

Dairy Farmers – What would an €825 million investment deliver for your industry?

On reading the headline above your initial reaction might be to ask aloud “why should Irish dairy farmers be asked to invest €825 million into the Irish Dairy Industry and Co-operatives?”. €825 million is a colossal amount of money. What impact would such an investment have on the dairy industry? Many other questions come to mind;

1. Where does ICOS get the figure of €825 million?
2. How much have farmers already invested?
3. If some or all of that money had been invested in your co-op.... What impact would it have on

our industry? How much investment is needed?

Let us try to address these questions;

4. Where does ICOS get the figure of €825?

We have used the figure of €825m as a means to illustrate the lost opportunities within the Irish dairy sector due to farmers money been invested in milk quota over the past twenty years. Between 1990 and 2011 >€825 million, (readjusted to current market value using the Consumer Price Index), has been spent on milk quota by Irish dairy farmers through the DAFF’s quota

restructuring and exchange schemes. It doesn’t include the amount of money spent on quota purchased with land. This huge amount of capital represents a vast resource being transferred from active to retiring dairy farmers, in order to produce milk, with none of it being invested in processing capacity, R&D, or in adding value to Irish milk. As a result, we have an industry which has been starved of cash, and struggling to provide for the expected increased milk volumes which will be produced post-quota.

Continued on page 4

Dairy Markets

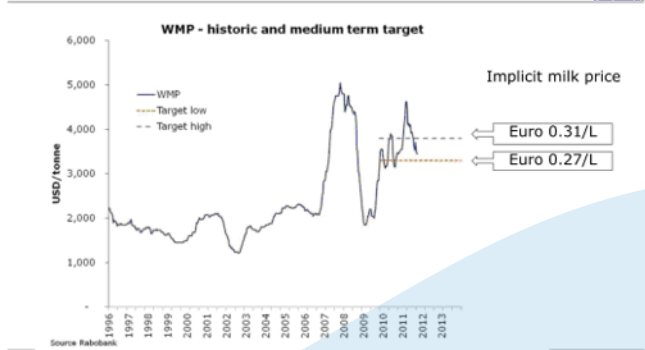
Commodity Prices	Nov-11	Nov-11	Nov-11	Holland	Sep-11
	Butter Index	SMP Index	Fontterra Auction WMP	Milk Price per kg** (Irish solids)	Ireland Milk Deliveries
November	€3,878	€2,330	\$3,487	33.80c	1.5%
October	€3,993	€2,317	\$3,309	33.80c	Compared with same month in 2010
September	€4,077	€2,255	\$3,314	33.11c	
	Eurex *	Eurex *	GDT	Friesland Campina - Incl. seasonal premium of 2.45c	

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

Caution seems to be the most commonly used term to describe current market sentiment. Italian consultancy Clal reports steadily weakening butter and SMP prices, a trend largely reflected by the Dutch Dairy Board. In his report to the International Dairy Federation in Parma, Adriaan Krijger of the Dutch Dairy Board reported the current market as being characterised by low stocks, which have have lead to production increases and demand slow down. World dairy production this year has increased by 2.1-2.2%, with suggestions of somewhat weaker demand growth.

Meanwhile Tim Hunt, global dairy strategist for Rabobank has predicted annual demand growth of 2.4% until 2015. Rabo have also indicated a medium term prediction (until 2013) of milk prices in the 27c-31c range, based on WMP market projections.

Medium term prognosis – we recommit to our forecasts



CAP & Irish Dairy Co-ops- An Initial Reaction

On 12th October the Commission finally published its first official communication on the new CAP. ICOS President, Pat McLoughlin was in Brussels for the launch by Commissioner Dacian Cioloș.

Much has been written about the papers already and reaction both in Ireland and across Europe has been mixed. Here, we attempt to give a brief initial reaction from an Irish dairy Co-operative perspective to the paper.

Greening of CAP

While the inclusion of 'permanent pasture' as a greening measure could be a competitive advantage for Irish milk production, ICOS is, none-the-less fearful that the measures will pose an extra layer of bureaucracy to producers and could impact on our competitiveness globally.

Market Measures

The adaptation of the single CMO (Common Market Organisation) regulation will govern the functioning of the market in the new CAP.

Key items such as the intervention and tender system have been committed to, as well as the extension of private storage aid for skim milk powder.

The separate extra €3.9 billion fund for market crises and food safety is also to be welcomed, but we have to ensure that the

mechanisms needed to react during a severe market disturbance are quick, decisive and effective to protect the industry.

One item of concern is the outline proposals for the provision of insurance against the loss of income. We feel it could reduce the incentives in certain states to adapt production to market developments.

Young Farmers

ICOS welcomes the initiative to set aside 2% of the new SFP for young farmers. In Ireland figures show only 6% of our farming population is under 35. If we are to reach our expectations and our growth targets for our co-operative dairy industry we have to pursue all means to encourage new blood into the industry.

