At last week’s EU Milk Advisory Committee, the Commission were at their most explicit in reacting to pressure for measures to ease our super levy costs. ICOS and a number of partner organisations, from a total of 12 member states, had been applying growing pressure to have the soft-landing re-examined. Given that it is now too late to pursue regulation changes to either reduce the level of the super-levy, or to increase quotas, the group had been focusing on removing the butterfat adjustment, a move which would free up varying levels of quota across the member states, and something of the order of 1% in Ireland.

When challenged by ICOS and others as to why the Commission had failed to deliver a real “soft-landing”, as they had committed to do under the 2008 Health Check, the response was that a soft-landing did not mean that there would be no super-levy for farmers who produced more milk than their quota. The spokesman went on to state that while butterfat adjustment removal was technically possible, it could only be done if there was a political will, and while there was a large number of member states in favour of “soft-landing” movement, there was an even bigger group who felt that the current CAP provisions (i.e. no quota) did not give enough protection to farmers post 2015.

The Commission were quite direct in suggesting that the balance of views around the Council table was such that the “soft-landing” could only be delivered if there were additional measures reintroducing supply controls post-quota. This harks back to the European Parliament “Dantin” proposals, that in the event of market weakness, post quota, that a levy would be imposed on those farmers who increased their milk supply, in order to compensate those who reduced it.

As painful as it will be to see farmers having to pay somewhere between €10m and €30m in superlevy fines for this season and next, it would be simply catastrophic for the industry if supply controls of the type proposed by Dantin were to be introduced. ICOS and its partners will continue to work for a soft-landing, and we call on the Minister to continue his great efforts at the Council table, but we all need to tread carefully. Meanwhile, the message to farmers must be that quotas will remain, in full, until 31st March 2015, and that they need to manage their own businesses with that in mind.

Strong supplies, capacity concerns in Europe
European dairy markets continue to moderate, with butter prices having undergone a strong correction since the start of the year. European butter prices are now much closer to world prices, and observers suggest that Europe will need to export butter to help cope with strong production levels. Strong production growth in Ireland, UK, Netherlands, Germany, Denmark, and Belgium, has led some buyers to “sit back” in anticipation of further market weakness and there are reports of concerns regarding dryer capacity in the EU as peak approaches.

The ongoing political unrest in the Black Sea region, and the possibility of sanctions against Russia, is of serious concern, particularly in cheese markets; Russia currently absorbs 36% of EU cheese exports.

In powder markets, demand is said to be robust, with some price moderation. The market is dominated by a small number of large buyers, such as China and Algeria. Last year China accounted for one fifth of the world dairy powder trade, up from only 4% in 2008. There is some demand burn-off in poorer regions, as they can’t compete with the Chinese for supplies of WMP. There is growing evidence of substitution with Fat Filled Powders.
In general, demand remains strong and analysts suggest that the supply side will have a much greater impact on the evolution of dairy markets. Meanwhile, at last week’s GDT auction further weakness in powder prices forced a 4% drop in the weighted index. Strong production in New Zealand, reflected in dramatically increased volumes available on the auction, resulted in a 5.7% drop in WMP prices, with slightly lower drops for SMP and AMF. Butter and Cheddar prices recovered somewhat.

Obama confirms Brussels visit in March to drive EU/US TTIP

Trade negotiations continue apace in Brussels with US President Obama personally coming to Brussels on 26th March to oversee the 4th round of discussions between the EU and the US on their trade deal. It is envisaged that an exchange of offers between the trading blocs will developed during the course of these meetings. While these trade negotiations are getting most of the limelight, 13 other bilateral deals between the EU and the countries around the world are at various stages of completion. ICOS is following each one carefully representing our dairy co-operatives both offensive and defensive trade interests as we strive to gain market share in 3rd country markets post quota.

To further this end we continue to work directly with the Commission as the only approved Irish national Agri stakeholder in this process.

Final Comparative 2013 to 2012 EU Dairy Figures Released

Full figures comparing key milk market performance in the EU and external markets have been released.

Dairy output in Ireland grew by 4.7% over the calendar year, with only the Netherlands and Estonia, recording stronger positive output. It is also interesting to see that a clear North West/South East divide is appearing in Europe in terms where dairy growth and decline is occurring.

A combination of strong prices and a mild winter in the back end of 2013 has ensured that the slow start in output experienced by Europe was over turned by the end of the summer.

