

LTO International comparison of producer prices for milk

2007



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FOREWORD

I am writing this foreword after a couple of weeks in which discussion on milk prices has emphasised the importance of the issue. Action taken by dairy farmers has made quite clear the anxiety felt about the way milk prices are evolving. My own conclusion is that milk prices must come from the market place and that they can fluctuate considerably. In this context the milk price comparison is an even more interesting tool than earlier.

As far as milk prices are concerned 2007 has been a fascinating year. After a number of years of decline the milk prices paid to farmers suddenly shot up at the end of the year. In consequence the average price for the whole year increased by almost €0,04 per kilogram. This led to a landslide in the positions of the different companies in the rankings list. Thus French companies sank to the lower end of the list because of their milk pricing system. Milcobel in Belgium and the Irish firms Glanbia and Kerry benefited from the price rises on the dairy market earlier than the other companies thanks to their range of products. This kind of difference has to be taken into account when judging the results of the different companies. It remains important to consider the results over a period longer than one year. So this report includes not only the milk prices for 2007 but also the average prices paid from 1999 to 2007.

The future is uncertain. Thus the first few months of 2008 showed a very different picture. Advance prices, it is true, remain higher than they were last year, but the trend is downwards. Next year we will see what this has meant for the prices paid in 2008.

After an evaluation it has been decided to extend the milk price comparison for the next four years and to increase the number of dairy companies involved. I think that this milk price comparison adds a useful contribution to the transparency of the prices paid for milk in the EU.

It is with pleasure that I thank European Dairy Farmers and the EU dairy farmers who participated for their cooperation in this investigation.



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 2007.

1.2 Notes for readers

Section 2 gives the results of the comparison of milk prices in 2007 (2.1) and a description of developments in the dairy market (2.2). Then Section 3 summarises milk prices from the start of the exercise in comparisons in 1999 up to 2007 (3.1) and information on the evolution of milk prices during the current year (3.2).

Section 4 gives an explanation of the choice made of dairy companies (4.1), together with more information about the calculation of the milk price for each company (4.2).

In the appendices the aim of the comparison and the method chosen to achieve it are described (Appendix 1) and the background figures on which the report is based (Appendix 2).

2. Milk prices in 2007

2.1 Comparison of milk prices

Milk prices have been calculated for fifteen European companies in 2007. The average calculated milk price for these dairy companies was €32.26 per 100 kg of standard milk¹ in 2007. This is €3.83 per 100 kg or 13.5% more than in 2006.

Table 1 Milk prices in 2007 and 2006

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

	2007	Ranking	2006	Ranking	2007-2006	2007/2006	National currency 1)
Hämeenlinnan O. (FIN)	37.61	1	36.03	1	1.58	4.4%	
Milcobel (B)	35.37	2	28.33	8	7.05	24.9%	
Glanbia (IRL)	34.13	3	27.70	12	6.43	23.2%	
Friesland Foods (NL)	33.61	4	28.73	5	4.89	17.0%	
Humana (D)	33.54	5	27.76	11	5.77	20.8%	
Campina (NL)	33.16	6	28.56	7	4.60	16.1%	
Kerry Agribusiness (IRL)	32.70	7	26.14	14	6.56	25.1%	
Nordmilch (D)	32.15	8	27.15	13	5.00	18.4%	
Danone (F)	31.82	9	29.51	2	2.31	7.8%	
Arla Foods (DK)	31.70	10	28.80	4	2.90	10.1%	9.9%
Bongrain (F)	30.68	11	28.81	3	1.87	6.5%	
Lactalis (F)	30.48	12	28.70	6	1.78	6.2%	
Sodiaal (F)	29.91	13	27.86	10	2.06	7.4%	
Dairy Crest (VK)	29.70	14	27.97	9	1.73	6.2%	6.5%
First Milk (VK)	27.34	15	24.40	15	2.94	12.1%	12.4%
Average	32.26		28.43		3.83	13.5%	
Fonterra (NZ)	26.25		17.28		8.97	51.9%	48.1%
USA class III	32.12		23.47		8.65	36.9%	45.2%

1) Corrected for effects of exchange rates. For non –euro countries monthly milk prices are converted to euro/100 kg based on average exchange rates for the month in question.

Milk prices

The results of the milk price comparison 2007 are very surprising. Milk prices have risen for the first time in years and there have been remarkable changes in the ranking order of the dairy companies.

The rise in milk prices was not only unexpected but also on a scale not known before. For most of the dairy companies the calculated milk prices in the last quarter of 2007 had never been so high since the start of the comparisons in 1999. However, because the rise in prices did not begin until April, the average milk price of European dairy companies over the whole of 2007 did not quite reach the record level of 2001. (See paragraph 3.1.)

The cause of the higher prices was the exceptionally good market situation in 2007. Although all European dairy companies were able to take advantage of it the differences in increase in milk price

¹ This report is based on standard milk containing 4.2% fat, 3.4% protein, a total bacterial count of 24 999 per ml (max), somatic cell count of 249 999 per ml (max) 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 used for calculations.

were great. These increases varied from around 4% for Hämeenlinnan Osuusmeijeri, Finland, to 25% for Kerry, Ireland. A consequence of these differences is that the ranking order of the companies in 2007 looks very different from that in 2006 and the years before. The calculated milk prices of Milcobel, Belgium (+ 24.9%), and Kerry (+25.1%) and Glanbia (+23.2%), Ireland, rose the most. Hence, in 2007, Milcobel is N° 2 at €35.37 per 100 kg, followed by Glanbia, N° 3 at €34.13. In earlier years Irish milk prices, though better than the British, were a long way below those in other European countries.

