

Steady As She Goes For Milk?

Cover Story

Medium term prospects for milk and dairy products appear favourable due to the continuing expansion of world demand, the European Commission has concluded in their latest market forecast.

In their Dairy Markets Prospects 2012-2020, the Commission state that the most important driver for long term market prospects remains the expectation of continued demand growth in emerging economies, facilitated by economic growth, increasing population and preference for dairy products. After two consecutive years of favourable price developments, dairy commodity markets witnessed decreasing prices over the first five months of 2012 due to greater supplies, both at EU and world level. During the second part of 2012 this trend started to revert and prices to recover. After an estimated increase of 2% in 2011, EU cow's milk deliveries to dairies are expected to further expand by 1.1% in 2012.

Expectations for the short term very much depend on the extent of increased milk production both in the EU and in the main

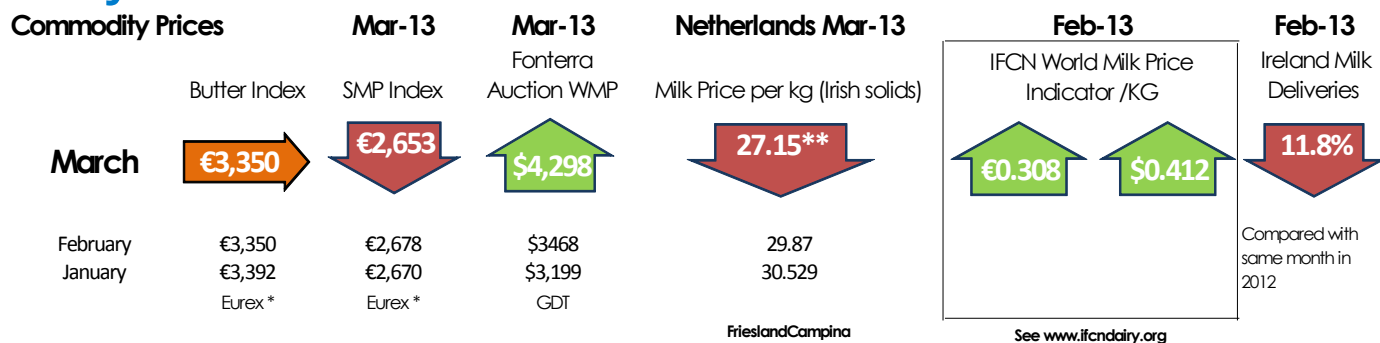
supplying countries (New Zealand, Australia, US, etc.) and the sustainability of strong demand on the world market. Factors contributing to the price recovery of the second part of 2012 have been linked to adverse weather conditions in the US and strong import demand on the world market led by China and other countries in South-East Asia as well as by the Near and Middle East. World import demand expansion is expected to result in increasing prices for cheese, SMP and WMP. As a consequence producers' gross margins may improve, although this is conditional upon a stable relationship between milk prices and commodity prices, and stable cereal prices.

Medium term prospects for milk and dairy products appear favourable. The continued expansion of world demand, resulting from global population and economic growth, and increasing preference for dairy products are expected to be the main drivers, fuelling EU exports and sustaining commodity prices.

