icos DairyDigest
icos Irish Cooperative Organisation Society
February 2013

Cover Story

Milk Supply Agreements - Protect Supplier's Interests!

Milk Supply Agreements will protect suppliers' best interests in the future. In a post quota environment, where milk volumes are anticipated to expand rapidly, it is in a milk supplier's interest to have as much certainty as possible that the volumes of milk he plans to produce will be assembled, processed marketed and sold.

It is also in the co-op's interest to have as much certainty as possible in regard to the volumes of milk it will have to process and market. As milk suppliers in the UK have learned to their cost, it should not be taken for granted that processors have the processing capacity and market outlets at all times for the volumes of milk that producers wish to supply.

"Milk Supply Agreements or contracts are entirely in keeping with the co-op ethos and the requirement of a co-op to maximise benefits to its members", says ICOS Chief Executive Seamus O'Donohoe.

"ICOS wishes to make it clear that it has been the organisation's policy since early 2010 that co-ops and their members should enter into Milk Supply Agreements or contracts to protect the interests of both parties in the post-Quota era.

"Such agreements give suppliers the assurance that their milk will be processed and the co-op the certainty that investment in new Capacity will be optimally utilised. Co-ops cannot afford to risk their members' capital on expansion projects if they cannot be sure of the milk supply to utilise the additional capacity. The most effective way to offer some degree of certainty to both parties is through a Milk Supply Agreement." O'Donohoe said.

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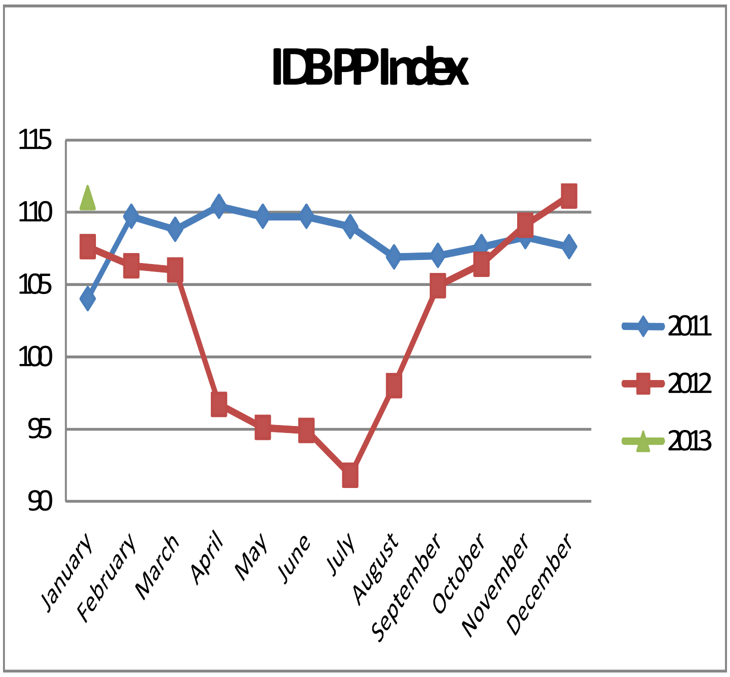
Market Insight

Dairy Markets

Commodity Prices	Butter Index	Feb-13 SMP Index	Feb-13 Fonterra Auction WMP	Netherlands Feb-13 Milk Price per kg (Irish solids)	Dec-12 IFCN World Milk Price Indicator /KG	Dec-12 Ireland Milk Deliveries
February	€3,350	€2,678	$3,468	29.87	€0.305 $0.399	6.2%
January	€3,392	€2,670	$3,199	30.529		Compared with same month in 2011
December	€3,423	€2,655	$3,170	31.68		
	Eurex *	Eurex *	GDT	FrieslandCampina	See www.ifcndairy.org	

