Development of milk prices paid to producers in the past and future
Plan of presentation

- Introduction
- Dutch Dairy Board
- LTO International Milk Price Comparison
- Observations
- Risk management and milk pricing systems
Plan of presentation

- Introduction
- LTO International Milk Price Comparison
  - Introduction
  - Milk prices 2012 and 1999-2012
- Observations
- Risk management and Milk pricing systems
LTO International Milk Price Comparison

- Initiated by the dairy farmers of LTO Nederland
- Reason: No good market indicator available
- Objective: Market transparency
- Farm gate milk prices of 17 large European Dairy companies
- Comparison of prices for standard milk (NOT average) (4.2% fat, 3.4% protein, 500,000 kg/yr, tbc 24,999/ml, scc 249,999/ml)
- Realised by PZ (calculations) in co-operation with EDF (copies of monthly milk statements)
- Monthly and annual

www.milkprices.nl
# 2012 (2011) milk prices

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Hämeenlinnan O.</td>
<td>44.06</td>
<td>43.28</td>
<td>0.77</td>
<td>1.8%</td>
<td>FI</td>
</tr>
<tr>
<td>Granarolo (Noord)</td>
<td>40.73</td>
<td>40.40</td>
<td>0.33</td>
<td>0.8%</td>
<td>IT</td>
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<tr>
<td>FrieslandCampina</td>
<td>35.19</td>
<td>37.15</td>
<td>-1.96</td>
<td>-5.3%</td>
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<tr>
<td>Dairy Crest (Davidstow)</td>
<td>35.15</td>
<td>31.76</td>
<td>3.38</td>
<td>10.6%</td>
<td>UK</td>
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<td>Arla Foods DK</td>
<td>34.21</td>
<td>35.13</td>
<td>-0.92</td>
<td>-2.6%</td>
<td>DK</td>
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<tr>
<td>Danone (Pas de Calais)</td>
<td>33.66</td>
<td>34.55</td>
<td>-0.89</td>
<td>-2.6%</td>
<td>FR</td>
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<tr>
<td>Bongrain (Basse Normandie)</td>
<td>33.48</td>
<td>34.34</td>
<td>-0.86</td>
<td>-2.5%</td>
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<tr>
<td>DOC Kaas</td>
<td>33.42</td>
<td>36.86</td>
<td>-3.44</td>
<td>-9.3%</td>
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<td>Sodiaal Union</td>
<td>33.38</td>
<td>34.34</td>
<td>-0.97</td>
<td>-2.8%</td>
<td>FR</td>
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<tr>
<td>Lactalis (Pays de la Loire)</td>
<td>32.82</td>
<td>34.17</td>
<td>-1.35</td>
<td>-4.0%</td>
<td>FR</td>
</tr>
<tr>
<td>First Milk</td>
<td>31.92</td>
<td>28.83</td>
<td>3.09</td>
<td>10.7%</td>
<td>UK</td>
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<td>Alois Müller</td>
<td>31.22</td>
<td>35.04</td>
<td>-3.82</td>
<td>-10.9%</td>
<td>DE</td>
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<td>Humana Milchunion eG</td>
<td>31.20</td>
<td>34.08</td>
<td>-2.88</td>
<td>-8.5%</td>
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<td>Nordmilch</td>
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<td>33.75</td>
<td>-2.71</td>
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<td>Glanbia</td>
<td>30.90</td>
<td>34.14</td>
<td>-3.24</td>
<td>-9.5%</td>
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<td>Milcobel</td>
<td>30.63</td>
<td>34.18</td>
<td>-3.54</td>
<td>-10.4%</td>
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<td>Kerry Agribusiness</td>
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<td>33.61</td>
<td>-3.16</td>
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<td><strong>Average</strong></td>
<td><strong>33.73</strong></td>
<td><strong>35.04</strong></td>
<td><strong>-1.30</strong></td>
<td><strong>-3.7%</strong></td>
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<tr>
<td>Emmi</td>
<td>NZ</td>
<td>46.64</td>
<td>-1.92</td>
<td>-4.0%</td>
<td>48.56</td>
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<td>Fonterra</td>
<td>US</td>
<td>29.87</td>
<td>-0.35</td>
<td>-1.1%</td>
<td>30.21</td>
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<td>USA class III</td>
<td>CH</td>
<td>33.36</td>
<td>0.67</td>
<td>2.0%</td>
<td>32.70</td>
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Average milk prices EU dairies 1999 - 2012

€/100 kg

<table>
<thead>
<tr>
<th>Year</th>
<th>Milk Price</th>
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<tr>
<td>1999</td>
<td>35.04</td>
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<tr>
<td>2000</td>
<td>33.73</td>
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<td>2001</td>
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<tr>
<td>2012</td>
<td></td>
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<tr>
<td>2013</td>
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</tbody>
</table>
Plan of presentation

- Introduction
- LTO International Milk Price Comparison
- Observations
  - More (world) market influence
  - More volatility
  - (Pork) cycle?
- Risk management and Milk pricing systems

www.milkprices.nl
More markets - > more ups
More influence world market

NZ Global Dairy Trade index vs average EU daires
More and more volatility

Index 1999=100

- EU dairies
- Fonterra
- USA class III

Years: 1999 to 2012

Graph showing the volatility of EU dairies, Fonterra, and USA class III over the years from 1999 to 2012.
(Pork) cycle ?

% change yr/yr-1

March 2007
March 2010
March 2013
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Risk management

Dairy farmers may transfer milk price risk to third parties

- CME group Chicago (dairy products + Milk Class III/IV)
- Eurex Frankfurt (only dairy products)
- Milk price guarantee certificates DTO Netherlands

or share price risks with their milk buyer

- Fixed milk prices (Glanbia and Fonterra) -> less risk
- Linked to commodity markets (First Milk) -> more risk

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New milk pricing systems

- **Glanbia (IRL)**
  - Fixed milk price 28 cpl for 3 year 2011-2014
  - Indexation farm input costs

- **Fonterra (NZ)**
  - Pilot 200 farmers (1%)
  - Fixed milk price NZ$ 7.00 per kg milk solids for 2013/14 season

- **First Milk (UK)**
  - International contract
  - Milk price is linked to returns butter and milk powder
Need for risk management tools?

- Farmers are used to risks?
  - Live animals, weather,..
  - Enterpreneurs take risks
- Dairy structure (coops, raw milk not storable)
- Income = revenues (milk prices) – costs
  - Inputs (like feed prices) also fluctuate
- Demand for understandable future contracts
Plan of presentation

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- Concluding remarks
Concluding remarks

- More milk price volatility
- More milk price differentiation
- Risk management by dairy farmers:
  Make sure your farm can handle periods with very low milk prices and
  choose the buyer/contract of milk that best suits you
Thank you for your attention

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