

Looking at 2008 Again???

The current price trajectory in Dairy Markets brings to mind the experience of 2008. That year, admittedly coming off the heights of 2007, dairy markets staggered to well below intervention levels, paving the way for the disaster that was 2009.

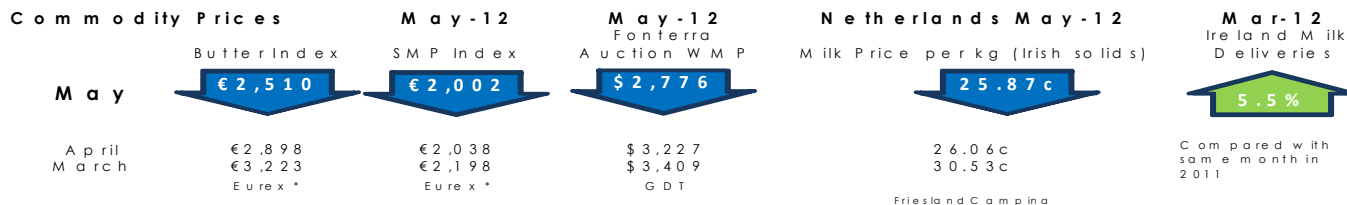
In many ways though, for Co-ops, 2008 was the really difficult year, in that they maintained milk prices at levels well above the market returns for the milk. This was understandable, particularly since markets seemed to rally mid-year, before falling off the cliff again in the late summer. The net result of maintaining milk prices for suppliers above what the market was paying was a significant loss on milk processing operations for most co-ops, with ICOS calculating that over 3c per litre was lost by

processors for every litre of milk used to make butter and SMP.

The question has to be asked though, was it right to maintain milk prices at such a high level? Remember, 2008 average milk price was about 31.5c, almost exactly equal to 2007. The calculations above suggest that the Industry lost over €120 million in trying to sustain milk prices and farmers' incomes, against massive market volatility, and excessively low EU support levels. Co-operatives may have had some reserves accumulated from the strong markets in 2007, but these were more than wiped out in 2008, leaving the cupboard bare facing into the near wipe-out of 2009.

Continued on page 4

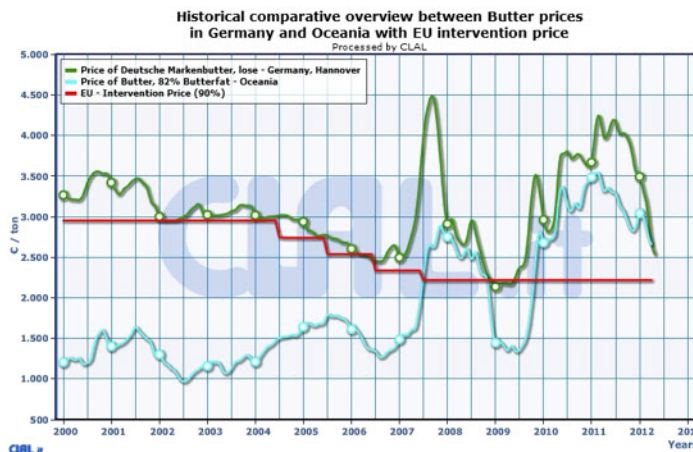
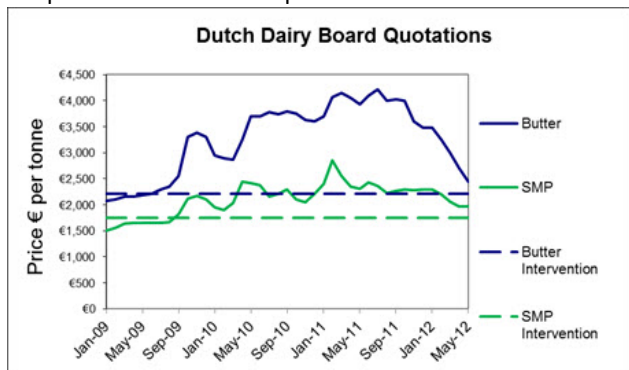
Dairy Markets



*: Eurex Futures Cash Settlement Price

European butter markets continue to weaken, with official quotes hovering in the €2450 to €2500 range. These values, if even attainable in the real market, lie only about 10% above Intervention level. SMP market are reported to be somewhat steadier, with official quotes remaining unchanged, at just below €2000 per tonne. This puts SMP at about 13% above intervention level. These quotes, if reflected in real prices would put milk with Irish standard solids of 3.6% fat and 3.3% protein at a price of about 22-23c per litre.

