

# Connacht Gold keen to say cheese

**Pat O' Keffe** travelled to the Tubbercurry, Co Sligo headquarters of Connacht Gold co-op for an update from Aaron Forde, chief executive



Aaron Forde, chief executive, Connacht Gold, Co-operative Society Ltd.

**C**onnacht Gold has a milk pool of 220m litres (49m gallons) but processed 272m litres (60m gallons) last year. Milk is purchased from neighbouring co-ops, as well as from the Northern Ireland milk auction.

Last year, their Ballaghaderreen, Co Roscommon plant was closed from mid-November to the end of February. This coincided with the introduction of harsh lactose penalties, which some producers interpreted as a clear signal that the co-op didn't want winter milk. "If the right volumes of the right quality are available, we are interested," Forde said. "We will divert the milk to other plants if necessary," he added.

Not surprisingly, Forde would like to see ring fencing of milk quota retained for as

long as possible. "The spirit of ring fencing is to maintain quota in disadvantaged areas. Our position has always been that we want ring fencing maintained until our average supplier is at the national average."

They have still some way to go to reach that milestone, although the pace of change in Connacht has been faster than elsewhere — about 7-9% of the quota was transferred each year in the past few years and supplier numbers have dropped from 2,000 in the year 2000. Connacht Gold now has approximately 1,200 suppliers with an average milk quota of 195,000 litres (43,000 gallons). The national average is approximately 227,000 litres (50,000 gallons).

Around 80% of Connacht Gold's skim milk is converted into casein, with the co-op also making fat filled powder, much of it on contract for

Glanbia. As part of this arrangement, Glanbia pack butter for Connacht Gold.

Connacht Gold co-op made some cheese last year through an arrangement with Augher co-op in Northern Ireland. They were also central members in a consortium of co-ops that sought grant aid as part of the recent €114m Dairy Investment Fund. The project with Lakeland, Donegal, Arrabawn and Town of Monaghan was not awarded any funding. Aaron Forde was said to be furious at the news, although his response now is more measured.

"We are all licking our wounds and reviewing our options. We were disappointed because we felt it was a good project," he said. "It was the only one that

brought co-ops together," he added.

Apparently, the main reason for the project's refusal was a concern that it would damage the cheese market for Ireland's existing cheese makers. However, Forde's view is that "the net increase in cheese production would not have damaged the market".

He now doubts whether the project will ever happen, but remains convinced that the region needs an element of cheese for the longer term. Interestingly, he believes that a cross border option could now come into the equation, given Northern Ireland's year round milk supply.

## A + B - C

Connacht Gold co-op has led the way by introducing a new milk payment system, A + B

— C. In simple terms, it pays the farmer the market return for fat and protein, but then applies a penalty for the cost of hauling and removing water.

Given their large catchment, transport costs are a major issue for Connacht Gold. The number of tankers has been reduced from 29 to 20 and milk collection is now privatised. The next major move will be to pay a bonus to encourage more suppliers to move to every third day collection. When I suggest that independent milk testing should be introduced to ensure farmers have confidence in the system, Aaron Forde replied that only 80 turned up for an IFA meeting on independent testing for the Arrabawn, Connacht Gold and Lakeland regions.

"We want to pay a fair price relative to our peer co-ops," is Aaron Forde's milk price philosophy. To date this year, they are well on track, having increased their price by 3.5 cent per litre (16.15 cent per gallon) since the start of the year.

Aaron Forde is of course delighted with the transformation in international dairy markets. The speed of the turnaround has been phenomenal. "At one point last year, even if the cows put the butter straight into the box, we would still have lost money selling it," he said.

"The EU Commission may see the current market strength as an opportunity to relax butterfat limits before the end of the year," he suggests.

## Conservative net asset value of €6 per co-op share

CONNACHT Gold Co-op shares trade at face value of €1, but a conservative estimate of their net asset value per share is between €5.60 and €6.19.

This is certainly conservative, given that, for example, the co-op's one million IAWS shares are included at cost rather than current market value (€18m). The co-op's property assets are also conservatively treated.

During the recent rules review, there was some discussion on the possibility of developing a "more market-based share trading mechanism".

Aaron Forde said that the general feeling of the board

could be summed up by the phrase: "maybe, but not yet".

At 13,800, the co-op has one of the largest shareholding bases in the country. Between seven and eight thousand of these individuals actively trade with the society.

Given this broad base of shareholders and the fact that less than one in ten is now active in milk production, the co-op is examining ways outside of milk price for rewarding shareholders. For example, if there was to be a windfall gain from the sale of surplus property, how would this money be allocated?

One of Connacht Gold's most valuable land banks is in Sligo. North Western Cattle Breeding Society, of which they own 71%, has 250 acres. Seventy-seven acres to the east of the town are already zoned for residential development, suggesting significant potential.

## REVISED

Meanwhile, revised plans for the 5.5 acre Swinford mart site are currently going through the planning process after being initially rejected. The co-op also owns 20 acres close to its Tubbercurry head office.

At present, Connacht Gold pays a 2% dividend on

the co-op shares. Asked whether Connacht Gold might consider a stock market floatation, or a Dairy-gold style spin-out, Aaron Forde said: "We have some good businesses, but not enough scale for the stock market." Work is currently underway to classify shareholders as follows:

- A1: milk supplier purchasing at least €3,000 of goods from the co-op per year or trading at least €3,000 through the co-op's marts
- A2: An A1 shareholder that has been inactive for two years
- A3: Deceased or untraceable.

## Peak milk role for IDB?

AARON Forde makes the interesting suggestion that the Irish Dairy Board could possibly play a future role in milk processing by operating a shared new plant for peak milk supply. We might call it the "Peakplant project", perhaps.

"We are now near the end of milk quotas and we need to assess if milk production will increase. If it expands by 10%, what products will it go into and where will that milk be processed?"

"We need to make collective decisions rather than individual ones," he said.

He suggests the possibility

of the IDB getting involved in the planning and construction of a shared plant to handle milk at peak season. All processors might take a stake, without necessarily committing milk to the plant. By using IDB funds, it would avoid the need for farmers to put their hands in their pocket — something that has happened in Britain and in New Zealand in recent years.

Interestingly, Forde believes that in the absence of quotas, production in Ireland will expand. Will that also apply in Connacht? "There is a group of about 400 likely to expand," he said.

## Liquid milk

SINCE the closure of the Ballina plant at the end of 2006, Connacht Gold have rationalised their liquid milk processing into one site at Sligo. Aaron Forde has made

no secret of his interest in working with his neighbouring co-ops on a "sensible arrangement" but to date nothing has materialised. The co-op handles 6.5m gallons of liquid milk from 140 suppliers.