

LTO International comparison of producer prices for milk

2009

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Table of contents

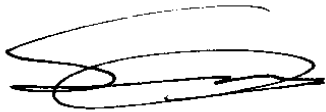
	Foreword.....	4
1.	Introduction and notes for readers.....	5
1.1	Introduction	5
1.2	Notes for readers.....	5
2.	Milk prices in 2009.....	6
2.1	Milk price comparison.....	6
2.2	Dairy markets 2009.....	9
3.	Milk price and markets developments in 2010	10
4.	Dairy companies and explanation of calculated milk prices	12
4.1	Choice of dairy companies	12
4.2	Explanation of calculated milk prices per company.....	12
4.3	New Zealand and the United States.....	15
Annex I	Key figures dairy companies	17
Annex II	Milk prices 1999 to 2009.....	23
Annex III	Average currency exchange rates	24

Foreword

Since the year 2000 LTO Nederland (Dutch Federation of Agriculture and Horticulture) has commissioned Productschap Zuivel (Dutch Dairy Board) in cooperation with European Dairy Farmers to make a comparison of the prices for milk paid to farmers by leading European dairy companies. The LTO International Milk Price Comparison is followed closely and rated highly internationally. Each month the latest information is posted on the website www.milkprices.nl and in LTO weekly news magazine Nieuwe Oogst. You now have here the report on prices in 2009. I should like to take this opportunity to thank everyone who has contributed to this important piece of work.

After the milk price report of 2008, which registered the highest milk prices ever up to that moment, there follows the 2009 report, which shows the lowest. Now, halfway through 2010, milk prices have recovered. The last two years demonstrate the importance of good market analysis and the need for dairy farmers and their customers to react more rapidly to market developments which are themselves more rapid than before. It is now exceptional that Brussels determines milk prices and the influence of the volatile world market has increased strongly. To improve the strength of our position in the chain of supply, and in society as a whole, innovation and knowledge are also important alongside market information. A strong market position, based on sustainability, is a precondition for maintaining the prospect of a future for our dairy farmers in this increasingly turbulent world.

Enjoy reading this new LTO International Milk Price Comparison report.



Siem-Jan Schenk
Chairman Dairy Committee Dutch Federation of Agriculture and Horticulture LTO Nederland

1. Introduction and notes for readers

1.1 Introduction

The LTO-International Milk Price Comparison is published every month at the request of the Dairy Committee of the Dutch Federation of Agriculture and Horticulture (LTO Nederland) at www.milkprices.nl. This is a comparison of the prices paid for milk by large European companies and is done in co-operation with European Dairy Farmers (EDF). EDF collects the milk price data and makes them available. Calculations are undertaken by the Dutch Dairy Board (Productschap Zuivel, PZ).

The method chosen for the calculations shows the price a dairy farmer would receive if milk of specific (standard) composition, quality and quantity were delivered to the different dairy companies.

In this report the following characteristics of the standard milk are taken as a basis:

- 4.2% fat;
- 3.4% protein;
- total bacterial count 24,999 per ml;
- somatic cell count 249,999 per ml;
- annual delivery 500,000 kg.

The prices are exclusive of VAT, ex-farm and inclusive of supplementary payments.

It must be emphasized that there is no comparison of the average milk prices paid. The average price paid by a dairy company for milk is dependent on the actual composition, quality, quantity et cetera of the milk delivered. Furthermore, no conclusions can be drawn about the performance of dairy companies on the basis of the milk prices paid. Many more factors play a role in assessing performance.

After each calendar year has ended a report is presented with the calculated milk prices paid for that year. This annual report appears when the supplementary payments of the preceding calendar/ financial year are known and can, thus, be incorporated into the milk prices. The present publication comprises the milk prices calculated for the calendar year 2009.

1.2 Notes for readers

Chapter 2 features the calculated milk prices for 2009 (paragraph 2.1), followed by a short description of the developments in the dairy market (2.2).

Then Chapter 3 gives a review of the evolution of milk prices in the first months of 2010 as well as recent developments in the dairy market.

Chapter 4 gives an explanation of the chosen dairy companies (4.1), the calculated milk price per dairy company (4.2) and the development of milk prices in New Zealand and the United States (4.3).

In the appendices the reader will find certain basic data about the dairy companies (Appendix 1), tables of background information about milk prices per dairy company from 1999 to 2009 (Appendix 2) and the average currency exchange rates in 2008 and 2009 (Appendix 3).

2. Milk prices in 2009

2.1 Milk price comparison

Milk prices in 2009 have been compared for 17 dairy companies. The average calculated milk price for these companies in 2009 was Euro 26.92 per 100 kg of standard milk. This is EUR 7.66 per 100 kg, or 22.2%, lower than in 2008.

Table 1. Milk prices 2009 and 2008

In Euros per 100 kg of standard milk (excluding VAT and including supplementary payments)

		2009	ranki ng	2008	ranki ng	2009-2008	2009/2008	national currency ¹⁾
Hämeenlinnan O.	FI	39.52	1	44.43	1	-4.90	-11.0%	
Granarolo (North)	IT	34.75	2	41.05	2	-6.29	-15.3%	
Sodiaal Union	FR	29.66	3	35.58	5	-5.92	-16.6%	
Danone (Pas de Calais)	FR	29.65	4	35.91	4	-6.26	-17.4%	
Bongrain (Basse Normandië)	FR	29.58	5	35.47	6	-5.89	-16.6%	
Lactalis (Pays de la Loire)	FR	29.34	6	35.27	8	-5.93	-16.8%	
Dairy Crest (Davidstow)	UK	27.88	7	32.73	13	-4.85	-14.8%	-4.1%
Arla Foods DK	DK	27.51	8	36.42	3	-8.91	-24.5%	
FrieslandCampina	NL	26.22	9	35.36	7	-9.14	-25.8%	
Milcobel	BE	25.25	10	32.65	14	-7.40	-22.7%	
Humana Milchunion eG	DE	25.06	11	35.20	9	-10.14	-28.8%	
Alois Müller	DE	24.56	12	34.34	10	-9.79	-28.5%	
First Milk	UK	24.24	13	31.03	16	-6.79	-21.9%	-11.1%
DOC Kaas	NL	23.47	14	30.97	17	-7.50	-24.2%	
Nordmilch	DE	23.43	15	31.42	15	-7.99	-25.4%	
Kerry Agribusiness	IE	22.71	16	33.03	12	-10.32	-31.3%	
Glanbia	IE	22.67	17	33.54	11	-10.87	-32.4%	
Average 2)		26.92		34.58		-7.66	-22.2%	
Fonterra 3)	NZ	20.75		22.75		-2.00	-8.8%	-2.5%
USA class III	US	20.24		29.37		-9.13	-31.1%	-36.4%

1) Changes in milk prices in national currency are corrected for exchange rate effects in relation to the Euro. For countries not in the Euro-zone monthly prices are converted to Euros on the basis of the average exchange rate for the month in question. (See also Appendix 3)

Milk prices have been calculated and published for Granarolo (Italy) since January 2008. However, in order not to disturb the figures for whole series of previous years they have not been included in the average prices for 2008.

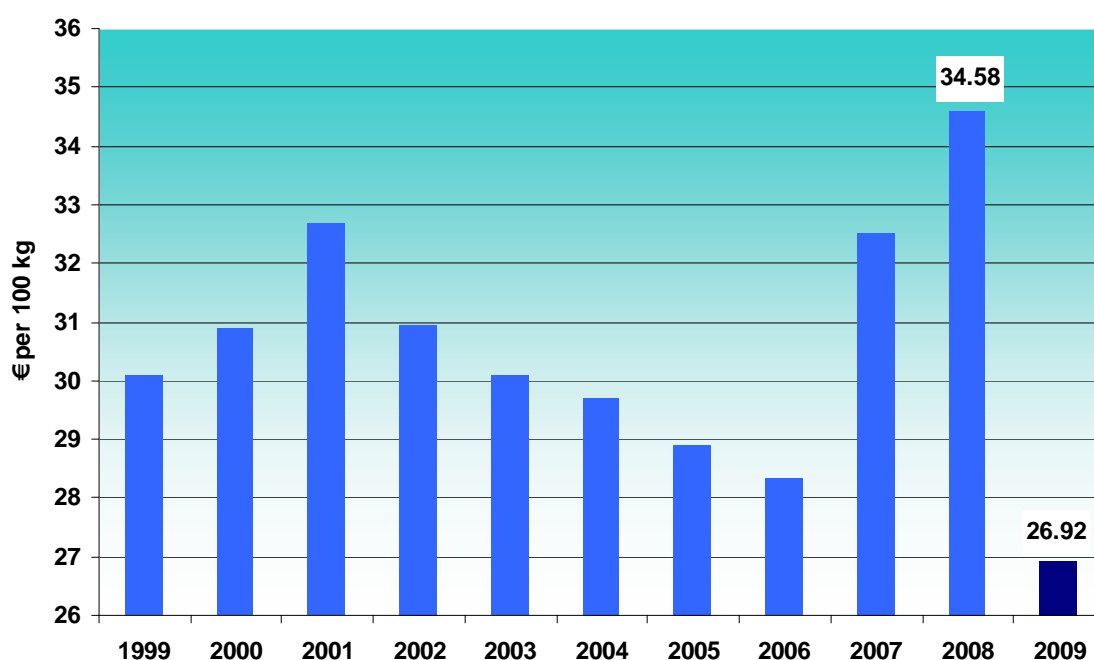
2) The average for 2008 differs (slightly) from the previous year's publication. In that year the milk prices for Campina and Friesland Foods (Netherlands) were still presented separately. The two companies merged to form FrieslandCampina.

