Risk Management in Co-op Businesses

The ICOS National Conference asks “How Can Co-ops Manage the Risks Facing their Businesses?”

Agriculture Minister Simon Coveney T.D., Matt Dempsey, CEO of The Agricultural Trust, the Chairman of global dairy giant Arla Foods, Ake Hantoft, Enterprise Ireland CEO, Julie Sinnamon, UCD Public Health Professor Pat Wall and Food Harvest 2020 Chairman, Dr. Seán Brady will be among a top line-up of senior Irish and international speakers who will address risk management in co-operative businesses at the ICOS National Conference in Portlaoise on Monday, 25th November.

The conference will address key challenges, risks and opportunities facing the co-operative dairy and livestock sectors as global food demand continues to grow, market volatility remains in prospect and EU milk quotas will be abolished in little over a year from now.

The keynote opening addresses will be provided by Minister Simon Coveney and Bertie O’Leary, President of ICOS, setting the scene for a day of crucial insight and discussion on the future of the Irish agrifood industry.

Matt Dempsey, CEO of The Agricultural Trust, will address the Global Risk Environment for Food Firms followed by three special workshops for delegates. These will cover the Appropriate Tools to Counter Price Volatility; whether Expanding Dairy Enterprises represent an Opportunity or Threat for Livestock Marts and How Producers can Manage Volatility when Purchasing Inputs.

The workshops will be addressed by Bart Van Bellegham, Managing Director of the European Dairy Trade Association Ecoulait; Joe Burke of Bord Bia’s Meat Division and David Hickey, Commercial Director of the European Dairy Trade Association Eucolait; Joe Burke of Bord Bia’s Meat Division and David Hickey, Commercial Director of R&H Hall. Each workshop will have a Chair and Facilitator and will report viewpoints and findings back to the main conference in a Plenary Session.

In the afternoon there will be presentations by Julie Sinnamon, CEO of Enterprise Ireland on the Strategic and Structural Issues challenging the Irish Food Sector; and by Ake Hantoft, Chairman of Denmark’s Arla Foods on Board Decision Making in an Environment of Growing Risk. UCD Associate Professor of Public Health, Dr. Pat Wall, will provide a thought provoking presentation on the risks for food companies in a volatile consumer environment.

The conference will pose challenging questions and, given the calibre of speakers attending, we expect to get thought provoking and insightful answers.

In the dairy sector, we need to curb the impacts of market volatility post quota and to develop risk management tools which might be used to protect market returns. A concerted national effort is needed to assist farmers in managing increased milk production and the inevitable price volatility that will characterise global markets, both for dairy products and for supply inputs.

Europe is significantly behind the United States in the development and use of market tools to manage price volatility. Useful initiatives have already been taken by some co-operatives in the area of fixed price schemes, however, more work needs to be done on a collaborative basis to identify and develop appropriate income tools to provide farmers with a degree of price certainty.

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Where to for Agri-Finance?
The number of banking market participants has reduced by 2 in the past two weeks. Not ideal in an already contracting market. So what is the outlook?

Firstly, the lending market is now very dysfunctional. It looks like only the two pillar banks (BOI and AIB) plus Ulster Bank will be servicing the SME market. Of the remaining non-Irish banks, they all seem to be focused now on the top 150-300 companies (by turnover) in the country. On a positive note, the agri sector remains a positive credit story i.e. for borrowers. But most international banks in Ireland appear to be pausing for breath right now.

What to do?
1. Identify which camp do you fit into for the range of banks that might be interested (i.e. Top 300 or not)?
2. Finance your business for as long as possible as soon as possible. Need to undertake this as a strategic exercise as banks are getting very rigorous again in this area. Fail to prepare, prepare to fail.
3. Pay close attention to the details in your bank agreements. Good term sheets become all important in this process.