Continued on Page 4

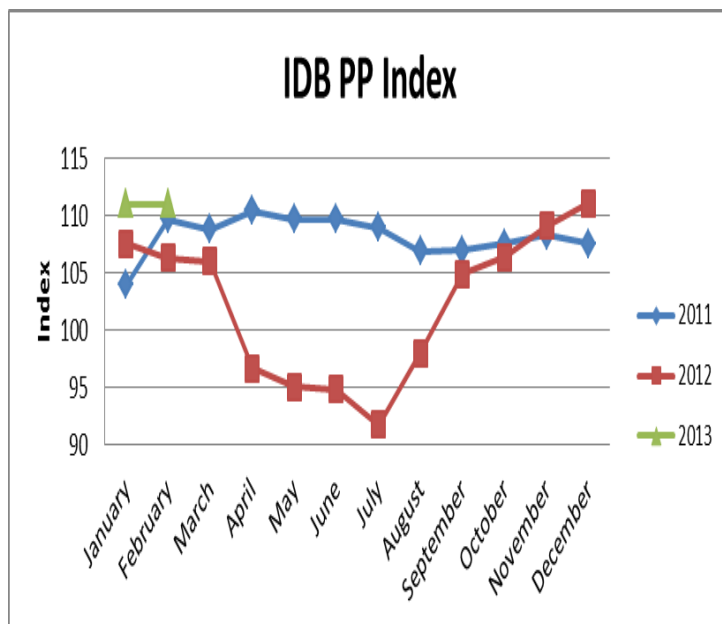
Market Insight

Dairy Markets



*: Eurex Futures Dairy Market Indices

** : Seasonality deduction of 2.3c



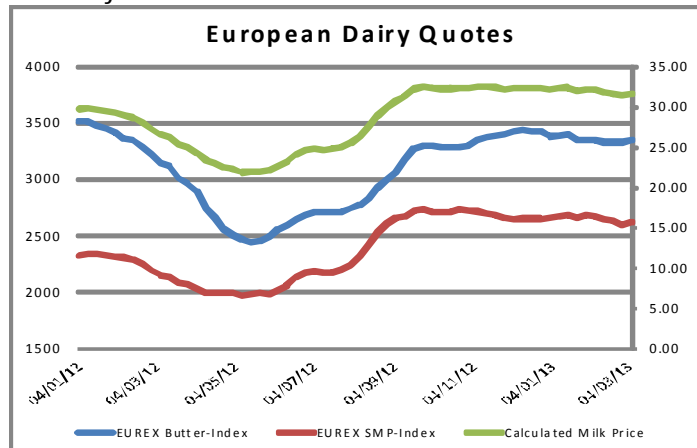
European markets remain remarkably stable, with the Eurex index of Dutch, French and German quotes valuing butter at €3350, and SMP at €2623. This would suggest a milk price, at 3.6% fat and 3.3% protein somewhere between 31.5 and 32c per litre. Incredibly, this market level has remained almost unchanged since September last year, with analysts suggesting that markets will remain stable for an extended period. Buyers are reported to be reasonably well covered in the near term, and are sitting back somewhat, waiting on the expected higher milk intake over the coming months.

The dramatic increase in WMP prices at last week's GDT auction (up 18% to \$4298), suggests a short term over reaction by the market to the dramatic down turn in New Zealand production, and resultant shortfall in WMP availability. The WMP price suggests a milk price equivalent of about 36c per litre at Irish solids, while the butter and SMP prices, even though increased, would suggest a milk price of about 33c. The volatile nature of the GDT auction might suggest a negative over correction at the next auction, on March 19th.

Market News

Meanwhile the US average milk price received in February was \$19.4/cwt (32.7 per litre at Irish solids) down from \$19.9/cwt (33.6c Irish equivalent) in January.

The Irish Dairy Board Price Purchase Index remains relatively stable at 111.



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 1c per tonne.

PSA was an important tool for Irish dairy co-ops in the difficult start we had to 2012, taking product off the market, temporarily and saving us from a potentially worse outcome.

Calendar of Events

- 5th/6th March - Milk Working party & Advisory group Brussels
- 11th March - Agri Commissioner Ciolos in Ireland at Macra Conference
- 12th/13th March - CAP Vote in European Parliament Strasbourg, France
- 15th March - ICOS in Commission Consultation on Scholl Milk Scheme future
- 18th March - COPA COGECA Animal Health & Welfare Working Party
- 18th/19th March - Agri Ministers meeting in Brussels on Cap & Greening
- 19th March - Agri Committee European Parliament
- 20th March - EDA Conference on Dairy Market Management
- 25th March - Agri Committee in European Parliament
- 27th March - Policy Coordination Committee COPA COGECA

ICOS leads 13 country coalition against Dairy Supply Management in CAP

In advance of the European parliament vote on CAP measures in Strasbourg on 13th of March. ICOS has engaged in an intense lobbying campaign that has gained the support of farmer & co-op organizations of 13 dairy producing countries. Other key Irish organizations to join the ICOS initiative were the IFA and the Ulster Farmers Union.



ICOS will be in attendance in Strasbourg for the CAP vote where amendments were laid out to stop the imposition of quotas by the 'back door', while at the same time protecting key tools to help Irish Dairy farmers protect themselves from dairy market volatility such as Private Storage Aid, Intervention, Risk Insurance and Export Refunds.

Productive Co-op Dairy Members must be protected in SFP Reform: ICOS

ICOS CEO, Seamus O'Donohoe, strongly backed a position against a uniform flat rate per hectare. He stated that this model 'does not take account of the cost intensive nature of dairy co-op member farms where a higher degree of investment and higher running costs are incurred by virtue of specific demands on producers in regard to traceability, hygiene and cross-compliance etc.'