3) The calculated milk price for Fonterra (New Zealand) for 2008 differs from that in the previous publication, being changed from EUR 23.13 to EUR 22.75 per 100 kg. For the milk price year 2007/2008 a milk price for Fonterra of NZD 7.66 per kg of milk solids has been used as the basis instead of NZD 7.90 used earlier. (See also paragraph 4.3.)

The rises in milk prices in 2007 and 2008 were reversed at a stroke by the very sharp fall in 2009. In 2009 the average milk price reached its lowest level since the start of the LTO international milk price comparisons while in 2008 we were still talking about the highest price ever.

Although all milk prices fell the relatively modest fall and high prices of British dairy companies - Dairy Crest in particular - are remarkable. In France, too, milk prices fell less than the international average in 2009.

Figure 1. Average milk prices from 1999 to 2009



Milk prices 2009

Once again the calculated milk price of **Hämeenlinnan Osuusmeijeri** (Finland) is the highest. The relatively high milk prices in Finland – the largest company, Valio, pays a comparable price – give the impression that the Finnish milk market is more or less protected from the rest of the EU. Despite the fact that the price difference from the rest of Europe increased in 2009, it seems that changes are afoot in Finland too. Thus, early in 2009 Arla Ingmann¹ started to import (cheaper) raw milk from Sweden. As a consequence of this the competition in the market for liquid milk for consumption grown so strong that there is even talk of a price war. The import of cheaper cheese, from Poland, also puts Finnish milk prices under pressure.

The overall image that milk prices in Italy are somewhat higher than in the rest of the EU is reinforced by the calculated milk price of **Granarolo**. Italy is a net importer of milk and dairy products. A consequence of the short supply is that milk prices in Italy are distinctly higher than the average in the EU.

In **France** the fall in milk prices remained modest as a consequence of the agreements reached between milk producers and the processing industry on the evolution of prices. However, because of the increase in the difference in prices in France with those in other countries it is becoming more difficult to achieve such agreements.

In 2008 **British** milk prices were no longer the lowest in the EU, and this is even more the case in 2009. However, the improvement in prices was largely due to the fall in value of the British Pound. As a result the relative scarcity of milk and dairy products on the United Kingdom market, which is due to the steady fall in milk production over a period of years, was less rapidly filled by extra imports, their being less attractive. Another factor is the relative importance of fresh milk in the UK dairy market, so that milk prices to the farmer are less dependent on the prices obtained for the basic dairy commodity products such as butter and milk powder.

Apart from this the milk prices paid in the United Kingdom differ from each other a great deal. The milk price of Dairy Crest Davidstow is among the highest while that of First Milk is among the lowest. First Milk is in a less favourable market position because a relatively large part of the milk it receives is not processed in its own factories but sold on to other dairy firms. Furthermore, First Milk is a cooperative and handles the milk delivered in a less selective way than many other dairy firms. Other, mostly private, dairy firms can reduce transport costs by choosing relatively larger

¹ The Finnish company Arla Ingmann is a 100% subsidiary of Arla Foods (Denmark/Sweden). All the milk produced by Hämeenlinnan Osuusmeijeri is marketed by Arla Ingmann.

and more closely located milk producers for their supply and are thus likely to be able to pay a higher milk price.

Despite higher profits the milk price paid by **Arla Foods** (Denmark/Sweden) fell sharply in 2009. Besides the worldwide recession Arla has also suffered from the fall in exchange rates of the British Pound and the Swedish Krone. The United Kingdom and Sweden, with shares, respectively, of 26% and 20%, are Arla's largest sales areas. However, by means of record cost savings profits increased despite these setbacks.

The milk price paid by **FrieslandCampina** (Netherlands) is based on those of other European dairy companies and, in consequence, the fall in its price in 2009 was close to the average fall. Despite the difficult market conditions this dairy cooperative company achieved a higher profit in 2009 thanks to good results from its branded products in Europe, South East Asia and Africa. The dairy farmer members of **DOC Kaas** (Netherlands) were confronted with relatively very low milk prices, just as in the previous year, thanks to the company's product range (comprising cheeses).

Milcobel (Belgium) also had a difficult year with a low milk price. Nevertheless Milcobel rose in the milk price rankings despite processing a large part of its milk into basic dairy commodity products (milk powder, butter and industrial cheese), precisely those products which suffered the greatest falls in price. In contrast Milcobel obtained very good results from sales of ice cream, an important product providing, as it does, around 25% of the company's turnover.

Of the three **German** companies, Humana Milchunion paid the highest calculated milk price in 2009, as it had in 2008. Despite the ever-closer cooperation with Nordmilch (including a joint sales operation via Nord Contor Milch and plans for a merger) the calculated milk prices of these two German cooperatives continue to differ considerably. Alois Muller, a private company, bases its milk price on those of other companies in the same region.

The calculated milk prices for the Irish companies **Glanbia** and **Kerry** are those which fell the most in 2009 in Europe and now are at the bottom of the ranking list. Because of its relatively limited home market the Irish dairy sector is more dependent, than are other countries, on exports to third countries and it is there that the bad world market situation was felt the most. This effect was reinforced by the fact that a relatively large proportion of Ireland's production goes into the basic dairy commodity products butter and skimmed milk powder. Furthermore the decline of the British Pound in relation to the Euro had a doubly negative effect on milk prices in Ireland. On the one hand, exporting to the United Kingdom – an important country for exports - was made more difficult and, on the other and simultaneously, imports of cheaper liquid milk for consumption from Northern Ireland started to grow.

Fonterra (New Zealand) disposes of over 90% of milk delivered to its factories on to the world market. In consequence Fonterra's calculated milk price gives a good indication of the "world market price for ex-farm milk". Because dairy products are traded in US Dollars on the world market the rate of exchange of the US Dollar to the NZ Dollar is an important factor determining the level of Fonterra's milk price. The fall in value of the NZ Dollar in 2009 dampened the effect of the extreme fall in prices on the world market for Fonterra's member dairy farmers.

In the **United States** prices fell to the greatest extent in 2009. Expressed in US Dollars the fall was more than 36%.

2.2 Dairy markets 2009

Prices pass lows never seen before

In 2009 the dairy market experienced a period of lower prices than had ever been seen before. The crisis in the world economy, which had already been in evidence in the last quarter of 2008, left its imprint on the market scene for most of the year. The average level of price quotations in the Netherlands lay clearly below those of 2008 for all basic dairy commodities. On the world market the fall in prices was even more marked, with prices for a variety of dairy commodities on average between 20% and 30% lower.

In particular, in the first quarter of 2009 weak demand, coinciding with a relatively good level of supply, resulted in a very low price level. In Europe the unprecedented sharp fall in prices in autumn 2008 and the growing uncertainty in the market caused the European Commission to take a number of additional market management measures. Thus the regulation for private stocks of butter into intervention was opened earlier (on 1 January 2009) and the limits on the quantities of butter and skimmed milk powder to be taken into intervention were raised exceptionally. Furthermore, at the end of January 2009 export restitutions were reactivated, after eighteen months' absence, to provide relief for the internal market.

