LTO International comparison of producer prices for milk

2006

prezzi di latte • melkprijzen • prix du lait
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LTO Nederland

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Foreword

The LTO International Milk Comparison is back again for 2006. This report is seen in Europe as the most important comparison of the milk prices of the major dairy companies.

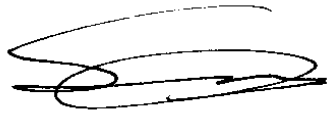
Despite the rise in dairy markets in the second half of the year there is a drop in the milk price in 2006. The most important reason is that the price rises on the world market have been largely offset, so far, by the reduction in support by the EU.

Indeed, very recently export restitutions have been fixed at zero and milk price is now determined by the market. There is a great deal of optimism about the development of milk prices in the immediate future but here, too, a word of warning is in order. One consequence of the reduction of EU support is that milk prices will be free to fluctuate more strongly than before. Selling farm milk on the spot market is an attractive prospect at the moment but, when prices on the dairy market begin to fall in future, spot prices will again be the first to drop.

In the longer term the level of milk price will increasingly be determined by the performance of the individual dairy companies. For this reason it is important to be able to measure their performance in relation not only to the milk price paid but also to the difference in the market.

This milk price comparison is a useful tool to help you in this task. In addition to the milk prices more factors play a role in assessing performance and market position.

In closing I should like to offer a word of thanks to everybody who has a made a contribution to this report.



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

1 Introduction and notes on content

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) (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 another dairy company.

For the purposes of comparison, with effect from 1 January 2007, the definition of standard milk has been adjusted and the adjustment applied retrospectively. The protein content has been raised from 3.35% to 3.40% and the annual quantity delivered from 350,000 kg to 500,000 kg. The level of 3.40% for protein content has been chosen because it is often used as the standard in other milk price comparisons. The annual delivery figure has been raised to reflect the growth in size of dairy farms. The milk prices calculated in this report differ from those in earlier publications because of the new standard.

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 2006.

1.2 Notes on content

Chapter 2 comprises the calculated milk prices for 2006 and a brief description of the dairy market in that year.

Chapter 3 deals with the development of milk prices between 1999 and 2006 and attention is given to the advance milk prices paid in 2007.

Chapter 4 gives an explanation of the choices of dairy companies and the calculated milk prices. In addition an indication is given about the extent to which the average prices paid by the dairy companies can differ from the calculated prices for standard milk.

Appendix 1 describes the aim of the comparison and the method employed to achieve it.
Appendix 2 gives the background figures on which the report is based.

2 Milk prices 2006

2.1 Milk price comparison 2006

The average calculated milk price of fourteen[1] large European dairy companies in 2006 was € 28.28 per 100 kg of standard milk[2]. This is € 0.72 less per 100 kg (or - 2.5%) than in 2005.

Table 1 ***Milk prices in 2006 and 2005***
In euros per 100 kg of standard milk (excluding VAT and including supplementary payments)

	2006	Ranking in 2006	2005	Ranking in 2005	2006 - 2005	2006/2005	National currency
Hameenlinnan Osuusmeijeri	36.03	1	34.95	1	1.07	3.1%	
Danone	29.51	2	30.07	2	-0.56	-1.9%	
Arla Foods Sweden	28.82	3	29.24	8	-0.42	-1.4%	-1.8%
Bongrain	28.81	4	29.72	4	-0.91	-3.1%	
Arla Foods Denmark	28.80	5	29.39	6	-0.58	-2.0%	-1.9%
Friesland Foods	28.73	6	29.25	7	-0.52	-1.8%	
Lactalis	28.72	7	29.77	3	-1.05	-3.5%	
Campina	28.51	8	29.51	5	-1.01	-3.4%	
Milcobel	28.33	9	29.18	9	-0.86	-2.9%	
Sodiaal	27.86	10	29.11	10	-1.25	-4.3%	
Humana Milchunion	27.76	11	27.99	12	-0.23	-0.8%	
Glanbia	27.41	12	28.34	11	-0.93	-3.3%	
Nordmilch	27.15	13	27.61	13	-0.46	-1.7%	
Kerry Agribusiness	26.14	14	27.15	15	-1.00	-3.7%	
Arla Foods UK	25.55	15	27.32	14	-1.77	-6.5%	-6.8%
First Milk	24.40	16	25.39	16	-0.99	-3.9%	-4.2%
Average	**28.28**		**29.00**		**-0.72**	**-2.5%**	
New Zealand	17.02		18.49		-1.47	-8.0%	0.6%
USA	23.47		28.16		-4.70	-16.7%	-15.8%

1) Arithmetic average.
2) Based on payout of Fonterra, adjusted for 4.2% fat and 3.4% protein.
3) Class III prices adjusted for 4.2% fat and 3.4% protein and somatic cell count 249,999 per ml.

As far as milk prices paid are concerned, dairy farmers have not been able to benefit from the positive development of the dairy market in the second half of 2006. Milk prices have fallen less than intervention prices for butter and skimmed milk powder have been reduced. This is a sign that the milk prices paid are being determined progressively more by the market and less by dairy policy laid down in Brussels.

[1] For Arla Foods three milk prices have been calculated, that is for the Danish and Swedish suppliers (members of the co-operative) and for the suppliers in Britain. Thus for the fourteen dairy companies 16 prices have been calculated.

[2] This report is based on standard milk containing 4.2% fat, 3.4% protein, a total bacterial count of 24,999 per ml, somatic cell count of 24,999 per ml and an annual quantity delivered of 500,000 kg. Unless otherwise stated the milk prices are exclusive of VAT, are ex-farm and inclusive of supplementary payments. See also Appendix 1 for more information on the method chosen for calculations.

On the other hand the strategy of many dairy companies to invest in brands and added value has meant that the benefits from firmer prices for basic dairy commodities at the end of 2006 have been limited.

As in preceding years the rankings are led by the small Finnish co-operative Hämeenlinnan Osuusmeijeri, and this is no surprise. What is striking is the rise in its milk price. The rise is due to the supplementary payments that have been received by the Finnish dairy farmer members of the co-operative.

The high place in the rankings occupied by Danone remains remarkable. Despite nationwide agreements in France on the development of milk prices the drop in Danone's milk price is noticeably less than those of the other French dairy companies.