*: Eurex Futures Dairy Market Indices

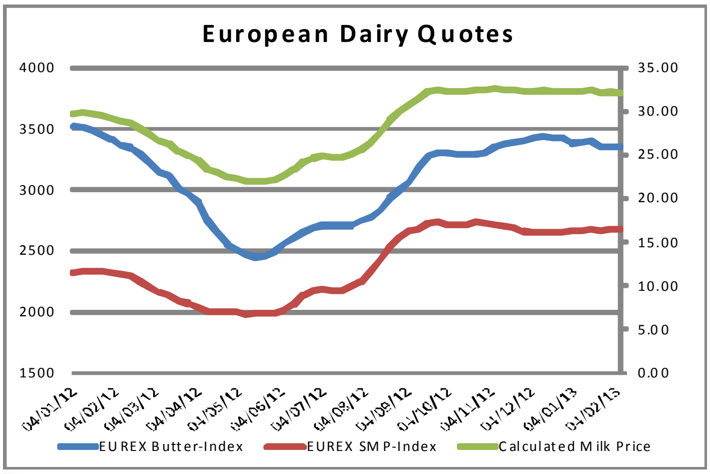


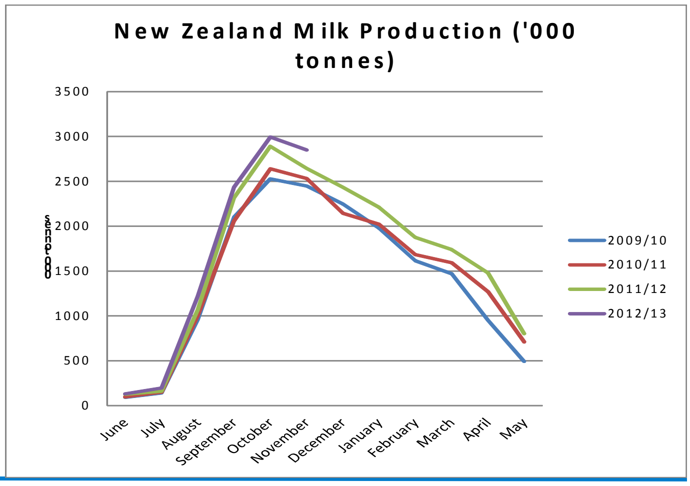
Market News

Overall, markets have remained quite stable, with European quotes weakening slightly since Christmas. Butter quotes, at around €3350 per tonne, are around 2% down on the late December value, and SMP quotes, at around €2678 are about 1% off the equivalent level. The resultant calculated milk price, at Irish constituents remains at about 32c per litre. The Irish Dairy Board Purchase price index for January, just down slightly to 111 (from 111.1 in December) suggests a broadly similar milk price level.

Last week's GDT auction saw gains in the trade-weighted index of 2.4%, with the WMP price rising by an average of 5.4% TO $3,468 per tonne, or equivalent to just over 27c per litre for Irish constituents. This was the first auction since news emerged last month that small traces of a nitrate inhibitor had been found in some of Fonterra's milk powder. *Fonterra last week posted a statement on the GDT website assuring* customers that none of the New Zealand dairy products on offer at this auction had been manufactured during periods when DCD was detected. According to the New Zealand Herald, merchants withdrew fertilisers containing DCD voluntarily after the substance was identified. The total volume of dairy products sold at the latest auction was 38,232 tonnes, down from 40,418 tonnes a fortnight previously.

Market News continued





Euro Calendar

- 6th Feb COPA COGECA Agriculture Budget Rally - Brussels
- 6th/7th Feb EU/Canada Agri Trade Talks - Ottawa
- 7th/8th Feb EU Budget Negotiations between EU Heads of State
- 12th Feb Risk Management in Agriculture Working group
- 14th/15th Feb EU Agri Bio Economy Conference in Dublin Castle
- 20th Feb Agri Committee in European Parliament
- 21nd/23rd Feb COPA COGECA Presidium in Dublin hosted by ICOS. An Taoiseach Enda Kenny & Minister Simon Coveney will be in attendance
- 25th Feb EU Agri Ministers Council in Brussels
- 27th Feb Seminar on Youth Employment in Agriculture in the EU

World Interest

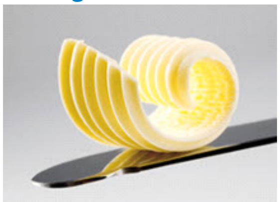
Mixed Signal from the USDA

The February 2013 USDA WASDE (World Agricultural Supply and Demand Estimates Report) raises the US milk production forecast for 2013. Milk cow numbers are raised as USDA's Cattle report indicated that the number of cows on January 1 was about unchanged from 2012. Milk per cow forecasts are raised as last quarter-2012 estimates were higher than expected and lower forecast feed costs support higher milk yields in 2013. Fat-basis trade estimates for 2013 are unchanged. The skim-solids export estimate for 2013 is raised largely on expectations of stronger non-fat dry milk (NDM) shipments, but the import forecast is unchanged. Milk production estimates for 2012 are raised, reflecting end-of-year production data. Dairy trade estimates for 2012 reflect the pace of trade through November.

