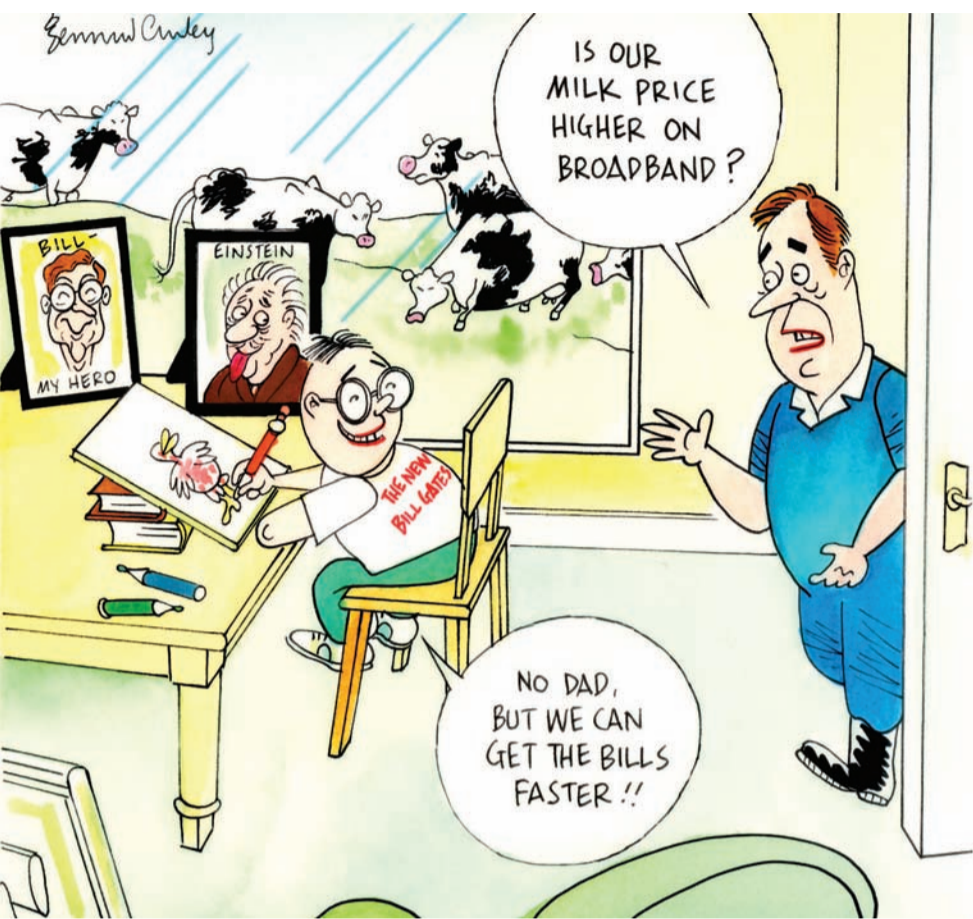


# Milk 24.58 c/l – what to do about it?



**JOE REA**  
**IRISH FARMERS JOURNAL**

BARRYROE is the only creamery to beat 26c/l in the August League. Downward price pressure is reflected in the August League. Division One qualifying standard has been reduced to 25.5c/l or 91.23p/g. Division 3 for those under 25c/l where the average price has dropped in Division 3 to 24.58 or 88p/g. That's 23.50 without VAT or 84p/g. The question is, what do we do about it?

This all adds up to serious pressure downwards on farm incomes. It is a challenge that will have to be met by farmers through IFA if the 26c/l plus VAT IFA target price is to be achieved. The IFA Kerry protest was a start.

However, many more fundamental issues must be faced — issues which can safeguard incomes and critically maintain confidence at this difficult time when despondency is rife. There must be focus on

the following in 2007:

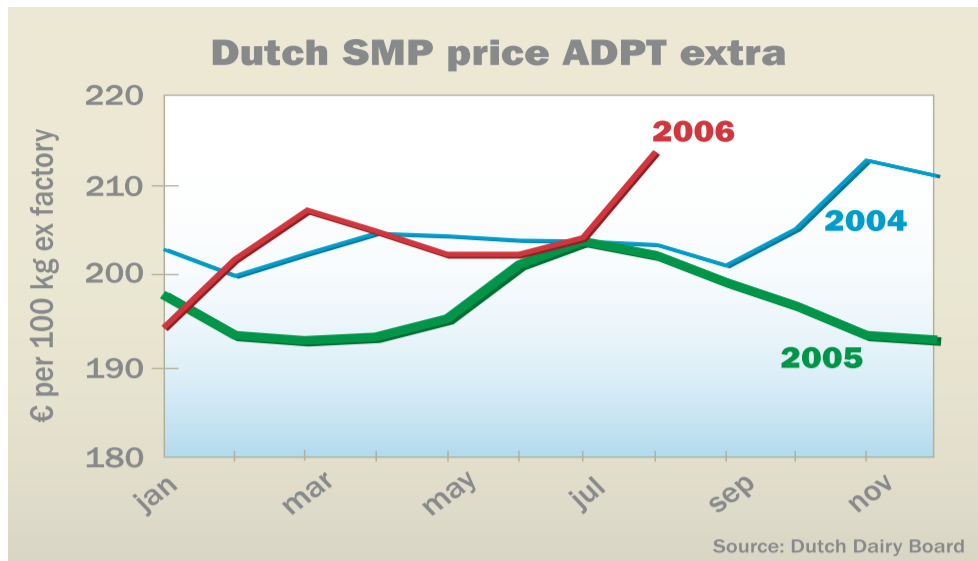
- Suspension of the bevy of dairy levies which is the prerogative of the Minister for Agriculture.
- IDB break even for 2007 while not reducing their reserves of €363m. This is the responsibility of the Dairy Board.
- Increased skim SMP values to be reflected as a bonus on basic milk prices where processors can deliver.

These are fundamental issues that are about farmers' living standards. Yes, issues like broadband, which were big news at the Ploughing Match, are important and rural Ireland cannot be short changed on this issue.

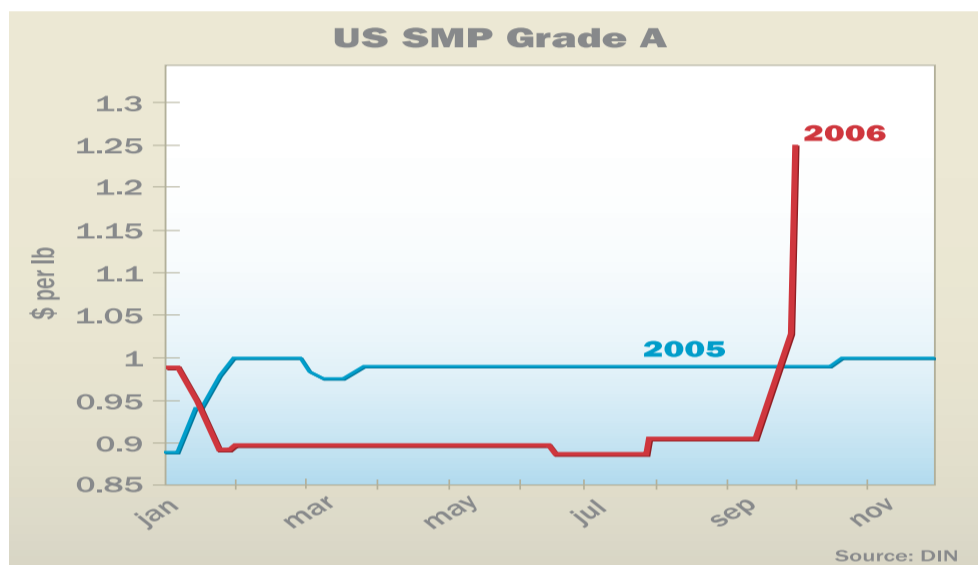
However, at the end of the day, milk price level is the critical issue for dairy farmers. A feature of the August League is that all Cork creameries are in Division One. The only non-Cork creamery qualifying for Division One status is Wexford. This Cork dominance continues into the actual payout category. The top

eight places go to Cork. The leader on a price at 26.73c/l is achieved by Boherbue as a result of having the highest fat at 3.84%, protein 3.36.

The Boherbue milk samples are tested independently by Dairygold.



Source: Dutch Dairy Board



Source: DIN

## August 2006 milk price league

All cash price in column (A) are based as follows: ★ No volume conditions ★ 3.60 per cent butterfat ★ 3.30 per cent protein ★ Protein bonus not included ★ SCC 400,000  
★ TBC 50,000 ★ Dairy Board and state levies at rate deducted by creamery ★ Transport charges based on 50,000 gallons per year collected ex-farm. ★ Farmer not required to have more than bulk size for five milkings.