The fall in the milk prices of Humana Milchunion, Nordmilch, Arla Foods and Friesland Foods is less than the average, in contrast to Milcobel and Campina. Despite a relatively high supplementary payment the fall in Campina's milk price is more than the average. Campina's 2006 results have suffered from the reduction in EU support for caseinate production. Campina is more dependent on caseinate than various other large suppliers of dairy products. On the other hand there was an exceptional book benefit from the joint venture with Fonterra.

Milcobel said 2006 was a difficult year because of low prices for milk powder and disappointments with ice cream. Sales of ice cream rose thanks to good weather, but so did production costs and, adding to this, the Brussels authorities did away with support for ice cream. Milcobel was apparently not in a position to benefit from the firmer market for milk powder in the second half of 2006.

While the net profit of Friesland Foods grew strongly its milk price fell. This is because the Friesland Foods milk price is not determined by the performance of the company but is based on the development of the milk prices of five 'index' firms: Arla Foods, Campina, Humana Milchunion, Nordmilch and Milcobel. The growth in profits is mostly due to good results from activities outside Europe, especially Asia, Africa and the Middle East. Dairy farmer members of Friesland Foods have enjoyed a higher dividend on their shares. Only part of the dividend (only the dividend on 'A' shares) is calculated into the firm's milk price.

Arla Foods has been able to limit the negative effects of the boycott of its products in the Middle East on its overall result by profitably selling off some parts of the firm.

For Nordmilch, although the fall in milk price was less than European average, the level remains below that of its (northern) German competitors. And this is a source of discontent for many dairy farmer members who want, finally, to reap the benefits of the restructuring that has taken place in recent years.

Humana Milchunion's milk price dropped less than that of Nordmilch.

Milk prices fell the most in France, United Kingdom and Ireland. The fall in the UK is the most striking because milk prices there are the lowest in the EU.

The fall in milk price at Glanbia (Ireland) has remained limited to € 0.93 per 100 kg of standard milk thanks to an exceptional mechanism. In August 2006 the milk price was lowered by € 1.32 but, at the same time, Glanbia dairy farmers got a bonus of € 1.76 per 100 litres. This bonus is paid out of the prospective dividend that the Glanbia co-operative will obtain for its shares in Glanbia plc.

The fall in the exchange rate for the New Zealand dollar against the euro means that the New Zealand calculated milk price has dropped 8% (in euro terms). Expressed in national currency the price has remained more or less the same.

The milk price in the USA fell by 16-17% in 2006, in comparison with 2005.

2.2 Dairy market 2006: limited supply ensures strong price rises

The EU dairy market displayed two different faces in 2006. The prices of butter and whole milk powder fell in the first half of the year. Exporting was not possible, or hardly possible and this pushed prices downwards. The result was that a lot of butter was offered for intervention. In total about 60,000 tons of butter was delivered to the EU. Prices of skimmed milk powder rose in the beginning, because supplies were limited but fell from mid-March onwards after reductions in restitutions and support levels for milk powder for feeding.

In the second half of the year the shortage of fresh skimmed milk powder and butter, to a lesser extent, led to a rapid rise in prices. The European Commission then took a number of measures to widen the market intended to secure the supply to the internal market. Thus half way through the year the restitutions for skimmed milk powder were set to zero and, in October, so was the support for casein and calf milk powder. Furthermore, in the restitutions for whole milk powder, condensed milk and cheese subsidies for the protein part stopped being paid. Finally, towards the end of the year, the Commission released large quantities of butter on to the market. Prices continued to rise despite these measures.

On the world market prices tended to fall for the first three quarters of the year and appeared not to be influenced by the developments in the European market.

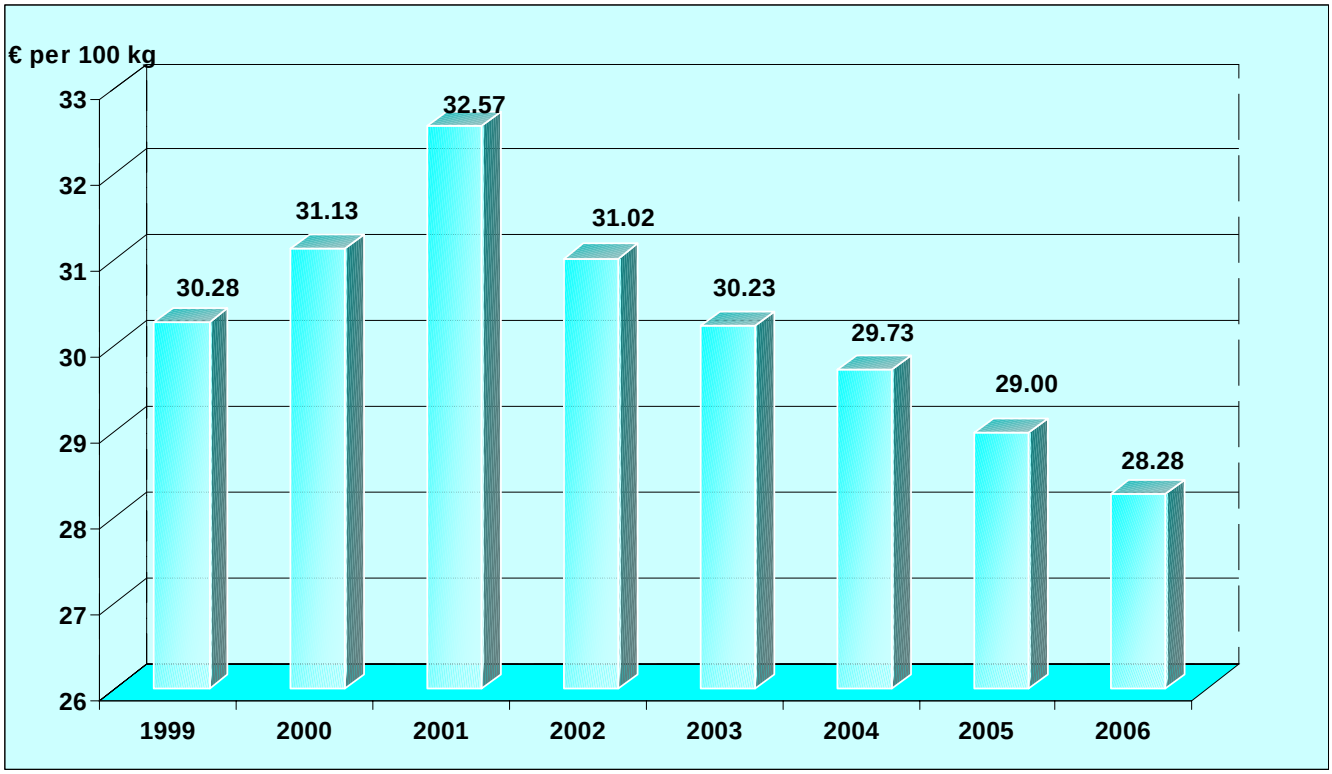
In the last quarter of 2006 the picture was totally different. Milk production in Australia reached a low level because of continuing drought. Alongside this stocks disappeared. The shortage of dairy products from the EU could now be felt on the world market, now characterized by strong demand. This demand was fed by rapid economic growth in parts of Asia, the Middle East and North Africa. World market prices rose more strongly than EU internal prices so the price differential between the EU market and the world market rapidly diminished.