French dairy companies, whose milk prices have risen relatively little, have dropped a long way in the rankings. The calculated milk prices of the French companies range between €29.91 (Sodiaal) and €31.82 per 100 kg (Danone) and thus lie below the average of all dairy companies. One possible explanation for this is the milk pricing system used in France through which a rise in the profits from dairy products only later works its way into the price for milk. Thus it is in the 1st and 2nd quarters of 2008 that the calculated milk prices of French dairy companies have reached their highest levels since the start of milk price comparisons.

The calculated milk price that has risen the least is that of Hämeenlinnan Osuusmeijeri, Finland, yet, with its milk price at €37.61, this company still tops the list in 2007. This very modest price rise confirms the image that the Finnish milk price is more or less independent of the prices paid in other countries.

The milk prices of Humana Milchunion (+20.8%) and Nordmilch (+18.4%), Germany, and Friesland Foods (+17.0%) and Campina (+16.1%), the Netherlands, have risen more than the average.

Lower than average rises in milk price have been calculated for First Milk (+12.1%) and Dairy Crest (+6.2%), United Kingdom, and Arla Foods (+10.1%), Denmark/Sweden. Because the Pound Sterling has fallen in relation to the Euro British milk prices have risen a little bit more, expressed in national currency, that is + 6.5% (Dairy Crest) and + 12.4% (First Milk). Nevertheless, with a milk price of €27.34 per 100 kg, First Milk again is at the bottom of the rankings list in 2007.

Arla Foods' calculated milk price (€31.70 per 100 kg) was below the average of all companies for the first time in 2007. Arla raised the price paid relatively late in the day, only after the summer, so that at the end of 2007 dairy farmers were getting a milk price 40% higher than at the beginning of the year.

While within Europe the rise of 13.5% was talked of as a 'record', it stands in sharp contrast to the evolution of milk prices in the USA and New Zealand (Fonterra). In these countries in 2007 dairy farmers received a milk price nearly 50% higher, expressed in national currency, 48.1% for Fonterra and 45.2% for the US. For Fonterra's and USA dairy farmers the milk price expressed in national currency reached a record level last year.

2.2 Dairy market

The combination of attractive international demand, a fall in production and shortage of stocks in 2007 led to price rises for dairy products of a magnitude not previously known, both in international markets and in the internal EU market.

From the beginning of 2007 the prices of milk powder and butter, the basic commodity products, rose steadily. In fact this was a continuation of the trend that had started in the last quarter of 2006. However if, in the first quarter of 2007, people still talked of a gradual increase in prices, in the second quarter prices of skimmed and whole milk powder and butter shot upwards to reach a peak in September 2007.

Whereas in the past prices on the world market had remained distinctly lower than EU levels, in 2007 the strengthening of the market was such that world prices overtook those in EU. Thus world prices became the driving force behind price rises within the EU. This is even more remarkable as exports had to cope with a steady fall in the value of the US dollar.

The developments in the basic commodities had a positive influence in the markets for dairy products that give greater added value. At least the profits from butter and skimmed milk powder provided a sort of floor for the market. Whenever other uses for milk become less profitable the milk available will be switched to butter and skimmed milk unless prices of other dairy products are also rising there.

That these prices may only rise later is because contracts for products such as cheese, fresh dairy products and ingredients often apply for periods varying from a few months to one year. Price adjustments are introduced into new sales contracts with buyers with a certain delay. Thus the price of cheese only began to catch up in June 2007 and then, in just a couple of months, made a sizeable jump.

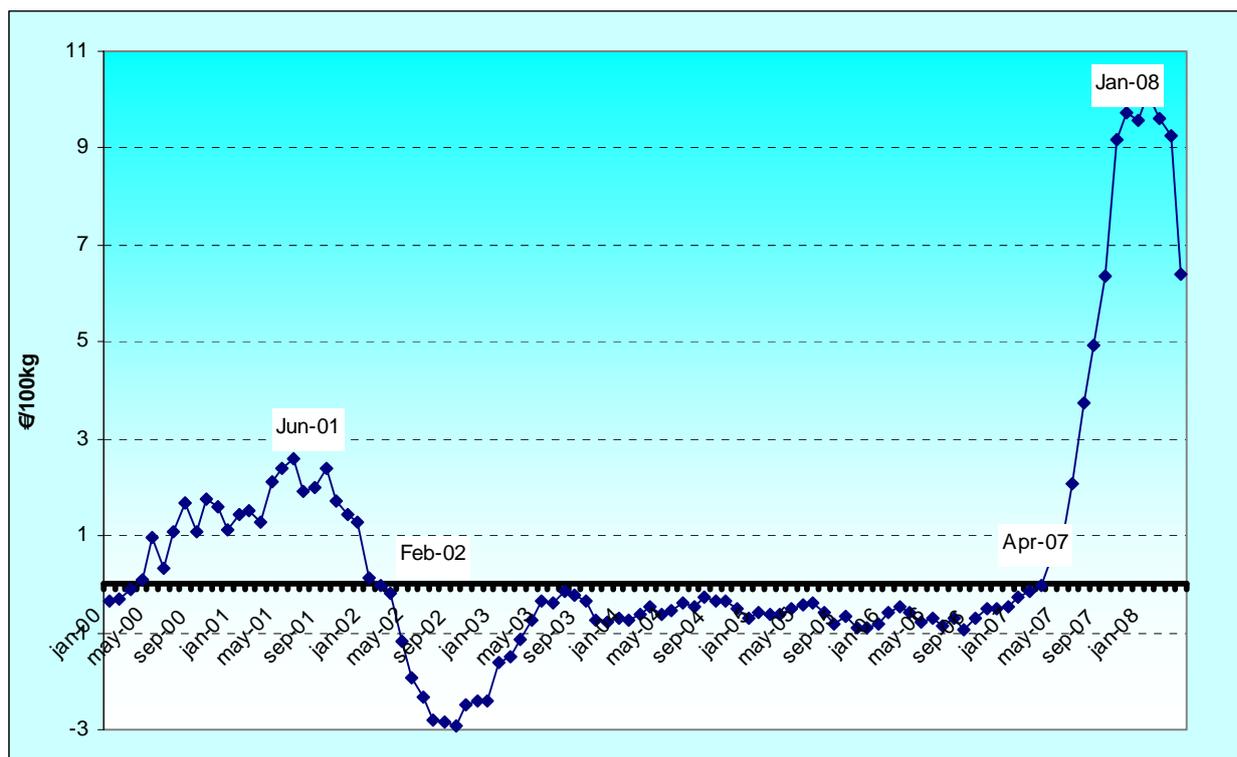
In the course of the fourth quarter of 2007 the market for commodity dairy products passed its peak. New supply of milk powder reached the world market from North America and Oceania and, at the same time, the demand for calf milk replacers fell in the internal EU market. In addition production of skimmed milk powder had been stimulated by high prices for protein and this gradually put pressure on the market. The butter market also got out of balance as a result of higher prices. The result was a gradual but substantial fall in price for milk powder and butter. Quotations for butter and skimmed milk powder have again been lower since March/April 2008 than in the previous year. However this new fall has already come to an end: in any event, end of June 2008 these quotations are higher than they were in 2006. Cheese prices have also fallen in 2008 but, at the end of June, remained about 30% higher than in previous years.

