



22<sup>nd</sup> May 2020

**NOTIFICATION OF AN AGREEMENT BY DAIRY UK UNDER THE COMPETITION ACT 1998 (DAIRY PRODUCE) (CORONAVIRUS) (PUBLIC POLICY EXCLUSION) ORDER 2020**

**Organisation**

1. Dairy UK is the trade association that represents the dairy processing sector of the United Kingdom. Dairy UK is headquartered at 210 High Holborn, London, WC1V 7EP. Further information can be found at [www.dairyuk.org](http://www.dairyuk.org).

**Activities**

2. Dairy UK has undertaken activities falling under article 3.2 of the above order, namely:
  - (a) collecting and sharing information on day to day surplus milk quantities, stock levels, and customer demand during the dairy produce demand disruption period;
  - (b) collecting and sharing information on the availability of processing, storage and drying capacity during the dairy produce demand disruption period;

**Context**

3. The Covid 19 lockdown and the consequent closure of restaurants, cafes and pubs, resulted in the collapse of 'out of home' consumption of milk and dairy products. This initially was not matched by a counter-veiling increase by consumers in purchases of milk and dairy products through shops. As fresh dairy products cannot economically be stored for long periods then raw milk previously intended for the fresh out of home market had to be redirected to the manufacture of long-life products such as cheese, which can be stored for longer periods.
4. The loss of out of home consumption also coincided with the normal spring peak milk production period when the capacity available to produce long life products could be fully utilized. This raised the possibility that unless spare capacity could be found raw milk displaced from fresh products for the out of home market would have to be disposed of, either on farm or after collection.
5. It was therefore felt appropriate that Dairy UK should undertake a survey of forecast milk disposals and spare capacity to see if there was under utilised capacity available to absorb milk from the out of home market. At the same time the survey sought information on actual milk disposals over the preceding weeks to monitor industry progress.
6. The results of the survey could enable the industry to monitor the extent of the potential problem, notify the Government accordingly, and also notify companies forecasting milk disposals of those companies with spare capacity to help alleviate the problem. In this latter

respect the survey was an effort to improve information flows in the market for raw milk that exists informally between milk processors in order to help the market clear.

### **Legal Clearance**

7. Dairy UK was only prepared to proceed with the survey if it had obtained the support from Government for the exercise and legal clearance to do so.
8. Following exchanges with Defra the Government agreed to grant a derogation from competition law to allow data to be gathered from the industry. This decision was announced in a Defra press statement issued by Defra on 17<sup>th</sup> April (annex I below) which stated:

‘Dairy UK and the Agriculture and Horticulture Development Board (AHDB) will now lead work to bring the industry together to identify spare processing capacity, how to stimulate demand and how production could be temporarily reduced’

9. The need to progress with data gathering meant that the first survey had to be undertaken before the competition law easement had been laid as a Statutory Instrument. Dairy UK only proceeded once it had obtained legal comfort from Defra that the survey was consistent with competition law. This was provided by the email from [REDACTED] of Defra to Dairy UK on 21<sup>st</sup> April in annex II below.
10. The Statutory Instrument was subsequently laid before Parliament on the 1<sup>st</sup> May but made retroactive to 1<sup>st</sup> April.

### **Operation of the Survey**

11. The first survey was sent to Dairy UK members and non-members on the 24<sup>th</sup> April. The survey was accompanied by a letter from [REDACTED], reproduced in Annex III.

12. The questionnaire for the survey is reproduced in annex IV. In summary the survey asked for:
  - Forecast weekly spare capacity and disposals over the five weeks ending 31<sup>st</sup> May
  - Actual weekly milk disposals over the week ending 24<sup>th</sup> April
  - Consent to disclose the identity of the company to those companies forecasting milk disposals if they had spare capacity
  - Information on the method of milk disposal

13. Replies were processed by a single member of Dairy UK staff, [REDACTED]. A verbal description of the results was communicated to Dairy UK’s Director General, otherwise only aggregated and anonymised results were shared with Dairy UK members and external organisations.

14. The summary of the results of the survey was then communicated to Defra as part of an analysis of the Dairy industry under Coronavirus jointly compiled with the AHDB, (reproduced as Annex V but without the annexes to that document). This summary document was then shared with Dairy UK members.

