animals in the Dairy industry.

ICOS is resisting heavily any further burdens and regulations on our industry and we are calling for existing law to be used fully before any consideration can even be given to new legislation.

Gjerskov pledged to secure Council Conclusions on both animal transport & the EU's Animal Welfare Strategy at the June Farm Council.

## New Zealand has little to fear from extra EU milk, Rabobank says.

The New Zealand dairy sector has little to fear from an estimated nine billion additional litres of milk expected to „flood the global market once European dairy quotas are fully lifted in 2015, according to a Rabobank Analyst at a recent presentation on New Zealand.

Kevin Bellamy, senior global dairy analyst for Rabobank, covering Europe, told New Zealand dairy producers and exporters that the staged lifting of quotas is unlikely to have an adverse impact on the New Zealand industry.

“While there will be some increase in European dairy production as a result of the quotas being lifted, it is unlikely to be the tidal wave that some people are fearing, and continued strong medium-term growth in world demand for dairy is set to absorb the additional supply,” Mr Bellamy said.

Rabobank forecasts indicate that when quotas are fully lifted, an additional nine billion litres of milk will be produced annually out of Europe.

“Of this additional production, it is estimated that 3.6 billion litres will be absorbed by additional demand out of the EU,” he said. “While the remainder will likely find its way on to export markets, it will be to destinations such as the Middle East and Russia, not into New Zealand’s main export markets of South East Asia and China.”

Mr Bellamy said the role of quotas in suppressing EU milk production had been somewhat over-stated. “Quotas are not currently a constraint in most EU regions, with many areas producing below the quota amounts anyway, due to other limiting factors,” he said.

These included limited availability of agricultural land, high cost of finance, environmental restrictions and retail price wars (shrinking farmer margins) which have lowered the price of milk.

“There’s no reason this will change as a result of quotas being lifted,” Mr Bellamy said.

“What we will see though is dairying moving from the

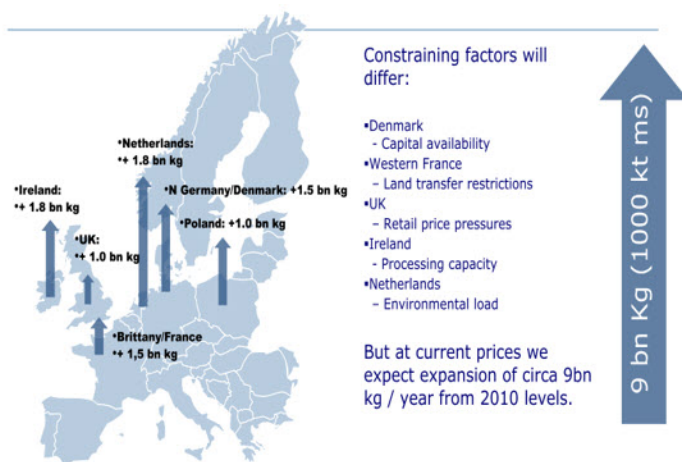
less-efficient production regions in the south and east of Europe to the north and west, where production will increase if price incentives remain high enough.”

The countries with the most potential to increase their dairy supply include Denmark, France (western), the United Kingdom, Ireland, the Netherlands and Germany (northern).

Mr Bellamy said the cost of producing milk in Europe should reduce as milk supply moves from less favourable areas and consolidation of farms achieves some economies of scale.

Speaking at in Brussels, this week, at a Commission Advisory Committee, attended by ICOS, Mr Bellamy went on to state that he expected European milk growth to come from Ireland (additional 1.8 bn litres), the Netherlands (also 1.8bn litres growth), Brittany/ Western France (1.5 bn litres extra), Denmark/Northern Germany (1.5 bn litres extra), Poland (an extra 1bn litres) and the UK (with an additional 1 bn litres per annum). He suggested that Irish production could be hindered by processing capacity, the Netherlands might be curtailed by environmental issues, that retail price pressure would affect the UK, that capital availability would hinder Danish production, and that land transfer issues would impede French supply growth.

### New supply potential in Europe 2011-2016



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ICOS president, Pat McLoughlin, pictured with Jerome Calleau, Co-op de France at Salon d'Agriculture in Paris, last week.

Efforts now focus on the Commission, who are to issue a report on the soft landing before the end of this year. They last reported on quota removal steps in late 2010, and in that document declared themselves satisfied that the soft landing was underway in most countries, with only a couple of exceptions. With over 40% of Europe's milk supply now in countries with super levy situations, the Commission will have to concede that we are now suffering a hard landing.

Given that the report is not due until December, it is likely that any resultant changes could only apply for the 2013/14 marketing year.

## ICOS Joins Global Dairy Platform



ICOS has recently joined the Global Dairy Platform, a US based, international body which "connects CEOs, executives, researchers and marketers to collaborate on worldwide issues affecting the demand for dairy. Together, GDP members work to promote the many known benefits

of dairy consumption while continuing to research its nutritional properties, thereby increasing demand across the globe, with The Power of One Voice".

ICOS very much looks forward to participating fully in the activities of the platform, particularly in relation to the promotion of the dairy sector as a sustainable producer of quality healthy foods. ICOS hopes to share the benefits of GDP membership with member Co-ops and the industry in general.

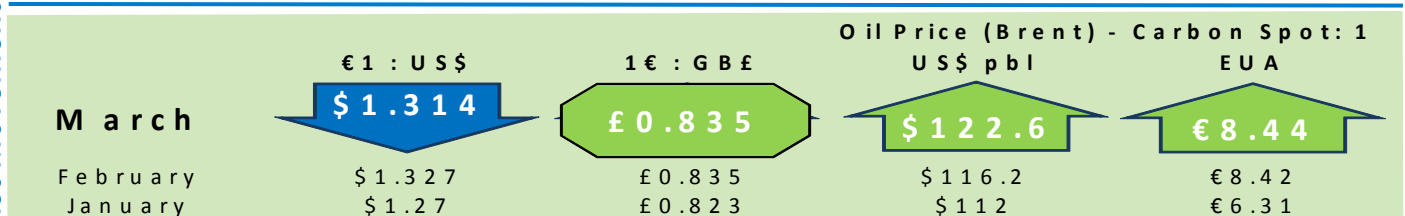
For more information check out [www.globaldairyplatform.com](http://www.globaldairyplatform.com)

## Key EU Environment Committee Backs Tighter Rules for Infant Formulas

Key value added products for ICOS members will face independent safety checks along the food chain, MEPs in the Committee for Environment, Public Health & Food Safety (ENVI) agreed on Feb 29th.

MEPs said that labels on milk formulae for babies up to 12 months should not show images that "idealise the use" of the product. The Commission should reassess current rules for so-called 'growing-up milks' for infants from 12 to 36 months & consider new rules for lactose intolerance, MEPs suggested. Some Euro-deputies including the Green group said the Committee had not gone far enough in restricting the use of pesticides in baby milk production.

ICOS is liaising with key MEPs in this committee to make sure Irish dairy industry co-op interests are protected.



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