

***LTO International comparison
of producer prices for milk***

2004



*prezzi di latte • melkrijzen • prix du lait
milch preise • mjölk priser • milk prices • maelk priser*

COLOPHON

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Foreword

It is with pleasure that I am once again able this year to present a milk price review for a number of important European dairy companies. This milk price comparison is regularly used internationally as a reliable reference in respect of milk prices paid. In this context it is important that this study is carried out, but, of course, it is also intended to inform dairy farmers of how things now actually stand as far as milk prices paid are concerned.

There was a great deal of discussion last year in Europe about the continually falling milk prices as a consequence of amendments to the EU Agricultural Policy and the increasing competition between the supermarkets. It is striking that the situation on the world dairy market was reasonably favourable last year, but as a result of the cut-backs in EU policy European dairy farmers have hardly been able to benefit from this.

The fact is that the milk price is at a historical low. At first sight it appears that the dairy premium is higher than the fall in the milk price, but the fact that the fall in the intervention price was implemented only from July indicates that the effect will be greater over a complete year.

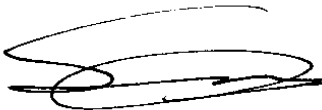
The trend in the ten new member states is striking. Milk prices are increasing rapidly towards the "western" price and the markets in these member states offer new opportunities for companies with added value products.

The forthcoming years will be dominated by a further cut-back in product-related support and further liberalisation of world trade. A fresh attempt to conclude a WTO agreement is being made in 2005. This could have a substantial influence on any further reforms of EU policy. It is therefore also important that European dairy companies are prepared for this.

When assessing the performances of dairy companies it is necessary thus not only to look at the milk prices paid but also at the market position and continuity of the various companies.

The objective of the milk price comparison is to make a substantive contribution to the discussion, by dairy farmers for dairy farmers.

I should like to thank the compilers for the work they have carried out and hope that by means of this comparison you will gain insight into the trends in the European dairy farming and dairy sector.



Siem-Jan Schenk
Chairman Dairy Committee Dutch Organisation for Agriculture and Horticulture (LTO-Nederland)

1. Introduction and contents

1.1 Introduction

At the request of the Dairy farming committee of the Dutch farmers union (LTO-Nederland), the LTO International Milk Price Comparison is published monthly (www.milkprices.nl). This is a comparison of the milk prices paid by large European dairy companies and is produced in association with European Dairy Farmers (EDF), which collates and provides the milk price data. The calculations are performed by Dutch Dairy Board (Productschap Zuivel).

The aim of the LTO International Milk Price Comparison is to improve the transparency of the dairy market for farmers.

With the method chosen a calculation is made to determine what price a dairy farmer would receive if the milk were to be supplied in a specific composition, quality and amount to another dairy company.

Chosen standards are:

- 4.20% fat and 3.35% protein;
- annual delivery of 350,000 kg;
- total bacterial count is 24,999 per ml and somatic cell count 249,999 per ml.

The prices are exclusive of VAT, ex farm and inclusive of supplementary payments for the distribution of end-of-the-year profits.

It must be emphasised that this is not a comparison of the average milk prices paid. The average milk price paid by a dairy company is dependent on the actual composition, quality, amount, etc. of the milk supplied. It is also not possible to draw any conclusions with regard to the performance of the companies on the basis of the milk prices paid. After all, many more factors play a role in the assessment of this.

After the end of each calendar year a report is presented containing the calculated milk prices for the year concerned. The monthly milk prices are weighted on the basis of the national seasonal pattern of deliveries to get a calendar year average.

The annual report is published when the supplementary payments over the preceding financial/calendar year are also known and can thus be incorporated in the calculated milk prices.

1.2 Contents

In chapter 2 firstly the milk prices for 2004 are presented (paragraph 2.1), followed by information about the selected companies (paragraph 2.2) and the milk prices in the USA and New Zealand (paragraph 2.3). The trend in milk prices in the ten new EU member states is then discussed in paragraph 2.4 and finally a review of the trends in milk prices from 1999 to 2004 is given (paragraph 2.5).

Prospects for the current milk price year 2005 are given in chapter 3.

Both this report and previous publications can be downloaded via the Internet (see the colophon).

2. Milk Prices

2.1 Milk prices 2004

The average milk price¹ of fourteen large European dairy companies in 2004 was € 29.23 per 100 kg standard milk². This is € 0.53 per 100 kg, i.e.1.8%, lower than in 2003.

Table 1 Milk price calculations in euro per 100 kg

	2004			2003			2004/2003	2004/2003 (national currency ²)
	Milk price	Rank	Av=100	Milk price	Rank	Av=100		
Kymppi	35.74	1	122	35.69	1	120	0.1%	
Lactalis	30.41	2	104	31.32	4	105	-2.9%	
Danone	30.35	3	104	31.26	5	105	-2.9%	
Bongrain	30.28	4	104	31.19	6	105	-2.9%	
Milcobel	30.04	5	103	29.61	10	99	1.5%	
Arla Foods DK	29.79	6	102	31.74	3	107	-6.1%	-6.0%
Arla Foods S	29.72	7	102	31.95	2	107	-7.0%	-6.9%
Sodiaal	29.57	8	101	30.71	7	103	-3.7%	
Friesland Foods	29.54	9	101	30.41	8	102	-2.8%	
Campina	29.32	10	100	30.11	9	101	-2.6%	
Humana	28.54	11	98	29.34	11	99	-2.7%	
Nordmilch	27.65	12	95	27.34	14	92	1.1%	
Kerry	27.50	13	94	27.86	12	94	-1.3%	
Glanbia	27.31	14	93	27.34	13	92	-0.1%	
Arla Foods UK	27.17	15	93	26.13	15	88	4.0%	2.1%
First Milk	24.83	16	85	24.15	16	81	2.8%	0.9%
Average¹⁾	29.23		100	29.76		100	-1.8%	

¹⁾ Arithmetic average

²⁾ Milk price change (%) in national currency for non euro countries³.

Lower fall than anticipated, but still historically low

The most striking aspect is that despite the reductions in the intervention price in 2004 and the restrictive EU market management the fall in the average milk price has remained restricted to 1.8%. There are even companies that paid a higher milk price in 2004 than in the preceding year. This limited fall in the milk price is the consequence of the relatively good market situation. Incidentally, it must be pointed out in this context that in several countries the milk prices have currently fallen to a historically low level. Thus, for example, in Germany and Denmark the milk prices over the past 25 years have never been so low as in 2004!

¹ Three milk prices are calculated for Arla Foods, i.e. for the Danish and Swedish member suppliers and for the English suppliers to Arla Foods UK. Therefore in total sixteen milk prices are calculated for the fourteen companies.

² This report is based on standard milk containing 4.2% fat, 3.35% protein, and a bacterial count of 24,999 per ml, a somatic cell count of 249,999 per ml and a yearly delivery of 350,000 kg. Unless indicated otherwise, the milk prices are exclusive of VAT, ex farm and inclusive of supplementary payments.

³ See also appendix table 8.

Arla Foods shows largest fall

The substantial fall in the milk price paid by Danish/Swedish Arla Foods is a second very striking fact. Whereas in recent years Arla's milk price was a 'tower of strength' – relatively high and constant – in 2004 Arla Foods paid 6-7% less to its member dairy farmers⁴. Arla appears to be losing its dominant position on the Danish and Swedish home market to foreign competitors, in particular due to the advance of discount stores and the dented image of Arla, in particular with the Danish consumer. The sales of special types of cheese, such as Feta, also shrank in the last financial year. In addition, Arla – just like many other dairy companies – was, of course, faced with lower export revenues as a result of a low dollar exchange rate and reduced export refunds.

