# icos DairyDigest

icos
Irish Cooperative Organisation Society
April 2013

Cover Story

# ICOS calls for Dairygold 'post quota' plan to be endorsed by members

Seamus O'Donohoe, CEO of the Irish Co-operative Organisation Society called on all members of Dairygold to fully endorse the 'post quota' plans already approved by the Board of Dairygold after lengthy consultation with their membership.

The central objective of the plan, he said, is to ensure that producers who supply the co-operative are paid a competitive price for their milk over the longer term. For Dairygold to deliver this objective and to ensure that its members continue to own and control the business, its milk investment plans must be in part financed by producers who are prepared to make a long term commitment to supply to Dairygold.

A key competitive advantage that a co-operative must achieve over competing businesses is the commitment of their producers to supply their milk to the co-operative over the long term. The detailed survey work engaged in by Dairygold has enabled the co-operative to predict supply patterns more accurately and plan its capital expenditure in an optimal manner. The milk supply agreement is central to the capacity to plan forward and minimise capital investment. Without that level of commitment from producers, Dairygold's capital expenditure planning would be more uncertain and would end up costing farmers more in the longer term.

Mr O'Donohoe said that ICOS was urging all members to acknowledge the painstaking research, planning and consultation with producers that had gone into developing the Society's post quota plan and to give the plan a resounding endorsement by voting 'yes' to Resolution 1 and 'no' to Resolution 2.

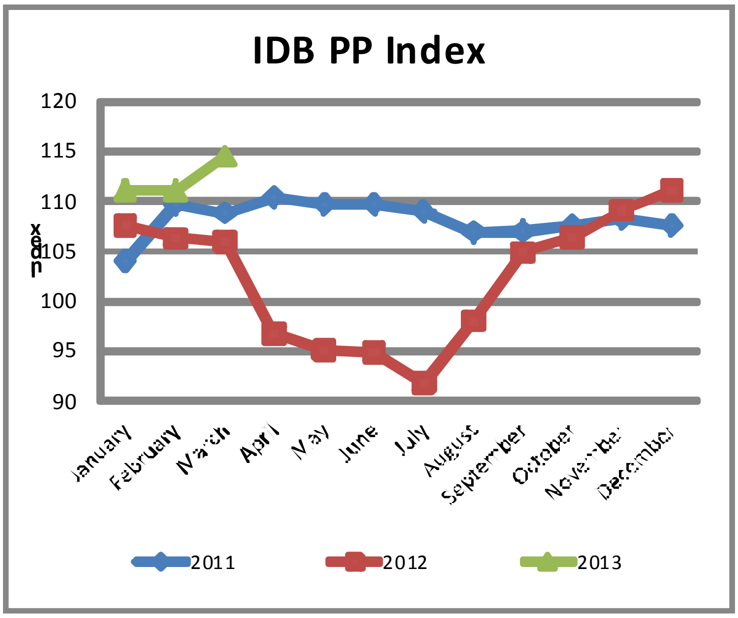
Market Insight

## Dairy Markets

| Commodity Prices | Apr-13 Butter Index | Apr-13 SMP Index | Apr-13 Fonterra Auction WMP | Netherlands Apr-13 Milk Price per kg (Irish solids) | Mar-13 IFCN World Milk Price Indicator /KG | | Feb-13 Ireland Milk Deliveries |
|---|---|---|---|---|---|---|---|
| April | €3,607 | €2,807 | $5,100 | 29.52 | €0.355 | $0.46 | 9.6% |
| March | €3,350 | €2,653 | $4,298 | 27.15** | | | Compared with same month in 2012 |
| February | €3,350 | €2,678 | $3468 | 29.87 | | | |
| | Eurex* | Eurex* | GDT | FrieslandCampina | See www.ifcndairy.org | | |

*: Eurex Futures Dairy Market Indices

**: Seasonality deduction of 2.3c




Market News

European Market Quotes have begun to rise, in response to the dramatic New Zealand increases, with the Eurex Index suggesting butter values of around €3600 and SMP values of €2800. On the strength of those indicators, milk would be worth around 34.5c per litre for Irish constituents. However, the same indicators suggested a milk value of 22c per litre last May, and just as the Irish co-op business model shielded farmers from the worst of last summer's bear market, it won't be able to abandon good long term customer relationships to chase the current frothy bull market.