15. The names of the companies that reported spare capacity, (but not the volume of capacity available), was also communicated to those companies indicating that they expected to dispose of milk.
16. The survey was re-run with a nearly identical questionnaire on the 6<sup>th</sup> May. On this occasion the information requested was:
  - Forecast weekly spare capacity and disposals over the five weeks ending 14<sup>th</sup> June
  - Actual weekly milk disposals over the two weeks ending 10<sup>th</sup> May
17. The summary communicated to Defra is given in annex VI.
18. Dairy UK repeated the survey again on the 20<sup>th</sup> May requesting information for:
  - Forecast weekly spare capacity and disposals over the five weeks ending 28<sup>th</sup> June
  - Actual weekly milk disposals over the two weeks ending 24<sup>th</sup> May

## **ANNEX I – Defra press statement 17/04/20**

Published 17 April 2020

From:

**Department for Environment, Food & Rural Affairs, Department for Business, Energy & Industrial Strategy, The Rt Hon George Eustice MP, and The Rt Hon Alok Sharma MP**

The Government urges farmers facing difficulty to apply for support available

The government will temporarily relax elements of UK competition law to support the dairy industry through the coronavirus outbreak.

The intention is that the industry will work together to address current market challenges, avoiding waste and maintaining productive capacity to meet future demand.

With the UK's dairy farmers producing over 40 million litres of milk every day, the legislation, which will be laid shortly, will allow the industry to adapt to changes in the supply chain including decreased demand from the hospitality sector and reduced collection by retailers who have had to close.

The government has already relaxed competition rules to allow retailers, suppliers and logistic services to work together. While this has already allowed the dairy industry to redirect some of their supplies to retailers, today's announcement will enable further collaboration between dairy farmers and producers so they can avoid their surplus milk going to waste and harming the environment.

This could include sharing labour and facilities, cooperating to temporarily reduce production or identifying where there is hidden capacity in the supply chain for processing milk into other dairy products such as cheese and butter.

Dairy UK and the Agriculture and Horticulture Development Board (AHDB) will now lead work to bring the industry together to identify spare processing capacity, how to stimulate demand and how production could be temporarily reduced.

Environment Secretary George Eustice said:

Our dairy industry plays a crucial role in feeding the nation and it is essential that they are able to work together at this time.

We've heard loud and clear our dairy farmers' concerns which is why we are further suspending competition rules law to allow dairy farmers to work together on some of the most pressing challenges they are facing. I am also urging farm businesses to access the loans that are available from their bank to support them in this period.

We welcome our farmers' heroic efforts in ensuring food supplies remain resilient and will continue to support them through this difficult time.

The dairy sector is the UK's largest farming sector, with milk accounting for 16.85% of total agricultural output in the UK in 2018.

Of this, approximately 50% of UK dairy sector output is fresh milk and as such accounts for a significant amount of UK processing capacity.

The government encourages any farm business facing difficulties to access the range of support which has been put in place to help businesses manage this challenging period. This includes the Coronavirus Business Interruption Loan Scheme farming businesses can access. The government has been speaking to the banks and they are ready to support farm businesses as best they can.

Business Secretary Alok Sharma said:

COVID-19 presents an enormous challenge to the country. We must be adaptable and help businesses implement creative solutions to new problems.

Temporarily relaxing competition law for the dairy sector will mean farmers can work together to minimise waste of milk, and use it to make other essential dairy products.

This important step will help our dairy farmers weather this storm, providing support to a key sector in the British economy.

Today's announcement will help ensure this fresh milk does not go to waste, supporting industry to adapt to a temporary reduction in demand by collectively identifying opportunities for processing milk into storable milk products such as butter, cheese and skimmed milk powder.

The UK's food supply chain remains resilient and the Environment Secretary continues to meet regularly with representatives of the food and farming industry to ensure people can get the food and groceries they need.

**ANNEX II – E-mail from Defra 21/05/20**



**Subject:** RE: OFFICIAL SENSITIVE: AHDB and Dairy UK initial discussion

AHDB and Dairy UK

Many thanks for meeting with us earlier to discuss moving forwards with an industry led approach to milk reduction and redirection.

As we know, a big part of this will rely on the new competition law easements which we have made alongside BEIS, and the flexibility those changes will create for dairy businesses.

In order to continue the good work AHDB and Dairy UK kicked off last week, and start to pull together the data we need, you asked for Defra to provide some further information.

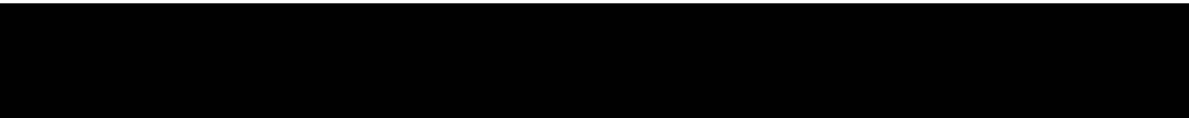
You wanted assurance that the changes will be considered to take affect from now, and will cover the data gathering you need to carry out.