The prospect of intervention being opened from 1 March finally brought some calm to the European dairy market. And thus, after months of sliding downwards, prices started slowly moving upwards towards the intervention level. Thus intervention clearly demonstrated its value as a safety net.

The spring and summer of 2009 were marked by a period of price stability, albeit at a low level. However, in August the market began to move upwards and this was due to two factors, the response to low prices which was a drop in milk production, especially in the US and Europe, and, at the same time, a slightly increased willingness to spend by consumers. From that moment there was a change in the general perception of market trends by all parties involved. In Europe this change of mood was encouraged by the extension of the possibility of selling into intervention.

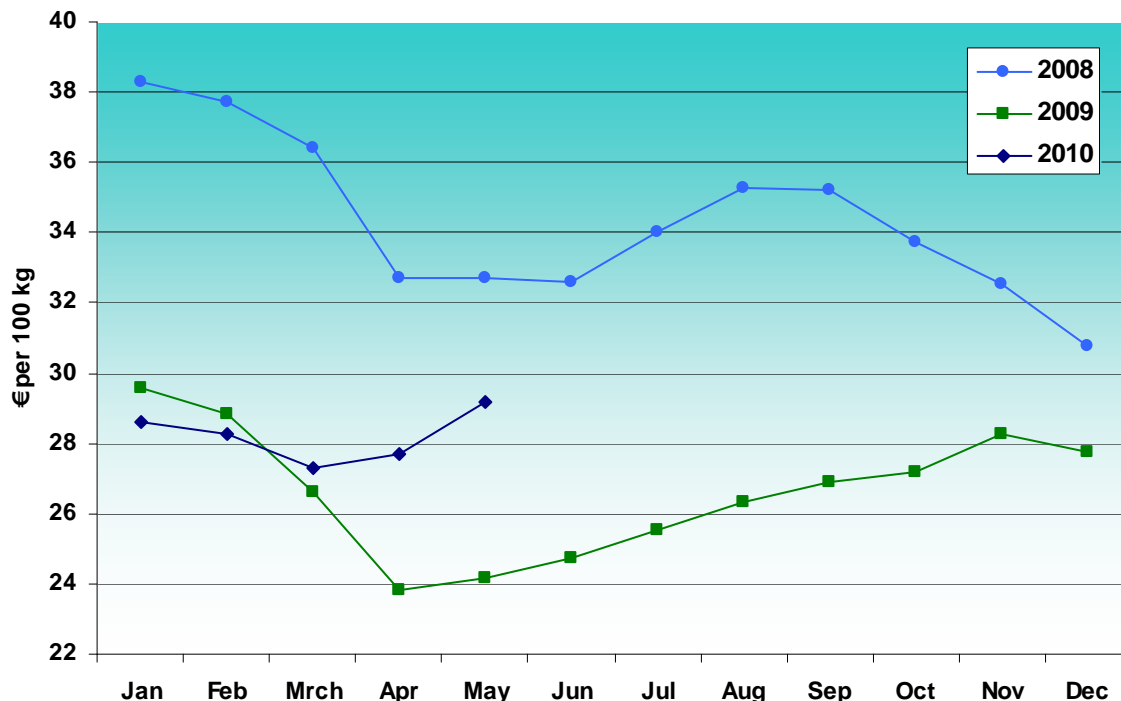
The last quarter of 2009 was marked, both within the EU and outside, by steadily rising prices. However, this price recovery resulted especially from the tightness of supply. At the end of the year, as a result of the very rapid rises in price, the market became more vulnerable. Furthermore the worldwide growth in stocks tempered the expectations of further rises in price. In the EU this led increasingly to an attitude of wait-and-see in the market and in the course of November to stability in prices. Meanwhile on international markets price rises continued to some extent.

On the world market New Zealand recovered its position strongly in 2009, after very disappointing year in 2008. The country got back its position as leading exporter. Australia too showed signs of recovery. This was mainly at the expense of the United States which saw its position in international markets decline sharply. The EU was able to practically maintain its position on the world market, mainly thanks to strongly increased exports of skimmed milk powder and, to a lesser extent, of cheese. Exports of butter and non-skim milk powder, in contrast, were under pressure.

3. Milk price and markets developments in 2010

The improved market situation in 2010 will gradually become evident in improvements in the milk prices paid. In March the average milk price for all companies rose for the first time above those in the previous year. Thereafter in April and May milk prices continued to rise and this is remarkable because milk prices reach their lowest at this time of the year owing to the seasonal peak in production. That milk prices are good at this moment can be deduced from a comparison with previous years. The calculated average milk price in May 2010 was the third highest since 1999. Only in May 2001 and May 2008 were the average milk prices higher.

Figure 2. Evolution of average milk prices from January 2008 to May 2010



In the first quarter of 2010 the average market price level came somewhat under pressure from an expected surplus of milk. However, in April the dairy market rose strongly. With good demand and limited supply all available milk readily found a buyer which resulted in the market being somewhat stressed. The strong price rise in April reflects this.

Both fundamental factors and market psychology pushed prices upwards. There is talk of a (temporary) shortage in supply, especially of milkfat. The limited stocks held by dairy processors and the tendency of buyers not to commit themselves too long in advance add to the price sensitivity of the market. In consequence trailing milk production together with gently rising demand could give rise to a sharp reaction in prices. For the European market the improvement in its export position also contributes to a positive feeling in the market. Now that the production season in the Southern Hemisphere has come to a close with relatively little remaining in stock, the availability of dairy product from Europe is the determining factor. The decline of the Euro in relation to the US Dollar increases the opportunities for European exporters to profit from this strictly seasonal development. On international markets too recent increasing demand has given rise to sharp price increases.

The dairy market, after hectic developments in April, moved into calmer waters in May. Although the average price level in May was substantially higher than in April the recent sharp increases for butter and milk powder came to an abrupt standstill at the end of May. Alongside the market situation the fact that the EU Commission decided to make an additional quantity of butter and milk powder available out of intervention from early June has also played a role in this. Buyers have become cautious, waiting to see how many will take up the supply from intervention.

It is difficult to forecast how the dairy market will evolve in the later part of 2010 and in coming years. On the positive side the authoritative international bodies OECD and IMF have recently adjusted upwards their predictions for economic growth. At the same time, however, the risks of a new economic downturn appear to be growing, especially because of greater instability in the Euro-zone. The necessary economies in a variety of countries may put pressure on consumption spending in the coming period and thereby make further recovery more difficult.

4. Dairy companies and explanation of calculated milk prices

4.1 Choice of dairy companies

Of the 17 European dairy companies in the milk price comparison five belong in the world's top 20 dairy companies, based on turnover. These are the companies in **bold type** in Table 2. .

Table 2. World's largest dairy companies

	Company	Country	Turnover (€billion)
1	Nestlé	Switzerland	18.6
2	Danone	France	10.6
3	Lactalis	France	9.1
4	FrieslandCampina	Netherlands	8.0
5	Fonterra	New Zealand	7.3
6	Dean Foods	US	7.0
7	Arla Foods	Denmark/ Sweden	6.2
8	Dairy Farmers of America	US	5.8
9	Kraft Foods	US	4.9
10	Unilever ¹	Netherlands	4.6
11	Meiji Dairies	Japan	3.7
12	Saputo	Canada	3.6
13	Parmalat	Italy	3.5
14	Morinaga Milk Industry	Japan	3.5
15	Bongrain	France	3.3
16	Mengniu	China	2.7
17	Yili	China	2.5
18	Land O'Lakes	US	2.3
19	Bel	France	2.2
20	Tine	Norway	2.2

Source: Rabobank International 2010 (turnover 2009 plus (proposed) mergers and acquisitions in 2010).
1) Estimate

The companies involved in the milk price comparison are selected from those that are relatively large and are spread about their region of operation in Europe. Important criteria in the choice of companies are the quantity of milk processed and the share of national milk deliveries.

4.2 Explanation of calculated milk prices per company

The Finnish cooperative **Hämeenlinnan Osuusmeijeri** made a supplementary payment of 3 Eurocents per litre, or EUR 2.91 per 100 kg of standard milk in 2009, the same figure as in 2008. This supplementary payment is not corrected for the time of the payment, nor for invested capital, because the dairy farmer members of the cooperative receive compensation for interest at a market-related rate for both of these factors. Although Hämeenlinnan Osuusmeijeri is a relatively small company its milk price is a good indicator of the prices paid in Finland. Valio, Finland's largest dairy company, paid a milk price of 40.4 Eurocents per litre in 2009 according to its annual report. This looks like more than the calculated milk price of Hämeenlinnan Osuusmeijeri of EUR 39.52 per 100 kg but Valio's milk price is valid for milk with slightly higher fat and protein contents

and is expressed per litre. When corrected for these differences Valio's price is lower than that of Hämeenlinnan Osuusmeijeri. Apart from this Valio's 2009 milk price was 14% less than the previous year whereas Hämeenlinnan Osuusmeijeri's calculated milk price fell by 11%.