Finland still in the lead

The Finnish Kymppi group was able to maintain its milk price over 2004 at €35.74 per 100 kg standard milk at the high 2003 level. Nevertheless, the majority of dairy farmers in Finland saw their milk price fall last year. According to its annual figures, Valio, which processes approximately 80% of Finnish milk lowered the milk price in 2004 compared with 2003 by 1 € from 37.8 to 36.8 € per 100 litres (NB for actual contents). Nevertheless, the Finnish dairy companies remain in the lead in this milk price comparison. The difference in milk price compared with the other dairy companies has even increased.

Higher milk prices for Nordmilch and Milcobel

The restructuring of the German company Nordmilch appears to be bearing fruit in the form of a higher milk price in 2004. The higher milk price paid by the Belgian company Milcobel (previously Belgomilk) is the result of the good operating results that were recorded for the sales of powdered milk, cheese and ice cream. In addition, Belgomilk members profited from the sale of a few fixed assets via a one-off higher supplementary payment prior to the merger with BZU.

Substantial falls, but nevertheless still relatively good French milk prices

Despite the fact that milk prices showed an above average fall, the French dairy companies – with the exception of the cooperative Sodiaal – were able to maintain their good position in the rankings in 2004. Although French dairy farmers frequently criticise the national price agreements, these do not seem to have done the French dairy farmers much harm. The lower milk price paid by Sodiaal is partly a result of their more stringent quality requirements as a result of which the quality premium of €0.75 per 100 litres no longer applies to standard milk (see also paragraph 2.2).

Despite high supplementary payments, nevertheless substantial falls in the milk price in The Netherlands

Despite the relatively high supplementary payments, Friesland Foods and Campina have not been able to improve their position in the rankings for milk prices paid. The milk price paid by Friesland Foods is determined by the trends in the milk prices for five index companies. Friesland Foods did achieve higher profits in 2004 than in the previous year. Approximately €0.30 per 100 kg of this profit was distributed to the members, but has not been included in this milk price comparison (see paragraph 2.2).

The operating results of both Friesland Foods and Campina were adversely affected by the falling sales prices for dairy products in Western Europe as a consequence of the substantial pressure on prices by the supermarkets. In The Netherlands there was even said to be a price war between the supermarkets. In addition to lower prices, this led to an increase in the sales of private labels and sales by discount stores. Also companies in other countries were faced these price pressure by supermarkets.

⁴ Although Arla Foods pays the same milk price to its Danish and Swedish member dairy farmers, there are differences in the milk prices expressed in euros as a consequence of exchange rate fluctuations (for the Swedish Crown in particular).

Lowest milk prices in the United Kingdom and Ireland

UK dairy farmers did receive a higher milk price in 2004, but still received the lowest milk prices. Because the average value of the British pound rose in 2004 compared with the euro, the price rise expressed in the national currency was not as high, specifically 2.1 and 0.9% for Arla UK and First Milk, respectively. The exchange rate for the British pound had an influence not only on the conversion of the milk prices to euros, but also on the general dairy market situation in the United Kingdom. The fall in the British pound during the second half of 2004 – in addition to the relative shortage of skimmed milk powder – largely wiped out the fall in the intervention prices (in euros).

The reason why the largest British dairy cooperative First Milk pays the lowest milk prices is that the majority of the quantity of farm milk collected is sold on to third parties without processing. This makes First Milk dependent on the (usually private) processing industry. Thus, bundling the supply of farm milk without sufficient processing capacity does not appear to create market power here.

As a result of the relatively high production of butter, skimmed milk powder and caseine, Ireland is highly dependent on the European market and price support. Therefore it is striking that Glanbia and Kerry lowered their milk prices relatively little over 2004, despite the substantial reduction in support from Brussels. Apparently the reduction in support was compensated for by the good market prices for these basic products. In addition, as a result of their international activities, Glanbia and Kerry also profited from a good market situation in the United States and from good market prices for other product categories with more added value, such as food ingredients.

Also high Italian milk prices

The monthly calculation and publication of the Parmalat milk prices ceased from January 2004 onwards as a result of their financial problems. As an alternative milk price information is gathered about the Granarolo Group⁵, the second player in the Italian dairy sector.

Based on price information from Granarolo and their payment system, a comparable milk price is calculated. In 2004 an estimated price of € 35.70 per 100 kg standard milk is paid by Granarolo to their producers in North Italy, the main dairy region. In 2003 Granarolo paid a similar price.

This means the level and development of milk prices of Italian Granarolo is comparable with the Finnish company Kymppi, who is in the lead of the milk price comparison.

Trend in the dairy market in 2004 better than expected

The cautious upward trend that manifested itself in the trend in prices on the European dairy market at the end of 2003 came to an abrupt end at the start of 2004. Sales prices fell under the influence of the uncertainty with regard to the future effects of the admission of ten new member states as well as dairy policy reform.

However, a number of factors prevented a rapid fall in the market, such as the milk supply which remained at a lower level throughout 2003 and stable sales. Exports in particular relieved the pressure on the internal market. As a result, the intervention regulation was only used sparingly.

With effect from July 2004, the intervention prices were reduced by 7% and 5% for butter and skimmed milk powder, respectively. As a result of the favourable market conditions (low supply compared with a larger demand) the market price for dairy products was in general able to improve independently of the lower intervention prices.

A good import demand from developing countries and a limited supply elsewhere provided a positive trend in the prices for dairy products on the world market throughout the year. The high price level in dollars results from a combination of two factors: a lack of market equilibrium and a weak dollar. As a result of the continuing fall in the dollar and the restrictive support and price policy from Brussels (the refund and support amounts fell by 35 to 40% on average!) the high world market prices hardly succeeded in driving prices upwards on the internal market, but at least kept the market stable.

⁵ The Granarolo Group is organised in two separate areas: a cooperative of milk producers which collects the raw milk and a joint stock company Granarolo S.p.A which is responsible for transforming and marketing of dairy products (dairy turnover 2004: € 0.85 billion).

The (Dutch) official quoted prices⁶ for skimmed milk powder and butter were on average 0.6% higher respectively 1.5% lower in 2004 than in 2003.

Just as in the previous year, both production and sales on the European cheese market increased further in 2004. After flat prices during the major part of the year, there was a cautious rise in the internal prices at the end of the year as a consequence of the favourable market and minimal stock position⁷. Taken over the entire year, the average price was at approximately the same level as in 2003. As a result of the low exchange rate for the dollar and the reduction in export refunds, the EU dairy industry was not able to benefit from the high price level for cheese on the world market.

In addition to the positive trend on the world market, the trends in the 10 new member states did not have an adverse effect on the EU dairy market. On balance the new member states offered additional sales opportunities, in particular for products with more added value.

Dairy premium a plaster on the wound

When the EU dairy policy was reformed it was decided to pay dairy farmers approximately 60% as compensation for the reductions in the intervention price. Over 2004 dairy farmers received an individual income compensation of € 1.18 per 100 kg milk⁸, whilst milk prices fell by on average € 0.53 per 100 kg. This difference can be explained as follows.

Firstly, the level of the dairy premium was based on the fall in the intervention prices over a complete calendar year, whereas the intervention prices were lowered only halfway through the year (1 July). Mathematically, the dairy premium for the first year is thus in any case greater than the fall in the intervention price.