3 Development of milk prices

3.1 Milk prices 1999-2006

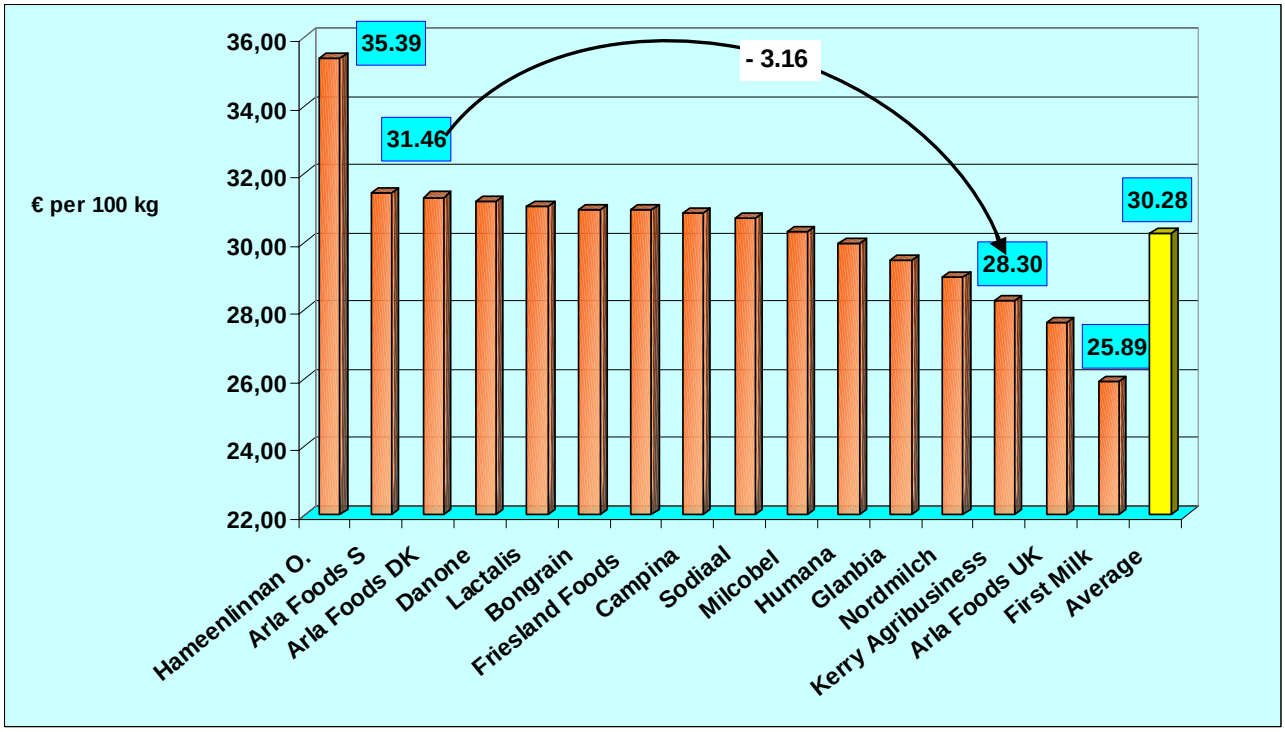
The fall in milk prices in 2006 is in line with developments in preceding years. Prices have fallen for the fifth year in succession. It is the gradual, steady drop in prices since 2002 that is so striking.

Graph 1 Development average milk prices for standard milk in 1999 to 2006



The calculated milk price for Finnish dairy farmers who delivered milk to Hämeenlinnan Osuusmeijeri from 1999 to 2006 is nearly 8 euros and 10 euros per 100 kg more than their British colleagues delivering, respectively, to Arla UK (formerly Express Dairies) and First Milk (formerly Milk Marque).

Graph 2 Average milk price for standard milk 1999-2006 per dairy company



If the British and Finnish companies are taken out of consideration the difference between the highest average milk price (Arla Foods, Sweden/Denmark) and the lowest (Kerry, Ireland) is € 3.16 per 100 kg of standard milk.

In the rankings Arla Foods is followed by the French and Dutch dairy companies. The calculated milk price for Milcobel is also just above the mean. German and Irish dairy companies are in the second half of the list.