Granarolo operates with different milk prices in Northern, Central and Southern Italy. The calculated milk price for Italy is based on that in the north, the area with the greatest production. In Italy, just as in France, agreements are reached on the evolution of the milk price. The most important of these is the agreement between representatives of milk producers and the processing industry in Lombardy, the most important dairy region in Italy.

Granarolo bases its milk price on milk with 3.2 - 3.3% protein and 3.6 - 3.75% fat, with supplements for extra fat and protein, milk quality and quantity delivered. In 2009 this basic price averaged EUR 28.53 per 100 litres. The calculated milk price in 2009 is EUR 34.75 per 100 kg, about EUR 6 more than Granarolo's basic price because the standard milk is higher in fat and protein content (+EUR 2.48), quality premium (+EUR 1.15) and premium for the quantity delivered (+EUR 3.42). Most of Granarolo's dairy farmers do not qualify for these premiums, in contrast to the 'standard' dairy farm used for the international comparison. The average milk price paid by Granarolo is therefore noticeably less than the calculated price paid for standard milk.

On 3 June 2009 **French** milk prices were the subject of a new agreement between processing industry and dairy farmers' representatives, with the assistance of the French Minister of Agriculture. The agreed basic price lay between EUR 262 and 280 per 1000 litres. This corresponds to an average reduction of EUR 57 per 1000 litres, or minus 17%, compared with 2008.

The basic price applies to milk with 38 g of fat and 32 g of true protein per litre. Depending on the share of industrial dairy commodity products (butter and milk powder) that they make, processors may discount the price of EUR 280. This discount begins at a share of more than 20% of commodity products and goes up to a maximum of EUR 18 for companies whose product mix contains over 40% of commodity products. In view of these agreements it is not surprising that the level of French milk prices does not vary much between the dairy companies (from EUR 29.34, Lactalis, to EUR 29.66, Sodiaal), nor the price fall from the previous year (all about -17%).

For 2009 Sodiaal made a supplementary payment of EUR 2 per 1000 litres. This supplement is incorporated into the calculated milk price, in contrast to the so-called 'ASAP' premium. The latter, which be as much as EUR 5 per 1000 litres, is paid when the dairy farmer has provided a correct forecast of the quantity of milk that will be delivered in a specific month.

The calculated milk price of **Dairy Crest** (United Kingdom) refers to dairy farmers who deliver milk via Dairy Crest Direct to the Davidstow cheese factory. Since July 2009 Dairy Crest's milk price has not altered except for the seasonal premiums or discounts.

Arla Foods made a supplementary payment for 2009 equivalent to EUR 2.84 per 100 kg (2008: EUR 0.71 per 100 kg). The supplementary payment is 8.1% of the so-called 'basic' value of the milk delivered. The supplementary payment is made partly in money and partly in the form of member certificates (DKK 5.1 per 100 kg of milk). This supplementary payment is corrected for the date of payment.

When making the supplementary payment Arla also calculates in the balance of seasonal levies and premiums for each dairy farmer². For the 'standard' company it is assumed that this balance will be zero. However, from May to December 2009 Arla cut out the butyric acid test for reasons of cost and raised the milk price in compensation for the loss of the corresponding quality premium.

FrieslandCampina's milk price consists of a guaranteed price and a performance premium. The guaranteed price is not dependent on the company's results and is based on the weighted average of the milk prices paid by other dairy companies in the Netherlands (DOC Kaas, Bel Leerdammer and CONO Kaasmakers) and in neighbouring countries (Milcobel in Belgium, Arla

² Starting in 2009 Arla reintroduced the system of seasonal premiums and levies that had been in operation until 2007. Under this system the seasonal premiums and levies were not included into the monthly milk payment but held until after the end of the year and the balance paid then.

Foods in Denmark and the average of 12 dairy companies in Germany). The performance premium depends on the profits. For 2009 the calculated guaranteed price was EUR 25.35 per 100 kg of standard milk and the performance premium was 2.12%. In addition 1.327% of the guaranteed price was paid in the form of member bonds. The calculated supplementary payment, including the issue of member bonds and corrected for the date of payment, amounted to EUR 0.86 per 100 kg.

The year 2009 was a difficult one for Belgian dairy farmers and as a result **Milcobel** made its supplementary payment earlier than usual. In February 2010 the member dairy farmers received EUR 0.70 per 100 litres. Corrected for the time of payment and converted into kilograms the calculated supplementary payment is EUR 0.67 per 100 kg of standard milk.

Milcobel's calculated milk price does not include the so-called 'FEDIS' solidarity premium. After blockades and street actions by farmers the members of FEDIS, a federation of shops and supermarkets in Belgium, for six months paid a sum of 0.14 Eurocent per litre sold of liquid milk for consumption into a special solidarity fund for dairy farmers in Belgium. In total this fund reached EUR 27 million which worked out at an additional 1.8 Eurocent per litre on the ex-farm milk price for a period of six months. As this supplement is separate from the price paid by Milcobel itself it has not been included in the calculated milk price. In effect the dairy companies were only functioning as a channel for passing the money on to the farmers.

The calculated milk price for **Humana Milchunion** included, retrospectively from January 2009, the supplementary payment of EUR 0.65 per 100 kg, paid in November and December, just as in previous years. Because the member dairy farmers do not get paid compensation for the interest on capital invested in the company of EUR 4.40³ per 100 kg the milk price is corrected with a negative supplementary payment of EUR 0.16 per 100 kg, corresponding to the calculated loss of interest ($0.16 = 3.76\%^4$ of 4.40).

In **Alois Müller's** milk price a supplementary payment of EUR 0.46 per 100 kg is included for 2009.

First Milk suffered a loss of GBP 7.1 million in the financial year ending 31 March 2009 as a consequence of the decision to support the milk price at the expense of the general reserves.

For 2009 member dairy farmers of **DOC Kaas** received a supplementary payment of 4% of the advance milk price (excluding quantity and quality premiums): a sum of EUR 0.68 per 100 kg was paid to the members. This payment was included in the calculated supplementary payment because compensation was paid corresponding to a market rate of interest. Corrected for the time of payment the supplementary payment is EUR 1.54 per 100 kg.

Nordmilch has now started paying market-related compensation on capital invested. Accordingly the milk price is no longer being corrected, as it was in previous years. Previously a negative supplement was calculated by way of correction.

The 'pain' of the low milk prices in Ireland was slightly relieved for dairy farmers by the dividends paid by **Glanbia plc** and **Kerry Group plc**. Both are companies quoted on the stock exchange with many shares in the hands of active and former dairy farmers. Shares are held both by individual (ex) dairy farmers and collectively by cooperatives. Kerry Co-op Creameries limited holds 24% of the shares of Kerry, while Glanbia Co-operative Society limited holds 54%. These dividend payments⁵ are not included in the calculation of milk prices because they bear no direct relation to the quantity of milk delivered.

From April 2009 Glanbia has operated the so-called A + B - C system, or one protein value (A) plus one fat value (B) minus costs (C). Glanbia's calculated milk price includes seasonal premiums of 4 Eurocents/litre in January and February and 1.5 and 5.5 Eurocents/litre, respectively, in October and November.

³ The sum that the members must invest in Humana depends on the size of the farm. Every dairy farmer who delivers 500 000 kg of milk yearly must invest a sum of EUR 4.40 per 100 kg.

⁴ Interest on 10-year government bonds.

⁵ For 2009 the Glanbia cooperative paid a dividend totalling EUR 7 million. This sum corresponds to 0.4 – 0.5 Eurocent per kg of milk.