Trade Update
The EU is continuing to drive a programme of bilateral trade negotiations in the face of slight progress at WTO level. Another round in negotiations will be held before Christmas in Bali, but little is expected to come from that. Below is a summary of recent developments with some major trading blocs where our co-ops should have offensive dairy export interests.

Canada
A political agreement was announced last month amid much fanfare in Brussels. But much remains to be sorted out at a technical level.

Focusing on dairy, it is clear that this particular EU Canadian trade round does not give immediate access to the Canadian dairy market for many of our key commodities e.g., skim milk powder, whole milk powder, cheddar, butter etc.

A tariff quota line for cheese of 18,500t of which 1,700t is for industrial cheese & 16,800t of high quality ‘Geographically Indicated’ protected cheeses was announced.

Ireland currently has no significant presence in this GI cheese area, so ICOS will be pushing for the EU to allow access for our high quality branded cheeses made by our co-ops.

Processed cheeses will be strictly exported under the ‘industrial’ cheese quota, and must be used as an ingredient for other end products.

It is clear that the French and Italian dairy lobbies will attempt to make this as limited as possible and base access on PGI/PDO cheeses where they dominate.

We will also be encouraging our member dairy co-operatives to examine opportunities up the ‘value chain’ – e.g., functional foods, nutritionals, infant formulas, specialist dairy ingredients, milk protein concentrates which ICOS are pushing to have tariff free access to the market.

In terms of a time table, a final text is not agreed and we are expecting that in early 2014. Once that is done a process of legal scrutiny and translation etc. means it will be 1 January 2016 before any CETA deal enters into force at the earliest.

With its status now as the only official accredited Irish Agri Industry stakeholder to DG Trade, ICOS has further meetings arranged on the 12th of Nov with both EU and Canadian negotiating teams.

US
With the Canadian deal entering the final stages, Brussels attention has focused on the development of the US deal, known in euro jargon as the Transatlantic Trade and Investment Partnership (TTIP).

4. Arranging funds that you may or may not use will be difficult (and unless on a committed basis, will be of limited practical use in any case).
5. Banks place a premium on non-banking business so use your current accounts, leasing and other business as a carrot.
6. Those wishing to hedge interest or foreign exchange exposures will have a lot of documentation and regulation to deal with. Don’t underestimate this.

Overall suggestion would be to undertake a brief but comprehensive review of what needs to be done and when. I don’t believe that the positive outlook for agri can continue and there will be a shakeout and potential casualties post 2015. I would also urge (non-financial) Directors to start asking hard questions in this area if for no other reason than all Directors are equally responsible under the law for risk taken and not properly managed by companies, including risks associated with borrowing.

The good news is that all can be addressed with the right preparation and approach. Just don’t be complacent.

John Finn at www.treasurysolutions.ie

An initial round took place in Washington in July, with the return round in Brussels postponed because of the ‘Federal Shutdown’ in October, but will restart next week. Again dairy is a sector where Irish co-ops will have defensive and offensive interests with some of our co-ops already having a direct presence in the US.

ICOS will be meeting key EU and US officials over November to feed into the negotiations.

No final timetable for an agreement is mapped out, but it is known that the Obama administration is targeting a political agreement before the end of their term.

Japan
A third round of high level negotiations were held in the summer and it is hoped that they will be picked up again in April 2014. The Japanese are very defensive to the EU on Agri, especially on dairy products and some meats.

There are movements towards liberalisation and there is demand from the Japanese consumer base for quality European dairy product.

India
With a surging middle class and a booming population India holds enormous potential for Irish dairy if punitive tariffs were lowered across the industry.

The EU and India have committed to a future agreement but movement has been slow with elections due in India in 2014 and the Indians being very defensive on dairy.

Origin Labelling in Dairy and Ingredients Update
The European Commission are pushing ahead with their examination of the merits of both voluntary and compulsory systems of origin labelling on both dairy products and dairy ingredients.