3. Development of milk prices

3.1 Evolution of milk prices from 1999 to 2007

For the first time in many years milk prices in the EU rose in 2007. This is shown in Graph 1, which gives, month by month, the difference between the average advance milk price for all the dairy companies and that one year earlier.

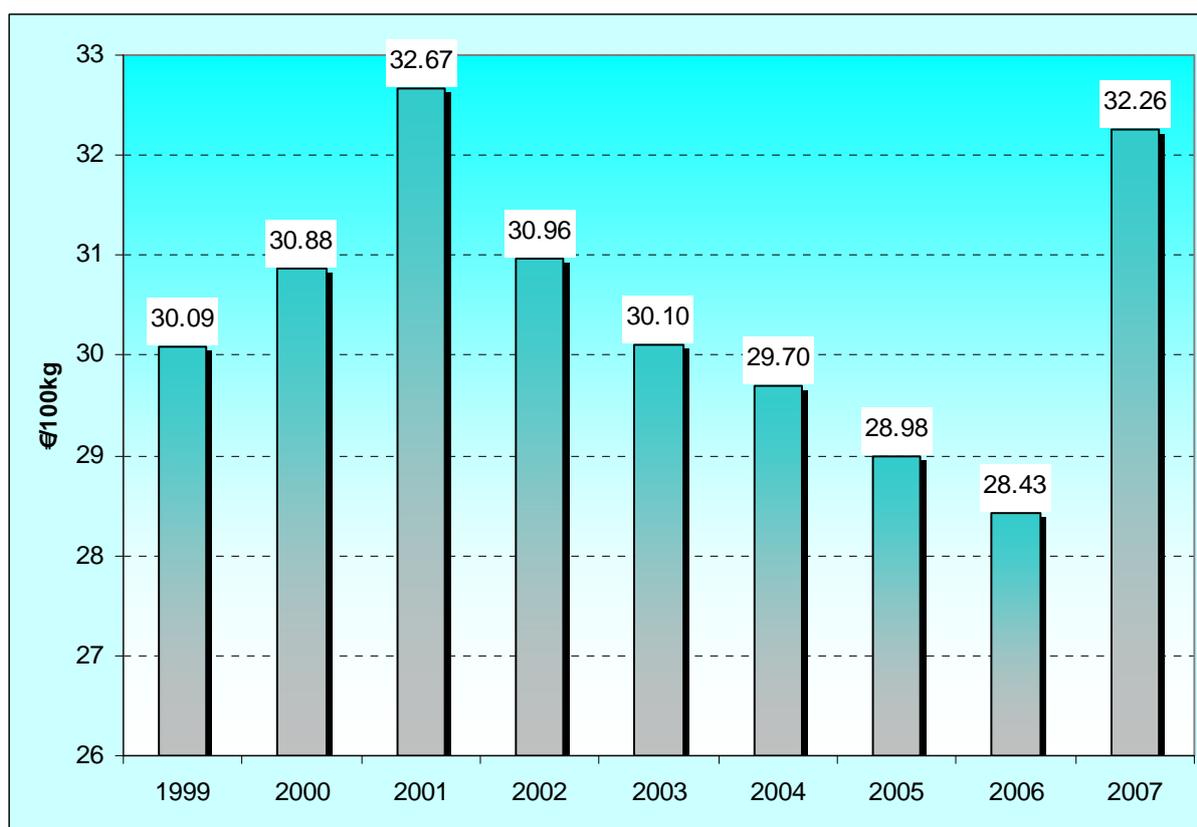
Graph 1 Average advance milk price in relation to the same month one year previously



From Graph 1 it is clear that advance milk prices rose from April 2000 to January 2002 (positive difference with previous year) and the difference reached a maximum of €2.61 per 100 kg in June 2001. From February 2002 the difference from the previous year became negative, thus milk prices fell. After an initial sudden drop – not surprising in view of the relatively high milk prices in 2001 – the fall in prices was very gradual in the years thereafter. The difference with the previous year was less than €1.00 per 100 kg every month. The great turnaround came in the spring of 2007. After a five-year period of falling milk prices there was the first mention of a rise in the average of advance prices. Furthermore by the summer this rise had become remarkably big. Finally in January 2008 the difference between this year and the previous year reached a maximum, at €10.12 per 100 kg.

Despite the enormous rise in prices the calculated average milk price in 2007 did not surpass the 2001 level. Graph 2 shows that the 2007 average milk price was the second highest since 1999.

