



Towards a
'Milk Wise 2025'
Strategy for Irish
Produced Fresh Milk



TOWARDS
A 'MILK WISE 2025' STRATEGY FOR
IRISH PRODUCED
FRESH MILK



Joe Healy, IFA President

PRESIDENT'S MESSAGE

The milk we put in our cereals each morning and in our cups of tea throughout the day doesn't just materialise on the supermarket shelf. 1,800 specialist producers milk cows 365 days a year to guarantee consumers fresh, high-quality, locally produced milk supplies all year round. Historically, we have been able to take the availability of fresh milk for granted, but times have changed.

The diminishing premiums being paid to farmers for fresh milk no longer cover the significant additional cost of producing this milk, especially over the winter months. This has led farmers to question the economic sustainability of fresh milk production.

The end of milk quotas has created expansion opportunities away from liquid milk, and now we are seeing real signs of farmers taking action, reducing autumn calving, or even turning away from specialist liquid milk production and towards spring calving to produce milk for export.

As an industry, it is a challenge we need to take seriously. Fresh milk is worth €530m at retail level, of which 75% or €400m is sourced from Republic of Ireland suppliers¹. This compares with dairy exports valued at €3.24bn², meaning fresh milk accounts for 8% of Irish milk volumes produced, but 12% of the value added to milk in Ireland. At a time of uncertainty created by Brexit, our domestic market for fresh milk is a very valuable part of the sector we should nurture, not undermine.

In developing our 'Milk Wise 2025' Strategy, we wanted first to build upon our 2014 Liquid Milk Handbook in raising awareness of this little understood group of dedicated farmers and their production systems – many consumers have no appreciation or understanding of what is involved in landing fresh milk into supermarkets for their year-round needs.

Second, we wanted to identify the main issues and the economic realities which are forcing liquid milk producers to reconsider their continued commitment.

Thirdly, of course, we wanted to put forward real solutions to ensure that specialist fresh milk producers can be paid viably to operate sustainably what can only be higher cost production systems.

Only thus can we guarantee fresh, high-quality, locally produced milk can continue to be available for consumers year-round.

We are urging Government, regulators, politicians, retailers and dairies to take our recommendations on board, and we want to see 'Milk Wise 2025' become an integral part of our national food development strategy 'Food Wise 2025'.

¹ Source: National Milk Agency

² Source: Bord Bia

CHAIRMAN'S MESSAGE



**John Finn, National Liquid Milk
Committee Chairman**

When I started in liquid milk production in 1984, it was a profitable farming enterprise, with brands dominating the market and large volumes being sold door-to-door by the dairies.

Things have changed dramatically since, with supermarket private labels sourced through price-based tenders dominating sales, in a cut throat competition between dairies and retailers for a product that attracts significant footfall.

The premiums or differentials paid to specialist farmers have been eroded severely, from an average of 4.6c/l in the five year period 1995-1999 when the National Milk Agency first started to monitor them, to less than 2c/l for the five years to 2015³.

So, not only has farmers' remuneration fallen back to levels where it no longer covers the additional cost of producing liquid milk in winter, it has also become discouraging as farmers weigh up its value against the lower cost, simpler spring calving production system, which post-quota now allows them to expand output to optimise income.

Irish consumers value locally produced food⁴. In the case of milk, they consume it fresh, not UHT⁵ as the majority of Europe's consumers do. Furthermore, the National Dairy Council (NDC) guarantee campaign has shown that locally produced and processed milk resonates with consumers, and all of the main retailers are now sourcing at least some of their private label milk offering from suppliers offering NDC marked product.

We owe it to Irish consumers, as much as to Irish liquid milk producers, to ensure the economic viability of the production system to secure the constant availability of Irish produced fresh milk on supermarket shelves and in restaurants for the long term.

This will require new policies and regulations, new approaches in contracting and pricing, and a greater engagement by all stakeholders with the economic challenges of specialist liquid milk production.

³ Source: National Milk Agency Annual Report 2015

⁴ Bord Bia 2013 PERIscope

⁵ Ultra High Temperature: a very high heat treatment over a short duration which sterilises milk and increases its shelf life at room temperature to a number of months.

Introduction

While Ireland is a strong and expanding dairy producer, its primarily grass-based output is very seasonal. Historically, this has required daily volume contracts and pricing regimes for a specialised cohort of roughly 10% of Ireland's milk suppliers, producing milk year-round or in winter, to ensure that fresh drinking milk of the right quality is available at all times for Irish consumers.