Obviously, Irish Co-ops don't see their products on the basis of Dutch Dairy Board quotes, nor do they sell them on the Global Dairy Trade Auction, but these two agencies do accurately reflect market sentiment, and right now, sentiment is weak.



News Tetra Pak Targets Low Income Consumers



In its latest Dairy Index Tetra Pak has identified 2.7 billion low-income consumers in developing countries as the dairy industry's next big growth opportunity due to an expected rise in prosperity, purchasing power and desire for packaged liquid dairy products (LDP).

Consumption by low-income consumers in developing markets is forecast to increase from about 70 billion litres in 2011 to almost 80 billion litres in 2014, according to the Dairy Index, which tracks worldwide facts, figures and trends in the global dairy industry. Many of these consumers are expected to switch in coming years from drinking loose milk to packaged milk.

"Low-income consumers represent one of the biggest growth opportunities for the dairy industry. The key to tomorrow's success is reaching these consumers today," said Tetra Pak President and CEO Dennis Jönsson. "They make up almost 40% of the world's population and live in economies driving our industry's growth and they are growing more affluent."

These low-income consumers live on \$2-\$8 a day and are virtually untapped by today's dairy processors. Called Deeper in the Pyramid (DiP) consumers by Tetra Pak, they make up about 50% of developing countries' population and consume 38% of LDP in developing countries. Half of these DiP consumers live in India and China. The Tetra Pak research focused on six countries which account for more than 76% of LDP consumption by DiP consumers in developing countries: India, China, Indonesia, Brazil, Pakistan and Kenya.

Many DiP consumers are expected to grow in affluence, shifting from low to middle incomes by the end of the decade, boosting their purchasing power and the range of products they buy. As they gain the increase in spending power along with greater awareness of food safety and a need for convenient, ready-to-drink solutions is expected to increase the demand for packaged products.

- Deeper in the Pyramid consumers are the next big growth opportunity for the dairy industry
- The key challenges are making products; affordable, available and attractive to consumers living on \$2-\$8 a day
- It's an opportunity to transform lives by making safe and nutritious food available to a new generation of emerging consumers

The global DiP population is forecast to fall by a compound annual growth rate (CAGR) of 3% a year from 2009-2020. The population living on more than \$8 a day is set to rise by 4% (CAGR) annually, according to Boston Consulting Group, which helped Tetra Pak to develop the DiP classification.

"Today's low-income consumers are tomorrow's middle class," said Jönsson, noting "this is a golden opportunity for dairy processors to cultivate consumer loyalty among a new generation of dairy consumers in developing countries."

Tapping into this market is not without its challenges, according to the report. Tetra Pak has identified three key challenges for dairy processors seeking to reach consumers in this growth market. They need to make products which are affordable, available and attractive to consumers on limited incomes. That means dairy processors must produce healthy, safe and nutritious packaged dairy products without adding unsustainable costs. They must also make them available in small

traditional stores in remote rural areas or congested cities where DiP consumers shop.

Innovation and efficiency will be vital in helping the industry to develop products, packaging and processing to meet the needs of these low-income consumers, according to the report.

"We must develop products differently, distribute them differently and sell them differently to extend the availability of good nutrition in developing countries," said Jönsson.

Tetra Pak has identified a number of ways to make products more affordable. Among them is changing the way both milk products and packages are developed – with the price of the product driving development. By using alternatives to whole milk – such as whey or lactic acid – it is also possible to produce nutritious and healthy dairy products at lower cost. Another way is to reduce package sizes or opt for more basic packaging.

Figuring out ways to make packaged dairy products widely available to DiP consumers is another challenge. Around 70% of DiP purchases are in the so-called traditional trade, small-family run shops rather than modern supermarkets or convenience stores. Companies are coming up with innovative ways to reach these consumers. They are producing locally where demand for packaged liquid dairy is growing. They are teaming-up with distributors who have a track-record of working closely with traditional stores and they are using appropriate transport, like bicycles, to distribute products.

