Opportunities in dairy
Gwyn Jones
Dairy farming foundations in place

- Farming in UK has a number of advantages
- But are we well placed to exploit them?

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>Ireland</th>
<th>Germany</th>
<th>Netherlands</th>
<th>Denmark</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herd size (2013)</td>
<td>123</td>
<td>63</td>
<td>52</td>
<td>84</td>
<td>152</td>
<td>46</td>
</tr>
<tr>
<td>Land availability</td>
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<tr>
<td>Environmental constraints</td>
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<tr>
<td>Social constraints</td>
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<tr>
<td>Farmer confidence</td>
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<tr>
<td>High debt levels</td>
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<tr>
<td>Forage growing capability</td>
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<tr>
<td>Co-product feed availability</td>
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<tr>
<td>Cost of production</td>
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</tr>
</tbody>
</table>

Source: AHDB
World class liquid sites
## Old cheese sites

<table>
<thead>
<tr>
<th>Owner</th>
<th>Site</th>
<th>Capacity (t per yr)</th>
<th>Year built</th>
<th>Effective age (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arla</td>
<td>Llandyrnog</td>
<td>20k</td>
<td>Built in 1921, but major upgrades in 1971 and 1989</td>
<td>27-45</td>
</tr>
<tr>
<td>Lockerbie</td>
<td></td>
<td>32k</td>
<td>More than 50 years old, but moved to current site in 1975</td>
<td>41</td>
</tr>
<tr>
<td>Taw Valley</td>
<td></td>
<td>32k</td>
<td>Cheesemaking since 1974</td>
<td>42</td>
</tr>
<tr>
<td>Dairy Crest</td>
<td>Davidstow</td>
<td>59k</td>
<td>More than 60 years old, but major rebuild work in 2004</td>
<td>12</td>
</tr>
<tr>
<td>First Milk</td>
<td>Haverfordwest</td>
<td>27k</td>
<td>Built in 1930, but converted to cheesemaking in 1963</td>
<td>53</td>
</tr>
<tr>
<td>Lake District</td>
<td></td>
<td>25k</td>
<td>More than 100 years old, bought by MMB in 1934</td>
<td>82-100</td>
</tr>
<tr>
<td>Lactalis</td>
<td>Stranraer</td>
<td>32k</td>
<td>Originally built in 1933, but rebuilt in 1966</td>
<td>50</td>
</tr>
</tbody>
</table>
Why the lack of processing investment?

- Focus on the liquid market
- Negativity
- Uncertainty over sustainable milk volumes
- Exchange rate risk
- Efficiency through the supply chain
- Lack of profitability
Milk processing

Investment options:
1. Legal requirement
2. Efficiency
3. New product development

Co-op v Plc
- Farmer v consumer focus
- Lack of available funds
- Consolidation

Source: Promar.AHDB
Thinking about the next 12 months, how confident are you about the prospects for your dairy business? (1 = extremely pessimistic, 5 = extremely confident)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average score</td>
<td>3.2</td>
<td>3.7</td>
<td>3.2</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Short term confidence down

- Short term confidence down
Long term confidence in business

Looking forward 5 years, how confident are you about the prospects for your own dairy business? (1 = extremely pessimistic, 5 = extremely confident)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average score</td>
<td>3.3</td>
<td>3.6</td>
<td>3.5</td>
<td>3.0</td>
</tr>
</tbody>
</table>

• Long term confidence now also affected
FIS portrait of the industry

Segments: long term continuity

- More than a third have no continuity plans
- Less than 10% feel their main approach is to maximise financial return

Segments: approach to dairy farming

- Maximise financial return
- Sustainable business for next generation
- Preserve way of life
- Diversify the business
- Leave dairy farming

n=850 and any “don’t know” answers are excluded
5 year rolling farm prices –

[pence per litre]
Improving technical efficiency – milk from forage

Source: DARD-CAFRE Dairy Benchmarking Report 2012-2013
Improving technical efficiency – concentrate use

Source: Dale et al. 2015
FIS portrait of the industry

Conventional and organic
- 92% Conventional
- <1% Organic
- 8% In conversion towards organic

Calving patterns
- 81% All year round
- 7% Autumn
- 8% Spring
- 4% Autumn and spring