Since 1996, the National Milk Agency (NMA) – established by the Milk (Regulation of Supply) Act (1994) – has regulated the sector, registering supply contracts between producers and dairies, tracking fresh milk sales by dairies against contracted volumes purchased from farmers, and verifying that “adequate compensation” for the cost of producing milk, especially over the winter months, is being paid to farmers.

In recent years, liquid milk producers have seen the premiums or differentials being paid to them over and above creamery milk prices eroded by a combination of increased imports, fiercer competition between retailers, greater prevalence of private label sales over branded, and struggle for market share by dairies.

All the evidence now suggests that the premiums/incentives available to specialised liquid milk producers no longer cover their higher winter production costs. In addition, since the end of milk quotas many of them have the opportunity to expand their creamery milk production. The sustainability of many liquid milk contracts, which are static or shrinking, is now in question.

Autumn dairy calf births have fallen 16% last autumn/winter and a further 12% in the autumn/winter 2016 as against the same period in the previous year. This is in the context of dairy calvings increasing overall by 8.5% in 2015, and by 5.5% in 2016.

Anecdotal evidence suggests that there are no new entrants into liquid milk other than through succession – and succession is often the occasion of a change towards a more sustainable and less costly system of spring calving and seasonal production. What is very clear is that when a farmer changes system, he/she does not revert to autumn calving for fresh winter production.

To secure long term availability of fresh, high quality, locally produced milk, including over the winter months, the sector now needs to define a road map to keep committed specialised producers viable.

Minister Michael Creed must gather and chair an assembly of all the stakeholders to force all parties to face up to the threats on the sector, and to develop a sustainable strategy for its long term future, and integrate it into Food Wise 2025.

1

FARM-LEVEL ISSUES

Study the sector

A thorough survey of the cohort of 1,800 farmers currently involved in liquid milk must be carried out first to establish their age profile, their succession plans and their intentions regarding their production system. This is essential to inform the development of the necessary national fresh milk strategy.

It is striking that the number of new entrants to liquid milk has been close to zero, and that succession to a son or daughter often involves a shift to more economically viable spring production.

We believe that the National Milk Agency has the necessary database to carry out such a profiling study, and would suggest that they be tasked with commissioning it. IFA has made a proposal to this effect to the National Milk Agency, and its board has accepted to carry it out.

Review of contacts

A complete review of farmers' contractual arrangements, including pricing systems is also crucial.

Farmers are currently being asked to sign single year contracts, which taken with one-year retail tenders create major instability.

We believe contracts should include multi annual commitments giving farmers security, and providing for a fair share of stable returns from the retail market, which can vary to offset volatile base milk prices.

We further believe farmers should not be asked to sign contracts at a point in time that precedes the decision making process on the winter remuneration.

2 RETAIL REGULATION

End one-year retail tenders

One-year retail tenders for private label supplies have been adopted by some of our main retailers. These see all dairies pitted against each other every 12 months, and have clearly promoted a downward wholesale and farmer price spiral.

At a time when retailers try to impress consumers with their commitment to suppliers, these practices are the very opposite of sound commercial relationships.

Wild swings in supply arrangements between dairies and retailers are invisible to consumers, but incredibly disruptive on the market place, and very damaging to farmers.

Stronger retail regulation & enforcement

More generally, we need stronger retail regulation, with a return to the prohibition on below-cost selling, and the introduction of an independent, well-resourced Ombudsman, to oversee fair trading relations in the food chain and a sustainable remuneration of primary producers.

A recent report from the EU Commission's Task Force on Agricultural Markets makes strong recommendations in the area of unfair trading practices, which our Government should support at EU level and see implemented.

3 NATIONAL MILK AGENCY

Legal cover to secure and disseminate data on milk imports

The NMA are currently the only source of data on much of the liquid milk sector, especially from a producer end (prices, contracts, etc.).

Imports of milk from Northern Ireland account for 26% of Republic of Ireland fresh milk consumption.

The NMA legal remit should be widened to allow them to secure additional data, especially in the area of milk imports destined for the fresh milk market. This will be even more crucial in the context of Brexit (See Chapter 4).

Observatory of input costs

Input costs, especially feed, energy, machinery and labour, are crucial considerations in the viability of liquid milk producers. Even determined efforts by farmers to improve efficiency can be undone by wild fluctuations in unit cost of feed and feed ingredients or other.

It is imperative that an Observatory of input costs be created, led by the NMA, but operated by Teagasc, that can monitor and flag input cost volatility in real time. This would allow the retail chain to better understand the pressures on farm profitability, so that these may be built into price negotiations as a matter of course.

