icos Dairy Digest
icos Irish Cooperative Organisation Society
June 2012

Cover Story

Arla Marches On

The recent announcement of Arla's impending merger with Milk Link in the UK, as well as with MUH in Germany, signals their ambition and aggression in achieving their stated stategy of becoming "..the best dairy company for the more than 250 million consumers in Northern Europe/UK ….We want to be world market leader in value added whey proteins".

	Arla	Milk Link	MUH	
T/O €	7.4 bn	770 m	700 m	€ 8.87 bn
Milk Supply Litres	9.2 bn	1.3 bn	1.32 bn	11.82 bn
Members	8000	1600	2750	12350

The Milk Link merger is of particular significance as it strengthens Arla's position in the type of business conducted by the Irish dairy industry in the UK. Milk Link's 1600 dairy farmer members produce 1.3bn litres of milk (**285 million gallons**) per annum, with another 200m litres (44 million gallons) suppled by about 400 contracted suppliers. The Co-op, established in April 2000, with the stated aim "to build the UK's leading added value dairy products business" purchases 12% of all UK Milk and processes it in eight sites. It had 2011 sales of £628 million. The merger brings Arla's share of the Westbury Dairies butter and powder facility to 41% (Arla had 11% with Milk Link having 30%, with the remaining 59% being owned by First Milk). *Continued on page 4*

Market Insight

Dairy Markets

Commodity Prices	Jun-12 Butter Index	Jun-12 SMP Index	Jun-12 Fonterra Auction WMP	Netherlands June-12 Milk Price per kg (Irish solids)	Apr-12 Ireland Milk Deliveries
June	€2,560	€2,020	$2,763	25.40c	0.1%
May	€2,510	€2,002	$2,776	25.87c	Compared with same month in 2011
April	€2,898	€2,038	$3,227	26.06c	
	Eurex *	Eurex *	GDT	FrieslandCampina	

*: Eurex Futures Cash Settlement Price

Market News

It's might be fair to say that the entire dairy industry will hold its breath until the next Fonterra global Dairy Trade auction on June 19th, to see if the apparent rebound witnessed this week will be sustained. The headline increase of 13.5% may be distorted, to an extent, by a dramatic increase in the trade weighted prices for Contract 2 (August 12), with an 20.8% price increase for that period, and indeed, a 43.6% increase in the AMF price for that period. There was an underlying price increase, however, for all products across all other periods, of 5-10%, although this must be seen in the context of a significantly reduced volume of product on offer, with total volumes down by almost 30%. *Continued on Pg 2*

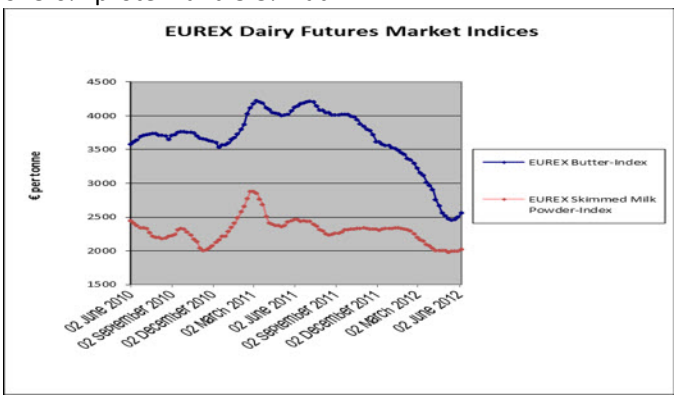
Price Changes from Previous Event

Changes in Price Indices	Contract 1 Jul12	Contract 2 Aug12	Contract 3 Sep12	Contract 4 Oct12	Contract 5 Nov12	Contract 6 Dec12	All Contracts
Anhydrous Milk Fat (AMF)	n.a.	43.6%	13.9%	17.5%	9.6%	5.1%	24.4%
Butter Milk Powder (BMP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cheddar	n.a.	18.2%	-9.3%	n.a.	n.a.	n.a.	9.4%
Lactose (LAC)	n.a.	n.a.	-2.9%	-2.2%	1.0%	n.a.	-1.3%
Milk Protein Concentrate (MPC70)	n.a.	10.9%	n.a.	n.a.	n.a.	n.a.	10.9%
Rennet Casein (RenCas)	n.a.	19.6%	n.a.	n.a.	n.a.	n.a.	19.6%
Skim Milk Powder (SMP)	10.9%	28.4%	19.3%	9.0%	2.4%	n.a.	21.3%
Whole Milk Powder (WMP)	n.a.	12.3%	0.8%	7.8%	6.0%	7.4%	8.5%
All Products (Trade-Weighted)	10.9%	20.8%	4.9%	8.8%	4.7%	7.2%	13.5%