For marginal farms it is Pillar II that always has and will continue to provide the top up to payments to enable them to derive a fair income from the land, without undermining the potential of the co-operative dairy industry.

Fonterra flesh out plans for first factory in Europe

NZ dairy co-operative Fonterra have released further details of their partnership with Dutch firm A Ware to set up 2 factories in the Netherlands. The dairy companies will develop a greenfield site in Heerenveen where A-ware will operate a cheese plant and Fonterra the ingredients unit alongside.



Cheese will be produced for A-ware's customer base in Europe, with the whey and lactose produced processed into ingredients for Fonterra's clients in Europe and beyond targeting advanced nutritional needs for babies and ageing populations.

The factory will manufacture 80,000 tonnes of cheese, using approximately 800 million litres of milk, or almost 7% of the total Dutch milk supply. It will also represent an increase of 12% in total Dutch cheese manufacture.

Fonterra are now headed up by ex- Friesland Campania CEO Theo Spierings.



Dairy Farmers of America

Dairy Price Fixing Charges

Dairy Farmers of America is facing a lawsuit charging that it manipulated trading in the Chicago Mercantile Exchange (CME) Cheese Spot and Milk Futures markets to drive up the price of dairy products across the United States.

DairyReporter.com reports that beginning in 2004, the group began buying futures contracts, knowing that they would stimulate demand and encourage higher prices.

According to the law suit the DFA made these cheese purchases even though they had an excess inventory of cheese that was growing old and required liquidation. Allegedly, DFA's procurement department had advised its trader that DFA has excess cheese and that there was no need for any additional cheese spot purchases. Contrary to this advice, DFA continued to purchase on the cheese Spot market. It is reported that it subsequently sold the cheese outside of the CME at a substantial loss.

EU opens trade talks with S.E Asia ASEAN countries



In a welcome move that may open opportunities for Irish Co-operative dairy exporters the EU is to step up its negotiations with the countries of South East Asia to drive forward trade relations.

The countries (Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand & Vietnam) have grouped within the ASEAN trade umbrella.

The area is a region of significant economic and population growth.

In a high level meeting on the 1st of March ICOS was part of a delegation to meet with the EU ambassadors of Vietnam, Singapore and Malaysia, as well as representatives of DG Trade to inform industry stakeholders on future plans.

ICOS host Taoiseach & Leaders of European Agri Industry in Dublin

In a joint IFA/ICOS initiative to mark the Irish presidency of the EU and the Gathering, the farm and co-op leader of the 27 EU member states assembled in the Clyde court in Dublin for a 2 day Presidency meeting of COPA COGECA.

The meeting was addressed by the key department of agriculture official on CAP Aidan O'Driscoll who briefed delegates on negotiation progress.

An Taoiseach Enda Kenny attended a dinner that evening where he reaffirmed his commitment to Irish Agri-Business where he also met with ICOS president Bertie O'Leary.

ICOS appointed as official stakeholder on EU School Milk Scheme programme



On the 15th of March ICOS with bring plans forward to the European commission to strengthen and expand the EU school milk scheme to encompass more schools and to extend the scheme to include other Irish dairy products such as yogurts and cheeses.

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

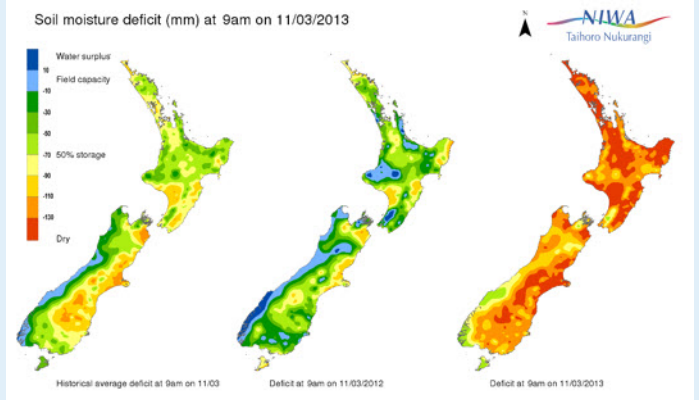
Across Europe the scheme is active in 26 of the member states and distributes over 300,000 tonnes of milk and dairy products to over 18 million children, including thousands across Ireland. Interested parties are welcomed to supply ICOS with thoughts and submissions.