I am writing to confirm:

- Although the instrument has not been 'laid'; and is not yet law, the changes will be retrospective
- As such, you should consider the changes to be effective now
- The changes will allow industry to gather and share data in the way discussed earlier

We are really keen that industry and Defra work together to make progress, so do please let us know if you need anything more from us at this stage.

Many thanks



**ANNEX III – Letter from Chairman of Dairy UK to dairy processors.**

Dairy Processors

Wednesday 22nd April 2020

Urgent information request to support the dairy sector

Dear colleagues,

I hope you and yours are all staying well during these difficult times.

I am writing to you to request information from your business to enable the industry to build a dossier of evidence that can be taken to the Government, to quantify the issues resulting from Covid-19, set out what the industry is doing to help itself and justify the provision of support to the industry by the Treasury, both in the short and medium term.

Over the past weeks strong representations have been made by industry trade bodies to the Government requesting help in dealing with the current crisis. In response Defra has given a clear message that detailed evidence is required before an approach can be made to the Treasury. Defra now looks to Dairy UK and the AHDB to provide this information. This has been confirmed in the public statement made by Defra on Friday 17th of April which I attach to this letter. Defra has also worked with BEIS to secure an exemption from UK competition law to allow the industry to gather the necessary data.

Defra has provided the attached email to give legal cover to allow us to collect this information until the formal publication of the Statutory Instrument.

To deal with the immediate short-term challenge of the potential shortage of capacity caused by the seasonal rise in milk production interacting with the collapse in out of home consumption, Dairy UK is seeking to collect information from dairy processors on milk disposals and spare capacity. The questionnaire is attached.

We would propose to gather this information, both actual and forecast outcomes, on a weekly basis until the end of May, when hopefully the peak milk supply situation should have abated. As ever, the information will be held in confidence and only aggregated data will be shared with Government.

To supplement this survey AHDB will be pulling together a range of information that will demonstrate the challenges the industry will face over the medium to longer term from the fundamental shift in demand patterns, both here and abroad, that we have seen over the past few weeks and which are unlikely to unwind for a considerable length of time. Data from AHDB will include shifts in demand and the economic impact on the industry of the change in market returns.

In combination with survey data from Dairy UK, this should enable us to set out clearly the impact Covid-19 is having on the UK dairy industry and for us to outline in detail the type of support the Government should provide.

I fully understand that placing further demands on managerial time is not welcome during this crisis, but without credible information the industry will find itself without the engagement and support of the Government over the months ahead. By way of mitigation, we will stop collecting information on staff absenteeism as this is showing a downward trend and having no impact on the operation of processing capacity.

This exercise has the full backing of the Board of Dairy UK and we will be seeking to achieve complete coverage of the industry.

If you wish to discuss the background to this survey with me, please don't hesitate to get in touch. For detailed questions on the survey please contact [REDACTED].

Our ability to collect a good level of data is incredibly important and I ask for your urgent support.

With best wishes,

[REDACTED]



## **ANNEX IV – Capacity Survey Questionnaire**

### **CAPACITY SURVEY QUESTIONNAIRE NO.1**

#### **1. CONTACT INFORMATION**

Company: \_\_\_\_\_

Point of contact (to whom the survey will be emailed in future):

Name: \_\_\_\_\_

Email address: \_\_\_\_\_

Please return to [REDACTED] by midday Friday 24<sup>th</sup> April 2020.

#### **2. PROSPECTIVE MARKET DATA**

To assess:

- The total shortfall in capacity available to companies
- The volume of milk that might not be;
  - o Collected – and left on farm for disposal by UK country
  - o Processed – and diverted to non-food uses such as AD plants or destroyed
- The number of farmers affected by not having milk collected
- The amount of commercially available spare capacity in the industry

You are asked to provide forecasts covering the peak milk production season.

