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The market for "Pure Butter" continues to grow, both locally in Northern Ireland and also in GB

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Recognising the New Realities

The roller coaster milk prices of the last year weren't just due to commodity markets, they also signal what life is going to be like in a dairy industry with no EU market management measures. Export refunds have gone, perhaps forever. Intervention support levels have dropped to the equivalent of a 16 ppl milk price; so low as to be almost irrelevant. Quotas are being phased out leading to the risk of over-supply. Other EU subsidies for the industrial use of butter, for milk powders in animal feeds etc have been reduced or eliminated. For the first time the market is the sole arbiter of price and as a consequence variations in world prices now transmit directly through to local processor returns and local milk prices. This has led to the record highs of last autumn but also has resulted in increased volatility with produce returns and milk prices moving rapidly by large percentages.

At a simple level, the EU was able to even out fluctuations in the world market by adjusting refund levels or intervention buying. That is no longer the case and fluctuations in the world market, whether due to variations in supply and demand or the seasonality of production in countries like New Zealand, will have a greater influence on milk prices than ever before, particularly in Northern Ireland with its continuing dependence on exports.

For the first time in living memory the industry is operating without a realistic safety net, should there be a market collapse. In four years the support provided by the EU intervention system has fallen from almost 19 ppl to about 16 pence – a level that is totally inadequate when set against the current higher milk production costs (and one that would have been 2ppl lower but for the current strength of the Euro).

At a more complex level, refunds also brought order to markets. It was usual for refunds to be pre-fixed up to four months in advance of product being exported – so longer-term deals were the norm. Without refunds there is greater flexibility to react to changing market circumstances. While that means returns can lift more rapidly in a rising market, there can also be rapid price falls when markets weaken and international buyers can get product cheaper from the southern hemisphere or



the US as we saw very clearly before Christmas.

In this changing scene the EU Commission is determined to release more quota – 2.5% extra from 1 March, with further annual increases thereafter. This additional quota will be of no benefit to the UK who can't fill its existing quota. Locally we have lost our one big advantage of being able to use GB quota to grow when others were constrained. The easing of quotas will increase production across the EU especially in the Republic of Ireland. There has been an increase of almost 40% in milk supplies in Northern Ireland in the past 12 years – if the Republic sets off on a similar trend in the years ahead there will inevitably be consequences of this output in shared markets and for their demand for milk from Northern Ireland.

These new realities look certain to result in greater volatility in milk prices and new challenges for the industry; but there will also be market opportunities. In this changing world, costs must be tightly controlled; structures that have served the industry in the past need to be challenged; and the market focus, not just for Dale Farm but for the entire Northern Ireland industry, must be on value-added consumer products which have less volatility compared to commodity returns.

David Dobbin, Group Chief Executive



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