icos DairyDigest

July 2012

CAP Taking Shape

Cover Story

As we enter the 2nd half of 2012, the future shape of the CAP, from the point of view of the dairy sector, starts to come into clearer focus. Obviously most farmers are concerned with issues such as flattening the Single Farm Payment and Greening requirements, but the market support system will probably be even more important.

Before any decision is made in relation to the CAP, however, the size of the budget must be agreed under the Multi Annual Financial Framework, surely a difficult task in the context of Europe's financial crisis.
Assuming agreement on the budget, ICOS is focused on the delivery of a dairy market support system which is fit for purpose and adequately financed to face the volatility we have now become accustomed to.

Current proposals are for the current dairy support tools to be broadly retained, with intervention price levels, quantities and opening and closing dates to remain as is (a European Parliament Agriculture Committee report proposed bringing the opening date for butter and SMP intervention forward to 1st January). Export refunds will still be available, in the absence of a WTO deal to abolish them, although Private Storage Aid for butter will become optional for the Commission, based on the market situation, a significant loss to a highly seasonal butter producer like Ireland. The other aids which had been available in the past, like aid for the use of SMP in feed, or the manufacture of Casein, or for the use of butter in pastry and ice cream, will not be available.

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Dairy Markets

Market Insight

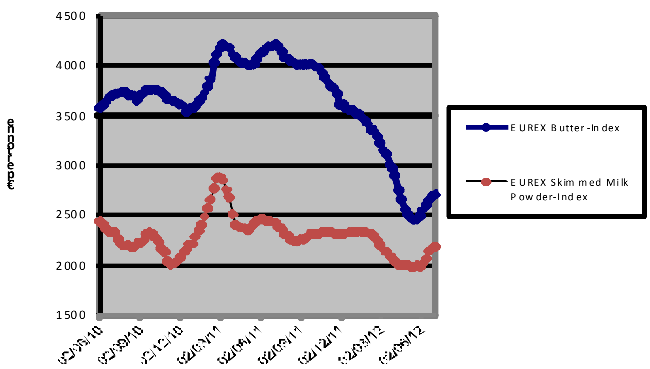
Commodity Prices	Jul-12	Jul-12	Jul-12	Netherlands July-12	May-12
	Butter Index	SMP Index	Fonterra Auction WMP	Milk Price per kg (Irish solids)	Ireland Milk Deliveries
July	€2,708	€2,183	$2,760	28.55c	0.1%
June	€2,560	€2,020	$2,763	25.40c	Compared with same month in 2011
May	€2,510	€2,002	$2,776	25.87c	
	Eurex *	Eurex *	GDT	FrieslandCampina	

*: Eurex Futures Cash Settlement Price

Market News

Markets remain quite weak, if somewhat more positive than over the past month. The Eurex butter index is quoted at €2708, up 11% on the low point about 6 weeks ago, but still 36% lower than at the same time last season. The Eurex SMP index is €2183, about 10% up on the recent low level, but also 10% below where it was this time last year.
At the EU Advisory Group on Milk, held earlier this week, industry and Commission officials agreed on the difficulties facing the butter market, with supplies continuing to rise, leading to increased stocks, a significant reduction in exports, and a huge increase in imports. Butter stocks in Private Storage are over 30% higher than last year, and this poses worries as to the effect on the market when that additional volume of butter comes back onto the market from August. The production level and stock levels, combined with the effect of the financial crisis on consumer spending result in the outlook being not very bright.

EUREX Dairy Futures Market Indices



Market News

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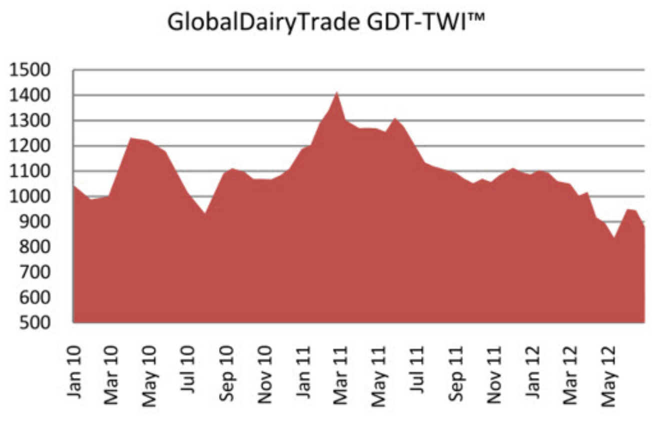
Powder markets are reported to be somewhat more positive, with SMP exports up almost 22% for the first 4 months of the year, the dollar strength helping EU exports, and NZ stocks reported to be low. In addition US supply growth is being slowed due to a reducing margin over feed costs, and the expectation of El Nino in New Zealand over the next few months depressing milk supply growth.