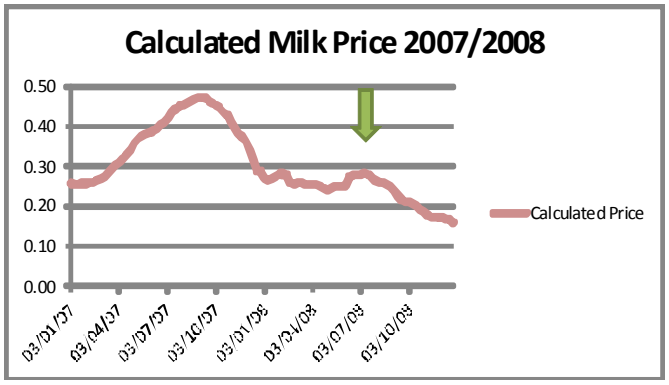
Market News

Continued from Page 1

European market indicators for butter have strengthened by about €100 per tonne since last month (the Eurex butter index is currently at €2560) and SMP indices are lying at about €2020, having increased by only about €20 in the month. It must be remembered, however, that these stronger European quotes, if paid for real product, would translate into milk prices of somewhere around 23c per litre for Irish milk solids. Indeed, the Friesland Campina June milk price has been decreased to 25.4c/kg or 26.15c/litre, at standard Irish solids of 3.6% protein and 3.3% fat.



Indeed we should also hope that the current market strengthening can be sustained, given the experience of 2008, when a mid-year rally was followed by prices falling off the cliff by year end.



The above table portrays calculated milk prices, on the basis of Dutch Dairy Board Quotes. The actual price levels portrayed are theoretical, but they do portray, reasonably accurately, market movements through the year.

Fonterra sends out TAF Voting Packs

Fonterra have sent their Trading Among Farmers (TAF) voting packs off to their 10,500 farmers ahead of the vote later this month.

On June 25 Fonterra's farmer shareholders will be making two votes - one to give Fonterra a mandate to implement TAF and the other on a special resolution to tighten the rules around share ownership.

TAF technically only requires a 50 per cent majority to implement but Fonterra Chairman, Sir Henry van der Heyden has said it will only be implemented with a clear mandate that "will unify the Co-operative". In campaigning for TAF Fonterra have been focusing on the need to combat redemption risk. Sir Henry said that the 2008 global financial crisis made redemption risk "real" when the co-operative had to pay NZ$600 million to farmers who left the co-op.

Meanwhile, Radio New Zealand is reporting that Fonterra is expecting strong interest from overseas investors in the shareholders' fund that forms part of the co-operative's share trading proposal.

If approved, TAF would allow farmers to trade shares between themselves and also allow for a separate Shareholders Fund from which outside investors could buy the dividend rights of farmers' shares without having voting powers. Fonterra chief financial officer Jonathan Mason expects considerable interest from New Zealand retail investors and Australian and other overseas institutions in the fund, given that the cooperative's $800 million bond issue was fully subscribed in 2009.

"We have a $5 billion debt book. Much of that's offshore. We haven't had any formal road shows per se but we have had some initial soundings and there's interest in Fonterra everywhere."

A maximum of 20% of total shares will be able to be traded in the fund, but Fonterra expects the fund to normally operate at 7 - 13% per cent of total equity.

Critics say opening up the cooperative to outside investment could result in a group of investors with an interest in keeping the dividend high and the milk price low. But Fonterra chairman Sir Henry van der Heyden says there are controls in place to prevent that happening.

Brussels Bites

Fonterra Look at Netherlands Joint Venture

ICOS understands that Fonterra are looking at signing a deal with Netherlands-based A-Ware Food Group to set up a new European cheese and dairy ingredients factory. It is projected that this site would use 6% of the Dutch milk pool alone and produce over 70,000 tonne of cheese.

The companies have signed a memorandum of understanding where A-Ware will operate the cheese plant and Fonterra the dairy ingredients plant as both parties seek a new pivot in their respective supply chains. Whey and lactose produced onsite will be processed into ingredients and supplied to Fonterra's customers in Europe and Asia, while A-Ware will look to build its existing European base.

The New Zealand dairy exporter has embarked on a new strategy that includes a bigger focus on advanced nutritional needs for babies and ageing populations, as well as growing its presence in emerging Asian nations.

The companies will undertake due diligence with a view to sign a deal by the end of the year. A-Ware is a significant provider of premium cheese in Europe with annual revenues of 1 billion euros.

Co-operative Alliance Ireland mark UN International Year of Co-operatives

ICOS, the Irish League of Credit Unions and NABCO joined forces to highlight the benefits of co-op enterprise and to mark the UN International Year of Co-operatives at a conference in Croke Park on May 15th.

The President of Ireland, Michael D. Higgins joined over 200 Irish industry and public sector leaders along with Research & Innovation Minister Sean Sherlock, T.D. and the President of the International Co-operative Alliance, Dame Pauline Green, at this unique event. The major conference was Chaired by economist David McWilliams. It addressed the way Forward for co-operative enterprise and identified how co-operative developments can contribute to the renewal and recovery of the economy, the growth of indigenous enterprises, sustainable jobs creation on a regional and national basis and the overall future competitiveness of Ireland.

In this United Nations International Year of Co-operatives, the establishment of new indigenous co-operative businesses has an important role to play in the growth of our economy for the future. There are opportunities for development and expansion by co-operatives that are market focused, well governed and strategic in their business development ambitions.