Timing of contract signature by farmers

Currently farmers sign contracts or supplementary contracts in the month of June, to satisfy the timing requirements of notification by the dairy to NMA by September. However, at that time, farmers do not have any visibility regarding the milk prices that will be paid over the winter months – the costliest and most crucial period for liquid milk producers, and the period in which fresh milk availability relative to demand is tightest.

Provisions must be made to allow for a later signature, which would give better visibility to farmers, and would allow them to decide whether or not the contract gives 'adequate compensation' for the winter costs – enabling them to raise concerns where relevant with the NMA to follow up on this as necessary.

Enforcement of “adequate compensation”

The guidelines currently being used by the National Milk Agency, while recognising that the level of adequate compensation can vary from year to year, rely on whether milk suppliers actually supply enough milk year round to cover current demand, including over the winter months.

This methodology does not allow anticipation of a supply crisis such as the one which is currently looming, because by the time the shortages show that the compensation is inadequate, it is too late to do anything about it.

We believe the guidelines should be reviewed, to include a more robust economic analysis of the isolated cost of producing liquid milk, especially over the winter months, using the data provided by the Observatory of input costs. This analysis should aim to eliminate the very significant dilution of costs caused by creamery milk production on the liquid milk farms concerned.

Term of office

While farmer board members are subject to elections every three years, other board members are nominated by the organisations they represent.

Neither set of board members are currently subject to a maximum term of office.

We would suggest a limit to all board member terms.

4 THE CHALLENGE OF BREXIT

One-quarter of the Republic of Ireland's fresh milk market is currently sourced from Northern Ireland, and is produced and processed there.

Depending on the development of the negotiations between the EU and the UK on the UK exit conditions first, and then on the trade relationship thereafter, one of a number of different scenarios may emerge.

One – agreed by all from a global food and agri-trade point of view to be the least favourable – would be no trade deal, so that World Trade Organisation (WTO) rules would prevail. This would lead to significant import tariffs being imposed on all milk imports from the UK into the EU (and Ireland) and from the EU (and Ireland) into the UK, which all in the dairy industry agree would be a disastrous development for the entire sector.

Other options being discussed vary, but all aim to maintain as close as possible to the status quo on trade.

From a liquid milk perspective, it is important to remember that all liquid milk pricing systems are based on the creamery price for at least part of the year, and that the UK market is a very important outlet for the Irish industry which influences all creamery milk prices. Also, many liquid milk producers have a substantial portion of their milk output produced and paid for as creamery milk.

34% of Ireland's total dairy exports went to the UK in 2016, with 53% of all Irish cheese exports 29% of butter and 12 % of SMP exports going to the UK in that year.

The loss of, or any disimprovement in, access to this market would have a destabilising impact which would affect the entire dairy scene, including liquid milk.

Equality of standards

Whatever the outcome of the Brexit negotiations, it will be crucial that milk from Northern Ireland being imported into the ROI fresh milk trade would meet the very same standards in terms of quality, environmental requirements on farms and from processors, and on animal health and welfare.

Failing this, Republic of Ireland fresh milk producers could find themselves at a significant disadvantage in trying to compete with milk produced to different standards.

The Republic of Ireland liquid milk market also involves an additional standard: that of economic sustainability. As we stated earlier, this is currently assured - albeit imperfectly - by the National Milk Agency's registration of contracts, and we believe it must be enabled to more accurately verify that they provide 'adequate compensation' for the higher cost of production, in order to secure fresh milk supplies year-round for consumers.

In the context of Brexit, we are very clear that this aspect of the NMA roles needs to be not only preserved, but also enhanced as described in Chapter 3.

CONCLUSIONS

The failure of the food chain to remunerate liquid milk producers is challenging the economic sustainability of their specialised system. Combined with the post EU milk quota option to produce more milk for processing into exportable commodities, this is forcing choices on farmers that are now becoming visible.

We can now point to significantly lower autumn dairy calvings and increasing numbers of farmers turning away from their liquid milk commitment, especially when farms transfer to the younger generation.

Ireland has a natural advantage to seasonal milk production, but to secure fresh drinking milk of the right quality for consumers in the middle of winter, we need at least some producers to continue investing and calving some of their cows in autumn.

In this Strategy, IFA has proposed a suite of measures to help farmers secure a fair share of retail returns to remunerate their work, in order to economically justify their continued involvement in this labour intensive and high cost specialisation.

We ask all industry stakeholders, retailers, regulators, and politicians to support and help us progress our recommendations.



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