Graph 2 Average milk prices 1999 – 2007



The average milk price for all companies from 1999 to 2007 is € 30.45 per 100 kg. It ranged between € 35.63 for Hämeenlinnan Osuusmeijeri, Finland, and € 26.05 per 100 kg of standard milk for First Milk, United Kingdom (see Table 2).

Table 2 Average milk prices per company from 1999 to 2007

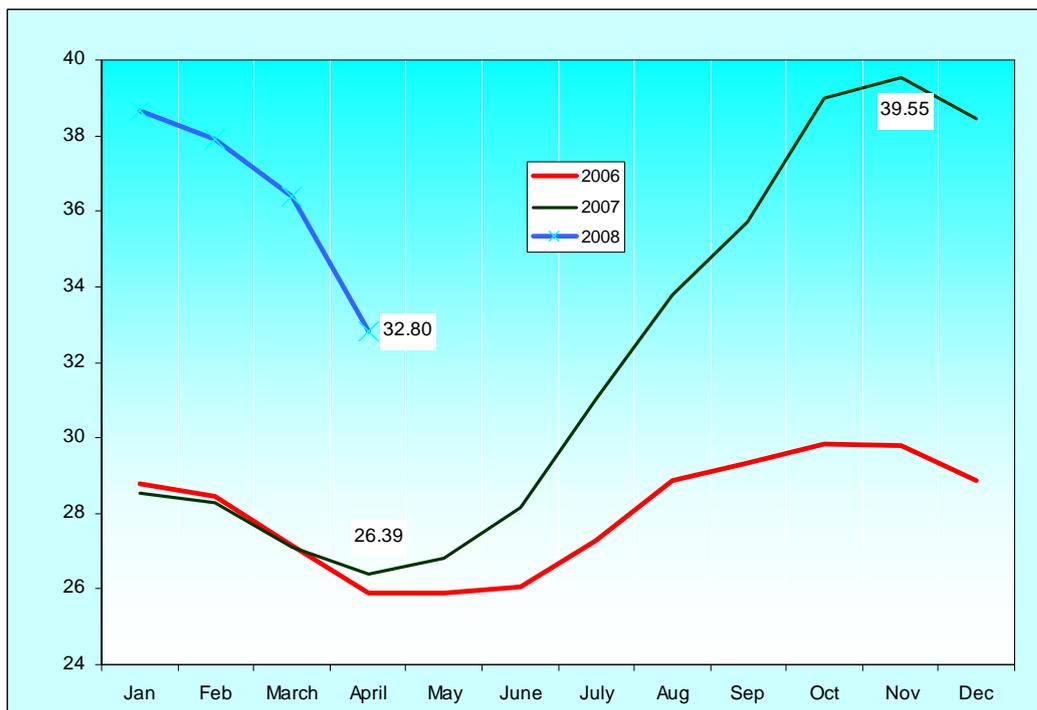
	Average 1999-2007
Hämeenlinnan O.	35.63
Arla Foods DK	31.37
Danone	31.28
Friesland Foods	31.24
Campina	31.13
Lactalis	31.00
Bongrain	30.93
Milcobel	30.89
Sodiaal	30.61
Humana	30.36
Glanbia	30.04
Nordmilch	29.31
Kerry Agribusiness	28.79
Dairy Crest (from January 06, before Arla UK)	28.13
First Milk	26.05
Average	30.45
Fonterra	17.87
USA	28.93

When the two companies with, respectively, the highest and the lowest milk prices are eliminated it appears from Table 2 that milk prices lie relatively close to one another, with a difference of € 3.24 per 100 kg or 10%.

3.2 Development of advance milk prices in 2008

The fact that dairy markets are over the peak of milk price increases is also apparent from the evolution of advance milk prices in 2008. See Graph 3.

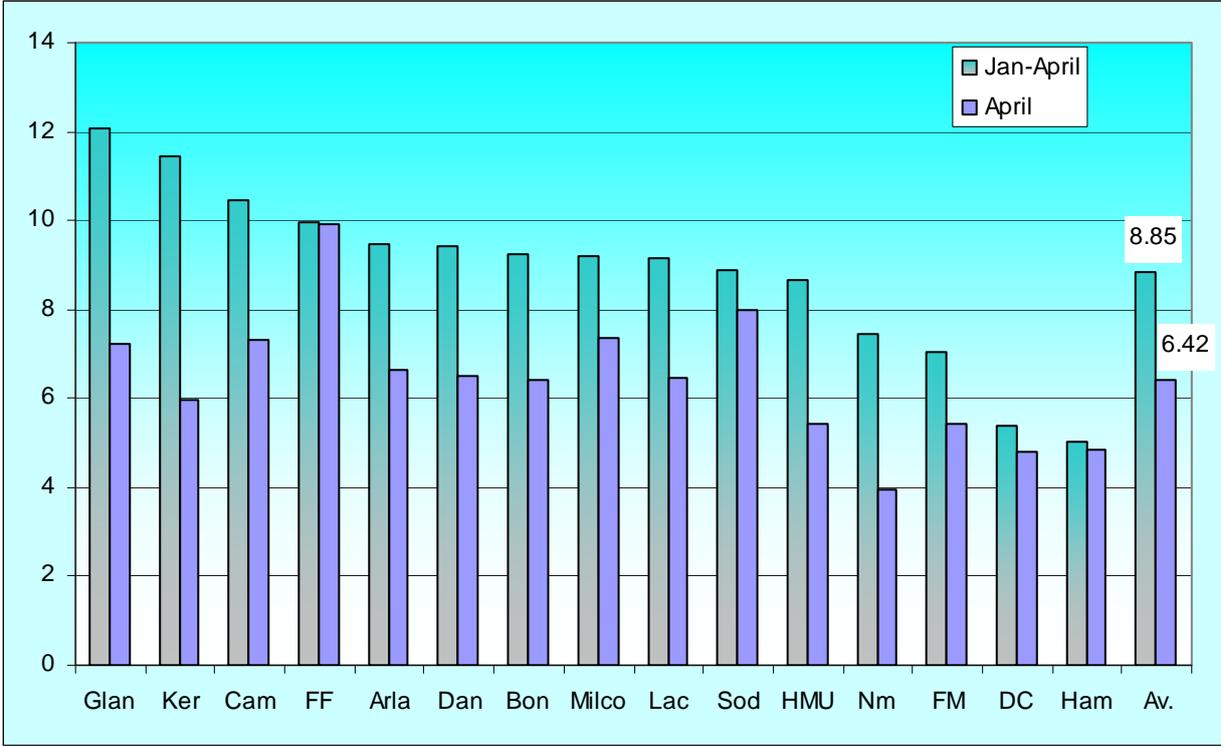
Graph 3 *Development of average monthly advance milk price since January 2006*