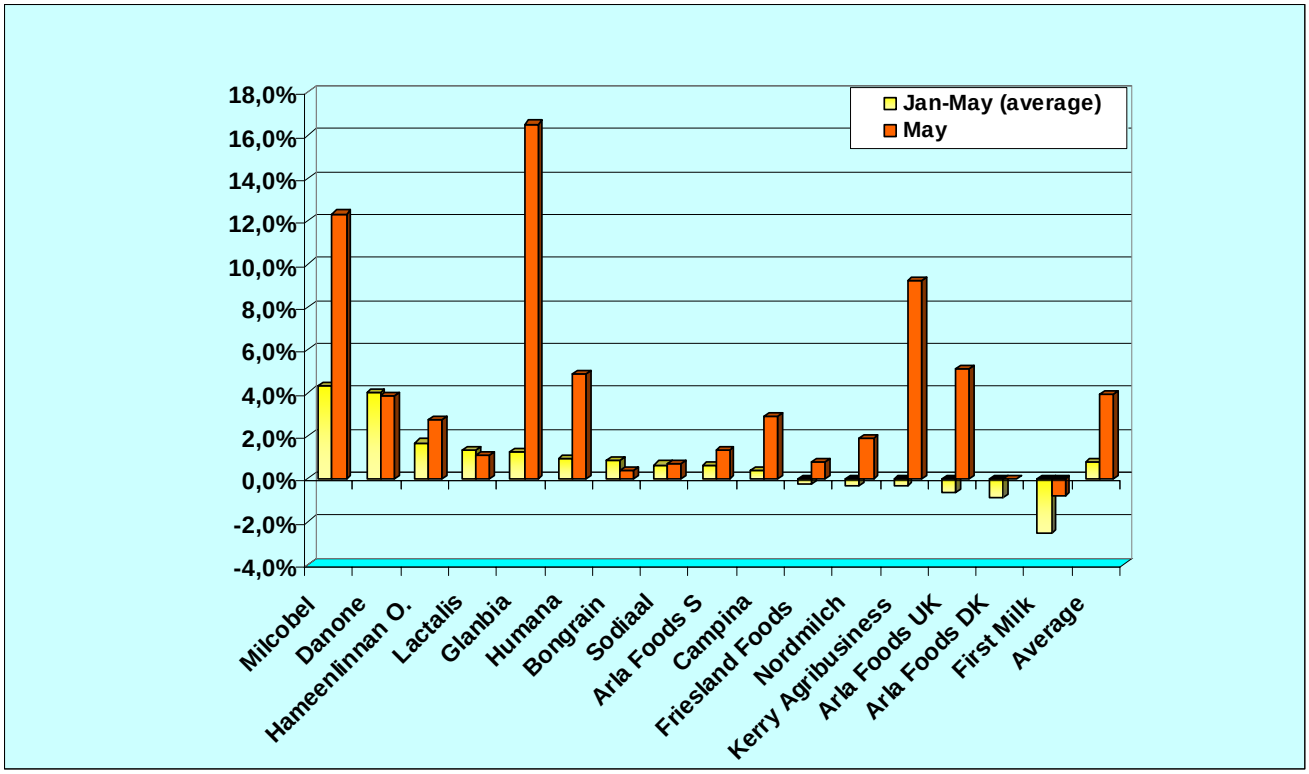
3.2 Development of advance milk prices in 2007

The result of the strong revival of the dairy market in 2007 is a break in the trend in the milk price for farmers. For the first time since 2002, in April 2007 average advance milk prices had risen in comparison to one year before. This rise went further in May. In May 2007 the average of the prices for standard milk is € 26.89 per 100 kg of standard milk, that is € 1.02, or 4%, higher than in May 2006.

However, because the calculated milk price was lower than the previous year during the first three months of the year, the arithmetic average milk price for January to May 2007 has risen by only € 0.20 per 100 kg of standard milk, or 0.7%.

Graph 3 shows, per company, how the (arithmetic) average milk price in January to May 2007 relates to that in the corresponding period in 2006. To show that milk prices have risen especially in recent months, the development of the milk price in May 2007 is also given alongside that of May 2006.

Graph 3 ***Development (%) advance milk prices average from January to May and May 2007***
With regard to the same period in 2006



Milcobel has benefited relatively strongly from the strong rise in prices of milk powder.
In May 2007 the advance milk price is € 3.30 more than last year. That equals a rise of 12.3%.

The Irish companies Glanbia and Kerry have been able to profit strongly from the rise in prices of the basic products, milk powder and butter. In May 2007 the calculated milk price for Glanbia is as much as € 4.15 per 100 kg of standard milk, 16.5% higher than in May 2006!

On the basis of the developments in price just outlined and the further price rises announced by the dairy companies, it can be forecast with certainty that milk prices in 2007 will be higher than in the previous year.

Thus Friesland Foods has made known that from June and July 2007 milk prices will be raised resulting in € 2.40 per 100 kg of standard milk extra or 10% higher than in July 2006.
This is the consequence of the estimated development of the advance milk price of the 'index' companies.
Campina raised the advance milk price from June 2007 by € 1.48 per 100 kg of standard milk compared to June 2006 (+ 6%).
Nordmilch has announced that it will raise milk prices from July to € 30.80 per 100 kg of standard milk. This is € 4.46 (17%) more than last year. Like Milcobel, Nordmilch is benefiting from the higher prices of milk powder. Alongside this the outcome of contract negotiations with the supermarkets also make a positive contribution.

The advance milk price of Humana Milchunion was € 0.99[3] higher in May 2007 than in the same month a year before and a further rise is announced for June. First Milk has also announced that milk prices will be raised.

[3] In relation to the advance milk price in May 2006. This excludes the supplementary payment.
In November 2006 Humana raised the advance milk prices by € 0.65, retrospectively with effect from January 2006.

The rise in milk prices in France is limited. The national agreement provides for a rise in the basic price of ‘only’ € 0.13 per 100 litres in the second quarter year.
Up to June 2007 Arla Foods has neither raised milk prices nor made any announcement to this effect.
The rise in advance milk prices is a consequence of the sharp rises in the dairy market.
The positive development in the last quarter of 2006 continued more strongly from the beginning of 2007.
As more milk is allocated to the manufacture of cheese and fresh milk products production of skimmed milk powder and butter has fallen sharply. Moreover nothing remains in stock.

In response to these turbulent price developments, the European Commission set all remaining restitutions at zero to assure market supplies for the European Union.

The unremitting rise in prices for butter and milk powder is spreading across the whole dairy market.
This has given the first impulse to a rise in the price of cheese. It is clear that the position today can be traced back to a worldwide imbalance between supply and demand. The extent to which we are speaking of a temporary imbalance or whether the current trend is of a more structural character is difficult to evaluate at present. However it is expected that the high price level will be maintained until the end of this year.

4 Choice of dairy companies and explanation of calculated milk prices

4.1 Choice of dairy companies

The choice was made to compare the milk prices of companies that are large and located across the regions of Europe. Of the fourteen dairy companies in the milk price comparison seven are in the world's top twenty. Dairies included in the LTO International Milk Price Comparison are printed in **bold** in table 2.

Table 2 Top 20 World dairy companies

	Company	Country	Turnover (€ billion)
1	Nestlé	Switzerland	14.8
2	**Lactalis**	France	8.3
3	**Danone**	France	7.9
4	Dean Foods	USA	7.4
5	**Arla Foods**	Denmark/Sweden	6.9
6	Fonterra	New Zealand	6.7
7	Dairy Farmers of America	USA	6.3
8	Kraft Foods	USA	5.1
9	Unilever[1]	Netherlands/UK	4.4
10	**Friesland Foods**	Netherlands	4.4
11	**Campina**	Netherlands	3.6
12	Parmalat	Italy	3.4
13	**Bongrain**	France	3.3
14	Meiji Dairies	Japan	3.3
15	Saputo	Canada	3.1
16	Morinaga Milk Industry	Japan	3.0
17	Schreiber Foods 1)	USA	2.5
18	Land O'Lakes	USA	2.3
19	Müller	Germany	2.1
20	**Dairy Crest**	UK	2.0

Source: Rabobank International 2007 (turnover 2006 + mergers and acquisitions in 2007)
1) Estimate

In the course of 2007 it was decided no longer to calculate or to publish milk prices for Arla Sweden and Arla UK. The reason to omit Arla Sweden is that Arla Foods pays the same milk price to its Swedish and Danish farmer members. The differences in the calculated milk price expressed in euro are due to fluctuations in the exchange rate of the Swedish Krone.