A consultancy firm have been engaged to carry out the study which will examine issues such as indication of main dairy ingredients if different to origin of the overall product. For example if a Spanish yogurt company made a product in Spain with Spanish fruit but Irish dairy ingredients, would they be forced to put Ireland on the pot?

Other topics to be examined will include impact on trade and the internal market, administrative burden and competitiveness.

The commission are planning to draft an implementing act in mid-2014 and ICOS will be engaging closely with the process on behalf of member Irish dairy co-operatives.
EU Remains Positive for Dairy in Short Term Outlook Report
Continued global supply tightness is the main reason that the Commission continues to hold a very positive outlook for EU dairy, with prices across the union around 30% higher that this time in 2012.

For the first time in 20 years we are seeing the number of dairy cows in the EU increase.

The report states that European dairy companies are mostly looking at cheese to utilise higher production, with exports from the EU to 3rd country markets of commodities continuing to grow, but the European fresh dairy market is stagnant.

For powders, contrary to what was observed in recent years, dairies increased the processing of whole milk powder (WMP) relatively to skimmed milk powder (SMP). In the first half of the year SMP production recorded a 10% decline and exports went down by 30% as a consequence of the reduced availability. WMP production decreased by 1% only and exports by 11%.

The report concluded though by issuing a warning that supply growth in competing trading blocks such as NZ, USA and Australian could reduce price, as well as a slowdown in global dairy consumption if prices remain too high.

Upcoming Courses – November / December 2013
1. I-Can-Do (Digital Skills Training)
2. Supervisory Management
3. Train-the-Trainer
4. Advanced Confined Space & Breathing Apparatus
5. Confined Space
6. Drover Training
7. Agri-Co-operative Leadership Training
8. Livestock Management - Mart Director Training Programme
9. Milking Machine Technician (Refresher Training)

For more details and dates on any training courses, please visit www.icosskillnet.ie or contact us on 01 6131348 or on email: breeda.flood@icos.ie or billy.goodburn@icos.ie

All our programmes are offered free to Eligible job seekers.
Spaces on all programmes are limited and will have to be allocated on a first come first serve basis. We attach details of the various programmes for your information and consideration.

If you wish to make a booking, please contact either Billy Goodburn (0871265542) or Breeda Flood.


ICOS Dairy Committee Chair Meets Key Policy Makers in Brussels
Chair of the ICOS Dairy Committee and current Vice-Chairman of Glanbia Co-op, Martin Keane was part of a delegation of agri-stakeholders that met with representatives of the Commission, the European Parliament and the key agri negotiators of Ireland’s successful EU presidency.

Keane (Right with Sean Kelly, MEP) focused his interventions around reducing the regulatory burden for co-op businesses and members, increasing trade opportunities to support dairy co-op growth and looking at opportunities for innovation funding for the industry.

He was joined on the mission by Michael Spellman, chair of the ICOS Marts committee.

FUNDING UPDATE 2014 / 2015
We are pleased to announce that the ICOS Skillnet has been successful in obtaining funding for the upcoming year. As such we would be making contact with all our members to assess their individual training needs with a view of starting training in early January 2014.

If you have any training plans, please contact us to ensure you don’t miss out on an opportunity to avail of funding against your training plans for 2014.

The ICOS Skillnet is funded by member companies and the Training Networks Programme, an initiative of Skillnets Ltd. funded from the National Training Fund through the Department of Education & Skills.

Calendar of Events:
7 Nov Commission Milk Forecast Group, Brussels
13&14 Nov Co-operative Control Committee & POCC, Brussels
15 Nov Transatlantic Trade and Investment Partnership Brief, Brussels
18 Nov Working Group on Animal Health, Brussels
20 Nov EP vote on final CAP agreement, Strasbourg
19-21 Nov Food Ingredient Europe Show, Frankfurt
22 Nov Bovine Working Group, Brussels
25 Nov ICOS National Conference, Portlaoise
27 Nov Co-operative Business Forum on Internationalisation, Brussels
28 Nov COGECA Presidium, Brussels
29 Nov 2014 Year of the Family Farm Conference, Brussels

Milk Quota Abolition Countdown
505 days... and counting!
Milk Quota Management

There may be just 500 days to the removal of milk quotas on 1st April 2015. However, producers should not lose sight of milk quota management in the interim and should also appreciate that all elements of the milk quota regulations will apply up to and including 31st March 2015. Equally producers planning to come on stream must also appreciate, in their planning, the basic requirements of the milk quota regulations.