Taking account of:

- Forecast milk production from farmers supplying milk to you
- Demand for your products by your customers
- The capacity of your processing plant
- The capacity made available to you by whatever arrangement by other companies to take your milk that you cannot process
- The effect of any milk reduction measures you may have put in place

Please provide a forecast of:

**Table 1: Forecast of milk not collected or disposed of after collection**

<b>Week ending:</b>		<b>03/05</b>	<b>10/05</b>	<b>17/05</b>	<b>24/05</b>	<b>31/05</b>
<b>Milk not collected</b>						
<b>Number of farm collections missed</b>	England					
	Scotland					
	Wales					
	Norther Ireland					
<b>Number of farms affected</b>	England					
	Scotland					
	Wales					
	Northern Ireland					
<b>Volume of milk not collected: litres</b>	England					
	Scotland					
	Wales					
	Northern Ireland					
<b>Milk disposed of after collection: litres</b>						
	Milk					
	Cream					
	Skim					

To assess the volume of spare capacity available in the industry could you provide the volume of capacity that you could make commercially available to take milk, under whatever arrangement, from other companies (This would exclude capacity theoretically available but for which there is no commercial reason for its utilization, i.e.; there is no market or storage capacity for the resulting product).

**Table 2: Spare Capacity: maximum litres per day**

<b>Week ending:</b>	<b>03/05</b>	<b>10/05</b>	<b>17/05</b>	<b>24/05</b>	<b>31/05</b>
Milk					
Cream					
Skim					

**Analysis of Results**

The total forecast discarded litres from all companies will provide an assessment of the total shortfall in industry capacity.

If the total capacity available exceeds the volume of milk forecast to be discarded, then the information available to companies is not sufficient to make the market for raw milk redirect unwanted volumes to spare capacity. In which case, do you consent for Dairy UK to inform companies intending to dispose of milk of your ability to take extra volume?

Consent Declaration:

Yes: \_\_\_\_\_

No: \_\_\_\_\_

### 3. RETROSPECTIVE MARKET DATA

Given that forecasts are altered by events, and to check the industry's actual progress, weekly retrospective market data is requested. To keep the information timely could you provide information on the seven days ending Wednesday 23<sup>rd</sup> April or the nearest seven days for which you have data.

**Table 3: Actual Milk Discarded, Farmers Affected and Shortfall in Capacity**

<b>Week ending:</b>		<b>23/04</b>
<b>Milk not collected</b>		
<b>Number of farm collections missed</b>	England	
	Scotland	
	Wales	
	Norther Ireland	
<b>Number of farms affected</b>	England	
	Scotland	
	Wales	
	Northern Ireland	
<b>Volume of milk not collected: litres</b>	England	
	Scotland	
	Wales	
	Northern Ireland	
<b>Milk disposed of after collection: litres</b>		
	Milk	
	Cream	
	Skim	

For milk disposed of after collection, please provide some information on the method used (AD plant, etc)  
Disposal route: \_\_\_\_\_

**Analysis**

Actual volume of milk discarded would be used to verify the accuracy of forecasts and to see how the industry had responded to the forecast situation.

If your company had put in place new measures to encourage farmers to cut production since the last reporting period for this survey could you please also provide further information.

Milk Reduction measures: \_\_\_\_\_

## **The dairy industry under Coronavirus**

**27<sup>th</sup> April 2020**

### **Executive summary**

- There has been an uplift in retail sales for all dairy products, and more consistent demand over the last 3 weeks. Overall demand for dairy is reduced compared with pre-Covid levels, mainly due to loss of foodservice demand for cheese. Overall loss of demand is put at 2 million litres per day in milk equivalent terms.
- There is no systemic industry wide problem of milk disposals expected over the peak production season. Only a small fraction of processors and farmers may be affected by disposals due to specific circumstances.
- The lull in retail demand in the week following panic buying was the key reason why processing capability was insufficient to handle all the milk in early April. Spot milk prices have reflected the moving capability. They fell to exceptionally low levels in early April but recovered slightly later in the month as retail demand picked up. Overall for April though, PTF (5-13ppl), AHDB (7.5ppl) and milkprices.com (6.5ppl) are all quoting prices at the lowest level we have on record (since 2014).
- A significant portion of the industry has put in place production reduction measures which has alleviated the short-term pressure on capacity. Milk production increased by only 0.5% for the w/e 19<sup>th</sup> April a relative small week-on-week increase for this time of year. The results from milk buyers who had requested a slowdown were markedly different from those who had not.
- There were huge swings in wholesale dairy prices through April, particularly for bulk cream. All markets weakened in the month. Cream fell 30% to its lowest level since 2016. Butter prices fell 18% and SMP fell 13%. Mild cheddar prices fell only slightly.
- So far around half the farmers in GB have had some form of impact on them as a result of Coronavirus. However, our assessment is that 11% have seen a high impact and a further 15% a medium impact on their businesses. Around a third have had a price cut and 24% have been asked to cut milk production.
- For the dairy farming industry as a whole, the biggest impact financially comes from reduced milk prices. This is estimated to have taken £7m out of farmers' pockets in April alone, and is expected to increase to over £11m in May. Overall the financial impact is small compared with total income for the sector. However for those farmers highly affected, the impact on overall net returns will be severe.
- While the immediate impact on processing capacity seems to have eased, available market price indicators show a major downturn in milk prices can be expected in the next two quarters.