Arla UK will be omitted from the price comparison for another reason. The milk delivered to Arla UK is almost entirely sold as liquid milk for consumption. Accordingly higher levels of fat and protein are not valued. In consequence the contents in the milk delivered are low and the higher levels of 4.2% fat and 3.4% protein would not generate proper compensation. As alternative to Arla UK the milk prices of Dairy Crest will be calculated and published.

Dairy Crest is the largest dairy company in the UK and has a variety of contracts with dairy farmers according to the product for which the milk will be processed. The contract chosen is that between Dairy Crest and the dairy farmers who deliver milk to Davidstow Cheddar. This contract is the most representative and is the closest fit to the definition chosen for standard milk.

The possibility of extending the milk price comparison to include a Polish dairy is under investigation.

4.2 Explanations company by company

For 2006 Hämeenlinnan Osuusmeijeri has made a supplementary payment of 3.5 eurocents per litre. This supplementary payment is not corrected for loss of interest because its dairy farmer members receive compensation for interest at a market rate in the capital invested in the co-operative, together with compensation for loss of interest due to the supplementary payment not being made until April of the following year. Starting from 1 litre (= 1.03 kg) a sum of 3.5 eurocents per litre corresponds to € 3.40 per 100 kg.

The calculated milk prices of the four French dairy companies have fallen by an amount varying between minus € 0.56 for Danone and € 1.25 for Sodiaal. On average this is more than the agreed reduction in basic milk price of € 0.77 per 100 kg. However the French dairy companies have adjusted their payment levels for milkfat and protein.

Table 3 ***French national agreements on the development of milk prices in 2006***
(€ per 100 kg)

Quarter year	1st Trimester	2nd Trimester	3rd Trimester	4th Trimester	Whole year
Change in basic milk price	**- 0,86**	**- 0,82**	**- 0,72**	**- 0,67**	**- 0,77**

With the exception of a small rise in administrative costs withheld Arla Foods has not changed the milk prices paid since April 2006. Since 2006 the Arla supplementary payment has been based on the so-called basic price plus a quality bonus. The supplementary payment for 2006 is 4.5%. One part of this supplementary payment is not paid out directly to the members but issued in the form of member certificates. This part is included in the calculation of the supplementary payment. For the Danish dairy farmer members this works out at € 1.07 per 100 kg of standard milk and for the Swedish € 1.21 per 100 kg. For 2005 the corresponding figures were € 1.22 and € 1.54, respectively. The supplementary payment is greater for the Swedish dairy farmers because the sum includes compensation for the fall in exchange rate of the Swedish Krone.

Friesland Foods made a supplementary payment of 5.7% of the advance milk price, including dividend A (€ 0.30 per 100 kg), in 2006. After correction for interest the calculated supplementary payment is € 1.79 per 100 kg of standard milk (€ 1.63 in 2005).

In the milk price comparison the supplementary payment made for 2006 by Campina of € 0.11 per kg for fat and € 0.48 per kg for protein was converted to standard milk and then corrected for date of payment and investment of capital (member certificates)[4]. The calculated supplementary payment works out at € 1.83 per 100 kg (€ 1.79 in 2005).

Milcobel made a supplementary payment of € 0.0575 per kg of protein or € 0.19 per 100 kg of standard milk (€ 0.23 in 2005).

[4] Members delivering milk are obliged to purchase member certificates. Because the members get no compensation for this investment the milk price is corrected for it. Although a part of the supplementary payment takes the form of an issue of bonds, no correction is made for this, the reason being that these bonds bear interest and can be traded.

Humana Milchunion made a supplementary payment in December 2006 of € 0.65 per 100 kg of milk delivered in the period January to December 2006. This interim payment of € 0.65 per 100 kg was incorporated retrospectively into the monthly milk prices and therefore not included in the calculated supplementary payment in the milk price comparison.

Members delivering milk to Nordmilch and to Humana Milchunion are obliged to purchase shares in their companies at, respectively, € 4.00 and € 5.11 per 100 kg of milk delivered. Nordmilch and Humana Milchunion dairy farmers get no compensation for the capital brought in and, accordingly, the milk price was corrected for loss of interest at rates of minus € 0.15 and minus € 0.20 per 100 kg. This is done in the form of a negative supplementary payment.

Glanbia's calculated milk price includes a co-operative bonus of € 1.76 per litre for the months August – December 2006 (see chapter 2.1). It is possible that Glanbia's dairy farmers will get a further bonus for 2006 and this thanks to a promise made that Glanbia would pay 0.44 eurocents per litre more than the average milk price in Ireland, according to KPMG[5].

In June and July 2006 Kerry lowered the prices for milkfat and protein, resulting in a drop in the calculated milk price over the two months of a total of € 1.32 per 100 kg of standard milk. For the whole year the milk price fell by € 1.00 per 100 kg.

The Arla UK milk price includes a reduction of € 0.64 per 100 kg (0.45 pence per litre) for July to September and December 2006. This reduction is an attempt to spread milk production better throughout the year.