Creamery	Cash Price c/l Aug 06	Cash Price c/l Aug 05	Collection charge	Price diff Aug 06 vs. Aug 05	Avg cr Fat	Avg cr Protein	B/F diff per each 0.10%	Price Diff per each 0.10%	Price based on Avg Cr Fat & Pro	Ranking on Avg Cr Fat & Pro
<b>Division No. 1 Over 25.50</b>										
*Barryroe	26.18	26.52	0.28	0.34	3.66	3.31	0.29	0.47	26.40	3
*Drinagh	25.92	26.63	0.39	0.71	3.70	3.31	0.34	0.45	26.32	4
*Lisavaird	25.77	26.30	0.28	0.53	3.65	3.32	0.27	0.44	26.02	5
Boherbue	25.75	26.62	Nil	0.87	3.84	3.36	0.29	0.47	26.73	1
North Cork	25.75	26.65	Nil	0.90	3.70	3.29	0.30	0.40	26.02	5
Newmarket	25.70	26.65	Nil	0.95	3.81	3.31	0.35	0.37	26.50	2
Dairygold	25.50	26.40	Nil	0.90	3.74	3.30	0.25	0.46	25.90	7
*Bandon	25.50	26.30	Nil	0.80	3.70	3.31	0.25	0.50	26.00	6
Wexford	25.50	26.55	Nil	1.05	3.76	3.26	0.27	0.46	25.80	9

### Division No. 2 - 25.50 - 25.00

Kerry	25.40	26.70	Nil	1.30	3.77	3.30	0.24	0.47	25.82	8
Monaghan	25.30	27.26	0.50	1.96	3.67	3.20	0.36	0.40	25.50	10
Lakeland	25.14	26.62	0.39	1.48	3.73	3.22	0.17	0.37	25.10	15
Centenary Thurles	25.06	26.00	Nil	0.94	3.82	3.28	0.20	0.50	25.40	11
**Glanbia	25.06	26.00	Nil	0.94	3.71	3.27	0.23	0.43	25.30	12
Arrabawn	25.02	26.30	0.50	1.28	3.74	3.23	0.25	0.56	25.17	13
Tipperary	25.02	26.20	0.18	1.19	3.72	3.27	0.25	0.56	25.16	14

### Division No. 3 - Under 25.50

Donegal	24.85	25.82	1.20	1.03	3.81	2.29	0.26	0.46	25.40	11
Oldcastle	24.60	26.00	Nil	1.40	3.76	3.28	0.25	0.46	24.95	16
***Connacht Gold	24.30	25.92	0.64	1.62	3.73	3.28	0.24	0.40	24.55	17

- \*Price incl SCC Bonus for Under 200,000
- \*\*Glanbia requires over 4.3% lactose for top price
- \*\*\*Connacht Gold requires space for 7 milkings for top price

## SMP prices increase

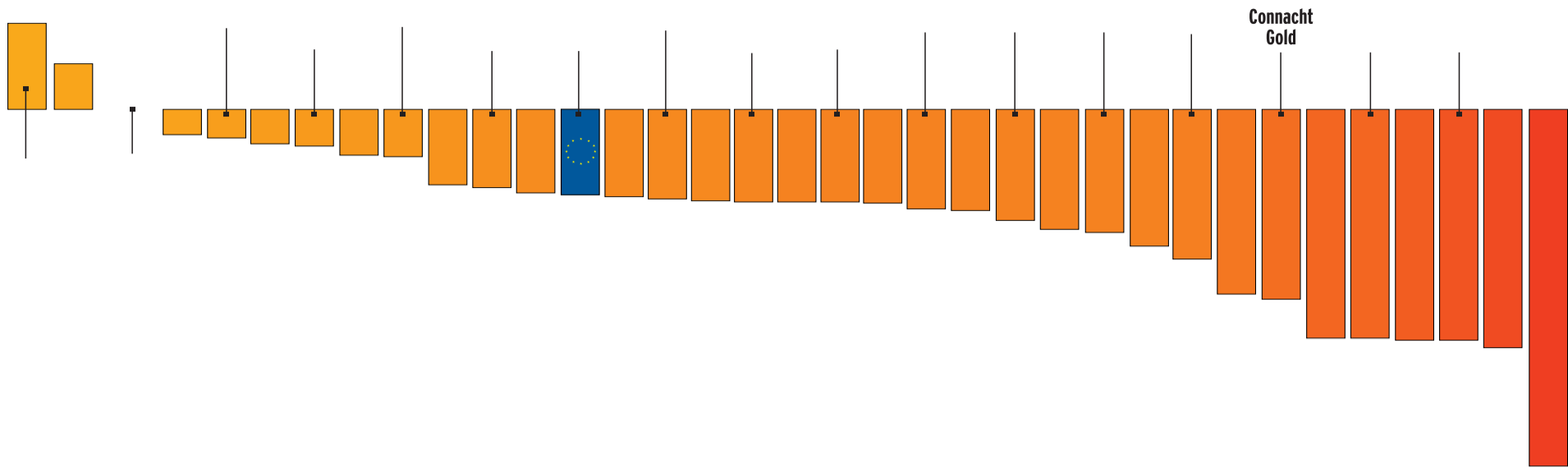
SKIM Milk Powder prices are increasing. Therefore the obvious question arises — have Glanbia and Kerry been premature in their 2007 cuts?