## Retail sales and changes in demand

Update by: AHDB

**There has been an uplift in retail sales for all dairy products, and more consistent demand over the last 3 weeks. Overall demand for dairy is reduced compared with pre-Covid levels, mainly due to loss of foodservice demand for cheese. Overall loss put at 2 million litres per day of demand, in milk equivalent terms.**

Kantar have revised their milk sales figures downwards because of the increase in the use of convenience stores compared with larger outlets – this impacts on the weighting used to get from survey results to national picture.

Kantar report a slight increase in retail sales of liquid milk for the w/e 19 April, with sales up 13% compared with the same week last year. This is just enough to offset the loss in foodservice sales for liquid milk. However, the same cannot be said for other dairy products.

Cheese sales through retail outlets were 19% up, but the loss of cheese sales to restaurants, particular mozzarella, mean overall demand for cheese is down. Similar situation for other fresh dairy products that would have predominantly been used as ingredients, such as crème fraiche.

Overall demand for dairy is put at 2 million litres per day (in milk equivalent) down on the pre-Covid level.

*More details: Annex 6: Change in dairy demand 24 April.doc*

## Dairy UK capacity survey

Update by: Dairy UK

**There is no systemic industry wide problem of milk disposals expected over the peak production season. Only a small fraction of processors and farmers may be affected by disposals due to specific circumstances.**

Responses were received from 32 companies covering an estimated 11.3bn litres of milk production compared to UK annual production of 14.5bn. Survey coverage may be higher as individual company production figures tend to be under reported.

Of the sizeable processors in the industry only Freshways and Yew Tree did not respond. Some companies did not provide forecasts but provided descriptive information instead.

Of the respondents only a tiny fraction forecast milk disposals. Disposals would be after collection from farms.

The volume of disposals forecast is significantly exceeded by the spare capacity that several other respondents indicated that they would have available.

Spare capacity: litres per day

Week ending:	03-May	10-May	17-May	24-May	31-May
Milk	1,145,000	1,113,000	948,000	2,377,000	1,392,000
Cream	156,000	156,000	156,000	156,000	156,000
Skim	238,000	238,000	238,000	238,000	238,000

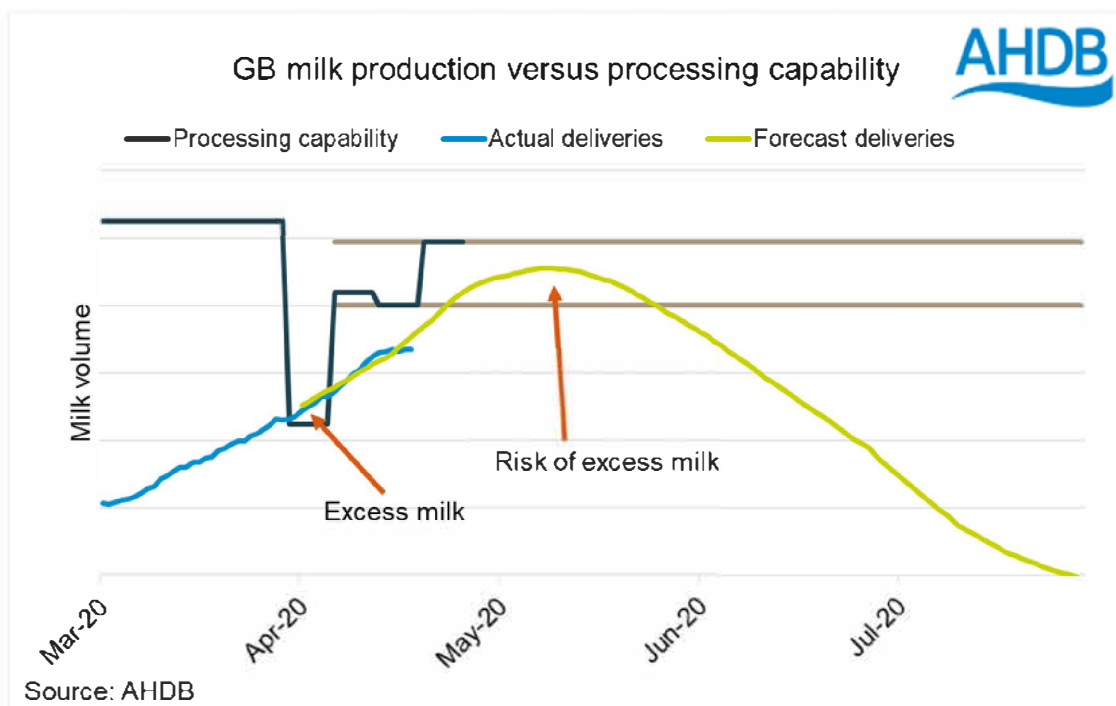
Milk disposals reported for the week to 24<sup>th</sup> April were negligible.