Direct Payments

The Commission have indicated a major shift towards a flat rate regional system from 2014 with a transition period running up to 2019. ICOS is calling for;

- A detailed analysis to be carried out to clarify the impact on individual farmers
- Extra flexibility for each Member State
- A longer transition period to implement the new regime.

ICOS feels that a sustainability-linked direct payment should not only take into account environmental aspects, but also the contribution to social cohesion in rural

areas that a sector such as the co-operative dairy model provides.

ICOS fear that proposals for coupled support could lead to a situation in which some member states subsidise milk production. This could unbalance the market.

Innovation Funding

Competitiveness & productivity are going to be key components if the Irish dairy co-operative industry is going to grasp future opportunities. The separate €5.1 billion fund dedicated for agricultural research and innovation is welcomed.

Future CAP Negotiations

The process of ironing out the defects in this first communication has already begun and it is hoped that negotiations will reach their conclusion during the Irish European Presidency in the first half of 2013.

Position of Co-operatives

ICOS is strongly of the opinion that the new CAP should more vigorously emphasise the importance of co-operatives.

Commission officials are doing much work to promote the role of Producer Organisations (POs), but we would warn that the Co-operative model remains the most effective, socially responsible and viable form of PO, and they have to be encouraged and protected by the new CAP.

Mengniu looking at Wyeth's

Chinese company,

Mengniu Dairy is considering

a bid for Wyeth's Baby Food operations from Pfizer for US\$10 billion. One of Wyeth's largest babyfood plants is located in Askeaton, County Limerick. Other potential bidders for the Wyeth business include Nestle, Abbott, Dumex, Mead Johnson, Heinz and Danone.

In 2010 Mengniu made the World's Top-20 Dairy Company list for the first time, with sales exceeding US\$3.7 billion dollars. In 2006, Mengniu entered into a joint venture with Arla Foods, to produce and distribute powdered milk products in China. In September 2011 Mengniu-Arla announced a new Nutrition Research Centre in Beijing. This new Nutrition Centre with focus on infant formula, child nutrition R&D.

Mengniu has a total asset value of approximately US\$3 billion, which is significantly lower than the expected asking price of \$10 billion for Wyeth's. Consequently, some



doubts have been expressed over Mengniu's financial ability to buy Wyeth.

DMK & DOC Merger - Fails

The planned merger of German Co-op, DMK, and the Dutch dairy DOC Kaas has failed.

On Thursday, last, DMK announced in a press release that the DOC members voted against the merger in Zwolle. 59.73% of the attending members voted in favour of the partnership with DMK, but a majority of 66.67% was necessary.

DOC Kaas is now an independent dairy cooperative. The company has specialised in the production and maturation of some 115,000 tonnes of cheese per year. Processed more than 1 billion kg of milk per year from around 1,200 milk producers. With sales of around € 400 million a year.



ICOS Welcomes Connacht Gold/Donegal Deal

ICOS President, Pat McLoughlin, has warmly welcomed the agreement reached between Connacht Gold Co-op and Donegal Creameries PLC whereby the Sligo based co-op will acquire the milk and stores business of its northern neighbour. Mr McLoughlin paid particular tribute to the two Chairmen involved, Padraig

Gibbons and Geoffrey Vance. He said that the two men had shown great leadership in bringing about this key consolidation in both the milk and agri-trading sectors. He wished the enlarged Connacht Gold well with its new business and pledged ICOS' continued support to the co-op and its members.



ICOS sent a full delegation to comprehensively cover the 2011 International Dairy Federation, (IDF), World Dairy Summit. This year's summit was held in Parma, Italy. The theme of this year's conference was 'Sustainable Food Security'. The main plenary sessions focused on sustainability and global dairy policy and markets. Topics covered across the other sessions included Animal Health and Welfare. Dairy Marketing & Social Media. Food Health & Nutrition. Animal Feeding & Nutrition.

Over 1200 delegates attended this year's World Dairy Summit in Parma, Italy. ICOS

took the opportunity to extend and strengthen our network of contacts globally. We organised meetings with 24 companies and organisations, 14 of which were EU based, 3 from the southern hemisphere, 7 Non-EU & Asia. During the conference we used the occasion to help strengthen our ties with seven other co-operatives spread across four continents. From an ICOS, EU Office perspective, more than half a dozen follow-up meetings have been arranged with our office in Brussels.

We will be sharing some of our conference findings and insight with our members in the weeks and months to come.

Calling Young Farmers and Co-operators!



Applications are now being requested for 2012 Nuffield Scholarships, worth €10,000 each. Please encourage any suitable candidates to visit www.nuffield.ie to download an application form. The closing is Dec 2nd 2011.