All changed in New Zealand

Since last month's edition of the ICOS dairy Digest, when we were looking at reports of a 7% increase in milk production, all seems completely different now, with drought conditions seriously hindering grass growth and milk supply, and latest predictions suggesting a supply increase closer to only 2%. The latest official figures, available for the end of December still suggest a 6.6% increase for the full year, but local analysts suggest that monthly milk production is estimated to fall 7% below previous year levels in February. Despite this, full milk year forecasts for 2012/13 continue to show an uplift of 1-2%, propped up by production in the South Island.

In addition to the immediate reduction in milk production, there are also reports of farmers dramatically reducing stock levels, further reducing total milk production potential. Slaughtering rates since the start of January 2013 in the North Island are reported to be up 83% compared with the same time last year.

The reduction in dairy supplies to the export market from NZ means that global dairy markets could be facing a supply deficit going into the spring. The net impact on global dairy commodity prices will be dependent on whether the seasonal upturn in production from northern hemisphere exporters (EU and US), is sufficient to fill the gap created by reduced supplies from Oceania.



Meanwhile, Kiwi farmers must adapt to the risk of increased droughts, with the Government unable to support them continually, the acting prime minister has warned. Experts have been warning that the drought affecting most of New Zealand, said to be the worst in 70 years, will become a more-regular event in the future. As the Government officially declares droughts in affected regions, it triggers financial support and funding for support groups.

A government spokesman, said that while the Government was providing support now, this may not be sustainable if severe droughts became regular events. "If there's going to be more droughts, more regularly, farming practices will simply have to adapt".

"We've got research in place for instance to find more drought resistant grasses and farmers have for years been adapting their management practices. That would have to continue because . . . Government simply can't support them to maintain practices in the face of continuous droughts, if that's what happens."

Social Media:

ICOS Skillnet has recently launched a social media campaign as a tool for communicating with our members. We have launched a Facebook page and have established a twitter account, which aims to keep members updated on a regular basis of any upcoming training courses and other events or training related updates. These are aimed at being short and sharp, giving members that little extra time to consider any courses running in their area.

Upcoming Courses – March 2013

Course: Practical Mass & Temperature Calibration Training
 Venue: Killeshandra
 Dates: March 2013

Course: SAFED Driver Training
 Venue: Thurles
 Dates: March / April 2013

Course: Microsoft Office Word – Level 3
 Venue: Cork
 Dates: 21st, 22nd, 27th & 28th March 2013

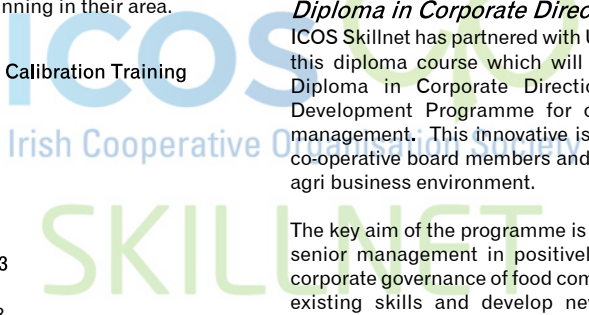
Course: Microsoft Office Excel – Level 1 & Level 2 (online)
 Venue: Cork
 Dates: March / April 2013

For more details on any training courses, please contact us on 01-6131348 or on email: breda.flood@icos.ie or billy.goodburn@icos.ie

Diploma in Corporate Direction (Food Business):

ICOS Skillnet has partnered with University College Cork to bring the industry this diploma course which will be commencing in September 2013. The Diploma in Corporate Direction (Food Business) is a Management Development Programme for co-operative board members and senior management. This innovative is designed to address the special needs of co-operative board members and senior management in a rapidly changing agri business environment.

The key aim of the programme is to improve the capabilities of directors and senior management in positively influencing the strategic direction and corporate governance of food companies in Ireland. Participants will build on existing skills and develop new management capabilities in a highly interactive learning environment stimulated by academics and industry practitioners.



The best export performance is shown by cheese and SMP, whose exports over the outlook period would expand by two thirds and triple respectively. Their market share (percentage of EU exports on total world exports) will improve, reaching 32% in both cases. Butter and WMP products' market shares are projected to deteriorate, however.