4.3 Indication average milk prices paid

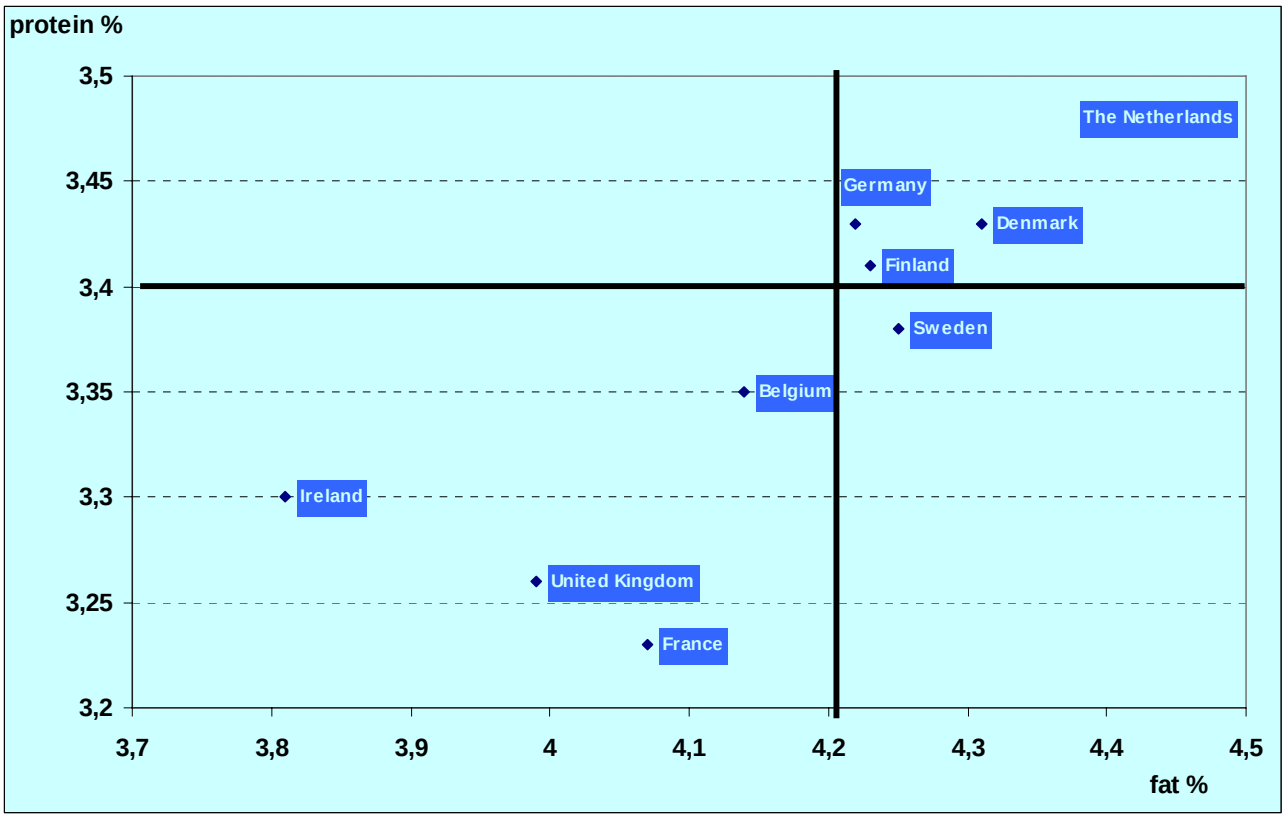
The LTO International milk price comparison is based on a calculated price for standard milk. It is not, therefore, a comparison of the average milk prices paid. The average milk price paid by a dairy company depends on the actual composition, quality, quantity et cetera of the milk delivered.

The method chosen, using standard milk, emphasizes the purpose of comparison.
This concerns the comparison between companies and also comparison over a period of time.
The disadvantage of this method is that the choice made of 'standard' milk is not representative of the milk delivered for many dairy companies and thus gives only limited information about the average milk price paid. This section of the report attempts to give an idea about average milk prices paid.

The level of the payment made for milk is largely determined by the content of fat and of protein.
The average composition of the milk delivered varies considerably between dairy companies.
The graph below uses national data for composition because the average composition per dairy company is not known for all of them.

[5] In July KPMG will issue its annual report on milk prices 2006 in Ireland.

Graph 4 Average fat and protein contents per country



Source: C.N.I.E.L. L. 'Économie laitiere en chiffres Edition 2007, average contents 2004

On the basis of a price for milkfat of € 2.75 per kg the milk price rises by € 0.275 per 0.1% of extra fat. For protein, at a price of € 5.00[6] per kg the rise in milk price is € 0.50 per 0.1% extra protein content. Thus the calculated price for milk with 4.4% fat and 3.5% protein would be € 1.05[7] per 100 kg higher than the calculated price for standard milk.

Because their milk has lower contents of fat and protein French, Irish and British dairy farmers, on average, receive a price that is lower than the calculated milk price.

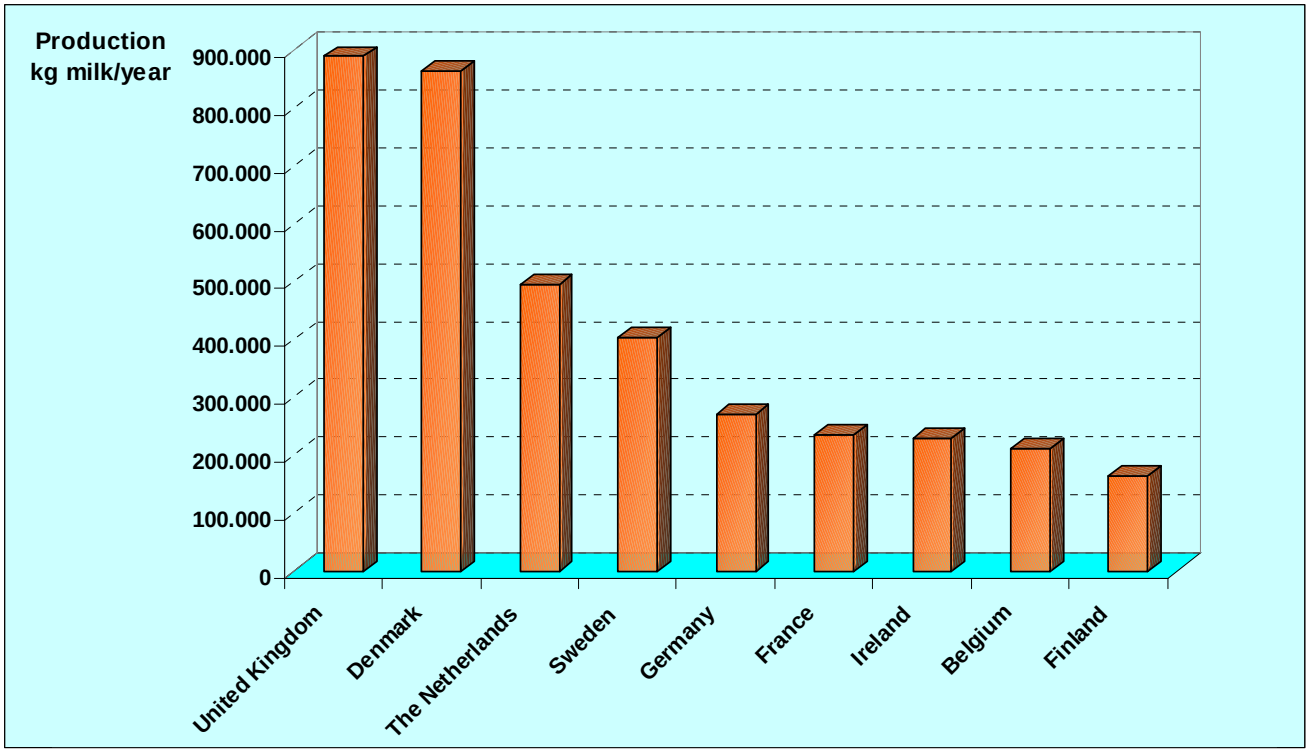
The difference in fat and protein content is the most important but not the only reason for average milk prices paid being different from the calculated price for standard milk. The milk prices paid are based on the companies' payment systems and thus dependent on the deductions and premiums applied in relation to the standards we have chosen.