Seamus O'Donohoe, Chief Executive, ICOS said: "Ireland has a long and proud tradition of co-operative enterprise. As a sector we must share and widely promote the key attributes that have contributed to the success of co-operatives enterprises in Ireland. Moreover, we must grasp this occasion to further advance and strengthen the business of co-operation for the future."

Other international experts who addressed the conference included Peter Couchman, (Chief Executive of the Plunkett Foundation in Oxford), David Rodgers (President of ICA Housing) and Prof Gert van Dijk (Co-operative expert from the Netherlands and former President of COGECA – the organisation representing European agricultural and fishing co-ops). Other speakers are Jimmy Johnstone, President, Irish League of Credit Unions and Brian Branch, President, World Council of Credit Unions.

President Michael D. Higgins, Croke Park, 15th May 2012

Levels of Irish Butter Going into PSA Continue to Decline

After some respite last week, over 6,500 tonnes of butter eligible for Private Storage Aid (PSA) were put into storage in the week ending May 27 following on from the 4,843t taken off the market the week before, according to figures given to ICOS by the Commission.

Numbers have picked up compared to last week in many countries, with the Netherlands & Germany taking 2,817t & 1,218t off the market respectively. But the Irish figures have dropped considerably to 648t.

Over 79 900t of butter have now been put into storage since the measure entered into force on March 1. Latest DG AGRI figures indicate that EU internal butter prices are still in free fall – down 33% compared to last year. Prices for SMP & WMP are also in decline – down about 18% & 16% respectively compared to the same period in May 2011. (See table below)

EU Internal Market Prices of Dairy Products – in €/100kg

Week ending	Butter	SMP	WMP	Cheddar	Edam	Gouda	Emmental	Whey
06/05/2012	261	202	252	344	308	303	431	86
13/05/2012	260	201	252	339	306	302	414	87
20/05/2012	264	203	251	337	301	299	407	88
27/05/2012	257	200	249	333	300	298	405	89
% change on this month	- 2.6%	- 1.2%	- 0.7%	- 1.2%	- 0.2%	- 0.5%	- 0.5%	+ 1.7%
% change on last year	- 33%	- 18.9%	-16%	+ 8.3%	- 9.4%	- 10.5%	- 6.0%	+ 2.9%

Source: DG AGRI;

COPA COGECA Bring Dairy Issues to the White House

Celebrating International Milk Day, Copa-Cogeca drank to the nutritious benefits of milk at the White House in Washington. Copa President Gerd Sonnleitner met with high-level US dairy representatives, discussing way to ensure a competitive dynamic dairy market to meet future challenges of growing demand and to make use of the increasing opportunities on the world market.

Commenting on the interaction with representatives in the US dairy industry, ICOS president Pat McLoughlin said; 'Dairy production also helps maintain employment in Irish rural areas and safeguards the countryside, keeping grassland in good condition. But in for order for Ireland to capitalize on current market opportunities and to meet growing world demand, especially in emerging economies, it is vital to have a dynamic, competitive, innovative sector with more research and innovation to boost productivity and with higher levels of investment.'

Dairy Cattle Population NZ Continues to Increase

There are now more than six million dairy cattle in New Zealand, an increase partly driven by higher milk payouts in the past year, according to Statistics New Zealand, the equivalent body to our CSO.

Dairy cattle numbers increased by 259,000 or 4.4% to 6.175m in the year ended June 30, 2011, according to the annual agriculture production survey, with most of the increase occurring in the South Island.

Continued From Page 1

Milk Link produces cheese, long life milk and cream, flavoured milks, butter and dairy ingredients. It is the UK's biggest producer of Cheddar cheese. It also produces Cornish Brie and Camembert and Stilton cheese. In 2011 Milk Link turnover grew by £42 million to £628 million (+7.1%) with turnover per litre up from 38.6ppl to 41.9ppl (+8.5%). Comparable EBITDA increased by £4.5 million to £33.7 million (+ 15.4%). Comparable Profit Before Tax was up by £4.3 million to £14.3 million (+42.7%).

Arla's MUH merger bridges the gap between its businesses in Norther and Southern Germany.

Arla's First Milk merger gives it access to more seasonal South West UK milk, and a strong cheese business

Milk Link

- ✓ Has British owners
- ✓ Ensures access to raw milk in the UK
- ✓ Can co-finance growth in Arla's largest market
- ✓ Adds cheese as attractive customer offer

Arla

- ✓ Has strong brands
- ✓ Has international presence
- ✓ Has a strong position in the UK market

Market Movement

	€1 : US$	1€ : GB£	Oil Price (Brent) - US$ pbl	Carbon Spot: 1 EUA
June	**$1.253**	**£0.81**	**$100.72**	**€6.24**
May	$1.297	£0.8038	$111.89	€6.50
April	$1.307	£0.8252	$119.91	€6.54

2012 International Year of Cooperatives

Find us on LinkedIn:

Irish Cooperative

Follow us on Twitter:

Contact us at:
The Plunkett House, 84 Merrion Square, Dublin 2

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