Time spent at grass
- Over 90% conventional holdings
- Majority all year round calving
- Median time at grass is 6 months

n=850 and any “don’t know” answers are excluded
Production profiles

Production per farm

Litres per day per farm

Source: AHDB Dairy
Milk profiles – buddy system

Average production per farm

<table>
<thead>
<tr>
<th></th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
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</thead>
<tbody>
<tr>
<td>Litres per day per farm</td>
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<tr>
<td>AYR</td>
<td></td>
<td></td>
<td></td>
<td>1,800</td>
<td>1,800</td>
<td>2,000</td>
<td>2,200</td>
<td>2,400</td>
<td>2,600</td>
<td>2,800</td>
<td>2,800</td>
<td>2,600</td>
</tr>
<tr>
<td>Autumn + Spring</td>
<td>3,200</td>
<td>3,400</td>
<td>3,600</td>
<td>3,800</td>
<td>3,800</td>
<td>3,800</td>
<td>3,800</td>
<td>3,800</td>
<td>3,800</td>
<td>3,800</td>
<td>3,800</td>
<td>3,800</td>
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<tr>
<td>2 x Autumn + 1 x Spring</td>
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</tbody>
</table>

Source: AHDB Dairy
Latest market information

UK daily milk deliveries were at 43.6 million litres per day for the 2 weeks ending 6 June, up 0.3% from the same period last year. Although growth has remained similar compared to the previous year, a key driver for increased milk production is a rise in ewe numbers at peak production age. Therefore, depending largely on weather conditions, the UK could see another strong year of milk production in 2016/17.

<table>
<thead>
<tr>
<th>Latest data</th>
<th>Date</th>
<th>Change</th>
<th>From</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>21.3m</td>
</tr>
<tr>
<td>UK daily milk deliveries</td>
<td>21.3m</td>
<td>+2.3%</td>
<td>20.0m</td>
</tr>
<tr>
<td>EU-28 average milk price</td>
<td>2.11 ppi</td>
<td>-0.4%</td>
<td>2.12 ppi</td>
</tr>
<tr>
<td>GB milk prices</td>
<td>100.0g/l</td>
<td>+0.4%</td>
<td>99.8g/l</td>
</tr>
<tr>
<td>UK milk utilisation % for trend</td>
<td>2.341m litres</td>
<td>+0.4%</td>
<td>2.341m litres</td>
</tr>
</tbody>
</table>

GDT showing first signs of stabilisation?

After the unexpected increases in February 2015, the Global Daily Trade (GDT) auction results have been falling ever since. However, the falls recently have been getting smaller and the 18 June auction has seen a reduction of only 1.3%. Although any reduction is not good news, it is clear from one look at the graph that prices may be getting closer to stabilising.

In this issue:
- Time to capitalise on low grain prices
- Latest Rabobank report pushes recovery back
- Production to remain high in key export regions
- Competitive SMP market could delay price recovery
- Record slaughter numbers in New Zealand
- CMA last MWF/Dairy Credit deal to phase 2
- Supply chain under pressure from low prices

Datum Monthly Report

AUGUST 2015

Report highlights
- According to the most recent DEFRA figures, the average UK farmgate price stood at 22.2ppl in June. This was a 0.37ppl (1.5%) decrease on the May average price.
- UK daily deliveries for the two weeks ending 08/08/2015 averaged 39.4m litres/day, 0.9m litres/day (2.4%) higher than the same period last year.
- In July 2015, the average price for red diesel was down 2.01ppl to 32.22ppl compared with the previous month.

Key indicators
- AMF 2014 (Actual Milk Price Equivalent) 16.7 17.7 -5.6% 30.9 -48.0%
- MCFE 2014 (Milk for Cheese Value Equivalent) 21.7 23.9 -9.2% 32.7 -33.7%
- Cream income 6.91 1.44 -80% 7.87 -47.4%

Summary of month
- Wholesale price pressure continues
  - UK wholesale prices fell between June and July. The Global Dairy Trade auction price index dropped again at the latest event on 4 August, falling 9.3%.
  - Global oversupply of milk combined with weak demand continues to put pressure on wholesale prices. Until the supply/demand imbalance alters, pressure on prices will remain.

www.dairy.ahdb.org.uk/market-information/