As a rule larger dairy farms obtain a higher milk price because of premiums for quantity and/or higher fixed deductions. Larger farms can spread the cost of the deductions over a larger quantity of milk so that the average milk price received is higher.

The average milk price will differ from the calculated price for standard milk in proportion to the difference of the size of the dairy farm from the standard delivery of 500,000 kg per year.

[6] There is a great variation in the prices paid for milkfat and for protein. The prices quoted are about average.
[7] Calculated thus: (4.4 – 4.2) x 2.75 + (3.5 – 3.4) x 5.00 = 1.05

Graph 5 Average milk production per farm

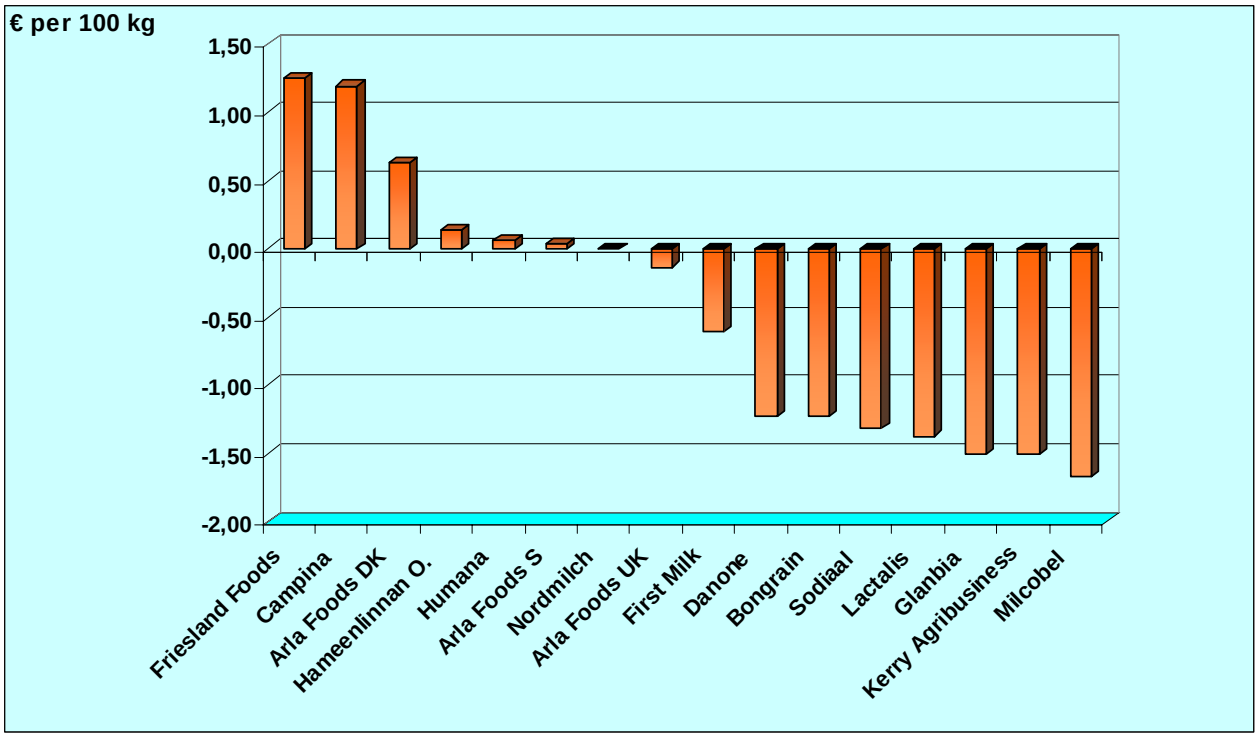


Source: Dutch Dairy Board, Annual Statistical Review 2006

An attempt is made to give an idea of the extent to which average milk prices in 2006 differ from the calculated prices for standard milk. This is done by calculating the milk prices, per company, on basis of the national averages of fat and protein contents and annual deliveries instead of standard.

Graph 6 shows per dairy company the difference between the calculated milk prices for standard milk and the milk prices calculated for milk with contents and annual delivery based on national averages.

Graph 6 ***Difference between calculated milk prices on the basis of national averages for fat, protein contents and annual delivery and milk prices calculated for standard milk***



The calculated milk price, adjusted for fat and protein content and the annual delivery, is about € 1.20 per 100 kg higher than for standard milk for the Dutch dairy companies. This is because the fat and protein contents are higher and also a result of the payment system used. By a relatively high volume based costs, the higher contents of fat and protein are indirectly paid at a higher rate.

Because of lower contents of fat and protein the milk price obtained by French and Irish dairy farmers is about € 1.25 respectively € 1.50 per 100 kg lower than the calculated price for standard milk.
To a lesser extent (- 0.10 to – 0.60 per 100 kg) the same is true for the United Kingdom because the lower contents of fat and protein are compensated partially by the relatively large scale of dairy farms and the quantity premiums applied.
As far as quantity premiums are concerned the opposite is true for Milcobel.
An annual delivery of 500,000 kg attracts a relatively high quantity premium but because the average size of dairy farms is small the calculated average milk price is reduced correspondingly with about € 1.60 per 100 kg.

Appendix 1 Aim and method used

Aim

The aim of the mik price comparison is to make the market for ex-farm milk more transparent for dairy farmers. This is done by comparing with each other the milk prices paid by a selection of large dairy companies operating in a range of European regions.