Last week's GDT auction saw further weakness, at least in dollar terms in confidence. WMP prices fell by 4.1% on average, with the weighted index falling by 5.9%.



Source: GlobaDairyTrade

Brussels Bites

UN & Rabobank see Post 2015 opportunities for European Cheese

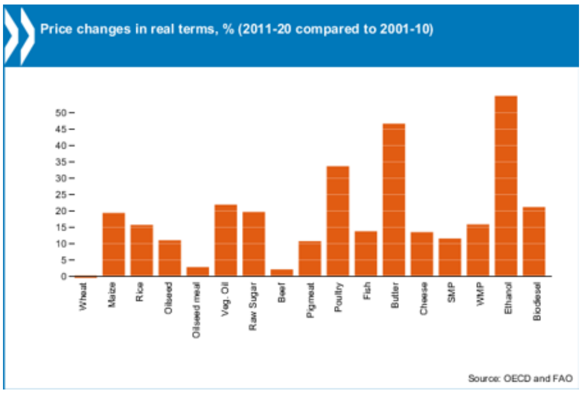
The UN's Food and Agriculture organisation (FAO) & Rabobank have highlighted opportunities for European Cheeses in the world market into the future.

FAO figures show that in 2010 that EU consumption accounted for 48% of global intake. But Rabobank have suggested that a change of market strategy may be needed by European Cheese makers to reap the benefits of world market cheese growth, especially in a post quota scenario.

Suggestions to grow exports into the burgeoning non-EU markets include continuing to exploit the current high willingness to pay for quality European cheese in third country markets. It will be important to match the needs of the below markets with some of the outlined strategies to maximise penetration and returns. The main export markets fall into the following categories:

- Further processing market: Algeria, Egypt, Saudi Arabia, Japan
- Bulk cheese market: Russia, Mexico
- Speciality market: Canada, Australia

FAO/UN table on the Growth of Food Prices in Real terms in 2011



Possible Opportunities for Irish Dairy in EU/South Korea Trade Agreement?

EU exports of food products to South Korea grew by 52% between July last year to March 2012, with pork trade up by almost 120%, according to new Commission figures published a year after the EU-South Korea free trade deal entered into force.

The figures – which are based on an average of the same period over the previous 4 years – show that EU agricultural exports to South Korea increased by €1.4bn in value. EU pork exports to the country grew by almost €200 million in value.

Large percentage increases in trade volumes were also recorded for milk & cream products (+€37m) as well as food essences & extracts (+€23m).

Tariff Rate Quotas (TRQ) were secured for cheese, food whey, butter, milk & cream concentrate, dry milk, malting barley, malt, modified starches & feed.

EU signs comprehensive Trade Agreement with Colombia and Peru

The EU signed on 26 June a trade agreement with Peru and Colombia this week. The agreement still needs to be ratified by the European Parliament, national Parliaments and Columbia and Peru.

The agreement is expected to significantly reduce tariffs for EU dairy exporters.

Codex Agrees Tougher Infant Milk standards

Producers of milk for infants must abide by a tougher limit on the presence of *melamine* - a substance used to make kitchenware & the cause of a number of health scandals in recent years – under new rules adopted by the UN's Codex Alimentarius. The food safety body introduced a maximum limit of 0.15mg/kg for the presence of *melamine* in liquid infant milk after agreement during the Codex meeting (July 2-7), attended by 600 delegates representing 184 countries plus the EU. The move follows the adoption 2 years ago of limits for powdered milk (1mg/kg) & for other foods & animal feed (2.5mg/kg).

What is Melamine?

a substance widely used in the production of plastics, houseware & cleaning products – was at the heart of a health scandal in China in 2008, after companies were found to be adding the compound to infant milk formula & milk powder to increase the protein content. The contamination caused over 300 000 illnesses & 6 deaths.

British Dairy Farmers Take Milk Price Campaign To Westminster

An estimated 2,500 British Dairy farmers staged a protest at Westminster yesterday, Wednesday, to protest at milk price cuts. Farmers say they will lose on average £50,000 a year because of a drop of nearly 4p a litre in the price they will receive from milk processing companies from 1 August.