It is easier to take the latter point first. Under the milk quota regulations, a co-operative can only accept milk from a producer where that producer has a milk quota. This means that a producer planning to commence production in January/March 2015 will not be able to supply his milk purchaser. In addition, it is most likely by current trends and the expansion in the national herd, that existing producers will be very much under pressure with their own supply and avoiding a superlevy bill on 31st March 2015.

For current producers, the national position at the end of September is 0.42% over quota and early indications are that a superlevy will be necessary. Two points arise:

1. What is a token supply? A nominal supply of say 100 litres does leave the new producer open to the full superlevy risk of 28.66 cent per litre. This is on top of all of his set up costs
2. A temporary allocation from the National Reserve does not give that producer entitlement to Flexi milk.

For current producers, the last of the five 1% quota increases came into operation from 1st April 2013. A change in the fleximilk rules entails that 85% of the pool is made available to producers under 350,000 litres. 15% to producers over 350,000 litres. In addition, the fleximilk rules for the quota year 2014/2015 are for a 80:20 split. In regard to the trading scheme, the final trading scheme has a closing date of 7th February 2014. This is the last opportunity for producers to both, buy or sell, quota. While it is impossible to predict the availability of quota through the scheme, producers should avail of every opportunity to buy quota in this last scheme, even at a modest price as an insurance policy against a superlevy of 28.66 cent per litre on 31st March 2015. The National Reserve has now no replenishment, and this year after the hardship and disease allocations, will be less than 4 million litres.

Generally, there are a number of commentators making a number of suggestions and proposals that do nothing but cloud the overall position. That position is clearly set out by the Commission through its various regulations and EU policy. The position is that all milk quota rules and regulations continue in force to 31st March 2015 and thereafter for the finalisation of superlevy and other issues.

Parasite Control at Housing

Animal Health Ireland Parasite Control Technical Working Group

Once animals are housed they cannot pick up new worm or fluke infections until turn-out to grass the following spring, thus correct treatment at or during housing should keep them virtually free of worms and liver fluke until they return to pasture.

Tips for dosing:

- Discuss with your vet which products to use and follow the label directions exactly.
- Weigh a number of animals to ensure you administer the right amount. Under-dosing can lead to build up of anthelminthic-resistant parasites on your farm.
- For worms - use products active against both adult and inhibited larvae of the stomach worm, O. ostertagi.
- For lice control - use an externally applied product. Injectable products can be useful for sarcoptic and psoroptic mange.
- If the flukicide used at housing is only effective in inhibited larvae of the stomach worm, O. ostertagi.
- If treating dairy cows at drying-off or during the dry period, check the latest product literature for withdrawal period information to avoid residues in milk in the next lactation.

If cattle are turned back out to pasture over winter even for a short period following housing they can be exposed to parasites and it may be necessary to retreat.

For further information see the “Parasite Control at Housing” leaflet on the Animal Health Ireland website www.animalhealthireland.ie. Farm-specific queries should be discussed with your own vet.

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News from Ireland

Market Movement

Oil Price OPEC Brent - US$ pbbl

Carbon Spot 1 EUA

IFCN World Feed Price Indicator /KG *

IFCN World Feed Price Indicator /KG *

November

$1.34

€1 : US$ 1.0582

€1 : GB£ 0.84

October $0.205

$0.279

September $0.279

* October 2013 Prices

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