

PRESS INFORMATION from *The Dairy Group*

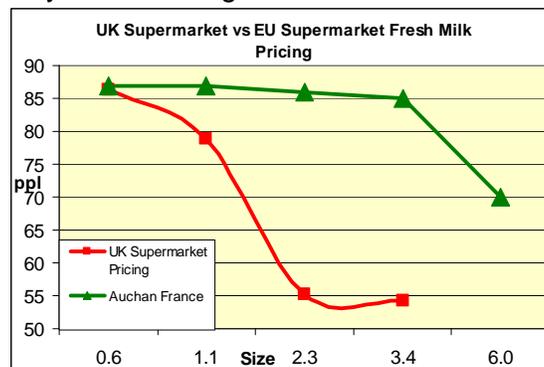
29th July 2011

The Market Price Equivalent (MPE) July 2011 By Nick-Holt Martyn, The Dairy Group

UK Consumers Must Pay More for Dairy Products

“The spectacle of the UK milk price at the bottom of the EU Farm Gate Price league may have grabbed some headlines, but the underlying problem of the UK markets appears to have been completely overlooked.” says Nick Holt-Martyn, The Dairy Group. He goes on to say “there were actually suggestions that the UK is poised to expand production to reap the rewards of future rising markets and further globalisation! Heady stuff for a country that is clearly failing to reap the rewards of the current high market returns. The UK has recovered to 26th place due to volatile exchange rates from the turmoil in Euroland and the delayed rise in UK Interest rates, but this is small comfort for a dairy industry needing to reinvest for the future. So the question remains why does the UK dairy industry fail to deliver the returns from rising wholesale markets to the farm gate?

The answer is fundamental, UK supermarkets compete ferociously for market share and discount to attract customers before screwing the wholesale price paid to processors down to maintain fat margins. The cost of milk to UK consumers is too low! Less money at the checkout means less money at the farm gate.

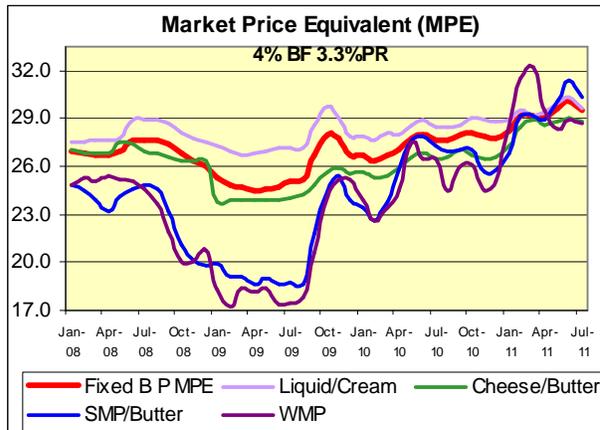


As the graph shows, on the continent there are limited reductions for volume purchases whereas in the UK discounting for volume is rife, indeed currently Sainsbury's are offering milk at just 44 ppl equivalent. As most milk is sold in the larger volumes then the average paid is much less than the 85 ppl headline price. The same is true for cheese where the difference with the continent is also around 20 to 30%. Therefore the core of the UK dairy market (fresh milk and cheese) returns less than on the continent. When coupled with the retailer's power to drive a hard deal and UK processors who focus almost exclusively on domestic markets, the result is a low unit sale value from which to pay a low farm gate price.

No amount of tinkering with the farmer/processor relationship through contracts or supply groups will change the fundamentals unless retailers grasp the nettle and underwrite a farm gate price equal to the EU average. Only then will farmers be able to generate

sufficient profits to invest with confidence. The lesson from green energy and Feed in Tariffs is that provide the incentive and investment will take place.”

Market Prices

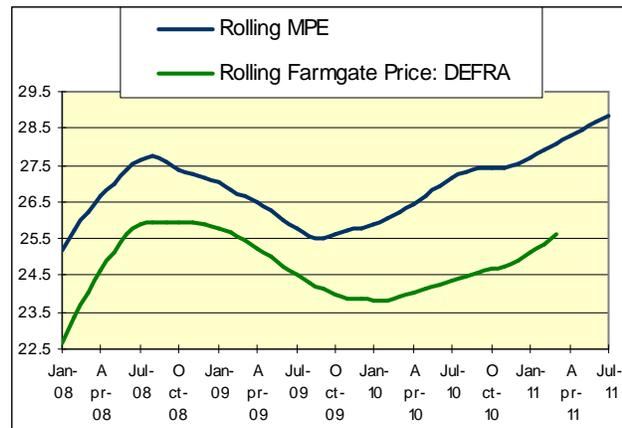


The peak in the Market Price Equivalent (MPE) has passed and now fallen by 0.62 ppl to 29.53 ppl. However, the Northern Ireland auction prices firmed again to 29.51 ppl as supply eases. Despite falls in Butter and SMP, commodity returns are still relatively high drawing milk away from cheese. The Fonterra auction saw prices easing overall with weaker pricing for the winter period to March, but still suggesting a stable outlook with prices flat for the next 6 to 9 months. The MPE is up 1.8 ppl since January 2011. The market

fundamentals remain firm with early NZ production forecasts +4% on last year, in line with demand growth. Globally markets continue to remain stable at these relatively high levels.

Farmgate Prices

Despite market returns peaking the rolling milk price should continue to rise for 5 to 6 months until the gap with MPE has narrowed towards 2 ppl. The recent increased return from both butter and cream have yet to find their way to the farm gate. The returns from butter/SMP remain strong helping to switch milk away from cheese, which should firm the cheese market in the coming months.



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- ❑ **Visit www.thedairygroup.co.uk**
- ❑ The MPE is calculated from the weighted actual wholesale prices for liquid milk, cheese, butter and powders after the normal processing costs. The MPE accounts for 90% of the UK market utilisation of milk. The MPE is calculated from wholesale market values, whereas IMPE (Intervention Milk Price Equivalent) accounts for just 11% of UK milk production and is effectively determined by the Council of Ministers and the prevailing exchange rate. The MPE provides a far superior indicator of the wholesale value of milk and therefore the likely market returns available to the dairy farmer.