### Processing capacity

Update by: AHDB

**The lull in retail demand in the week following panic buying was the key reason why processing capacity was insufficient to handle all the milk in early April. Since then retail demand has settled somewhat.**

The net loss of liquid and fresh demand has an immediate impact on milk processing capability. Demand for cheese and shelf-stable products will have an impact on storage capability, but normally those sites will run at maximum capacity through the spring, even if demand has fallen back. The only exception to that will be some of the shorter shelf-life cheeses where long-term storage is not an option. The only additional challenge for processing during the first few weeks after lockdown has been the impact of staff absenteeism.



Combining demand for short-shelf products with processing capacity for shelf-stable products gives us an indication of the overall processing capability of the country.



Looking ahead it will be the level of retail demand for liquid and fresh products, alongside any reaction from farmers to curb milk production, which will determine if we have enough capacity to process all the milk.

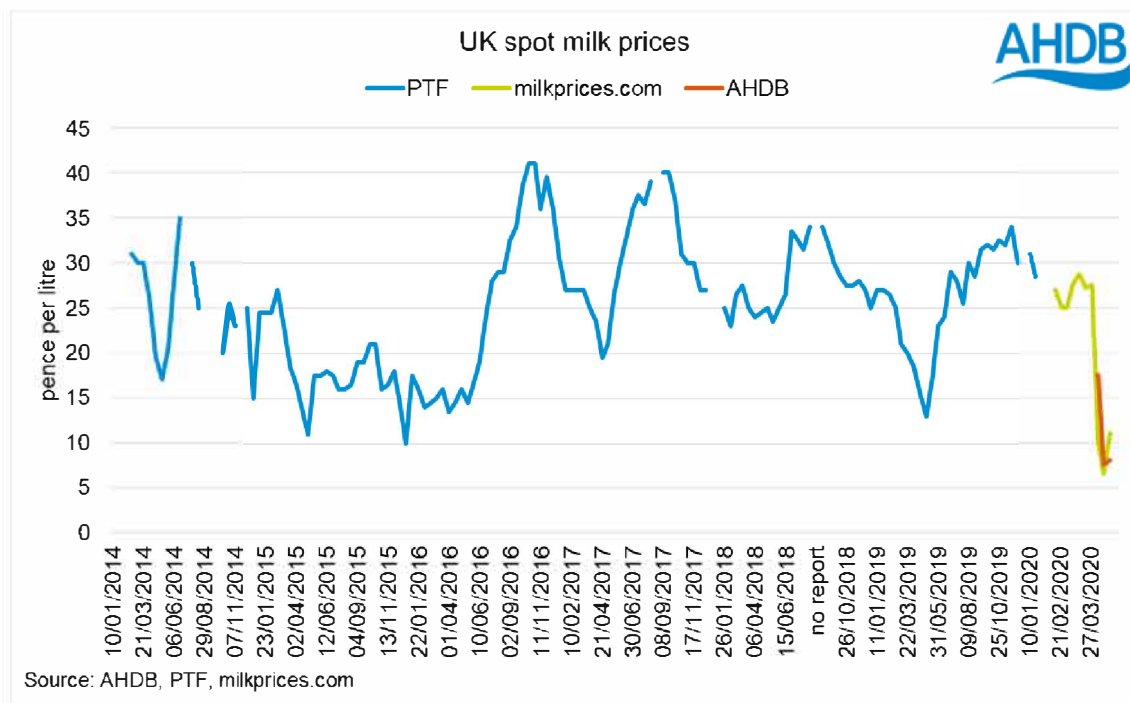
### Spot prices

Update by: AHDB

**Spot milk prices fell to exceptionally low levels in April, with PTF (5-13ppl), AHDB (7.5ppl) and milkprices.com (6.5ppl) all quoting prices at the lowest level we have on record (since 2014).**

Spot prices tend to reduce during the spring months as milk production rises seasonally. Normally only a few tankers of milk are sold on the spot market, with the majority of milk sold on long-term contracts. Spot trading tends to be used during times of industry issues, such as factory breakdowns or sudden changes in supply or demand bringing unexpected balancing issues.