Liquid Dairy Product growth to speed up in 2011-2014

Separately, Tetra Pak announced that liquid dairy product demand is set to accelerate in 2011-2014, led by Asia, Africa and Latin America. Global LDP consumption is forecast to rise by a CAGR of 2.9% in 2011-2014, accelerating from 2.5% in 2008-2011, led by buoyant demand in emerging markets, according to the Tetra Pak research.

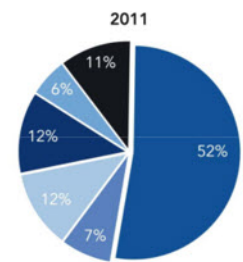
Lactic acid drinks (LAD), baby and toddler milk, and flavoured milk are forecast to record the fastest growth rates in 2011-2014, Tetra Pak analysis shows. LAD, which tend to be affordable beverages and a favourite among Asia's DiP consumers, are expected to notch up the fastest growth rate with a CAGR of 11.9%, followed by baby and toddler milk with a CAGR of 9.0%. Flavoured milk, another affordable favourite among DiP consumers, is in third place and is expected to record a CAGR of 4.8%.

"Providing affordable, healthy and nutritious packaged liquid dairy products to DiP consumers is not just a business opportunity. It is an opportunity to transform lives by making safe and nutritious food available to a new generation of emerging consumers," said Tetra Pak President and CEO Dennis Jönsson.

Emerging markets drive growth

Global LDP consumption is accelerating, fuelled by growing demand in Asia, Africa and Latin America

Regions	2011 Bio Litres	2014 Bio Litres	Variation 2014-2011 Bio Litres
Asia - Pacific	144.5	165.3	+20.8
Eastern Europe	20.6	21.2	+0.6
Latin America	32.0	34.1	+2.0
Western Europe	33.5	33.2	-0.3
Africa	15.6	17.3	+1.7
North America	29.3	29.3	—



Source: Tetra Pak

Steady increase of Irish butter moving into EU Private Storage Aid

EU Market management mechanisms were used again with an additional 7,576 tonnes of butter eligible for Private Storage Aid (PSA) were put into storage during the week ending May 6, following on from the 6,109t taken off the market the week before, according Commission figures.

Of this Irish butter accounted for 1,698t. This was the third highest Member State figure after the Netherlands and Germany who put 2,048t and 1,794t respectively into storage

Some 54 484t of butter have now been put into storage since the measure entered into force on March 1. This figure compares to 30,738t & 23,250t for the same period in 2011 & 2010.

Following questions by ICOS, DG AGRI officials have reiterated that the current dip in prices is “normal for this time of year, owing to more milk on the market”. Volumes are expected to fall in July & prices should return to normal afterwards, they added.

Cell-Check Programme

The Cell-Check Programme is the major milk quality programme for 2012 and all service providers, including coop advisory staff, were invited to attend a number of service provider seminars during February and March. This coincided with the publication of the Cell-Check Farm guidelines for mastitis control. AHI are currently in the process of developing the second stage of the service provider training. They are also working on identifying and creating more resources to assist with the delivery of this, and future training events.

As a result, an exact time of delivery hasn't been decided yet, however it will most likely be starting during the summer (June/July) and continuing on into the autumn. There will be a short repeat series of the first stage of training held before then (probably 3 seminars, late May/early June). This is to facilitate those that were unable to attend the 7 held in February/March. The final stage, or Stage 3, will be focused on the problems that exist at farm level. Figures indicate that from milk recorded in herds, approximately 20% of holdings return results of less than 200,000SCC and 20% over 400,000SCC.