Westpac economists in New Zealand are reported to have sharply revised upwards their projections for both milk prices and payouts to farmers following further dramatic increases in GlobalDairyTrade Auction. The bank has revised its 2012/13 season farmgate milk price forecast from $5.65/kg (approx. 27.9c/l at Irish constituents) to $6.10/kg (30c/l), as drought coupled with strong Chinese demand continued to push GlobalDairyTrade prices skyward.

Previously Fonterra had announced an increase in its forecast farmgate milk price of $5.80/kg (28.6c/l), up from NZ$5.50 (27.2c/l) and a forecast dividend of 32 cents per share. Westpac suggest that if the auction price increases continue the farmgate milk price could go as high as $6.40/kg (31.4c/l).

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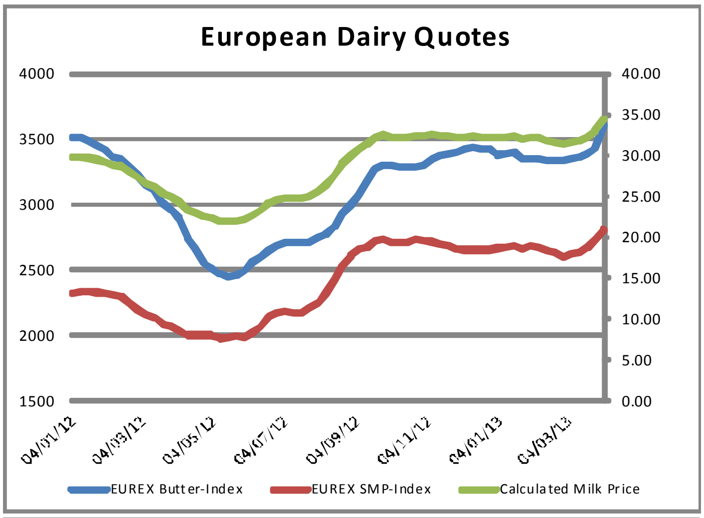
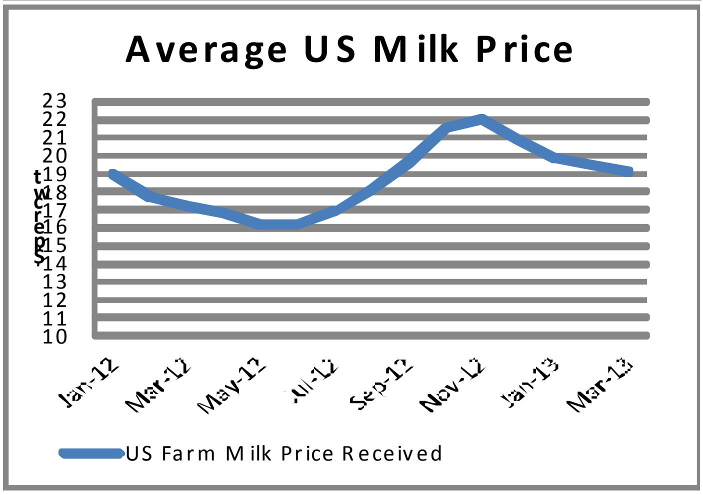
## Market News continued