As I predicted last month, skim milk prices have again increased. This point is well illustrated in the accompanying graphs on Dutch and US prices on this page. It shows that SMP in the food sector has risen dramatically in 2006, way over the 2005 figure. It is heading up to 2004 levels. Hopefully Irish processors have not sold large volumes of SMP for-

ward at low prices.

The market commentary from the Dutch Dairy Board is positive when it states, "Skim milk powder markets are continuing their firm trend with prices generally higher. Supplies are limited."

Amidst the seasonal low production months for skim milk powder, prices recently have shown a further increase. Some market participants anticipate that available supplies will not be sufficient to fulfil the needs into the fall season."



y

**July 2005 v July 2006**  
(cent per litre)

## International comparison

THE summary chart above shows that the majority of the Republic's creameries are doing quite well in the context of falling prices — August 06 v. August 05. In fact, many of the Irish cuts are below the EU average reduction of 0.82c/l.

All the Cork group are showing reductions of under 1c/l. The lowest reduction achieved by Barryroe at 0.34 c/l.

The picture from the North is not as bright. Reductions range from 2.73c/l (12.4 p/g)

from United to Glanbia Cheese at 1.59 c/l. First Milk in the UK showed an increase of 0.52c/l but from a very low base. The August 06 price for First Milk was 25.88c/l compared to the United August price of 24.73c/l (88.5 p/g).

### August 2006 Northern Ireland milk league

55,000 gals Milk buyer	Price (litre)	Transport charge litre	Price litre plus 4.8% VAT (55,000)	Price in € plus 4.8% VAT (55,000)	Estimated share of total milk %	Euro price diff Aug 06 v Aug 05
<b>Division No. 1 - Over 15.00p</b>						
United Dairy Farmers	15.94	0.62	16.71	24.73	56	2.73
Town of Monaghan	15.78	0.58	16.54	24.48	19	1.96
Lakeland Dairies	15.55	0.22	16.30	24.12	14	2.04
Donegal Creameries	15.52	0.57	16.26	24.07	3	1.97
<b>Division No. 2 - Under 15.50p</b>						
Glanbia Milk	15.42	0.44	16.16	23.92	2.5	1.97
Glanbia Cheese	15.40	0.69	16.14	23.89	5	1.59

## Achieving high milk prices

THERE appears to be a key component impacting on high milk prices in both the Northern Hemisphere and the Southern Hemisphere. The common denominator for those high payers is where ingredients in milk are used in special human health products. There are three examples of this phenomena when we look at milk prices internationally. The top prices in the international league goes to Hameen Finland and France's Danone, while in the Southern Hemisphere NZ's Tatua pays the highest milk price. All three are into milk as a medicinal concept.

### FINLAND

Indeed, Finland's dairy industry is largely based on this concept. Valio, their dominant milk processing co-op-

erative, which sets the pace on products and price, are world leaders in this sector. I have reported at length in the *Farmers Journal* on their success. A success built on their 125 personnel working in their own R and D facility — reflecting on one of the world's highest milk price.

### FRANCE

France's Danone are also impressive in this sector. Every night when you look at your TV screen their health yoghurt, Activia, appears hour after hour. The Danone chairman recently stated that Activia has made a major contribution to their record sales of over €7 billion for the first half of 2006. Recently, Activia has been a star performer for Danone on the US market.

Danone is a plc. They do not give all their money away on milk price to farmers. Their net profit for the first half of 2006 more than doubled compared to 2005 delivering profits of €704m. It is Europe's third largest food company after Nestle and Unilever.