4.3 New Zealand and the United States

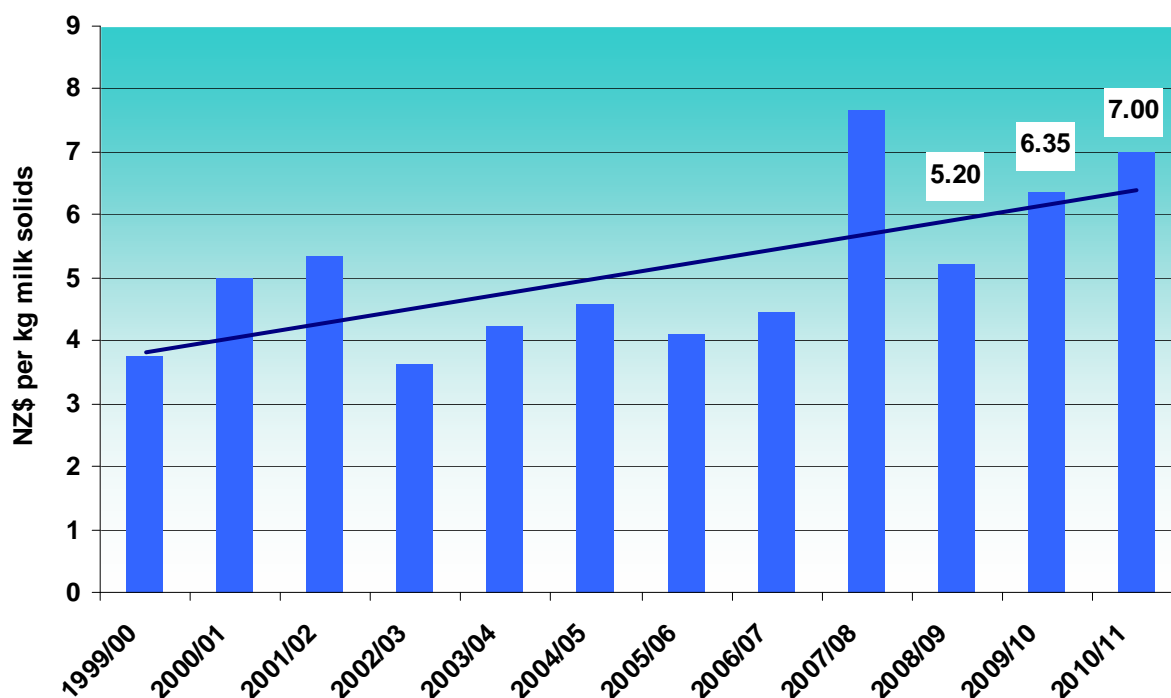
Fonterra's milk price is based on payment per kilogram of fat and protein (milk solids) and the milk price year in New Zealand runs from 1 June to 31 May. As the prices in this milk price comparison are calculated per calendar year the drop in 2009 remained modest. The very sharp fall in price seen in 2008/2009 in comparison with 2007/2008 was limited in calendar year 2009 by the increase in prices in 2009/2010.

For milk price year 2008/2009 Fonterra's milk price was NZD 5.20 per kg of milk solids. This payment per kg of milk solids consists of a milk price of 4.72 plus distributable profit bonus of 0.49 and minus a retention of 0.01. The milk price in 2007/2008 was NZD 7.66 per kg of milk solids⁶. In the conversion of milk prices to the calendar year the 2009-2010 milk price was taken, provisionally, to be NZD 6.35 per kg of milk solids. This provisional milk price is based on the latest forecast from Fonterra⁷. In September 2010 Fonterra will make the definitive milk price known.

For the milk price year from 1 June 2010 to 31 May 2011 Fonterra has made a forecast that the milk price, including distributable profit bonus, will lie between NZD 6.90 and NZD 7.10 per kg of milk solids.

Figure 3 shows that in the course of the years Fonterra's milk price has fluctuated more and more, although with a steady tendency to increase.

Figure 3. Fonterra milk prices 1998/99 to 2010/11 (NZ\$ per kilogram of fat and protein (milk solids))



For milk prices in the **United States** the so-called Class III milk price is taken as the indicator and converted to the standard milk used for purposes of this international comparison. The Class III price relates to milk with a fat content of 3.5% intended for processing into cheese. Milk prices are calculated on the basis of the monthly announcements of prices of milk and its components made

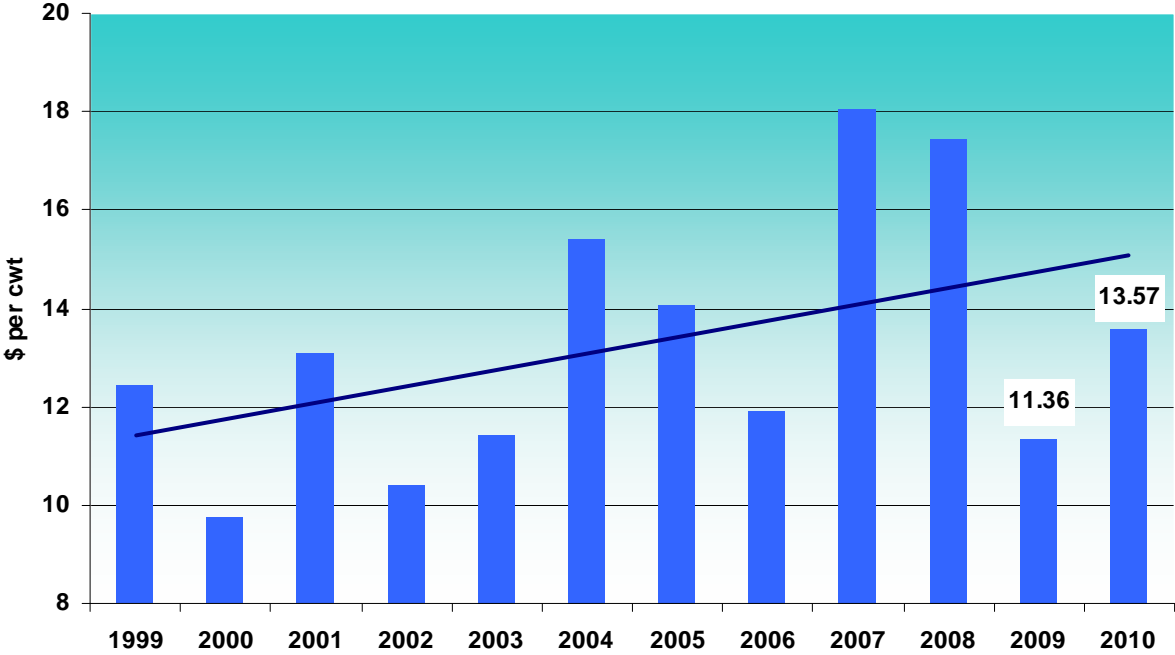
⁶ In the previous publication the Fonterra milk price was calculated on the basis of a 2007/2008 milk price of NZD 7.90 per kg of milk solids (milk price 7.59 + distributable profit bonus 0.31). However, on this occasion the retention sum of NZD 0.24 was, incorrectly, not deducted.

⁷ Fonterra forecasts a milk price of NZD 6.10 per kg of milk solids for 2009/2010 plus a distributable profit bonus of 40-50 NZ cents and minus a retention of 10-30 NZ cents. On the basis of these projections a milk price of 6.10 + 0.45 - 0.25 = NZD 6.35 is assumed.

by the US Department of Agriculture (USDA). The year 2009 was a very bad year for US dairy farmers, as appears from Figure 4. However, in the first 5 months of 2010 the Class III milk price rose by USD 13.57 per US hundredweight (100 lb = 45.36 kg).

Just as with Fonterra it is noticeable that US milk prices have fluctuated increasingly in the course of the years, but also show an upward trend.

Figure 4. Class III milk price in the United States (\$ per cwt)



NB For 2010 the average for January to May is taken as the basis.

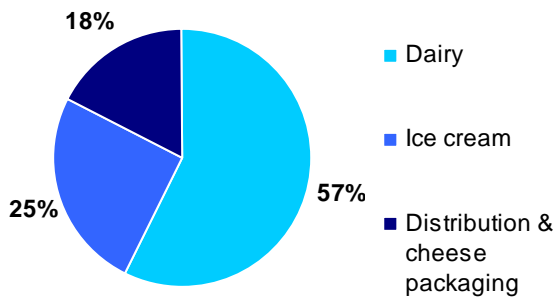
Annex I Key figures dairy companies

Source: annual reports of dairy companies

Milcobel

Milcobel collected in 2009 7.4% more milk by an average of 3,380 suppliers. With the increased milk production and reduced membership was the average delivery volume 315,700 liters. The total milk delivery was in 2009 1.067 billion liters.