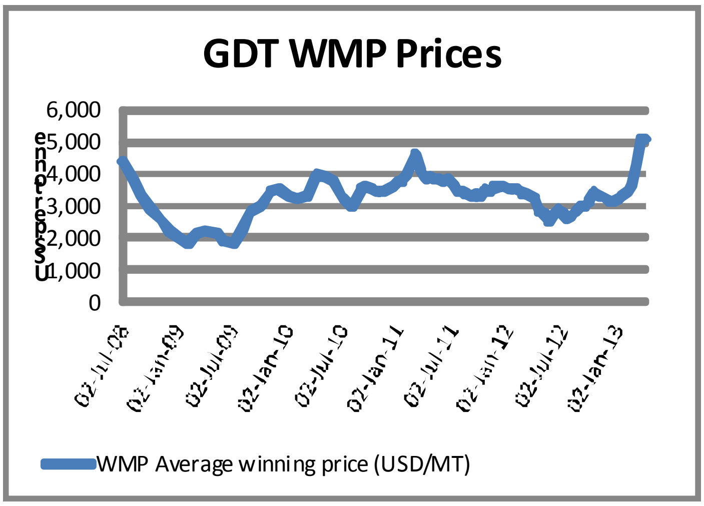
The continued dramatic increase in prices at last week's GDT auction with the average winning price up 14.2% confirms the market's expectations on the New Zealand undersupply, and fears regarding the weather effects in Europe and North America. The average winning price has risen by almost 33% in the last 3 auctions to a record high of $4966; the previous high, from March 2011 being $4826. The current auction WMP Price, of $5,100 would translate to an Irish milk price of around 44c per litre, a long way from the real New Zealand price of 28.6c. There has to be some concern at the extraordinarily high auction prices currently. The last time we had such highs, customers were driven to seek cheaper non-dairy alternatives, and dairy producers, even uncompetitive ones, worldwide, turned on the tap dramatically, swamping the world market, and causing massive damage to farmers' incomes.

The US average milk price received in March was $19.1/cwt (33.5c per litre at Irish solids at today's dollar rate) down from $19.5/cwt in February and $19.9/cwt in January.

The Irish Dairy Board Purchase Price Index has risen substantially from 111 to 114.5.




## Calendar of Events - April 2013

| | |
|---|---|
| 11th April | Beginning of CAP trilouge Negotiations |
| 11th/12th April | Working Group & Commission Group on Beef Meat |
| 15th April | ICOS meeting with Dairy Australia |
| 16th April | Working Group on Cattle Breeding & Reproduction |
| 18th April | COGECA Presidium |
| 22nd/23rd April | Agri Council in Brussels |
| 23rd April | Animal Health and Medicine Conference Brussels |
| 24th April | Agri Committee in European Parliament |
| 2nd May | Policy Coordination Committee COPA COGECA |

## Brussels Bites

### New head of DG Agriculture in Brussels

Jerzy Plewa has been appointed Director General of the key Agriculture and Rural Development Directorate-General (DG AGRI). The appointment takes effect on 16th April.

Plewa, who is 58 and a Polish national, is currently Deputy Director- General in DG AGRI, responsible for Rural Development and Sustainability Policy. Before that he was Deputy Director-General in charge of international affairs in DG AGRI. ICOS looks forward to having a constructive relationship with him.

### 5% cut to SFP to be enforced in 2014

ICOS is worried that the cash flow plans of co-operative dairy members will take a hit next year when the EU implements a 4.98% cut to farmers SFP over €5,000 in what they are calling 'financial discipline'.

The cut is a direct result of the pressure from the UK and other countries to cut the EU Budget during the recent negotiations.

### UK Government announces assault on cheese export markets

DEFRA in the UK have announced that they are to target a 30% I ncrease in dairy exports.

The announcement has been met with a mixed response from the industry as it involves no financial aid and the UK dairy industry still has major problems with export licences and dairy structure.

### European Council CAP Proposal: ICOS reaction to main points

#### Direct Payments


Minister Coveney secured agreement in Mid March for the use of the approximation model which dos not force Ireland down the road of an average area payment for every Ha.

This means that for farmers with below 90% average payments their payments will be increased by 1/3 of the difference during the reform. Farmers above the average will have their payments reduced to pay for this.

Member States will have the option to apply a minimum or maximum payment to farmers.

They will have the option to go for Flat Rate payments.
They will have the option of both front loading payments or regionalising payments.

Greening will be 30% of farmers individual payment rather than at a flat greening payment per Ha.

**ICOS is happy with this as it is a flexible system rewards farmers who produce for and buy most off the co-operative. ICOS will push for 2012 reference year to end land market disturbance. We also welcome that regionalisation for us was avoided.**

## Greening Measures

**Ecological Focus Areas** set at 5% with a possibility to go up to 7% in 2018. Fine for 98% of Irish co-op farmers. **Permanent Grassland** included as a greening measure. Fits well with our grass based system.