In addition, in 2004 there was a very good (international) market situation. Without the restrictive EU policy, milk prices would very probably have risen in 2004. The latter comment relates to the absolute level of the milk price. There was already a very low milk price in 2003. As a result of the further reduction in 2004, milk prices are currently at their lowest level for decades in many countries.

In brief, the dairy premium does not wrap dairy farmers in cotton wool, but it is just a plaster on the wound.

⁶ See also appendix graphs 5 and 6.

⁷ See also appendix graph 7.

⁸ Including € 0.366 per 100 kg from the so called national dairy envelope.

2.2 Dairy companies

In the LTO International Milk Price Comparison sixteen milk prices for fourteen major European dairy companies from eight different countries are calculated. Three milk prices are quoted for Arla Foods, specifically for the Swedish and Danish member dairy farmers and the British suppliers to Arla Foods UK.

Of the fourteen dairy companies, eight belong to the twenty largest dairy concerns in the world (see Table 2). Dairies included in the LTO International Milk Price Comparison are underlined.

Table 2 Top 20 World dairy companies

	Company	Country	Dairy turnover (€ billion)
1	Nestlé	CH	14.7
2	Dean Foods	USA	7.0
3	Dairy Farmers of America	USA	6.8
4	<u>Danone</u>	F	6.5
5	<u>Arla Foods</u>	DK/S	6.4
6	Fonterra	NZ	6.3
7	<u>Lactalis</u>	F	5.7
8	Kraft Foods	USA	5.0
9	Unilever ¹	NL/UK	4.8
10	<u>Royal Friesland Foods</u>	NL	4.3
11	<u>Bongrain</u>	F	4.1
12	Meiji Dairies ²	Japan	3.7
13	<u>Campina</u>	NL	3.6
14	Morinaga Milk Industry	Japan	3.3
15	Parmalat	I	3.3
16	Land O'Lakes	USA	3.2
17	<u>Humana Milchunion</u>	D	2.7
18	Saputo	Canada	2.3
19	Schreiber Foods ¹	USA	2.3
20	<u>Nordmilch</u>	D	2.1

Source: Rabobank International, ranked by dairy turnover in EUR billions, 2004 + mergers & acquisitions in 2005

¹⁾ Estimate

²⁾ Year ending March 2004

The other six dairy companies for which milk prices are calculated, i.e. Sodiaal (F), Belgomilk (B), First Milk (UK), Glanbia (IRL), Kerry (IRL) and Kymppi (FIN) were selected because of the desired national spread. With the exception of the Finnish company Kymppi, all companies are amongst the largest dairy companies in their own country. Kymppi is included in this milk price comparison as an alternative for the large Finnish dairy concern Valio. Up to now we have not succeeded in collecting milk price data directly from Valio.

With effect from 1 January Belgomilk and the Belgische Zuivelunie BZU merged to form Milcobel. The Milcobel milk prices have been published from January 2005. Friesland Coberco Dairy Foods changed its name to Royal Friesland Foods with effect from 1 January 2005.

Milcobel (Belgium)

The new cooperative Milcobel will process approximately 1 billion litres of milk per year, of which 900 million litres originates from the 4,600 members.

Belgomilk made a supplementary payment of € 27.50 per 100 kg protein for the quantity of protein supplied in 2004. A supplementary payment of € 0.91 per 100 kg standard milk was calculated from this.

Arla Foods (Denmark and Sweden)

Over the most recent financial year from October 2003 to September 2004 Arla Foods made a supplementary payment of 5.2% of the so-called base value. The Swedish dairy farmers already received 2% of this as an advance during the milk price year. This has been incorporated in the calculated monthly milk prices, so that the supplementary payment for the Swedish dairy farms is 3.2%, or SEK 9.06 (€ 1.06), per 100 kg standard milk. For the Danish dairy farmers the calculated supplementary payment is DKK 10.22 (€ 1.37) per 100 kg standard milk. Because Arla announced at the start of the 2004/2005 financial year that it will as far as possible pay everything directly via the advance price, there will possibly not be a supplementary payment for the current milk price year.

Humana Milchunion and Nordmilch (Germany)

Humana made an interim supplementary payment of € 0.75 per 100 kg of milk supplied in November (and December) 2004. € 0.25 of this was retained to build up the company's own capital further. In this milk price comparison a supplementary payment of € 0.50 per 100 kg with retrospective effect has been incorporated in the monthly milk prices from January to December 2004.

The milk prices for both Nordmilch and Humana have been corrected for the capital of € 4 and € 5.11 per 100 kg, respectively, contributed by the members. The correction is minus € 0.16 and minus € 0.21 per 100 kg for Nordmilch and Humana, respectively.

Bongrain, Danone, Lactalis and Sodiaal (France)

All French dairy companies set a base price every month expressed in euros per 1,000 litres for milk with 38 g fat and 32 g pure⁹ protein. At the national level agreements have been made since November 1997 by the milk processing industry (associated in FNIL and FNCL) and the dairy farmers (associated in FNPL¹⁰) in respect of the trend in the level of the base price compared with the same period in the previous year. These agreements, which are also termed national recommendations, apply per quarter and are based on:

- The trend in the revenue prices for butter, skimmed and non-skimmed milk powder and whey ("Indexation sur les produits industriels") and the cheese prices in Germany ('Indexation PGC¹¹ Exportés');
- The difference between the French and German¹² milk prices over the past 12 months, taking account of a franchise of approx. € 4 per 1,000 litres ('Mesure de compétitivité');
- An indication of the trend in the shop prices/margins on the domestic market for UHT milk, yoghurt, butter (consumer packs) and cheese ("Indicateur PGC France").

⁹ In France (and the USA) the protein is not determined as in other countries on the basis of the total nitrogen content but on the basis of pure protein. A correction (true protein = 0.95 x crude protein) has been made for this when calculating the comparable milk price.

¹⁰ FNIL= Fédération Nationale Industrie Laitiere, FNCL= Fédération Nationale Coopérative Laitieres and FNPL = Fédération Nationale de Producteurs Laitieres

¹¹ Produits de Grande Consommation

¹² Germany is the largest milk producer in the EU and the most important export market for French dairy products.

Dairy companies that are relatively more dependent on the sale of industrial products, butter and skimmed milk powder (more than 35% of turnover) are allowed to lower their base prices by more than and/or to raise them by less than the national recommendation ('Flexibilité Additionnelle'). In addition companies that rely heavily on liquid milk may reduce their prices extra up to € 3.00 per 1,000 litres. As a consequence milk prices of Lactalis and Sodiaal are reduced with an extra € 1.50 respectively € 3.00 per 1,000 litres during the second quarter of 2005.

National recommendations

	National recommendations (=milk price change compared to the same period in the previous year) (€ per 1.000 litre)
1st quarter 2004	January -10,7 February and March -9,5
2nd quarter 2004	-12,13
3rd quarter 2004	-5,92
4th quarter 2004	-7,0
1st quarter 005	- 4,5
2nd quarter 2005	April -7,0 May and June -5,0
2nd semester 2005 (provisional)	-5,3
Average 2005 (provisional)	-5,2

When calculating the Sodiaal milk prices the quality premium was corrected with retrospective effect from 2002. The reason for this is that with effect from 1 January 2002 Sodiaal lowered the upper limit for the somatic cell count to qualify for the super-quality premium from 300,000 to 200,000 per ml. As a result, the quality premium of € 7.5 per 1,000 litres no longer applies to Sodiaal because standard milk with a somatic cell count of 249,999 per ml no longer qualifies for this premium.