Method

The comparison is made on the basis of the payment systems used and the payments made by the various dairy companies. For each company a comparable price is calculated for ex-farm milk of a standard composition and quality, as well as a standard quantity delivered in the course of the year.

Information about the payment systems used and the payments made is obtained from statements of payments calculated (one per company). These payment statements and the supplementary information come from dairy farmers and are collected by European Dairy Farmers (EDF).

The method chosen calculates the price a dairy farmer would receive if milk (of defined composition, quality and quantity) were delivered to another dairy company. In this report the standard milk has a fat content of 4.2%, protein 3.4%, total bacterial count of 24,999 per ml, somatic cell count of 249,999 per ml and a yearly delivery of 500,000 kg. Prices are exclusive of VAT, ex-farm and inclusive of supplementary payment.

The average milk price per calendar year is the weighted average of the monthly calculated milk prices. The weighting is based on the national average monthly supply.

Appendix 2 Further information

Table 4 ***Calculated milk prices for 1999 – 2006***
In euros per 100 kg of standard milk

	1999	2000	2001	2002	2003	2004	2005	2006	Average 1999 - 2006
Milcobel	28.82	32.05	32.91	30.29	30.30	30.73	29.18	28.33	30.33
Humana Milchunion	29.49	30.76	33.42	31.35	29.87	29.08	27.99	27.76	29.97
Nordmilch	29.00	30.19	33.09	28.99	27.67	27.98	27.61	27.15	28.96
Arla Foods DK	31.80	32.27	33.05	33.08	32.09	30.13	29.39	28.80	31.33
Hämeenlinnan O.	33.94	34.27	35.62	36.20	36.03	36.07	34.95	36.03	35.39
Bongrain	30.95	31.71	32.90	31.79	31.38	30.46	29.72	28.81	30.96
Danone	31.05	31.82	33.00	32.00	31.57	30.66	30.07	29.51	31.21
Lactalis	31.02	31.75	33.08	31.87	31.61	30.70	29.77	28.72	31.06
Sodiaal	30.55	32.07	33.19	31.71	31.12	29.97	29.11	27.86	30.70
Arla Foods UK	28.13	27.13	30.66	28.22	26.48	27.53	27.32	25.55	27.63
First Milk	25.93	25.95	29.39	25.80	24.77	25.52	25.39	24.40	25.89
Glanbia	30.32	30.89	31.77	29.40	28.89	28.88	28.34	27.41	29.49
Kerry Agribusiness	28.74	29.44	30.49	28.58	28.11	27.75	27.15	26.14	28.30
Campina	30.90	30.94	33.39	33.00	30.76	29.96	29.51	28.51	30.87
Friesland Foods	30.64	31.94	34.03	32.10	30.80	30.03	29.25	28.73	30.94
Arla Foods S	33.25	34.87	31.10	31.97	32.21	30.21	29.24	28.82	31.46
Average	**30.28**	**31.13**	**32.57**	**31.02**	**30.23**	**29.73**	**29.00**	**28.28**	**30.28**
New Zealand	13.74	16.75	18.45	15.96	15.74	18.19	18.49	17.02	16.79
USA	29.00	26.61	36.89	27.72	25.04	31.33	28.16	23.47	28.53

Table 5 **Average exchange rates**

Currencies (versus euro)	2005	2006	2006/2005
British Pound	1.4629	1.4679	0.3%
Swedish Crown	0.1078	0.1081	0.3%
Danish Crown	0.1342	0.1341	-0.1%
US Dollar	0.8044	0.7973	-0.9%
New Zealand Dollar	0.5662	0.5178	-8.6%

Table 6 ***Synthesis of definitive milk prices in 2006 and 2005***
In euros per 100 kg of standard milk

	2006			2005		
	Advance	Supplement	Definitive	Advance	Supplement	Definitive
Milcobel	28.14	0.19	28.33	28.95	0.23	29.18
Humana Milchunion	27.96	-0.20	27.76	28.17	-0.17	27.99
Nordmilch	27.30	-0.15	27.15	27.74	-0.14	27.61
Arla Foods DK	27.73	1.07	28.80	28.17	1.22	29.39
Hämeenlinnan Osuusmeijeri	32.63	3.40	36.03	32.53	2.43	34.95
Bongrain	28.81		28.81	29.72		29.72
Danone	29.51		29.51	30.07		30.07
Lactalis	28.72		28.72	29.77		29.77
Sodiaal	27.86		27.86	29.11		29.11
Arla Foods UK	25.55		25.55	27.32		27.32
First Milk	24.40		24.40	25.39		25.39
Glanbia	26.94	0.47	27.41	28.02	0.32	28.34
Kerry Agribusiness	26.14		26.14	27.15		27.15
Campina	26.67	1.83	28.51	27.72	1.79	29.51
Friesland Foods	26.94	1.79	28.73	27.61	1.63	29.25
Arla Foods S	27.61	1.21	28.82	27.69	1.54	29.24
Average	**27.68**		**28.28**	**28.45**		**29.00**

Table 7 **Average milkfat and protein content and production per dairy farm**

Country	Milkfat %	Protein %	Production (kg)
Belgium	4.14	3.35	212,300
Denmark	4.22	3.43	270,900
Finland	4.31	3.43	864,100
France	4.23	3.41	163,800
Germany	4.07	3.23	233,800
Ireland	3.81	3.3	229,900
Netherlands	4.42	3.48	493,100
Sweden	3.99	3.26	888,000
United Kingdom	4.25	3.38	402,000
EU - 15	**4.09**	**3.33**	

Sources: CNIEL, France (milkfat and protein contents 2004)
and Dutch Dairy Board (Productschap Zuivel, PZ) (milk production per farm 2006)

Table 8 Development (%) advance milk prices 2007 compared to 2006

	May	Average January - May
Milcobel	12.3%	4.3%
Danone	3.8%	4.0%
Hameenlinnan Osuusmeijeri	2.7%	1.7%
Lactalis	1.1%	1.3%
Glanbia	16.5%	1.2%
Humana Milchunion	4.9%	0.9%
Bongrain	0.3%	0.8%
Sodiaal	0.7%	0.6%
Arla Foods S	1.3%	0.6%
Campina	2.9%	0.3%
Friesland Foods	0.8%	-0.2%
Nordmilch	1.9%	-0.4%
Kerry Agribusiness	9.2%	-0.4%
Arla Foods UK	5.1%	-0.6%
Arla Foods DK	0.0%	-0.9%
First Milk	-0.8%	-2.5%
Average	**4.0%**	**0.7%**