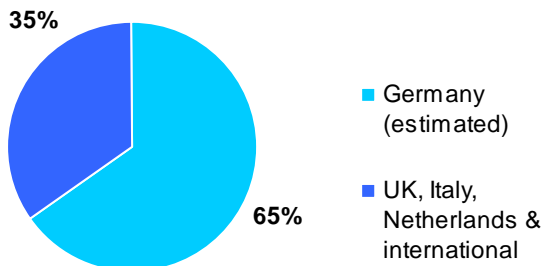
Turnover share Milcobel 2009 (in%)



Alois Müller

Alois Müller is one of the largest milk producers in Germany and the United Kingdom. The turnover of the company in 2008 amounted 2.3 billion euros.

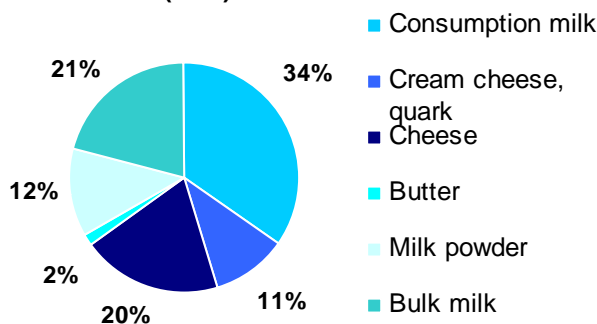
Turnover per country Alois Müller 2007 (in %)



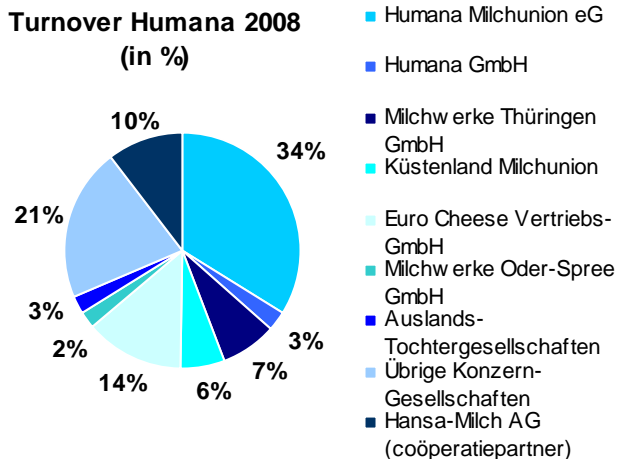
Humana Milchunion

Humana Milchunion is the second largest milk processor in Germany.

Production share Humana 2008 (in %)



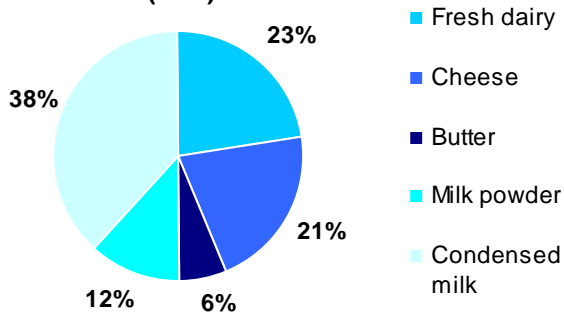
Turnover Humana 2008 (in %)



Nordmilch

The north German company Nordmilch is flexible to market a versatile product package into milk powder, sustainable milk and fresh milk. In 2009 this product package was set for 38% from condensed milk and 23% of fresh products, which together comprise the largest share.

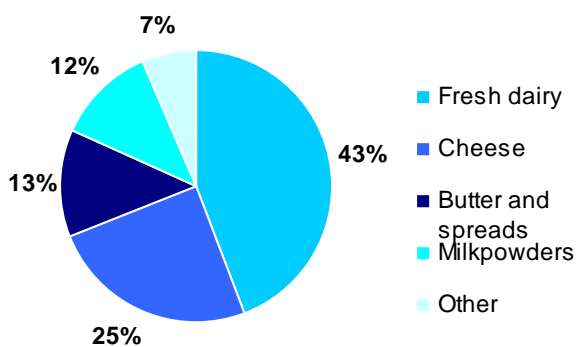
Product share Nordmilch 2009 (in %)



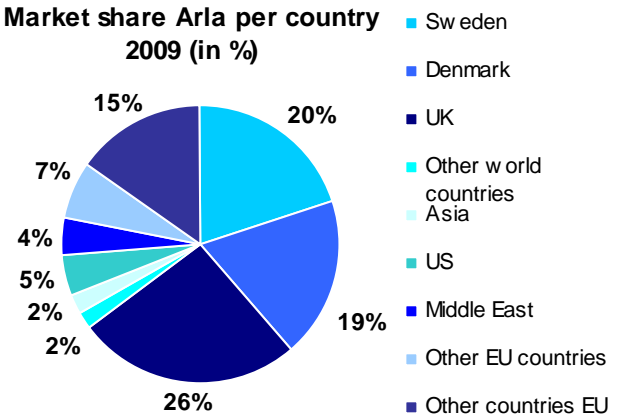
Arla Foods

Arla Foods is a dairy co-operation owned by almost 8,000 Danish and Swedish dairy farmers.

Product share Arla 2009 (in %)



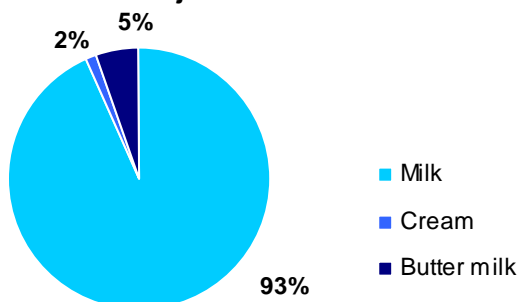
Market share Arla per country 2009 (in %)



Hämeenlinnan Osuusmeijeri

Hämeenlinnan Osuusmeijeri is focused on fresh milk, but they have also cream and butter milk in the product package. All these products are marketed by Arla Ingman Foods, the second dairy company in Finland (after Valio), since the summer of 2008 wholly owned by Arla Foods.

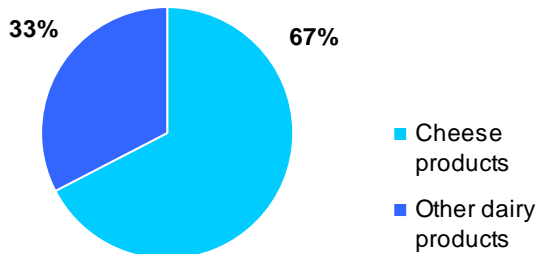
Product share Hämeenlinnan Osuusmeijeri 2008



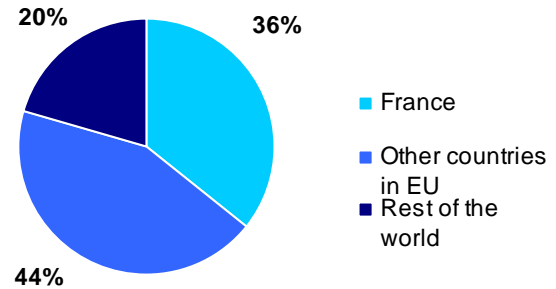
Bongrain

In France, Bongrain is one of the largest dairy companies. The company is world leader with their specialty cheese and located in 26 countries.

Product share Bongrain 2009 (in %)



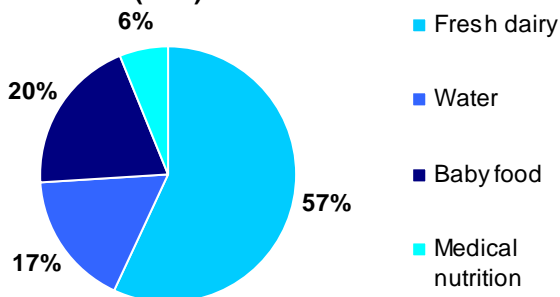
Net sales by countries Bongrain 2009 (in %)



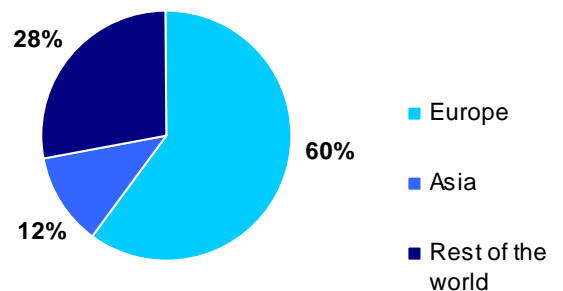
Danone

Danone processed 4.5 billion liters of milk over the world, supplied by 24,000 dairy farmers from more than 20 countries. Danone sees itself as a world leader in fresh dairy products with a market share of 20% worldwide and presence in 40 countries.