With the exception of Sodiaal, the French companies are private companies that do not make any supplementary payments. The cooperative Sodiaal has decided to reduce the milk price paid in 2004 by € 3.0 per 1,000 litres retrospectively(!). For this purpose an amount of the milk money has been withheld from the dairy farmers every month since January 2005. The calculated milk price for Sodiaal has been reduced by € 3.0 per 1,000 litres retrospectively from January to December 2004.

Glanbia and Kerry (Ireland)

The milk prices for the Irish companies relate to manufacturing milk.

In the calculated milk prices for Glanbia the winter milk bonuses have been dispensed with from October 2003 – partially with retrospective effect.

Glanbia and Kerry made no supplementary payments for 2004. It is possible that Glanbia will pay supplementary payments again in the future, after the end of the calendar year. This is a consequence of the undertaking they have given to the dairy farmers that they will pay a milk price at the market rate, based on the Irish average.

Campina and Friesland Foods (The Netherlands)

The milk price for Friesland Foods is established on the basis of the trend in the milk prices of five index companies, i.e. Arla Foods Denmark, Belgomilk, Campina, Humana Milchunion and Nordmilch compared with 2002 and corrected to average fat and protein contents for 2004. On the basis of this, Friesland Foods set the provisional¹³ milk price for 2004 and a supplementary payment of 7.35% of the advance milk price. The amount of milk money overpaid for 2003, i.e. 0.02 euro per 100 kg, was deducted from the supplementary payment. After deduction of this correction, the calculated supplementary payment for 2004 was based on 7.28% of the advance milk price.

In addition to this supplementary payment the member dairy farmers received dividend A based on the value of the milk supplied, corresponding to 0.83368% of the advance milk price. Corrected for the time of payment, the calculated supplementary payment (including dividend A) for 2004 is €2.18 per 100 kg.

Because the milk price for Friesland Foods is not linked to the company's own operating results, the level and trend in this milk price give no insight into the performance of this company. The annual returns show that the net profit of Friesland Foods for 2004 rose by 25% compared with 2003 to €70 million. €13 million of this profit was distributed as dividend A and is included in the calculated milk price, because the payment of this is linked to the quantity of milk supplied. Of the remaining sum €15 million was distributed as dividend on B shares (certificates) and €42 million was added to the company's own capital. Converted to (a rounded) 5 billion kg members' milk, the dividend B payment is approximately €0.30 per 100 kg and the addition to the company's own capital is €0.84 per 100 kg. Because the payment of dividend is not linked to the quantity of milk supplied, this payment has not been included in the calculation of the milk price.

Campina made a supplementary payment of €0.16 per kg fat and €0.48 per kg protein for 2004. For standard milk containing 4.2% fat and 3.35% protein and taking account of the time of payment, this corresponds to €2.06 per 100 kg. Part of this supplementary payment was distributed to the member dairy farmers in the form of subordinated capital bonds. Since interest at the market rate is received on these bonds, these were fully included in the calculated supplementary payment.

In view of the aim of the two Dutch cooperatives to pay 95% of the milk price as advance, the supplementary payment for 2004 is relatively high at 7 - 8%. Expressed in absolute amounts the two cooperatives also made a higher supplementary payment for 2004 than for 2003.

Kymppi (Finland)

As a result of an adjustment in the system of seasonal allowances and levies, the calculated monthly milk prices in 2004 may differ from 2003, but in other respects the Finnish dairy farmers who supply Kymppi received exactly the same advance milk price in 2004 as in 2003. With effect from April 2005, Kymppi has lowered the fat prices from €2.40 to €2.00 per kg fat. This first reduction since January 2002 corresponds to €1.63 per 100 kg standard milk containing 4.2% fat.

Corrected for the time of payment, Kymppi made a supplementary payment of €1.92 per 100 kg for 2004, as for 2003.

Arla Foods UK and First Milk (United Kingdom)

No supplementary payments were made by Arla Foods UK and First Milk.

From December 2004 the member dairy farmers have been investing in First Milk via a retention of 0.5 pence per litre ('Investment Account Retention'). By these means, amongst others, First Milk wants to invest in processing capacity, as can be seen, inter alia, from the recent purchase of 15% of the shares of the dairy company Robert Wiseman Dairies.

¹³ The milk price for 2004 is not yet final. The final milk price will be determined before 1 November 2005 on the basis of official publication of the annual reports for the five index companies.

2.3 United States and New Zealand

The calculated milk prices for the USA are based on a conversion of the so-called Class III prices and the prices for New Zealand relate to the milk prices paid by the dairy cooperative Fonterra. These milk prices are calculated in the context of the LTO International Milk Price Comparison in order to provide an impression of the trends in milk prices in the 'rest of the world'.

Table 3 *Milk prices New Zealand, USA and average EU*
In euro per 100 kg standard milk

	2004	2003	2004/2003	2004/2003 (national exchange rate)
New Zealand	17.85	15.64	14.1%	10.4%
USA	31.10	24.82	25.3%	34.4%
Average EU	29.23	29.76	-1.8%	

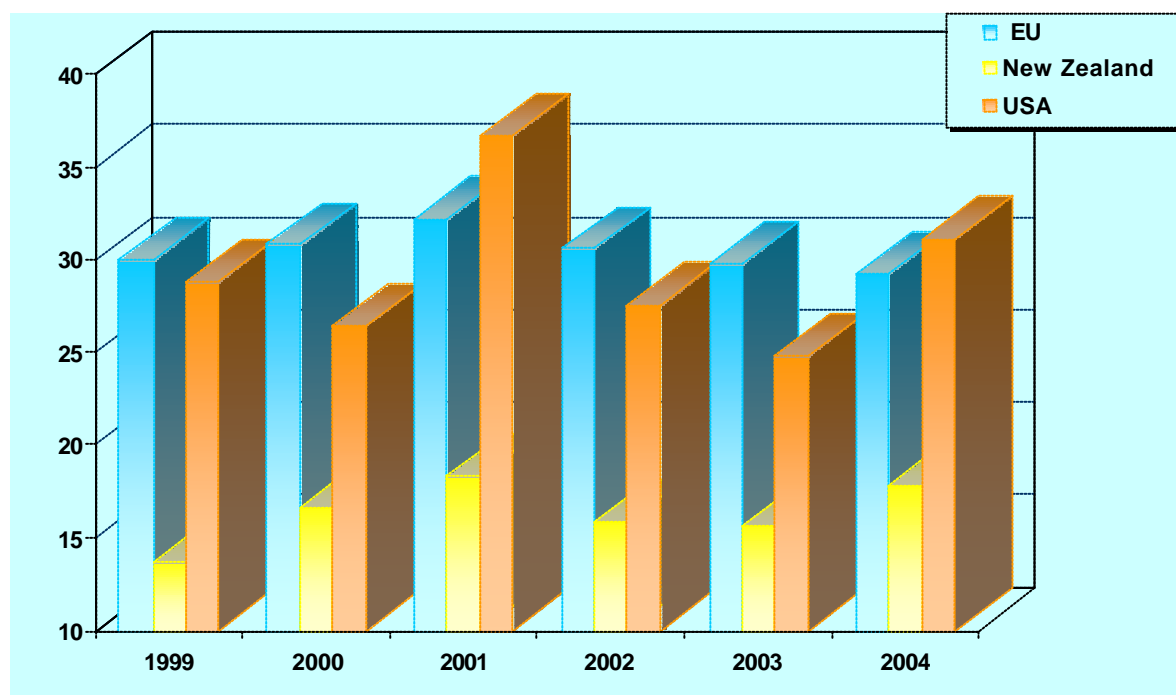
A good international market situation in 2004 is expressed in the higher milk prices paid by the New Zealand cooperative Fonterra to its member dairy farmers. For the 2004/2005 season Fonterra anticipates paying a milk price of NZD 4.50 per kg milk solids¹⁴. This is a rise of over 6% compared with 2003/2004. Converted to the calendar year and to euros per 100 kg standard milk, New Zealand dairy farmers received a 14% higher milk price in 2004 than in 2003.