Successful applicants receive a €10,000 travel bursary to research a topic of their choice and prepare a comprehensive report. The current ICOS Nuffield Scholar is David Murphy, Dairy & Beef Farmer, Glanbia. His study is titled "Dairy Co-Ops

for the 21st Century", Commenting on his experiences of his Scholarship Program to-date David states;

"I wish to investigate how the most successful co-ops in Ireland and worldwide consistently deliver wealth and benefits to their members. The scholarship helps make excellent contact with some of the best farmers and people involved in the agri-industry globally. The Nuffield organisation globally is a large network of positively minded people, who commit to help each other and the agricultural industry to improve."

Thus far David has travelled extensively in Europe, and is planning to visit co-ops in Australia, New Zealand, Argentina, Uruguay and Brazil in the near future.

During peak periods the co-operative collects approximately 12 million litres of milk per day. During the last milk season the co-operative collected a total of 3.45 billion litres of milk. The logistics of their milk procurement is impressive. 17 member unions covering 24 districts collect milk from 15,712 village milk co-operative societies. These village co-ops have in turn close to 3 million milk producer members. The co-operative has a milk drying capacity of 647 metric tonnes per day. They can also produce up to 3,690 metric tonnes per day of cattle feed.

More information

<http://www.amul.com/m/organisation>



From time to time the *icos DairyDigest* will profile major international dairy companies. In this edition we will take a look at an Indian co-operative we met at the World Dairy Summit, Amul.

Amul meaning priceless or precious is a brand name managed by an apex cooperative organisation, Gujarat Co-operative Milk Marketing Federation Ltd. (GCMMF). The co-operative is owned by ~3 million milk producers.

GCMMF is India's largest food product marketing organisation with annual turnover of approximately €1.6 billion (up from <€600m ten years ago). According to their website, GCMMF is India's largest exporter of Dairy Products. Many of their products are available in USA, Gulf Countries, Singapore, The Philippines, Japan, China and Australia. Its product range comprises milk, milk powder, health beverages, ghee, butter, cheese, Pizza cheese, Ice-cream, Paneer, chocolates, and traditional Indian sweets, etc.

Dairy Farmer's – What would an €825 million investment deliver for your industry?

This figure of €825 million spent on quota illustrates some of the lost opportunities within our industry over the past twenty years.

2. How much have farmers already invested?

Studying other Co-ops, we find that the following shareholdings per litre of milk supplied are typical;

- Irish Co-operatives → 1 – 2 Cents per litre of milk supplied
- Continental European Co-operatives → 3 – 16 Cents per litre of milk supplied
- Southern Hemisphere Co-operatives → up to 30 Cents per Litre!

Obviously, the level of investment by Irish farmers in their co-ops falls well short of that by our competitors. This position was probably sustainable when volume was restricted by quotas and commodity prices were supported by reasonable price supports. However, with a 50% increase in milk supply predicted, and the necessity to invest in new products and routes to market, this position must be revisited.

ICOS has already suggested that milk quotas will have to be replaced by Milk Supply Agreements, to regulate the flow of milk, and protect the interests of suppliers and co-ops alike. The volume of milk which a farmer can produce under such an agreement should be related to his historic supply of milk (under the quota regime) and subject to him/her holding an adequate number of Co-op shares. The Supply Agreements could be renewed annually, as additional capacity comes available, and would be transferable to close family members, on retirement, but they would remain the property of the Co-op and all its members. They would not be saleable

commodities. ICOS is adamant that the lesson of quota regime, whereby hundreds of millions was paid for quota, should never be repeated. When farmers retire from dairy farming, without transferring their Supply Agreement to a successor, then it should revert to the Co-operative for reallocation, and the farmer's Co-op shares should be redeemed.

3. If some or all of that money had been invested in your Co-op..... What impact would it have on our industry? How much investment is needed?

ICOS has been highlighting the capital investment which may be necessary to process and successfully market the additional milk volumes post quota. The Department of Agriculture's Food Harvest 2020 Strategy estimates an investment of €400 million into Processing, R&D and Marketing in order meet the industry's proposed expansion targets (to this should be added an increased Working Capital requirement of approximately €500 million). ICOS is strongly suggesting that farmers should, in as much as is possible, try to fund this expansion from their own resources, in order to maintain ownership and control of their industry. It might sound like a lot of money, but it's only around half of the amount they spent on milk quota.

Rather than having an industry which is starved of cash, and risks struggling to keep pace with the giants of world dairy, we could have a truly great industry, with the capacity to provide for the expansion ambitions of their members, with levels of investment in Research, Product Development, and routes to Market, to process and sell that milk profitably. That is not to say that the industry as it is currently constituted is weak or not fit for purpose, but it could be in a much stronger position if it had the access to capital enjoyed by its major competitors.

ICOS Director Training Programme
Applications are now being taken, please contact TJ Flanagan for details

	€1 : US\$	1€ : GB£	Oil Price (Brent) - Carbon Spot: 1 US\$ pbl	EUA
November	\$1.37	£0.856	\$111.89	€10.35
October	\$1.33	£0.86	\$102.26	€10.27
September	\$1.41	£0.879	\$113.52	€13.36



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

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