The outlook has been built under the assumption of a weak Euro against the US dollar in the near future, although the Euro is assumed to strengthen again, albeit slowly, from 2015 onwards. This suggests potential for improved EU exports, particularly during the early years of the projections. The path of economic recovery in the EU and worldwide constitutes a considerable risk and increases the level of uncertainty regarding the outlook projections. A slowdown in global economic development for 2012 and 2013, not just in the developed world but also in large emerging economies, would negatively impact the demand for EU exports.

The status quo policy assumptions for the outlook imply an increased potential for milk production through the phasing out and abolition of the milk quota system by 2015. Available market intervention mechanisms following the CAP Health Check, notably intervention buying-in for SMP and butter, as well as the possible use of export refunds do not play a role in the baseline projections, as commodity prices remain above intervention levels throughout the outlook. Intervention stocks have been depleted for butter and the remaining SMP intervention stocks are assumed to be placed on the market over the near term, under the food programme for the most deprived people.

Milk production is projected to continue increasing from 2012 onwards, at a moderate growth rate. Aggregate EU production would remain below the potential growth rate provided by the gradual elimination of the quota regime. EU milk production is projected to reach 159.3 million tonnes in 2022, accounting for a cumulative increase of 5% since 2011.

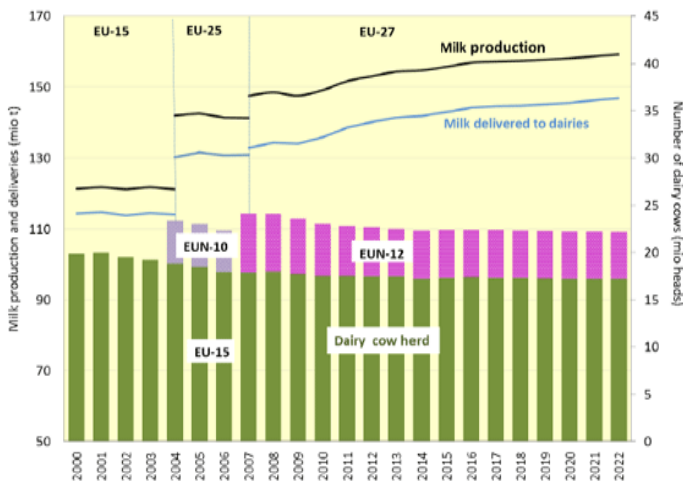
Production fluctuations for whole milk powder (WMP) in past years underline the important role that export potential played for this commodity. WMP markets are envisaged to be in balance with limited export potential. Although WMP world demand led by China and other Asian countries would expand significantly over the projection period, EU exports are projected to stay at 372 000 tonnes in 2022. The EU market share of global exports would decline gradually to 14% by 2022 (from 17% in 2011) as a consequence of lower competitiveness against supplies from Oceania.

The SMP market situation in 2011 and 2012 has been favourable due to robust import demand on the world market. China is gradually becoming an important player in world SMP imports; while exports to North African countries have also substantially increased. SMP intervention stocks built up in 2009 are now completely exhausted through a combination of sales by open tender and release under the most deprived persons scheme. The strong global import demand continues to contribute to market balance, driving a favourable outlook for SMP exports. Such positive export prospects are based on sustained demand from China, Algeria and Middle East countries. The EU could see its world market share stabilise at 32% of global exports in 2022, supported by a stronger orientation by competing exporters towards cheese, butter and WMP.

After a year of high prices during 2011 due to a limited butter supply and strong demand, the output recovery in 2012 has put downward pressure on prices.

EU exports still remain rather uncompetitive given the existing price gap between EU and world quotations, but sustained demand from Russia would allow exports to stay stable and to expand in the near future. Projections point to continued market stability for butter, thanks to positive market conditions over the outlook period, with prices at relatively high levels and firm EU demand (over 2 million tonnes) during the second part of the outlook period. Although the outlook for butter exports appears relatively less favourable than for other dairy commodities, given the assumed better competitiveness of other exporting countries in world markets, exports are projected to grow and stabilise around the level of 185 000 tonnes by the end of the outlook.

While the outlook displays continued market stability for butter, it remains conditional on an assumed status quo regarding dietary preferences. The effect of a change towards low(er)-fat dairy commodities would have a direct effect on butter consumption and an indirect effect on butter production, as less milk fat would be used in the production of other dairy commodities (notably cheese and fresh products), increasing residual fat for butter production.



	€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 *
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
January	\$ 1.337	£ 0.8295	\$ 111.30	€ 5.62		

* February 2013 Prices



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