Incidentally, Fonterra anticipates lower milk prices for next season. Because of the way in which Fonterra has covered exchange rate risks, the effects of the lower US dollar exchange rate will be reflected in the milk prices paid only next season.

Milk prices in the United States rose by 25% in 2004. Expressed in US Dollars the rise was even 34% compared with the previous year.

In Graph 2 the trend in American and New Zealand milk prices and the average for the fourteen EU dairy companies from 1999 to 2004 are shown¹⁵.

Graph 1 *Calculated milk prices in the EU, USA and New Zealand*



Although the annual fluctuations in the USA are greater than in the EU, the milk price in the USA at an average of €29.21 is slightly lower than in the EU (€30.41), whilst dairy farmers in New Zealand received somewhat more than half of the average EU milk price, at €16.33.

¹⁴ Milk solids is the content of fat plus protein.

¹⁵ For underlying graphs see appendix table 6.

2.4 New EU Member States¹⁶

It is now more than a year since the EU was expanded by ten new member states on 1 May 2004. The European dairy market came through the first period in the new situation well.

Table 4 *Significance of the ten new member states for the EU- dairy production*
In 1,000 ton, unless indicated otherwise

	Milk production	Share processing milk
Poland	11,890	65%
Czech Republic	2,623	95%
Hungary	1,939	88%
Latvia	1,890	61%
Slovakia	1,231	96%
Other member states	2,585	72%
Total member states	22,158	72%
Total share in EU-25	15.5%	1)

1) Average share processing milk EU -25: 91%

Milk price differences within EU-25 generate new milk flows

As a result of the price differences for farm milk that are still relatively high within the EU-25, new milk flows have, as expected, been established following the expansion. For instance, following the accession in May, a large quantity of milk was exported in bulk to the old member states from Poland. The companies behind these exports were, in particular, dairy companies in Germany and to a lesser extent The Netherlands, which in this way are making use of the new opportunity that has arisen for purchasing farm milk in (western) Poland. An appreciable flow of milk towards old member states from the Czech Republic has also developed since the date of accession. Over a quarter of this went to Italy, but, the destination of the lion's share (almost three quarters) was Germany (Bavaria).

Milk shortage leads to problems in the Czech dairy industry

The draw of the higher milk price in Bavaria has now led to problems in the milk supply for the local, Czech dairy industry. A real battle has now broken out around the Czech milk pool. Price differences between individual new member states also play a role here. In 2004 the flow of milk from Slovakia to the Czech Republic more than doubled. Nevertheless, there are limits to the transport of bulk milk, mainly determined by transport costs. Not all shortages can be compensated for by purchasing from elsewhere, so that some companies have also had to scale down their production.

Open market leads to accelerated levelling out of milk price differences in Europe

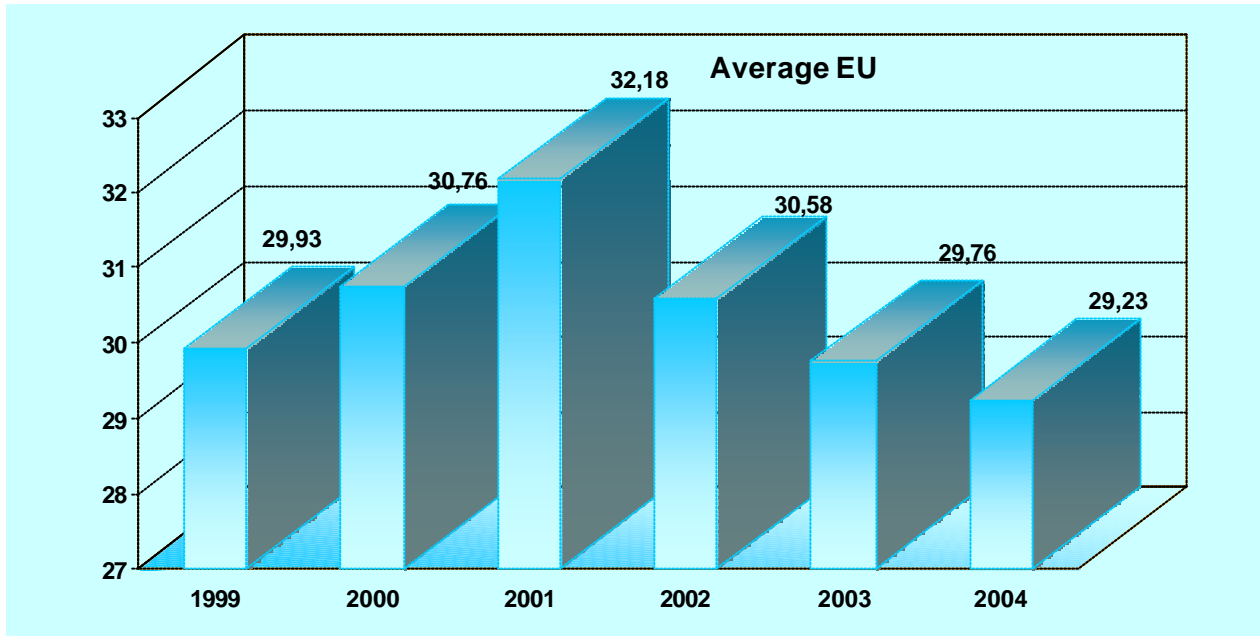
The fact that the available milk pool is finite logically leads to an upward pressure on the milk price in local markets. This, coupled with the fact that the general quality level of milk in the new member states is rising rapidly, led to price rises in double figures in the majority of countries over the part year. Poland is in the lead here. The average milk price paid in Poland in February 2005 was more than 40% above the level one year before. In other countries such as Latvia (+36%), Hungary (+21%), Estonia (+17%), Czech Republic (+15%) and Slovakia (+13%) there is also a rising milk price. All of this will contribute to accelerated levelling out of milk price differences in the enlarged EU internal market.

¹⁶ This paragraph is a shortened version of an article in *Zuivelzicht*, Vol. 97, no. 10 - 1 June 2005

2.5 Trend in milk prices from 1999 to 2004

It can be seen from Graph 2 that milk prices in 2004 are on average¹⁷ at the lowest level since the start of the LTO International Milk Price Comparison in 1999.

Graph 2 Development average milk price
In euro per 100 kg standard milk



After the very good dairy year in 2001, milk prices have fallen every year.

Every year¹⁸, and thus also on average, the Finnish company Kymppi has paid the highest milk price (Table 5).

The calculated milk price for Kymppi is 15% higher than the average for all dairy companies. Kymppi is followed by Arla with a good 4 - 5% more than average. Dutch and French companies paid approximately 3% more.