After the peak that was reached in November 2007 (€ 39.55 per 100 kg) the average calculated advance milk price fell for all companies. Despite this the average advance milk prices are at a far higher level than they were a year before. In April 2008 the difference from the previous year was still € 6.42 per 100 kg of standard milk. This difference is in decline, however, and the rate of decline varies between the companies.

Graph 4 shows, company by company, how the (arithmetical) average milk price in the months January to April 2008 relates to that in the corresponding period in 2007. To show how the difference from last year is declining the evolution of the milk price in April 2008 is given in relation to that of April 2007.

Graph 4 Development of advance milk prices in 2008, company by company, in relation to the same period in 2007



On average the calculated advance milk prices were € 8.85 per 100 kg higher in January to April 2008 than in the same period last year. In April 2008 the difference is still 'only' € 6.42. This is because all companies, except Friesland Foods, Arla, Hämeenlinnan Osuusmeijeri and the British companies, lowered their prices for fat and protein and/or their basic price at the start of 2008.

The milk price reduction for Arla is a consequence of the introduction of a summer levy starting in April 2007. The fall in British calculated milk prices is linked to the fall in the exchange rate of the Pound Sterling in relation to the Euro. The slight fall in milk price of Friesland Foods is due to a change in the proportions of the values of fat and protein.

While the advance milk prices have fallen significantly in the first months of 2008 market forecasts remain positive for the years to come. It is expected that milk prices will remain higher in future years than in previous years. However there will be more fluctuation in milk prices than before.

4. Dairy companies and explanation of calculated milk prices

4.1 Choice of dairy companies

The choice was made to compare the prices of companies that are large and located across the regions of Europe. Of the fifteen dairy companies in the milk price comparison eight are in the world's top twenty. The names of these companies are in bold type in Table 3.

Table 3 Largest dairy companies in the world

	Company	Country	Turnover (€billion)
1	Nestlé	Switzerland	16.9
2	Danone	France	10.2
3	Lactalis	France	9.6
4	Friesland and Campina	Netherlands	8.8
5	Dairy Farmers of America	USA	8.1
6	Dean Foods	USA	7.6
7	Fonterra	New Zealand	7.6
8	Arla Foods	Denmark/Sweden	6.4
9	Kraft Foods	USA	4.7
10	Unilever ¹	Netherlands/UK	4.4
11	Parmalat	Italy	3.5
12	Bongrain	France	3.4
13	Saputo	Japan	3.3
14	Land O'Lakes	USA	3.1
15	Meiji Dairies	Japan	3.0
16	Morinaga Milk Industry	Japan	2.8
17	Schreiber Foods ¹	USA	2.4
18	Nordmilch	Germany	2.3
19	Dairy Crest	UK	2.3
20	Müller	Germany	2.2

1. Estimate

Source: Rabobank International 2008 (turnover 2007 + (proposed) mergers and acquisitions in 2008)

4.2 Explanation company by company

Finland (Hämeenlinnan Osuusmeijeri)

The Finnish cooperative Hämeenlinnan Osuusmeijeri is a relative small operation, receiving about 100 million litres every year (about 4% of Finnish milk production). Hämeenlinnan Osuusmeijeri has been selected for the milk price comparison as an alternative to the large Valio concern, which takes 2000 million kg of milk yearly, 90% of the milk processed in Finland. So far Valio has not made milk price figures available while the milk price paid by Hämeenlinnan Osuusmeijeri differs from Valio's only very slightly.

Hämeenlinnan Osuusmeijeri's milk is supplied to the second largest Finnish dairy company, Arla Ingman Foods, so-named since the Danish/Swedish firm Arla Foods bought 30% of the shares of the firm with an option to increase the holding to 100% within three years.

Hämeenlinnan Osuusmeijeri made a supplementary payment of € 4.00 per 100 litres for 2007 (€ 3.50 in 2006). This supplementary payment is not corrected, either for date of payment or for members' capital investment in the company. The reason for this is that the dairy farmer members receive a market price related interest payment in addition to the supplementary payment and their capital investment in the company.

Belgium (Milcobel)

Milcobel is the largest Belgian cooperative, which processes 1000 million kg of milk yearly (about 1/3 of the milk delivered in Belgium). For 2007 Milcobel has made a supplementary payment of € 0.40 per 100 litres. Calculated per 100 kg of standard milk and corrected for the date of payment that is € 0.37 per 100 kg (€ 0.19 in 2006).

Ireland (Kerry and Glanbia)

The Irish dairy companies Kerry plc and Glanbia plc are both quoted on the Stock Exchange. Glanbia Co-operative Society Limited owns a majority (54.7%) of the shares of Glanbia. In 2007 Glanbia processed 4100 million kg of milk in total, of which 1400 million kg was delivered in Ireland and 1900 million kg in the United States. Kerry processes about 900 million kg of milk. Together Glanbia and Kerry process about 40% of the milk delivered in Ireland.