Measures for **Crop Diversification** made more flexible. Only 3 crops if over 30 ha and no diversification if 75% of land permanent pasture.

Fines for Greening non-compliance can only affect a maximum of 7.5% of basic payment, as well as the 30% Greening payment.

**ICOS is again happy with flexibility given here.**

## Dairy Quotas

No change in the decision to abolish milk quotas on March 31st 2015.

**ICOS supports this policy. ICOS actively lobbies for the promised 'Soft Landing' of quotas to ensure that the Irish co-op Dairy Industry is in the best position possible to take advantage of market demand. We would also like to see measures that would take into account Ireland's Dairy breeding cycle, as the March 31st date might cause problems for out seasonality based system.**

## Dairy Tools

Key functioning tools for dairy such as Private Storage Aid, Intervention and Export Refunds have been retained despite immense pressure.

**ICOS backs these fully and is pushing for APS to be a standard rather than only an emergency measure. The European Parliament's 'Dantin' supply management proposal was not mentioned and this is warmly welcomed.**

## Young Farmers

The 2% of SFP funds set aside for topping up young qualified farmers for a period of 5 years was made voluntary for each member state.

**ICOS wishes to see this made mandatory to encourage new blood into our co-ops.**

## Coupling

In a country that is fully de-coupled, such as Ireland, the State may apply coupled payments of 7% of its national envelope off the SFP. The Minister is on record in saying he does not want to do this in Ireland.

**ICOS is engaging in consultations with its Livestock Marts section to see if it would back production across the system.**

## National Reserve

Set at 3%.

# EU/US Trade negotiations start in earnest: ICOS warn dairy should not be sacrificed

On 12 March the EU Commission agreed on the draft mandate for a comprehensive trade liberalising agreement. It now goes to Member States in the Council for quick approval.

The decision to launch negotiations was announced last month by European Commission President Barroso, European Council President Van Rompuy and US President Obama. The package would include tariff elimination in industrial and agricultural goods; services liberalisation; public procurement; regulatory cooperation which would include a mechanism for addressing regulatory differences on both food and non-food products.

**Next steps:**

Both parties aim to launch negotiations during tour Irish Presidency - and then to push ahead with them as quickly as possible by the end of 2014 and the Commission mandate.

While ICOS welcomes trade liberalisation, and look for opportunities for our members, we strongly oppose Dairy and Agriculture in general being sacrificed in favour for beneficial terms for industrial goods and services.

We feel that movements in the EU Canada deal have set a dangerous precedent in this area.

# Copa-Cogeca Milk Working Party: Market situation update

At a meeting attended by ICOS this month, most delegations warned of continuing to be squeezed by high production costs and of a difficult market situation.

There was a mixed picture on production across member states – some countries like Italy, the Netherlands and Poland said they could exceed milk quotas this year whilst others said like us in Ireland, they are likely to be under quota such as Spain.

Denmark said quota prices were the lowest ever. Market prices recovered a bit compared to last year in some countries like Sweden and some said weather conditions are better and some were optimistic of improved price prospects.

Finland said for the first time the competition authorities had ruled that prices to retailers must be increased and the farmgate price is too low.

A presentation by the EU Commission on dairy market prospects 2012-2022 said increasing demand for dairy products is a key driver for EU exports, with good export performance for cheese and SMP but that there is pressure on margins for the first years of the outlook period.

The Commission also claimed that there is an improved price outlook in the medium term due to world demand.

World News - The Chinese are Coming!!!

## Chinese dairy producer secures French milk factory deal

Synutra International Inc. has been given approval from China's commerce authorities to go ahead with a 100-million-euro investment project that will result in the construction of a milk factory in France. The deal, first announced in September, last, is an industrial and commercial partnership agreement with Sodiaal, the leading dairy cooperative in France, and its subsidiary, Euroserum, the world leader in demineralised whey powders.