The calculated milk prices for Humana and Milcobel are approximately at the average level, whilst the prices for the Irish companies and Nordmilch are clearly lower. The lowest milk prices are paid in the United Kingdom.

The substantial difference in milk prices is striking. A dairy farmer who supplies the Finnish company Kymppi receives a price for standard milk that on average is €9.43 higher than if he were to supply the British company First Milk. Based on 350,000 kg per year this corresponds to over €30,000 per year additional milk money. By the way, in this context it must be pointed out that for the Finnish dairy farmer this additional revenue is offset by much higher costs. As a consequence of, for example, the Finnish climate, the growing season is much shorter and cowsheds have to be provided with additional insulation, with the consequence of much higher feed and housing costs.

The differences in milk price between the companies in mainland north-west Europe are much smaller. Without the Finnish, Irish and UK companies, the difference in milk price between the highest (Arla Foods S) and the lowest (Nordmilch) is €2.81 per 100 kg standard milk.

¹⁷ Arithmetic average of the 16 milk prices for the European dairy companies.

¹⁸ See appendix table 6 for underlying milk price data.

Table 5 Average calculated prices per dairy for the years 1999 until 2004
In euro per 100 kg standard milk

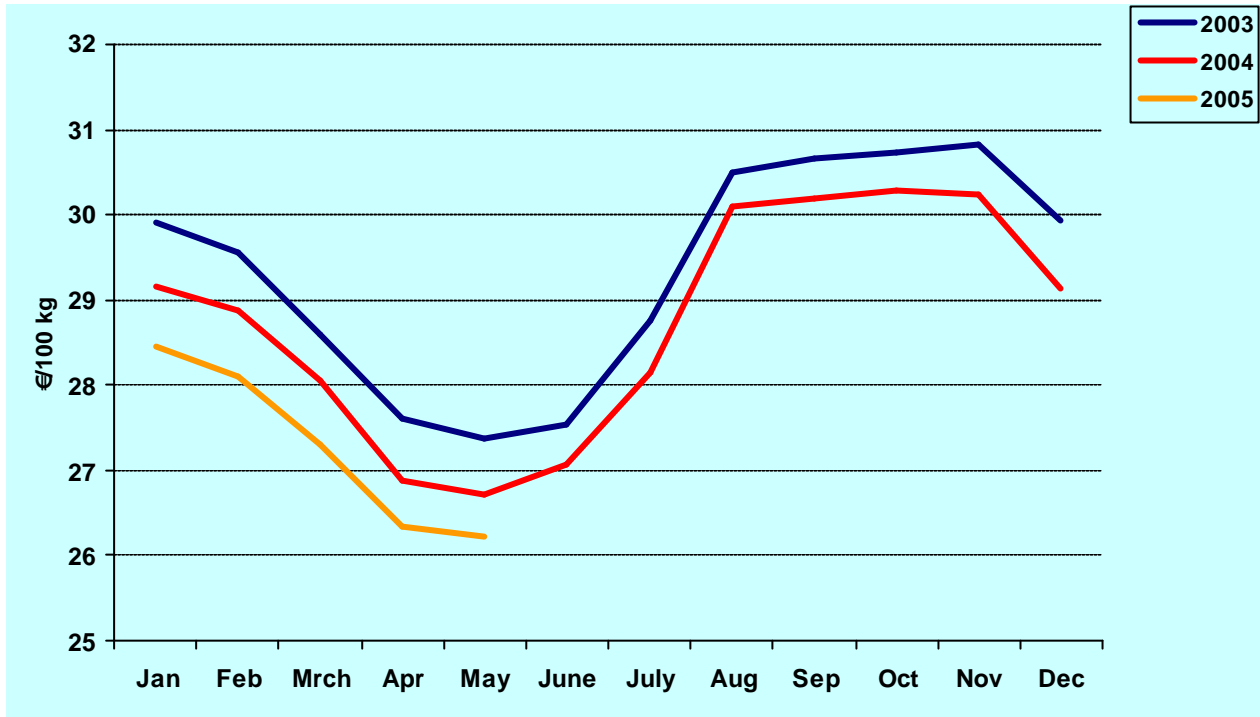
	Average 1999 t/m 2004	Average EU = 100
Kymppi	35.02	115
Arla Foods S	31.98	105
Arla Foods DK	31.72	104
Lactalis	31.38	103
Danone	31.37	103
Bongrain	31.31	103
Friesland Foods	31.17	103
Sodiaal	31.03	102
Campina	30.96	102
Humana	30.22	99
Milcobel	30.17	99
Glanbia	29.19	96
Nordmilch	29.17	96
Kerry	28.58	94
Arla Foods UK	27.65	91
First Milk	25.59	84
Average EU¹⁾	30.41	100

¹⁾ Arithmetic average

3. Prospects for 2005

Graph 3 indicates the trend of the average of advance milk price paid by the European dairy companies.

Graph 3 Trends in milk prices paid in advance
EU average in euro per 100 kg standard milk

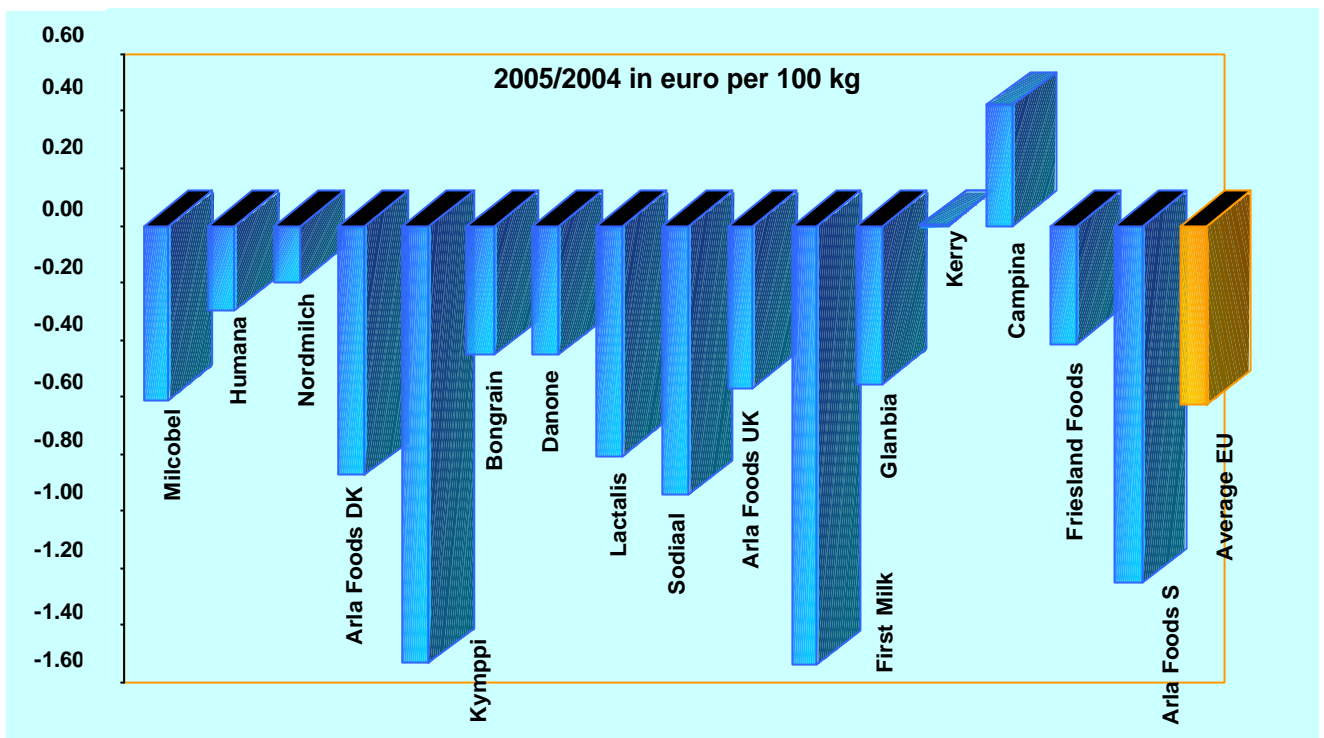


In the first five months of 2005 the advance milk prices paid are on average €0.63 per 100 kg or 2.3% lower than in the same period in the previous year¹⁹.