Product share Danone 2009 (in %)



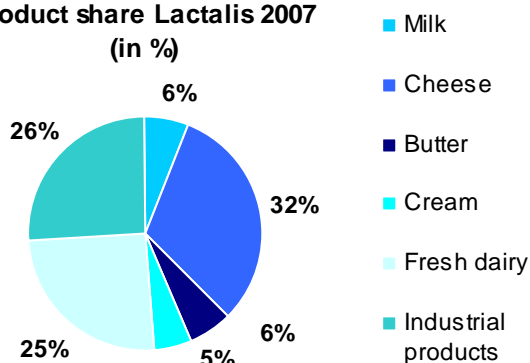
Market share Danone 2009 (in %)



Lactalis

More than half (56%) of the processed milk from Lactalis is supplied in France. Their production is mainly cheese, butter and cream. The company has worldwide over 125 plant sites who are processing 9 billion liters of milk.

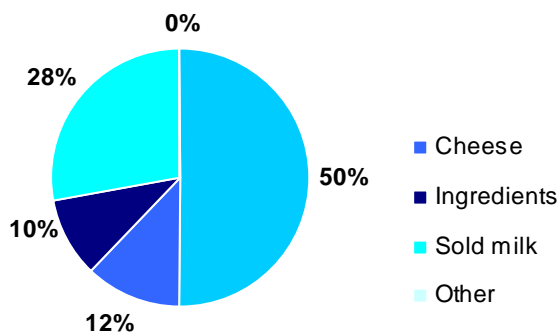
Product share Lactalis 2007 (in %)



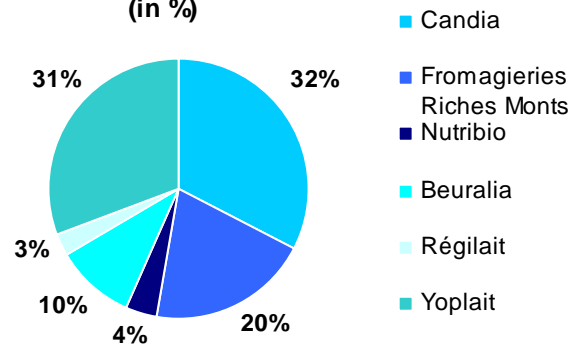
Sodiaal

The French dairy company Sodiaal has its marketing area in Western Europe with France as home. In 2009 8,572 milk suppliers delivered average 257,705 liters of milk. The total milk delivery in 2009 was 2.213 billion liters of milk.

Production share Sodiaal 2009 (in %)



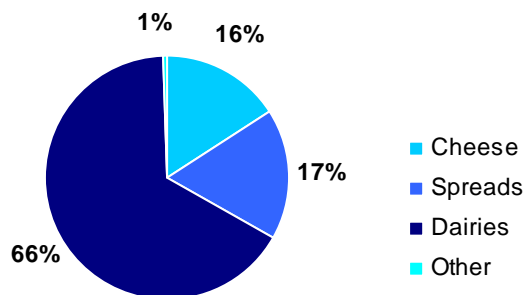
Product revenue Sodiaal 2009 (in %)



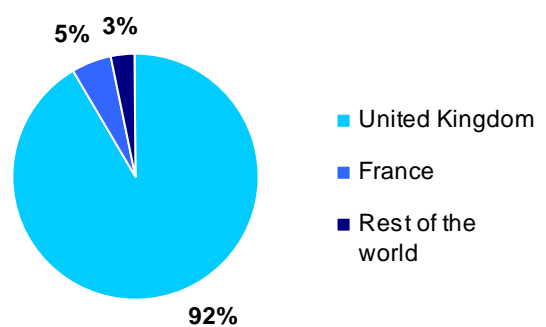
Dairy Crest

Dairy Crest sells its products to various British supermarket chains. Flagship brand, Cathedral City, is the leading cheese brand in the UK. It is made at the creamery in Davidstow, Cornwall. Dairy Crests financial year is from the 1st of April 2009 till the 31st of March 2010.

Revenue per product Dairy Crest 2009 (in %)



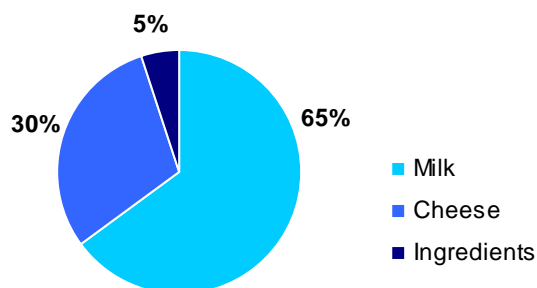
Revenue per country Dairy Crest 2009 (in %)



First Milk

First Milk is the largest dairy co-operation in the United Kingdom with 2,600 members. First Milk's financial year is from the 1st of April 2009 till the 31st of March 2010.

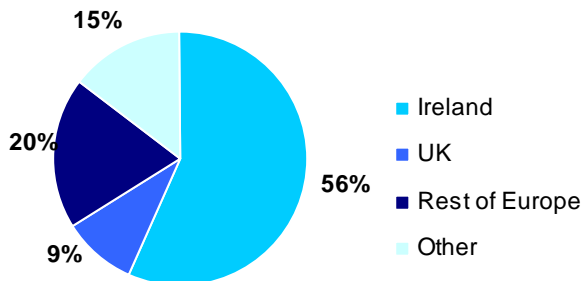
Product share First Milk 2009 (in %)



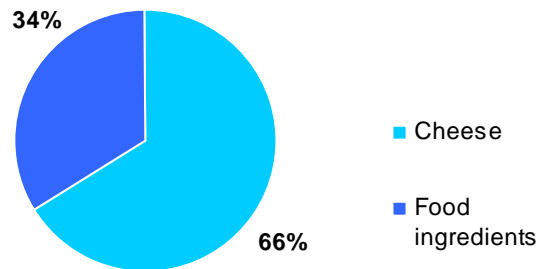
Glanbia

Glanbia Group is located in Ireland, United States, Mexico and Nigeria. In 2009 the dairy processed worldwide 5.3 billion liters of milk.

Revenue per country Glanbia Group 2009 (in %)



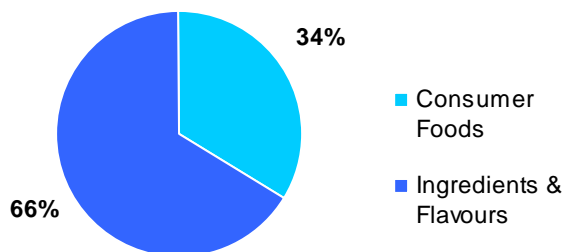
Product share Glanbia Group 2008 (in %)



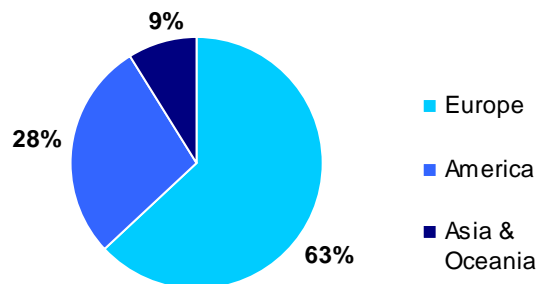
Kerry

Ireland's Kerry Group is an international company. Kerry Foods supplies the largest supermarket chains in Ireland and the United Kingdom. Turnover of the company group decreased slightly compared to previous year to 4.5 billion euros in 2009 (2008: € 4.8 billion).

Production share Kerry 2009 (in %)



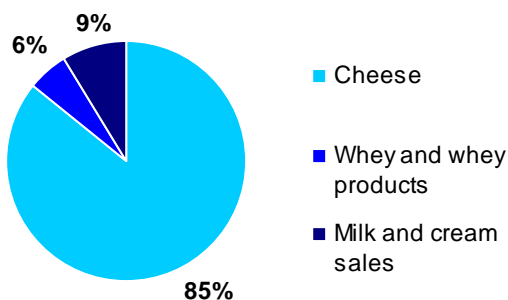
Market share per country Kerry 2009 (in %)



DOC kaas

The Dutch dairy company DOC Kaas processed 85% of its milk into cheese, 6% goes to whey products and the remaining 9% to milk and cream sales. Almost all production (99.6%) is sold in the Netherlands.