Yesterday's Westminster meeting was attended by agriculture minister Jim Paice. Earlier this week Mr Paice was forced to admit that he did not know the price of a pint of milk because "my wife buys most of it".

Speaking before the meeting, the NFU's deputy president Meurig Raymond said he had never seen such an outpouring if anger from the farming community, even during the foot and mouth crisis. At one point during the meeting Mr Paice was booed for suggesting that farmers should lower their cost of production.

Some of the farmers are backing a campaign of direct action and have threatened to pour their milk down the drain. The National Farmers Union (NFU) has said it will support any action that is peaceful and legal and has called for an immediate reverse of the price cuts and the resignation of those involved.

The NFU Deputy President has warned of a mass exodus from the dairy industry, adding that if that happened in three to four years "consumers will be paying a lot more for their milk".

The Farmers Weekly has produced an A4-sized colour poster to highlight the plight of the dairy sector, to be used at yesterday's and subsequent protests. The poster carries the simple message: 'Fair price on the shelf, Fair price on the farm'.

It is proposed to use the poster in tractor windows, at the end of farm drives and on local notice boards in order to raise consumer awareness of the problems facing producers following sharp falls in farm gate milk prices.

Separately another farmers group are threatening to disrupt milk supplies during the London Olympics in protest at proposed milk price cuts. "Farmers for Action" has warned that if prices are not restored to pre-April levels by 1 August they will disrupt the delivery of milk. This threat follows announcements in the past seven days from Robert Wiseman Dairies, Arla Foods UK and Dairy Crest – that they intend to cut the prices paid to farmers for milk by between 1.65p and 2p per litre. The processors say the move, which follows cuts in April and June, is a result of deterioration in the commodity markets for skimmed milk powder and wholesale cream.

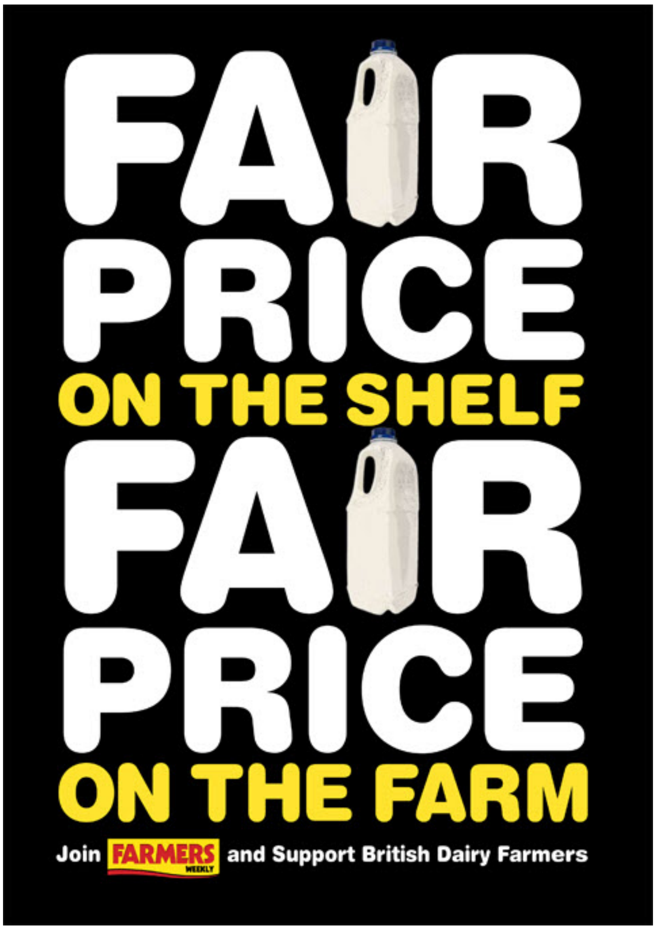
Farm groups say the cuts will result in milk production being loss making, driving even more dairy farmers out of business. Their numbers have already dropped by 40% to 10,700 in the last 10 years. About three farmers a week left dairy farming in the year to May 2012, according to Food Standards Agency figures.

Amongst the major retailers Tesco, Sainsbury's, Waitrose and Marks & Spencer have attracted less attention due to more "progressive" milk pricing policies. The NFU however point out that the three processors cutting prices actually supply the Co-op, Morrisons and Asda, which do operate in the same way. The resultant milk price is about 25p per litre.