### NEW ZEALAND

In a recent *Farmers Journal*, I spotlighted NZ's smallest co-op Tatua. They are paying NZ the top milk price, beating Fonterra by almost 1c/l or a 6% price plus. What was one of their major products? — yes you have guessed it — linking milk products with human health. They are the world's largest manufacturer of the specialist milk product, Lactoferrin. This is used in sports drinks and infant formula to boost the immune system.

### International standardised milk price – Aug '06

All prices based as follows: Vat Rate 4.8%; Fat 3.60% Protein 3.30% and SCC 249,999, TBC 24,999. Every other day collection with Annual Milk Supply 350,000 Litres.

Creamery	County	Aug 06 c/l	Aug 05 c/l	Aug 06 v. Aug 05 Price diff	Rolling Avg Last 12 mts
Hameen	Finland	35.95	34.58	+1.37	33.06
Danone	France	32.70	32.70	Nc	29.25
Bongrain	France	30.40	31.34	-0.94	29.13
Friesland	NL	30.29	30.71	-0.42	28.51
Lactalis	France	30.10	31.15	-1.05	29.15
Campina	NL	28.51	29.25	-0.74	28.40
Nordmilch	Germany	28.00	28.51	-0.51	27.45
Milcobel	Belgium	27.35	28.20	-0.85	28.10
Arla	Denmark	27.25	27.65	-0.40	28.92
Humana	Germany	26.85	27.15	-0.30	28.00
First Milk	UK	25.88	25.36	+0.52	25.15
USA	US	21.40	27.35	-5.95	24.75
Fonterra	NZ	14.90	16.87	-1.93	17.00

\* Rolling avg. is weighted avg. for each month which inc. bonus payments.  
\* Based on payout forecast of Fonterra. Based on Class III US price  
All figures based on original date from the Dutch Dairy Board  
More information available at [www.milkprices.nl](http://www.milkprices.nl)

## Kerry and Glanbia cuts below average

MILK prices in 2005 are down by 2.4% compared to 2004. This fact emerges from the EU milk league produced by the Dutch Dairy Board on behalf of Dutch farm organisations.

Irish participants Kerry and Glanbia perform well. Their price cut is below the average of 2.4%. Glanbia reducing by 1.9%, Kerry -2.2%.

On price paid, Glanbia are 11<sup>th</sup> place while Kerry are down to 15<sup>th</sup> of the 16 participants. On the basis of this league, Glanbia paid 28.11 c/kg equal to 28.93 c/l or 103.5p/g.

The Kerry price was 26.90 c/kg or 27.68 c/l. The Glanbia price gained compared to Kerry because it included correctly their seasonal bonus payout to their milk suppliers.

It is important to make the following point on Irish prices. Firstly, the Euro league is based on fat of 4.2%, protein 3.35%.

Both figures are way ahead of our Milk League standard of fat 3.6, protein 3.2. There is also a major difference in the

### 2005 LTO EU MILK PRICE LEAGUE TABLE

€c/kg @ 4.2% Fat 3.35% Pro	2005 payout	Change v. 2004
1 Hameenlinnan (Fin)	34.64	-3.1%
2 Danone (Fr)	29.77	-1.9%
3 Bongrain (Fr)	29.54	-2.4%
4 Lactalis (Fr)	29.48	-3.0%
5 Arla Fpds (Den)	29.21	-2.0%
6 Arla Foods (Swe)	28.98	-3.0%
7 Campina (Neth)	28.87	-1.5%
8 Friesland (Neth)	28.84	-2.6%
9 Sodiaal (Fr)	28.71	-2.9%
10 Milcobel (Belgomilk)	28.58	-4.9%
11 Glanbia (Ire)	28.11	-1.9%
12 Humana (Ger)	27.71	-3.8%
13 Nordmilch (Ger)	27.28	-1.4%
14 Arla UK (UK)	26.96	-0.8%
15 Kerry (Ire)	26.90	-2.2%
16 First Milk (UK)	24.85	-0.1%
Average	28.65	-2.4%

peak to valley ratio. In mainland Europe it is around two to one while the Irish figure is over 10 to one.

This is the result of our grass based production systems which is certainly the most profitable in the Irish environment.

Having said that, one must look with envy at Hameen, the Finnish creamery at the top of

the league. They paid 35.95c/kg — 37c/l or 132p/g. This gives a total milk value of €1,584 for the 1200 gallon cow. This Finnish price is 23% ahead of Glanbia and 29% ahead of Kerry.

There is some catching up to do in Ireland. Let Glanbia's New Mexico profit impact on their own farmers' milk price as soon as possible.