The USDA reports cheese prices unchanged from last month, but the price range is narrowed. Non-fat Dry Milk and whey prices are raised reflecting stronger demand, but the butter price is lowered. Despite a higher whey price, the forecast Class III price is unchanged although the range is tightened. Lower butter prices are more than offset by higher NDM prices resulting in a slightly higher forecast Class IV price. The range of all milk price for 2013 is narrowed to $18.90 to $19.70 per cwt (approx. 30.5-31.8c per litre at Irish constituents)

Brussels Bites

ICOS Lobby Activity Results in Protection of Private Storage Aid of Butter Tool



In recent weeks there were extensive discussions on the Private Storage Aid for Butter tools, with rumours of a proposed cut from the Commission to the programme of up to 25%.

Intensive lobby activity by ICOS with others has largely protected this vital PSA tool with proposed aid levels for butter now going into meeting is 14.88€ per tonne fixed costs and 0.25€ per tonne daily storage costs.

Essentially, this means that fixed costs should stay the same and daily compensation would fall by modest 1c per tonne.

PSA was critical for Irish dairy co-ops in the difficult start we had to 2012, putting a floor under the market and saving us from catastrophic intervention levels.

ICOS Participates in Major Rally to Protect the EU Agriculture Budget

In advance of the European heads of state meeting to hammer out the new multi annual budget for the EU this week, ICOS participated in a rally to urge the leaders to protect the CAP.

The budget is worth a staggering €11 billion for Irish agriculture alone over its duration, and ICOS added its voice to strong calls that it is protected.

EU / Canada Trade Talks near Endgame

As the talks enter their final phase ICOS is pushing the commission for a further drive to open the notoriously closed Canadian dairy market further, to create sales opportunities for Irish Dairy co-ops in the country.

ICOS is also lobbying hard to ensure that the EU and Irish Beef industry is not put at risk by the giving away excessive quota in the high value cuts that we specialize in.

World Interest

New Zealand Milk Production Continues to Grow

New Zealand is heading for milk production of 21 million tonnes this year, with milk supply up almost 7% by the end of November. Last year's record production of 19.7 million tonnes will be exceeded, on the basis of the evidence so far, having itself being an almost 11% increase on the previous year.

Brussels Bites

European Parliament Vote to End Milk Quotas - but Market Management Plans a Concern

On 23rd January the European Parliament's Agri Committee voted on CAP proposals and Market Organisation from their side.

From a dairy perspective we saw some welcome developments such as a full commitment to the abolition of dairy quotas. We also saw a welcome proposal to raise the butter intervention ceiling from 30,000 to 70,000 tonnes.

But very worryingly, the 'Dantin Market Management' proposal on dairy in crisis, discussed in previous issues of the *ICOS DairyDigest* was voted through.

ICOS will be lobbying hard to have this deleted at Parliament plenary session and in the European Council over the next few months.

EU begins Consultation on Funding for School Milk Scheme

This scheme has been run in Ireland for a number of years, facilitated by ICOS, through our member co-ops.

Across Europe the scheme is active in 26 of the member states and distributes over 300, 000 tonnes of milk and dairy products to over 18 million children, including thousands across Ireland.

While feedback has been positive the programme is under review. The consultation will run from 28 January to 22 April 2013. The related document and questionnaire are available at:

http://ec.europa.eu/yourvoice/ipm/forms/dispatch?form=SCHOOLCHILDREN2013&lang=en.

Company Profile

Chinese Dairy Giant Plans €130m IF Plant in New Zealand

Chinese food and dairy giant Yashili International announced it is investing 1.1 billion yuan (€132m) building a factory in New Zealand to manufacture powdered infant formula and other related products that come from the same industrial process.

Yashili International has submitted the application for a business assets investment license at the New Zealand Overseas Investment Office.

The new factory will work as a production base for Yashili Dairy (New Zealand), a wholly owned subsidiary of Yashili International.

The company plans to spend 950 million of the 1.1 billion yuan on infrastructure construction, production equipment and other facility hardware; the remaining 150 million will be used as operating capital of Yashili Dairy (New Zealand). Moreover, the new factory in New Zealand is planning to go into operation in the second half of 2014 with an annual production capacity of 52,000 tons.

Yashili started its powdered baby formula business at the end of June 2010 with 100 percent imported raw milk and since August 2010, New Zealand has become the only raw milk importing country for Yashili.

With Chinese consumers' low confidence in domestic milk powders, a lot of Chinese dairy companies choose to seek high-quality milk supplies overseas.

Moreover, the tariff imposed on infant formula milk powders and yogurts exported from New Zealand to China has decreased to zero in 2012, which has greatly benefited Yashili.