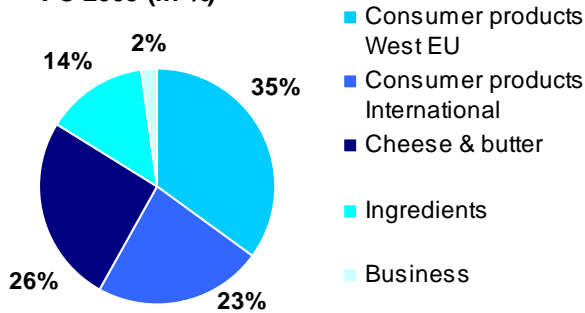
Product share DOC Kaas 2009 (in %)



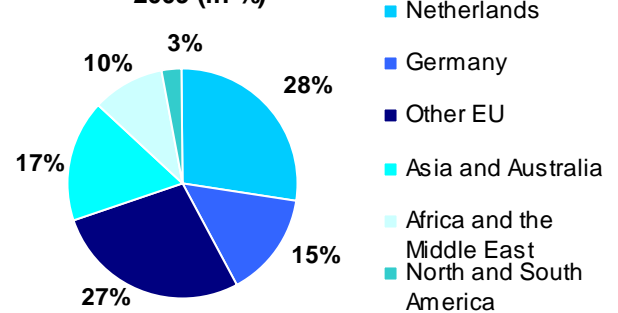
FrieslandCampina

The dairy FrieslandCampina achieved in 2009 28% of the total turnover in the Netherlands. 15,236 members dairy farms from the Netherlands, Germany and Belgium supplied the milk. Total milk delivery in 2009 from members was 8.685 billion liters.

**Turnover per division
FC 2009 (in %)**



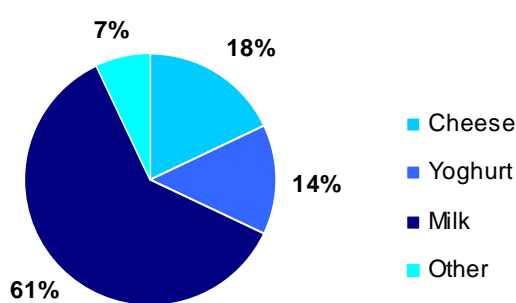
**Market revenue per country FC
2009 (in %)**



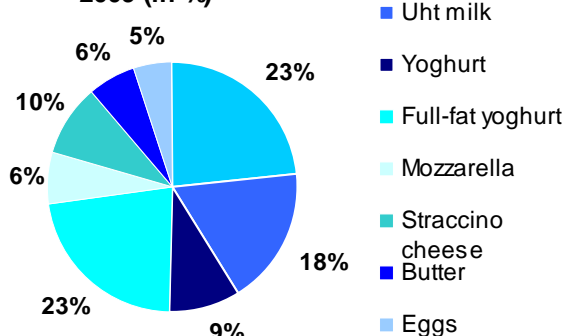
Granarolo

The unlisted Stock Exchange company Granarolo Group is the largest fresh milk producer in Italy. In 2009 the company processed 700 million liters of milk. The turnover decreased with 7% compared with the previous year to 900 million euros.

**Revenue Granarolo per product
2009 (in %)**



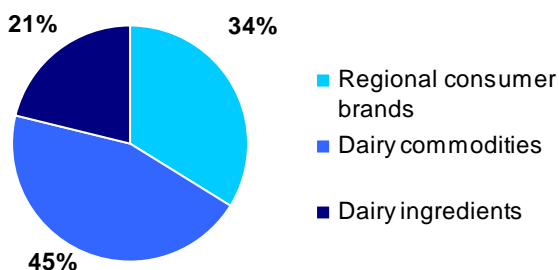
**Market share per product
2009 (in %)**



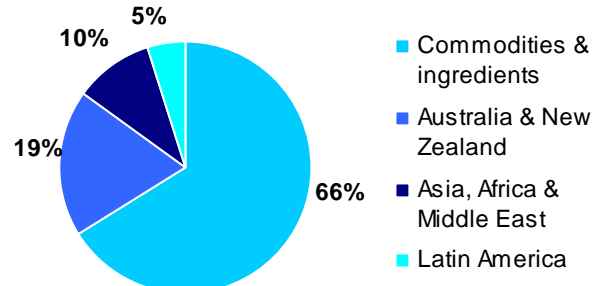
Fonterra

The total milk production of New Zealand dairy company Fonterra was in season 2008/09 1.281 billion kg Milk Solid. This milk is supplied by 11,000 dairy farmers from across New Zealand and consumed over 140 countries.

**External sales revenue Fonterra
2009 (in %)**



**Segment revenue Fonterra 2009
(in %)**



Annex II Milk prices 1999 to 2009

Table 6. Milk prices 1999 to 2009

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average	
Hämeenlinnan O.	33.94	34.27	35.62	36.20	36.03	36.07	34.95	36.03	37.61	44.43	39.52	36.79	(1999 to 2007)
Campina	30.90	30.94	33.39	33.00	30.76	29.96	29.52	28.56	33.16			31.55	
Arla Foods DK	31.80	32.27	33.05	33.08	32.09	30.13	29.39	28.80	31.70	36.42	27.51	31.48	(2007 to 2009)
Danone (Pas de Calais)	31.05	31.82	33.00	32.00	31.57	30.66	30.06	29.02	30.79	35.91	29.65	31.41	
Alois Müller									34.92	34.34	24.56	31.27	
Lactalis (Pays de la Loire)	31.02	31.75	33.08	31.87	31.61	30.70	29.77	28.70	30.48	35.27	29.34	31.24	
Bongrain (Basse Normandie)	30.95	31.71	32.90	31.79	31.38	30.46	29.72	28.81	30.68	35.47	29.58	31.22	
FrieslandCampina 1)	30.64	31.94	34.03	32.10	30.80	30.03	29.25	28.73	33.61	35.36	26.22	31.15	
Sodiaal Union	30.55	32.07	33.19	31.71	31.12	29.97	29.11	28.13	30.49	35.58	29.66	31.05	
Milcobel	28.82	32.05	32.91	30.29	30.30	30.73	29.18	28.33	35.37	32.65	25.25	30.53	
Humana MilcHunion eG	29.49	30.76	33.42	31.35	29.87	29.08	27.99	27.76	33.54	35.20	25.06	30.32	(2007 to 2009)
DOC Kaas									35.68	30.97	23.47	30.04	
Glanbia	30.32	30.89	31.77	29.40	28.89	28.88	27.39	26.54	32.95	33.54	22.67	29.39	
Nordmilch	29.00	30.19	33.09	28.99	27.67	27.98	27.61	27.15	32.15	31.42	23.43	28.97	
Kerry Agribusiness	28.74	29.44	30.49	28.58	28.11	27.75	27.15	26.14	32.70	33.03	22.71	28.62	
Dairy Crest (Davidstow)/Arla UK	28.13	27.13	30.66	28.22	26.48	27.53	27.32	27.97	29.70	32.73	27.88	28.52	
First Milk	25.93	25.95	29.39	25.80	24.77	25.52	25.39	24.40	27.34	31.03	24.24	26.34	
Average 2)	30.09	30.88	32.67	30.96	30.10	29.70	28.92	28.34	32.52	34.58	26.92	30.88	
Granarolo (North)										41.05	34.75	37.90	(2008 to 2009)
Fonterra	13.74	16.75	18.45	15.96	15.74	18.19	18.49	17.28	25.67	22.75	20.75	18.52	
USA class III	29.00	26.61	36.89	27.72	25.04	31.33	28.16	23.47	32.12	29.37	20.24	28.18	

1) To 2008 FrieslandFoods.
2) From 2007 inclusive Alois Müller and DOC Kaas, from 2008 exclusive Campina.

Annex III Average currency exchange rates

Table 7. Average currency exchange rates 2009 and 2008

	2009	2008	2009/2008
British Pound	1.1242	1.2599	-10.8%
Danish Crown	0.1343	0.1341	0.1%
US Dollar	0.7200	0.6837	5.3%
New-Zealand Dollar	0.4542	0.4845	-6.3%