Irish dairy companies pay different prices for manufacturing milk and liquid milk (whole year fresh milk products). About 90% of Irish milk is paid for as manufacturing milk. For the milk price comparison it is the price of manufacturing milk that has been taken. Glanbia and Kerry made no supplementary payments for 2007.

The Netherlands (Friesland Foods and Campina)

Together Friesland Foods and Campina process about 75% of the milk produced in the Netherlands.

In 2007 the Friesland Foods cooperative processed 6900 million kg of milk, of which 5300 million kg came from its members in the Netherlands. In May 2008 Friesland Foods made a supplementary payment of 6.07% of the advance milk price for 2007, or €1.85 per 100 kg of standard milk. Furthermore the cooperative remitted a dividend to the member dairy farmers on the so-called 'A' shares, pro rata to the value of the quantity of milk delivered. This dividend payment equals 1.07% of the advance milk price or €0.34 per 100 kg of milk.

Friesland Foods fixes the provisional milk price for the previous calendar year in May on the basis of the evolution of the prices paid by five 'index' companies, namely Arla Foods, Campina, Humana Milchunion, Milcobel and (until 2007) Nordmilch. The definitive milk price is determined in November. The milk price for 2006 was corrected retrospectively by Friesland Foods because it became apparent from the Nordmilch annual report that the milk price paid by this company was not based exclusively on the market result, but that payment had also been made out of capital. This led to a reduction in the 2006 milk price of € 0.32 per 100 kg of standard milk.

Friesland Foods' supplementary payment for 2007 is corrected for the date of payment (May 2008). Including dividend 'A' and after deduction of the correction for the 2006 milk price the calculated supplementary payment for 2007 is € 1.86 per 100 kg of standard milk (€ 1.79 in 2006).

The Campina cooperative processed a total of 4800 million kg of milk in 2007, of which 2800 million kg came from dairy farmer members in the Netherlands.

Campina made a supplementary payment for 2007 of € 0.10 per kg of fat and € 0.30 per kg of protein, or € 1.44 per 100 kg of standard milk. Corrected for the date of payment (May 2008) and for investment of capital the supplementary payment calculated for 2007 is € 1.20 per 100 kg of standard milk (€ 1.83 in 2006).

Campina's member dairy farmers are obliged to have a membership certificate for every 105 kg of milk delivered. Every year the price of membership certificates is fixed for new members (except those who inherit the rights). In 2007/2008 membership certificates were priced at € 10.50 while the nominal value was € 4.54. The calculated correction for invested capital in the milk price is based on the nominal value and a long-term percentage interest rate of 4.38%, which works out at minus € 0.19 per 100 kg of standard milk.

Friesland Foods and Campina have signed a merger agreement. If the European Commission gives its approval to the merger it can proceed and FrieslandCampina will be the fourth largest dairy company in the world, after Nestlé, Danone and Lactalis. (See Table 3.) FrieslandCampina will pay a milk price that will set the tone in North-West Europe. The FrieslandCampina milk price will comprise a guaranteed price and a performance premium. The guaranteed price will be the same as the average of milk prices in North-Western Europe. This price does not depend on the company results. When the calendar year is over the performance premium will be paid on the basis of the financial performance of the company.

Germany (Humana Milchunion and Nordmilch)

Together Humana and Nordmilch process about 20% of the milk delivered in Germany.

Humana Milchunion eG has made a supplementary payment with the monthly payment for November/December 2007, just as it did in 2006. This payment was €0.65 per 100 kg of milk delivered. In the milk price comparison this interim payment of €0.65 per 100 kg has been counted retrospectively with the monthly payments for 2007 rather than calculated in as a supplementary sum. Humana Milchunion eG is a cooperative with, in 2006, milk deliveries of 1400 million kg, of which 1100 million kg came from the cooperative members.

The Nordmilch eG cooperative processes about 4000 million kg of milk per year, of which 3000 million kg comes from the dairy farmer members of the cooperative. In 2007 Nordmilch introduced some premium provisions for long-term members and expanding members. Members/dairy farmers who enter into a delivery contract for 5 years get a loyalty bonus of €0.50 per 100 kg. Dairy farmers who deliver 5% more milk from October 2007 to March 2008 than in the corresponding period the previous year get €5.00 per 100 kg extra. As a consequence of these premiums Nordmilch paid out an average of €0.40 per 100 kg of milk in October and November 2007. Finally there is a capital premium in compensation for the capital invested by the members ('members' capital'). These premiums are not taken into account in the milk price comparison.

The member suppliers of Humana Milchunion and Nordmilch are required to purchase shares in their companies for €4.00 and €5.11, respectively, per 100 kg of milk delivered. Nordmilch and Humana Milchunion dairy farmers get no compensation for this contribution of capital. For this reason the milk price is corrected for loss of interest, by minus €0.17 (Nordmilch) and minus €0.22 (Humana) per 100 kg. This is done in the form of a negative supplementary payment.

France (Lactalis, Bongrain, Danone and Sodiaal)

Apart from Sodiaal (cooperative) the French firms are private companies. Lactalis is the largest and processes 4800 million kg of milk from French dairy farmers. This represents 20% of French milk.

In the past year milk prices in France have risen relatively less than the average in other countries. This is connected to the milk pricing system used.

In France, representatives of the dairy processing industry and the dairy farmers make quarterly recommendations at national level concerning the development of the milk price (see table 4). These recommendations are based on the profits made from dairy products, on shop prices and on milk prices in Germany. The basis for the recommendations is thus past prices. This appears to explain why milk prices rose the most in France in the first quarter of 2008 rather than in the last quarter of 2007, as was the case in other countries. Furthermore the French competition authority has raised objections to these recommendations and the system is now under discussion.