EU Milk Deliveries compared to last period (in %)

In Australia, Murray Goulburn have announced their plans to follow Fonterra’s lead in establishing a Stock Exchange listed unit trust. The Co-operative state that they aim to raise Aus$400-500 million, in order to invest in the capacity and capability required to meet global demand in cheese, infant formula and liquid milk markets. They propose to establish a share standard, of one ordinary share per kg of milk solids (a level already achieved by over half of their suppliers) and to allow the economic rights of those ordinary shares to be sold into the unit trust, thereby allowing farmers to pass on the financial cost of sharing up onto the financial markets, while retaining the associated voting rights and controls.

Market工具 Debate Hots Up in Brussels

With the Greek Presidency of the EU in full swing, and the CAP finally being put to bed, legislators are turning their attention to the imminent end of dairy quotas in the EU. Market tools such as intervention, aid for private storage and export refunds were discussed, along with delegations in some countries looking for the protection of milk production in disadvantaged and mountainous zones.

There still remains little clarity on the Commissions plans for a ‘Milk Market Observatory’ in advance of a report on the matter due in June of this year. France in particular is continuing their campaign for market management post 2015.

ICOS is continuing its ongoing very strong and active campaign against market management proposals post 2015, and advocating a real soft-landing for dairy in advance of that.

EU Study Predicts Solid Dairy Prices

The EU Commission’s ‘short-term agricultural outlook’ (link below) given to ICOS outlines positive prospects for the 2014 dairy, and much of European agriculture in general. DG AGRI officials said, as the winter climatic conditions ‘have been broadly favourable so far’.

The report states that strong world demand for dairy products is expected to maintain high dairy prices. On the back of the strong demand, the EU experienced a significant rebound in milk production in the 2nd half of 2013, more than offsetting the decline in the first months of the year. The number of dairy cows increased significantly last year ‘leading to expectations that milk collection should increase in both 2014 & 2015’.

Interestingly for Ireland, the authors rule out a major surge in dairy production, across the EU, once quotas are phased out in 2015, but claim that an increase should boost exports to Third country markets of milk powders & cheese.

Finance Feature

Having previously focused on bank credit and interest rates, this month we look at foreign exchange.

This is probably the most undermanaged aspect of finance as companies either take an incorrect “do nothing as it is swings and roundabouts” approach or ignore it as they are uncomfortable with it.

Facts: If you export to or import from outside the Eurozone, then foreign exchange (“fx”) exposure is inevitable.

Rather than try to focus on where rates are going, let’s keep it simple and remember the following:

- If you use anything other spot deals (e.g. buy or sell forward), you will require the approval of a hedging line which, in turn, requires credit approval (similar to that for a loan)
- Forward rates differ to spot rates but they can be higher or lower depending on interest rates in the two currencies
- All forward contracts are now required to be reported to a central repository under a new directive known as EMIR. This applies to ROI companies but the position for UK companies is less clear

Currency markets are now susceptible to more than economic data. Political and other data are now as important making it more difficult to forecast currencies. Over the past 12 months both Sterling and US dollar moved within an 8% range in a calendar year. I believe that there is a real risk that the ranges will be wider in 2014.

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One of Europe’s export mainstays SMP actually declined in 2013 in comparison to 2012. The US took advantage of this decline to become the globe’s number one exporter of the product.

While WMP export figures have remained stable between 2012 on 2013. New Zealand retains a massive market share advantage, almost exclusively driven by Chinese demand. It is also interesting that the series of health scares experienced by Fonterra have not significantly dented this market share.

In butter, again figures remained relatively stable between the two years. It is notable though that the US doubled their butter exports in the past year.

On the import side, the story remains about the growth of China in the key commodity sectors of SMP and WMP.

Growth is bounding ahead in China to such an extent that its demand, especially in WMP where her demand for this commodity dwarfs all rivals.

**Nutrition and Weaning of the Dairy Calf**

The key message from the Animal Health Ireland CalfCare Technical Working Group is to avoid under-feeding dairy calves, as restricted feeding regimes will result in the calf failing to reach its potential growth rate at key times during its life.

On the other hand, very high milk feeding or ad-lib feeding can have a negative impact on concentrate intake, which could delay weaning. Feeding milk (or good quality milk replacer) of at least 15% of the calf’s birth weight per day is sufficient to allow calves to reach over 50% of their growth potential and should avoid the negative impact on the calf’s immune system that is associated with lower feeding levels. If calves are fed these volumes of milk, it is recommended that they are kept on twice-daily feeds for the first 3 weeks of life. Concentrates and water should be provided to calves at all times to enhance development of the rumen.

**Targets for weaning**

Calves can be weaned once they consistently consume 1 kg of concentrates per day. To assure constant growth rates, weaning should preferably be introduced by gradually decreasing volumes of liquid feed provided over a few days.

Copies of this and other leaflets from the CalfCare programme are available from www.animalhealthireland.ie.