IMQCS Register of Milking Machine Technicians

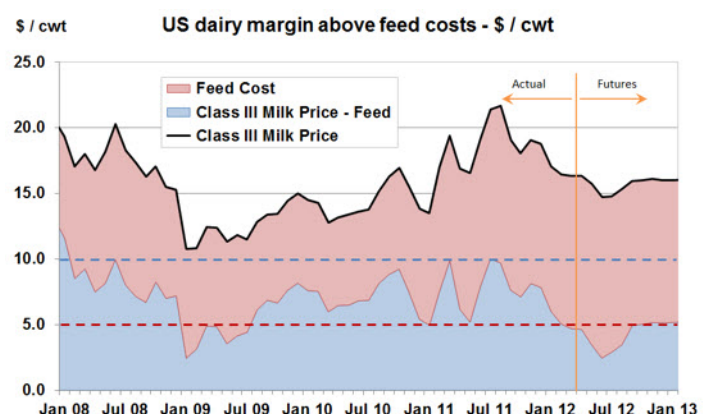
Dairy co-operatives are reminded that the register of milking machine technicians, as set out on the IMQCS website (www.milkquality.ie), is the up to date register of milking machine technicians that have undergone Refresher Courses and training. The technicians are also committed to the Cell-Check Programme and will be playing a greater role in this

regard. All registered technicians underwent Refresher courses in 2010 or 2011 and this year will undertake a refresher course in electrics. In addition, the IMQCS holds an annual training programme for new technicians. Over the past few years, many co-operatives have sent personnel from the milk quality/advisory sectors to those training courses.

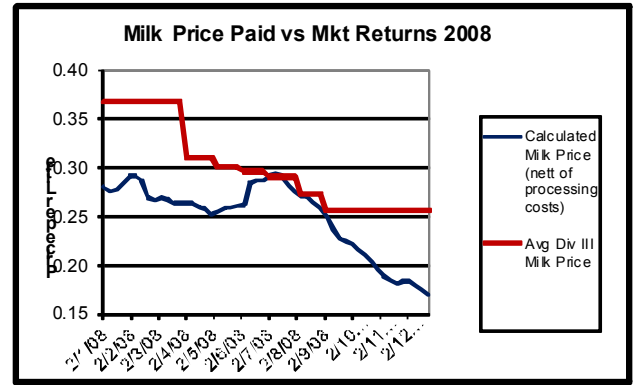
US Margin over Feed Costs

The US dairy margin over feed costs for Class III Milk is now said to be close to the critical level of \$5/cwt. The University of Wisconsin quoted a margin of \$5.637 for March, with worse figures to come, on the basis of grain and milk futures markets.

This level of margin may start to slow down production growth. If not, markets may weaken further.



Should we develop a new mechanism for pricing milk? One which gives clearer signals to farmers on the market value of their milk? It is absolutely right for Co-ops to want to shield their suppliers from the worst of market weakness, but would it have been better to pay for milk what milk is worth, and if additional support is paid, out of reserves, that it should be clearly labelled as such? Not giving clear signals to suppliers on the returns coming from the marketplace risks undermining the financial sustainability of our Co-ops, while not being honest with farmers regarding the realities of the market.



ICOS meets French dairy co-op giant - Sodiaal

ICOS Brussels held discussions on the future of co-operative dairy with the Secretary General of Sodiaal Nicolas Sesmat during International Year of the Co-op week in Brussels.

Sodiaal is the 4th largest Dairy in the EU, with 13,000 active members and 7,000 staff.

Sesmat emphasised Asia as the key driver of future demand, and stated that Health standards would soon become the new weapon in international Trade disputes, as evidenced by

incidences in Russia and China already. He argued that Dairy co-operatives were the ones best placed in the market to address these issues and help drive members to attain the highest levels of quality and traceability to be able to thrive in emerging markets.



Co-operative Alliance Ireland Conference - Co-operatives -The Way Forward

The President of Ireland, Michael D. Higgins will join 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, to mark the UN International Year of Co-operatives at a conference in Croke Park on May 15th, it has been announced.

This unique event has come about through an alliance of the three major co-operative groupings in Ireland – ICOS, NABCO and the Irish League of Credit Unions. The conference will be chaired by economist David McWilliams. It will address The Way Forward for co-operative enterprise.

In this United Nations International Year of Co-operatives, the establishment of new indigenous co-op 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 focussed, well governed and strategic in their business development ambitions.

Seamus O'Donohoe, CEO, 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."



	€ 1 : US \$	1 € : G B £	Oil Price (Brent) - US \$ p b l	Carbon Spot: 1 E U A
M a y	\$ 1.297	£ 0.8038	\$ 111.89	€ 6.50
April	\$ 1.307	£ 0.8252	\$ 119.91	€ 6.54
March	\$ 1.314	£ 0.835	\$ 122.6	€ 8.44



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