¹⁹ For underlying graphs see appendix table 7.

Graph 4 Milk prices paid in advance

Arithmetic average from January until May 2005 compared to the same period in 2004



As can be seen from Graph 4, there is a substantial variation in milk price changes between the companies. For instance, the Campina dairy farmers even received a higher milk price at the start of 2005 than one year before, whilst UK and Scandinavian dairy farmers, received an appreciably lower milk price. Finnish dairy farmers who supply Kymppi will have also received a lower milk price this year. Kymppi and, incidentally also Valio, have recently substantially reduced the advance milk prices (see also Paragraph 2.2).

Despite an increase in the supply of milk in the EU-15 in the run-up to the seasonal peak in milk production, up to now (early June 2005) a firmer trend in the price has manifested itself in the EU dairy market. Old stocks are decreasing and the supply of butter and skimmed milk powder for intervention remains restricted. Parties in the market fear that in the event of a stable development in exports the supply in the internal market can become tight in the autumn. Covering purchases have now led to higher prices in the protein segment of the market.

Despite the relatively good market situation it does not look as though the Irish and UK dairy farmers will benefit from this. Kerry, Glanbia and Arla UK recently announced further reductions in the milk price, which has led to a high level of protest amongst dairy farmers.

Appendix Tables and Graphs

Table 6 Average producer prices 1999 - 2004

In euro per 100 kg standard milk containing 4.2% fat, 3.35% protein, a bacterial count of 24,999 per ml, a somatic cell count of 249,999 per ml and a yearly delivery of 350,000 kg.

The prices are exclusive of VAT, ex farm and inclusive of supplementary payments for the distribution of end-of-the-year profits.

	Average 1999–2004	1999	2000	2001	2002	2003	2004
Kymppi	35.02	33.61	33.94	35.29	35.84	35.69	35.74
Arla Foods S	31.98	33.01	34.62	30.87	31.74	31.95	29.72
Arla Foods DK	31.72	31.45	31.91	32.69	32.71	31.74	29.79
Lactalis	31.38	30.73	31.46	32.79	31.58	31.32	30.41
Danone	31.37	30.73	31.50	32.68	31.68	31.26	30.35
Bongrain	31.31	30.70	31.45	32.65	31.60	31.19	30.28
Friesland Foods	31.17	30.26	31.55	33.60	31.68	30.41	29.54
Sodiaal	31.03	30.15	31.66	32.78	31.30	30.71	29.57
Campina	30.96	30.45	30.48	32.88	32.51	30.11	29.32
Humana	30.22	29.23	30.49	32.90	30.81	29.34	28.54
Milcobel	30.17	28.17	31.37	32.23	29.63	29.61	30.04
Glanbia	29.19	30.09	30.64	31.55	28.21	27.34	27.31
Nordmilch	29.17	28.71	29.90	32.76	28.67	27.34	27.65
Kerry	28.58	28.44	29.17	30.22	28.32	27.86	27.50
Arla Foods UK	27.65	27.76	26.74	30.27	27.84	26.13	27.17
First Milk	25.59	25.33	25.32	28.76	25.14	24.15	24.83
Average EU	30.41	29.93	30.76	32.18	30.58	29.76	29.23
New Zealand	16.33	13.65	16.64	18.33	15.85	15.64	17.85
USA	29.21	28.76	26.42	36.66	27.50	24.82	31.10

Table 7 Average producer prices paid in advance January - May 2005

In euro per 100 kg standard milk

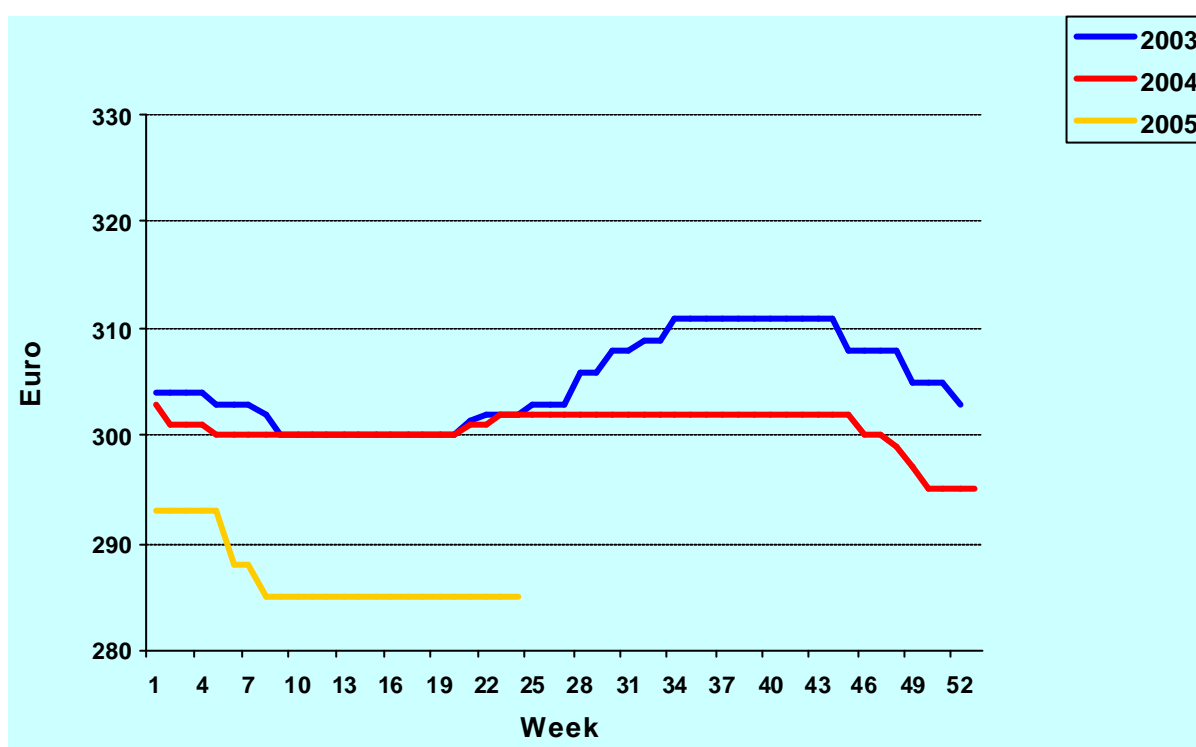
	Average January - May 2004	Average January - May 2005	Difference	%
Milcobel	28.90	28.29	-0.61	-2.1%
Humana	28.19	27.89	-0.30	-1.1%
Nordmilch	26.66	26.46	-0.20	-0.7%
Arla Foods DK	28.82	27.94	-0.88	-3.0%
Kymppi	31.57	30.03	-1.53	-4.9%
Bongrain	29.79	29.34	-0.45	-1.5%
Danone	28.87	28.42	-0.45	-1.6%
Lactalis	29.93	29.12	-0.81	-2.7%
Sodiaal	27.93	26.99	-0.94	-3.4%
Arla Foods UK	26.61	26.04	-0.57	-2.1%
First Milk	24.70	23.16	-1.54	-6.2%
Glanbia	27.15	26.60	-0.55	-2.0%
Kerry	27.50	27.50	0.00	0.0%
Campina	25.27	25.69	0.42	1.7%
Friesland Foods	26.01	25.60	-0.41	-1.6%
Arla Foods S	29.09	27.84	-1.25	-4.3%
Average EU	27.94	27.31	-0.63	-2.3%
New Zealand	17.02	18.76	1.74	10.2%
USA	31.96	27.18	-4.78	-15.0%