Under the agreement, Synutra will build a new drying facility in Carhaix, intended to manufacture powdered milk and fat-enriched demineralized whey for the needs of the Synutra group. Located in the heart of the central Brittany milk-collection basin, this new drying facility will be capable of producing 60,000 tons of powder per year initially, with a designed capacity of up to 100,000 tons annually. Upon commissioning of the drying facility, Euroserum and Sodiaal will supply the facility with demineralized liquid whey and milk.

The company, based in the city of Qingdao in east China's Shandong Province, said Tuesday that construction will kick off in Brittany in September. Li Ke, general manager of Synutra, said the company expects the factory to start production in the first half of 2015. Li said the factory will be built according to European standards and target the global dairy market.

Speaking at the initial announcement, Mr. Francois Iches, Chairman of Sodiaal said, "We are delighted with this long term partnership agreement with Synutra and its investment of a new drying facility in the Brittany region. This commitment is a strong signal for Sodiaal and our farmers of the long-term commercial relationship between the two groups."

## More Chinese Investment in New Zealand

In the February edition of the ICOS Dairy Digest we reported that the Chinese Dairy Company, Yashili, was spending €132m building an Infant Formula plant in New Zealand. It turns out that's just the first of it. The New Zealand Herald reports that Yashili's new factory in Pokeno is just the first step in developing its Kiwi footprint. "Internally we call this a stage one project. There is absolutely a chance for further growth and continued investment in New Zealand," says Yingxiang Zhao who is general manager of Yashili New Zealand dairy. The deal just got Overseas Investment Commission approval in the last fortnight.

"Everybody knows New Zealand has an image for quality, which is especially strong in the dairy industry," says Zhao.

Yashili already sources milk powder from New Zealand, which it uses to market its own product with slogans such as "Genuine New Zealand, Love from Yashili" and "100% imported from New Zealand's milk source". It first imported New Zealand milk products to China more than 10 years ago.

Zhao says the premium end of Yashili's product line has been based on New Zealand ingredients since 2010 and it strongly pushes the image of our dairy industry in the Chinese market. "After we have set up plants in New Zealand we can say that we have our base of operations for milk powder in New Zealand and we feel this will translate well to the market."

Preliminary discussions have been held with potential partners and suppliers. "At this stage we do not plan to source milk directly from farmers, we plan to use Fonterra or other existing companies who have all of those networks in place."

Yashili hopes to export 52,000 tonnes of milk powder annually to China by 2014. Half of this will be finished products ready to be consumed and the other half will require further processing and packaging within China before being distributed to local markets.

This will be the first Chinese built dairy factory in New Zealand, but it follows on from recent investments by companies such as Bright Dairy, Yili, and Pengxin who have invested several hundred million dollars in farmland as well as processing assets.

ICOS Skillnet Update

## *Working Groups & Standards Development:*

**Background:**

One of our objectives for 2013 is to introduce the development of learning standards specific to the various vocational areas within the sector. As such we are calling on our member companies to assist us in developing these standards.

Our intentions are to get a number of working groups together that will identify the minimum skills required of staff across a broad range of disciplines, specific to their area of work. The idea is that we can develop these learning standards in conjunction with the industry needs and through industry knowledge. “developed by Industry, for industry”, thus allowing us to specialise in industry specific training.

As such we are looking for members to nominate staff who have the knowledge and expertise in their specific areas of operation, to partake in these working groups to help shape the future of learning and development for the industry.

It is envisaged that all working groups will only meet a maximum of 4 times per year, at periods and times agreed by each specific group, so as not to take up too much time from the workplace.

As a starting point we welcome nominations for the following working groups:

1. Retail – Agri Business and Operations
2. Production – Plant operations in a production environment
3. Livestock Auctioneering – Marts
4. National Animal Welfare - Marts

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* |
|---|---|---|---|---|---|---|
| April | $1.31 | £0.86 | $105.65 | €4.72 | €0.277 | $0.359 |
| March | $1.30 | £0.87 | $110.05 | €3.94 | €0.262 | $0.351 |
| February | $1.34 | £0.85 | $117.71 | €4.38 | €0.277 | $0.363 |

* March 2013 Prices

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