Meanwhile, the British Retail Consortium earlier this week, released a statement saying protests over the future of the UK dairy industry should focus on sectors which aren't playing their part in supporting British farmers. The BRC pointed out retailers are the best payers for milk and contracts between retailers and their dairy processors are overseen by the Groceries Supply Code of Practice. They said that "Supermarkets are the best payers in the milk market. Supermarkets only sell British milk but their customers don't need all the milk produced by UK dairy farmers. Only half of the milk British farmers produce ends up as liquid milk in bottles and cartons and only part of that is sold in supermarkets, the rest is sold by convenience stores, door-to-door or used in catering, schools and prisons.

"A number of supermarkets have dedicated milk supply chains which allow them to work closely with specific groups of farmers, guaranteeing how much the farmers get for their milk and helping them invest in the long-term sustainability of their businesses. That matters to retailers who want successful relationships that will provide the milk they and their customers need, not just now, but over the coming decades. But that can't be the answer for every farmer.

"The pressure should be on other big buyers of milk – food manufacturers and the public sector - to show the same strong support for the industry that retailers do. The truth is, the farmers in the best position are often those in supermarket supply chains."



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The other aids which had been available in the past, like aid for the use of SMP in feed, or the manufacture of Casein, or for the use of butter in pastry and ice cream, will not be available. There is also the suggestion of a €500-€600 million crisis fund to deal with exceptional market disturbances, or disasters due to disease outbreaks etc. This fund, would be available to all sectors, and is currently outside of the proposed Multi Annual Financial Framework.

As part of CAP reform the Commission has suggested the creation of a "Risk Management Toolkit" as part of the Rural Development Measures under Pillar 2. Member States could choose from a menu of co-financed options subject to an upper limit.

It is quite clear now that the traditional support measures will not be able to adequately deal with the volatility which will continue to be a feature of dairy markets. Indeed, it could be said that the problem isn't the volatility, but the inability of the dairy sector, from farmers, through the chain to retailers, to deal with that volatility. The Commission have, through providing for "Producer Organisations" and "Inter Branch Organisations", attempted to shift the responsibility for market management from Brussels back to the industry, through these proposed structures. While PO's or IBO's might be appropriate to organise dairy markets in France or similar member states with strong local demand, in exporting countries like Ireland, which already benefit from strong Co-op structures, something more sophisticated will be needed.

It is becoming increasingly apparent that the Irish dairy sector will require a suite of tools to deal with continuing volatility so as to ensure that our expansion potential is realised. These tools will be a combination of CAP Pillar 1 market supports, Risk Management tools possibly co-funded under CAP Pillar 2, and new milk pricing and payment structures which will bring transparency to milk pricing, while levelling out the peaks and troughs of income.

Europe will have to look more closely at Risk Management strategies employed worldwide, with particular emphasis on the development of dairy futures markets, as a way for industry participants; sellers and buyers, to manage their risk. The absence of adequate mechanisms to deal with volatility in dairy markets poses a significant threat to the European dairy sector, as buyers who are in a position to substitute will favour the use of vegetable fats, for example, where better risk management tools are in place. There is also a risk that potential investors in the Irish dairy industry may be dissuaded from investing by the high level of volatility, with no matching risk management strategy.

Understandably we are all focused on stainless steel right now; but we must also concentrate on the infrastructure needed to ensure we sell the product profitably.

Cyprus takes over EU presidency from Denmark

Cyprus takes over the EU Presidency until the end of 2012 during a key time of CAP reform Ireland takes over the presidency on the 1st of January 2013.

Cypriot Agriculture Minister Sofoclis Aletraris will head up the CAP negotiations of the council and ICOS have met him regarding his priorities this week.

EU organic logo fully up and running from 1 July 2012

The two-year transition period for the organic food sector to comply with new EU labelling rules is reaching its end. As from 1 July 2012, the EU organic logo will be obligatory on all pre-packaged organic food products produced in EU Member States which meet the necessary standards.

The logo will stay optional for non-packed and imported organic products. Other private, regional or national logos will continue to be allowed to appear alongside the EU label.

Dairy products are eligible for this logo if they fill the required criteria.

Market Movement

	€1 : US$	1€ : GB£	Oil Price (Brent) - US$ pbl	Carbon Spot: 1 EUA
July	$1.229	£0.7899	$98.71	€7.87
June	$1.253	£0.81	$100.72	€6.24
May	$1.297	£0.8038	$111.89	€6.50

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