As well as the exceptionally low spot milk prices, we also picked up reports of milk being given away to avoid it being thrown away in early April. This coincided with the drop in retail demand for liquid and fresh products.



More details: Annex 7 - Spot price series.xls

### Milk reduction measures

Update by: Dairy UK

**A significant portion of the industry has put in place production reduction measures which has alleviated the short-term pressure on capacity.**

Around 40% of respondents to Dairy UK's survey have put in place measures to reduce milk production.

In three cases the farmers have been asked voluntarily to put in place production reduction measures.

In other cases the operation of pre-existing A&B price calculation systems has automatically adjusted the B price to incentivize a reduction in production with the B price linked to declining commodity market returns.

In one other case the purchaser has reported that farmers are responding to the deteriorating market conditions by cutting production on their own initiative.

The volume of milk covered by these companies amount to around 5bn litres.

### **Milk production**

Update by: AHDB

**Milk production increased by only 0.5% for the w/e 19<sup>th</sup> April a relative small week-on-week increase for this time of year. The results from milk buyers who had requested a slowdown were markedly different from those who had not.**

Milk production continues to track below the same week last year. For the w/e 19<sup>th</sup> April we saw only a 0.5% week-on-week increase in volumes. This may be the start of a planned slowdown by some producers.

However, we should be careful about making too many assumptions from just one week of data. Milk production often shows differences across milk buyers, partly because of the different geographical locations. While milk production would normally be expected to increase by more than 1% per week at this time of year, it's not unusual for smaller lifts, particularly during exceptionally dry periods similar to what we are currently experiencing.

*More details: Annex 8 - Milk production w e 18 April.doc*

### **Commodity market prices**

Update by: AHDB

**There were huge swings in wholesale dairy prices through April, particularly for bulk cream. All markets weakened in the month. Cream fell 30% to its lowest level since 2016. Butter prices fell 18% and SMP fell 13%. Mild cheddar prices fell only slightly.**

*More details: Annex 9 – Wholesale commentary Apr20.doc*

## **Farmers impacted**

Updated by: AHDB

**So far around half the farmers in GB have had some form of impact on them as a result of Coronavirus. However, our assessment is that 11% have seen a high impact and a further 15% a medium impact on their businesses. Around a third have had a price cut and 24% have been asked to cut milk production.**

So far in April, 1 million litres of milk has not been collected from farmers and will not be paid for. Farmers have also had their allocation for full payment reduced and deferred payments. A number of farmers will have had more than one impact put upon them.

*More details: Annex 11 - Coronavirus impact on dairy farmers Apr20.doc*

*More details: Annex 12 - Farmer impact summary 24 April.xls*

## **On-farm financial implications**

Updated by: AHDB

**For the dairy farming industry as a whole, the biggest impact financially comes from reduced milk prices. This is estimated to have taken £7m out of farmers' pockets in April alone, and is expected to increase to over £11m in May. Overall the financial impact is small compared with total income for the sector. However for those farmers highly affected, the impact on overall net returns will be severe.**

The financial impact for farmers can be put into 4 key areas:

- Reduced milk price
- Lost income from milk disposed of
- Reduced milk production
- Deferred payments

Disposing of milk will potentially hit the individual farmers involved, but with just over 1m litres currently disposed of, the overall impact is put at £280k.

Reducing milk production by farmers can lead to cost savings, but with a number of fixed costs still to be borne the overall loss for every litre cut is still put at over 18ppl. A 3% reduction in output across the industry would reduce net income for dairy farmers by a further £2.5m in April.

Payment deferrals will significantly impact cashflow for some farmers, but the impact on profitability is small, assuming that the milk is eventually paid for. The cashflow impact will, however, have the potential knock-on to farm suppliers who may find their own payments being delayed.