Table 4 French national recommendations on the development of milk prices from 2007
Changes in basic milk price in euros per 1000 litres

	Q 1 2007	Q 2 2007	Q 3 2007	Q 4 2007	2007	Q 1 2008	Q 2 2008
Change in basic price	+ 3.71	+ 1.30	+ 13.23	+ 58.00	+ 19.00	+ 103.7	+ 63.8

The recommendations relate to the development of the basic price of milk. They refer to milk with a fat content of 38 g of fat and 32 g of true protein per litre. Depending on the range of products manufactured the dairy processors can apply an extra discount within the scope of the agreements. Since July 2007 this discount has been zero. In 2007 Bongrain and Danone lowered the price of fat and protein somewhat, amounting to a reduction in the price of standard milk of €0.06 and €0.08 per 100 kg, respectively. Since April 2007 Lactalis has given more value to protein and less to fat. For a standard farm with milk at 4.2% fat and 3.4% protein this means a reduction of the milk price by €0.17 per 100 kg.

Denmark (Arla Foods)

Arla Foods is a Danish/Swedish cooperative with a milk supply of 8400 million kg in 2007, of which 5900 million kg came from member farmers. Because the milk price paid to members in Denmark is the same as in Sweden the milk price comparison no longer calculates separate figures. The small differences in calculated milk prices in the past were due to fluctuations in the exchange rate of the Swedish Krone against the Danish. From 2007 on Arla's calculated milk price will be based on the payments made in Denmark. Arla processes 90% of the milk produced in Denmark.

For 2007 Arla made a supplementary payment of 6% over the so-called basic value plus quality bonus (4.5% in 2006). The basic value corresponds to the fat and protein values (DKK 192.02 per 100 kg of milk with 4.2% fat and 3.4% protein) minus costs reckoned per kg (DKK 12.00 per 100kg). Arla Foods uses quality bonuses calculated as a percentage of the basic value. For milk with a bacterial count of 24 999 per ml (max), a somatic cell count of 249 999 per ml (max) and fewer than 400 spores per ml a bonus of 3% applies. On this basis the supplementary payment is DKK 11.13 per 100 kg of standard milk. A part of this supplementary payment (DKK 3.00 per 100 kg) is not paid direct to the dairy farmer members but converted into membership certificates. Because no interest is paid on these certificates the supplementary payment is corrected by minus DKK 0.13 (= 4.38% of DKK 3.00). Moreover the definitive milk price is also corrected for the date at which the supplementary payment for 2007 was made (March 2008) (= minus DKK 0.34). After correction for the date of payment and the absence of compensation for loss of interest on membership certificates the supplementary payment for 2007 was DKK 10.66 per 100 kg, or € 1.42 per 100 kg of standard milk (€1.07 in 2006).

United Kingdom (Dairy Crest and First Milk)

Together First Milk and Dairy Crest process or sell 40% of the milk supply in the UK.

From 2007 the Dairy Crest milk price has been used in the milk price comparison in place of that of Arla UK. Virtually all of the milk delivered to Arla UK is disposed of as liquid milk for consumption. For this purpose the higher fat and, in particular, protein content of standard milk are not given their full value. The contract between Dairy Crest and the dairy farmers who supply milk to Davidstow Cheese is more representative and fits the definition chosen for the standard milk more closely. Dairy Crest Group plc is a private company, which processing in total 2400 million kg of milk, is the largest dairy company in the UK. Dairy Crest applies different contracts with the dairy farmers depending on the use to be made of the milk (cheese, liquid milk for consumption etc). Around 70% of the milk processed comes directly from nearly 1600 dairy farmers. Milk is delivered to the Davidstow cheese factory by 500 of these. Negotiations with Dairy Crest are undertaken on behalf of the dairy farmers delivering the milk by Dairy Crest Direct and deal with the level of the milk price and the system for payment. The calculated milk price is based on the agreements reached by Dairy Crest Direct. The milk price in the Davidstow contract is derived from a basic price for milk with a fat content of 4.01% and 3.31% protein plus a bonus per % extra fat and protein. A discounted price is paid for milk with a bacterial count over 50 000 per ml and a somatic cell count over 200 000 per ml. For standard milk with a somatic cell count of 249 999 per ml the discount is 0.2 pence per litre. Alongside this discount dairy farmers receive various bonuses, *inter alia*, for the quantity of milk delivered. There are also summer levies and winter bonuses.

First Milk is a cooperative orientated, for the most part, towards selling the milk delivered by its members to the dairy processing industry. First Milk also has a few factories making cheese and dairy ingredients. In February 2008 First Milk and Milk Link, the two largest dairy cooperatives in the UK, decided to bring to an end the discussions on a possible merger. First Milk made no supplementary payments for 2007.

New Zealand (Fonterra)

The New Zealand dairy cooperative Fonterra Dairy Co-operative Group processed 14 340 million litres of milk from 10 921 dairy farmers in the 2006/07 season. The milk price season in New Zealand runs from June to May the following calendar year.

In 2006/07 Fonterra paid a definitive milk price of NZD 4.46 per kg of milk solids (= fat plus protein). For the current milk season, 2007/08, a record price of NZD 7.90 per kg of milk solids is expected (or € 33,88 per 100 kg standard milk). For the calendar year 2007 an average price of € 26.25 per 100 kg of standard milk with 7.6 kg of milk solids (4.2 kg of fat + 3.4 kg of protein) is calculated for the milk price paid. Although the member suppliers are obliged to invest in Fonterra no correction has been made for this.

At the beginning of the milk price season Fonterra makes a forecast of that season's milk price. For 2008/09 a record opening forecast of NZD 7.00 per kg of milk solids. This forecast is continually updated throughout the season depending on developments in the market. The calculated milk prices are based on Fonterra press statements concerning the expected and/or definitive milk price.