Table 8 Exchange rates in euro

	2003	2004	2004/2003
British Pound (GBP)	1.448	1.475	1.91%
Swedish Crown (SEK)	0.110	0.110	-0.04%
Danish Crown (DKK)	0.135	0.134	-0.14%
US Dollar (USD)	0.886	0.805	-9.15%
New Zealand Dollar (NZD)	0.515	0.534	3.74%

Graph 5 Dutch official quotations butter

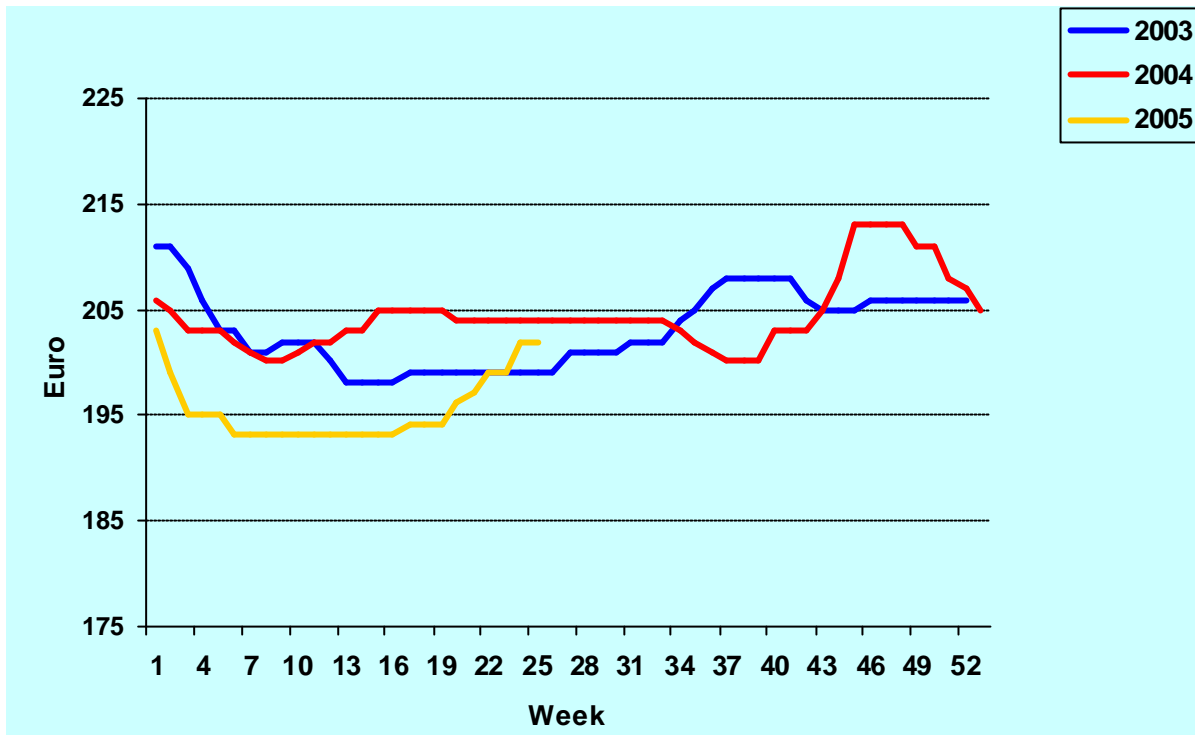
In euro per 100 kg standard milk, ex farm and exclusive of VAT



(Source: Productschap Zuivel)

Graph 6 Dutch official quotations skimmed milk powder (food)

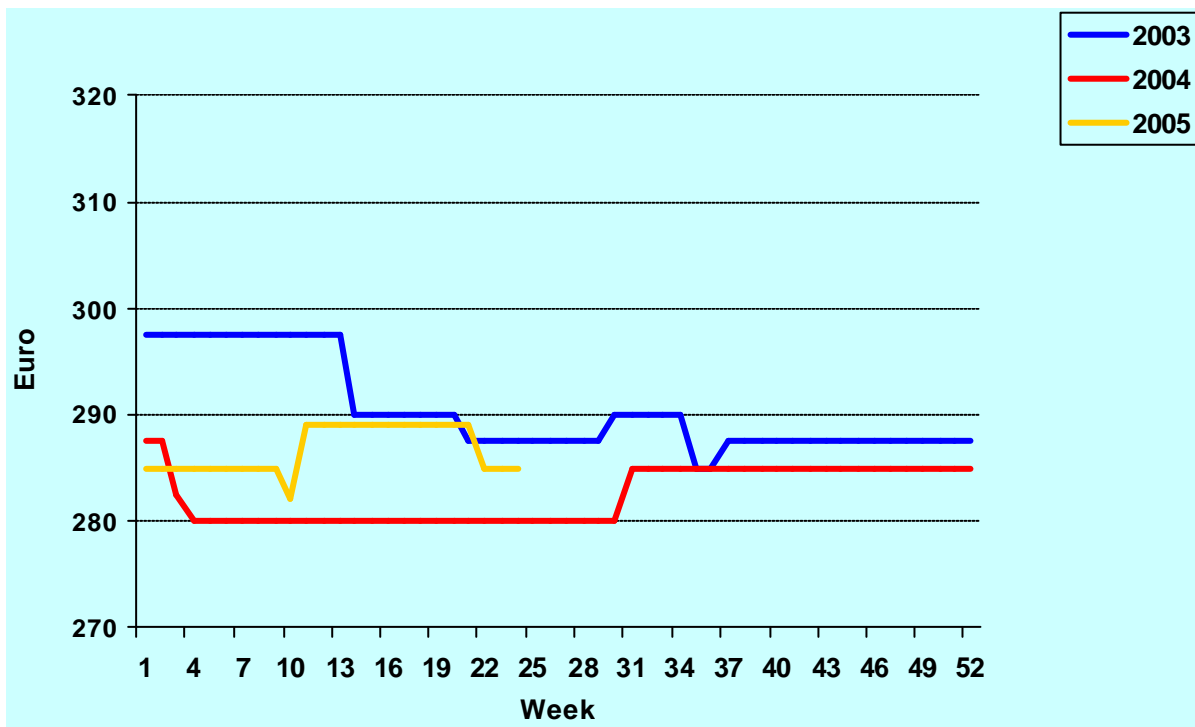
In euro per 100 kg standard milk, exclusive of VAT



(Source: Productschap Zuivel)

Graph 7 German quotations Gouda cheese

In euro per 100 kg standard milk, exclusive of VAT



(Source: ZMP)