ICOS Skillnet Update

Upcoming February Courses

Safety Harness Training (half-day Programme)
Location: Cork
Time: 9.00am – 1pm
Dates: 15th February

Cost per person: €40 inclusive of funding.

If you wish to run a full course in your area the cost is €600. Please keep in mind that this programme has to be run as an open programme available to all co-ops.

Hygiene Safety Training (1-day Programme)
Location: Charleville
Time: 9.00am – 6.30pm daily
Dates: 12th, 13th and 14th February

Cost per person: €40 inclusive of funding.

If you wish to run a full course in your area the cost is €800. Please keep in mind that this programme has to be run as an open programme available to all co-ops.

Confined Spaces (1-day Programme)
Location: Cork
Time: 9.00am – 5pm daily
Dates: 14th February

Cost per person: €60 inclusive of funding.

If you wish to run a full course in your area the cost is €720. Please keep in mind that this programme has to be run as an open programme available to all co-ops.

Emergency Response Team Refresher Training (2-day Programme)
Location: Cork
Time: 9.00am – 5pm daily
Dates: 18th & 19th February

Cost per person: €100 inclusive of funding.

If you wish to run a full course in your area the cost is €1,200. Please keep in mind that this programme has to be run as an open programme available to all co-ops.

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.

Continued From Page

"The contention that now is the first time that co-op members have been bound by a written contract or milk supply agreement is not correct. Legislation has always made it clear that the rule book of each society constitutes a written contract between the member and his society.

What is perhaps new for many members is their awareness that they are already a party to a written contract. As we move into an era without quotas to constrain milk volumes, clearly, some form of revised agreement must take the place of the quota regulations."

"With the ending of quota co-ops need to reduce the level of risk they will be exposed to in borrowing large amounts of capital to expand processing and marketing capacity. Milk suppliers are the primary providers of finance to their co-operative through the milk margin retained. Traditionally, due to the emphasis on the part of co-ops to pay out the maximum amount possible to their members, that margin has been low and just sufficient to keep co-operatives in a 'steady state'. As we enter a period of milk expansion, the co-operatives reliance on margin must be supplemented by further bank borrowings and member contributions.

"Members are being asked to achieve a 'share standard' proportionate to the volumes of milk that they wish to supply to the co-op and to contribute loan stock on the same basis.

This is fair; any alternative financing proposal could involve the co-op in an excessive level of debt or involve the participation of external investors, both options could result ultimately in a loss of member control of the co-op.

"Bearing in mind that the objective of a co-operative is to maximise benefit to the user member and that the member owns and controls the co-operative, the requirement that members voluntarily enter an agreement to sign a written contract, for example seven years, in the case of Dairygold, is reasonable by reference to the interests of both parties.

"Co-operative milk supply agreements which are approved by a board of directors elected by their fellow farmers are carefully drafted with the most positive and best of motives. They are designed with the object of keeping the supplier members' best long term interest as their priority, while at the same time ensuring the sustainability of the co-operative for succeeding generations of dairy farmers," said O'Donohoe.

World Interest

First Milk wants more Investment from Farmers Others

UK dairy co-op, First Milk is increasing the amount of investment which milk suppliers need to provide, as well as looking at the possibility of inviting outside investors. According to the co-op, in order to line up funding for more added value deals, it is raising the amount of capital that its farmer members will invest in the business, plus exploring routes where its employees and farmers supplying milk to other companies, can also invest in its added value growth strategy.

The standard litre milk price paid to farmers in First Milk's liquid pool will increase by 0.5ppl from 1 April. In addition, the company is continuing its programme of regularly rewarding investment in the business and will pay out a 3% return on members' capital account balances in April. Since 2010, First Milk has made two returns on investment to members each year, equating to an annual payment of £1800 or 6% for an average 1 million litre producer.

Having thoroughly investigated a range of added value opportunities, the co-operative is increasing the amount of capital that its members require to invest to 0.5ppl (lifted from 0.2ppl) from April.

Finally, following interest from First Milk employees and some farmers currently supplying other companies about investing in the business, the company is looking at some mechanisms to raise capital from non-members without compromising ownership of the co-operative. Members will be consulted on this route as part of regular Farmer Forum meetings before exploring this route further.

Market Movement

	€1 : US$	1€ : GB£	Oil Price (Brent) - US$ pbl	Carbon Spot: 1 EUA	IFCN World Feed Price Indicator /KG*	IFCN World Feed Price Indicator /KG*
February	$1.34	£0.85	$117.71	€4.38	€0.277	$0.363
January	$1.337	£0.8295	$111.30	€5.62		
December	$1.289	£0.8045	$107.92	€6.62		

* December 2012 prices

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