United States

In a large part of the US the payment of a minimum milk price to dairy farmers is determined by the regional market ordinances. The minimum prices are valid for different classes depending on the use to be made of the milk. The Class III price is for milk that is going to be processed into cheese (among other products) and can be regarded as a sort of basic price. Every month the US Department of Agriculture (USDA) publishes the Class III price as well as the value of the different components. In the milk price comparison these announcements form the basis of the price calculated for standard milk.

This calculated milk price gives a good indication of the evolution and the level of milk prices in the US because the milk prices actually paid are also based on these component prices announced by the USDA. The prices paid in practice differ as a consequence of bonuses and discounts applied by the various dairy companies and, obviously, not all milk is processed into cheese.

An overall comparison between the Class III milk prices and the 'real' milk prices also published by the USDA, the so-called 'mailbox' prices, shows that the average American milk price is somewhat higher than the Class III price.

Appendix 1 Aim and method used

Aim

The aim of the milk 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 plus if such should be the case supplementary payments after the calendar year. The weighting is based on the national average monthly supply.

The supplementary payments are corrected for the date of payment and the capital contribution of the member suppliers. Adjustment for date of payment is the calculated loss of interest based on the number of days between halfway through the period of delivery (1 July 2007) and the date of payment. The percentage interest is based on a short-term rate of 4.28%. This is the average for 2007 of the three-month EURIBOR interest. (Source: ECB Monthly Bulletin, April 2008).

The supplementary payments are also corrected for loss of interest on the invested capital in which the percentage interest used in 2007 (4.38%) is based on 10-year government bonds. (Source: ECB Monthly Bulletin, April 2008)

For non-euro countries monthly milk prices are converted to euro/100 kg based on average exchange rates for the month in question.

Appendix 2 Further information

Table 5 *Calculated milk prices for 1999 – 2007*
In euros per 100 kg of standard milk

	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average 1999-2007
Hameenlinnan O.	33.94	34.27	35.62	36.20	36.03	36.07	34.95	36.03	37.61	35.63
Arla Foods DK	31.80	32.27	33.05	33.08	32.09	30.13	29.39	28.80	31.70	31.37
Danone	31.05	31.82	33.00	32.00	31.57	30.66	30.07	29.51	31.82	31.28
Friesland Foods	30.64	31.94	34.03	32.10	30.80	30.03	29.25	28.73	33.61	31.24
Campina	30.90	30.94	33.39	33.00	30.76	29.96	29.52	28.56	33.16	31.13
Lactalis	31.02	31.75	33.08	31.87	31.61	30.70	29.77	28.70	30.48	31.00
Bongrain	30.95	31.71	32.90	31.79	31.38	30.46	29.72	28.81	30.68	30.93
Milcobel	28.82	32.05	32.91	30.29	30.30	30.73	29.18	28.33	35.37	30.89
Sodiaal	30.55	32.07	33.19	31.71	31.12	29.97	29.11	27.86	29.91	30.61
Humana	29.49	30.76	33.42	31.35	29.87	29.08	27.99	27.76	33.54	30.36
Glanbia	30.32	30.89	31.77	29.40	28.89	28.88	28.34	27.70	34.13	30.04
Nordmilch	29.00	30.19	33.09	28.99	27.67	27.98	27.61	27.15	32.15	29.31
Kerry Agribusiness	28.74	29.44	30.49	28.58	28.11	27.75	27.15	26.14	32.70	28.79
Dairy Crest ¹⁾	28.13	27.13	30.66	28.22	26.48	27.53	27.32	27.97	29.70	28.13
First Milk	25.93	25.95	29.39	25.80	24.77	25.52	25.39	24.40	27.34	26.05
Average	30.09	30.88	32.67	30.96	30.10	29.70	28.98	28.43	32.26	30.45
Fonterra	13.74	16.75	18.45	15.96	15.74	18.19	18.49	17.28	26.25	17.87
USA	29.00	26.61	36.89	27.72	25.04	31.33	28.16	23.47	32.12	28.93

¹⁾ from January 2006 jan 06, before Arla UK

Table 6 *Average exchange rates in euro*

	2007	2006	2007/2006
British Pound	1.463291	1.467876	-0.31%
Danish Crown	0.134216	0.134051	0.12%
US Dollar	0.731183	0.797258	-8.29%
New Zealand Dollar	0.537662	0.517803	3.84%

Table 7 Synthesis of definitive milk prices in 2007 and 2006
In euros per 100 kg of standard milk

	2007			2006		
	Advance	Supplement	Definitive	Advance	Supplement	Definitive
Hämeenlinnan O.	33.73	3.88	37.61	32.63	3.40	36.03
Milcobel	35.00	0.37	35.37	28.14	0.19	28.33
Glanbia	34.13		34.13	26.94	0.76	27.70
Friesland Foods	31.75	1.86	33.61	26.94	1.79	28.73
Humana	33.76	-0.22	33.54	27.96	-0.20	27.76
Campina	31.96	1.20	33.16	26.69	1.87	28.56
Kerry Agribusiness	32.70		32.70	26.14		26.14
Nordmilch	32.32	-0.17	32.15	27.30	-0.15	27.15
Danone	31.82		31.82	29.51		29.51
Arla Foods DK	30.29	1.41	31.70	27.73	1.07	28.81
Bongrain	30.68		30.68	28.81		28.81
Lactalis	30.48		30.48	28.70		28.70
Sodiaal	29.91		29.91	27.86		27.86
Dairy Crest	29.70		29.70	27.97		27.97
First Milk	27.34		27.34	24.40		24.40
Average	31.70	0.56	32.26	27.85	0.58	28.43