*More details: Annex 10 - Potential impact of Coronavirus market disruption on GB dairy farms.doc*

## Commodity futures prices

Update by: Dairy UK

**Available market price indicator show a major downturn in milk prices can be expected in the next two quarters.**

### **1. Dutch Price Quotations**

Dutch price quotations (word file Dutch Price Quotations) give;

SMP – €1,900t

Butter - €2,755t

At current exchange rates of £1€ €1.14 this gives

SMP - £1,666t

Butter – 2,416t

Converted through AHDB's AMPE (Actual Milk Price Equivalent), which converts market prices to a raw milk price equivalent at the factory gate, gives 22.8 pence per litre, which would equate to a farmgate price of 21.3ppl after deducting an estimated 1.5ppl for average industry raw milk transport costs.

*More details: Annex 1 – Dutch price quotations*

### **2. Trigona Dairy Trade**

This company specializes in the supply of commodity dairy products for industrial use. Its price forecasts are attached (<https://en.trigonadairytrade.nl/>). The mid-range of the quotations for Q2 2020 are

SMP – €1,862t

Butter - €2,625t

This gives an AMPE of 21.9, or a farmgate price of 20.4ppl.

*More details: Annex 2 – Trigona Dairy Trade*

### **3. INTL FCStone**

This company provide financial services across a range of commodity markets. The FCStone interpretation of dairy futures market converted to sterling and through the AHDB AMPE gives a forecast over April to September in pence per litre of:

April	23.14
May	21.98
June	22.06
July	22.91
August	23.08

September 23.23

FCStone make their own adjustment for a farmgate equivalent of deducting 2ppl for transport and 5% for a processor margin to give:

April	19.98
May	18.88
June	18.96
July	19.77
August	19.93
September	20.07

*More details: Annex 3 – FCStone milkprices com UK Milk Futures Equiv 20 Apr 2020*

#### **4. IFCN (International Farm Comparison Network)**

IFCN is an international network of dairy economists and provide a full spectrum of analysis on dairy farm sustainability (<https://ifcndairy.org/>).

IFCNs analysis of trends in futures markets for Q2 to Q4 2020 is attached. Converted to sterling at \$1 = £0.8p they give the following prices in pence per litre:

New Zealand	27.7
EU	24.1
United States	23.7

*More details: Annex 4 – IFCN World Market Price Outlook*

#### **5. Rabobank Global Dairy Markets Update**

Rabobank is a major multinational bank based in the Netherlands which specializes in providing finance to agriculture (<https://www.rabobank.com/en/home/index.html>).

Rabobank regularly publishes forecasts for the global dairy market. The latest version has been updated for the impact of Coronavirus. The forecasts are provided on page 7.

Looking at the forecasts for European butter and skimmed milk powder, converted through the AHDB AMPE formula this gives in pence per litre:

	AMPE	Farmgate Price
Q2	23.0	21.5
Q3	22.2	19.7

*More details: Annex 5 – Rabobank\_Global-Dairy-Markets-Update\_7\_April\_2020*

## ANNEX VI – Summary of Result of Dairy UK second capacity survey

14<sup>th</sup> May 2020

### SECOND DAIRY UK CAPACITY SURVEY

Dairy UK's second capacity survey shows a broadly improving picture due to a variety of factors including industry efforts to manage milk supply to meet capacity constraints.

In the week ending 10<sup>th</sup> May Dairy UK repeated its capacity survey asking for:

- forecast weekly milk disposals and spare capacity for the five weeks ending 14<sup>th</sup> June
- actual milk disposals over the two weeks ending 10<sup>th</sup> May

As with the first survey, only a tiny fraction of respondents forecast milk disposals. Compared to the forecasts provided in the first survey, the disposals expected in the weeks ending 17<sup>th</sup> and 24<sup>th</sup> May are one third of those originally forecast. Disposals in the last week of May and first two weeks of June are expected to be very small.

As before, forecast milk disposals would be after collection from farms.

The volume of disposals forecast is significantly exceeded by the spare capacity that several other respondents indicated that they would have available. The forecast spare capacity is slightly lower for the remaining weeks of May compared to the first survey but show increasing capacity in June.

#### **Spare capacity: litres per day**

Week ending:	03-May	10-May	17-May	24-May	31-May	7- June	14-June
<b>First Survey</b>							
Milk	725,000	693,000	528,000	1,957,000	972,000		
Cream	156,000	156,000	156,000	156,000	156,000		
Skim	238,000	238,000	238,000	238,000	238,000		
<b>Second Survey</b>							
Milk			188,000	313,000	1,592,000	1,276,000	2,156,000
Cream			56,000	74,000	93,000	266,000	250,000
Skim			178,000	178,000	178,000	228,000	228,000

Actual milk disposals reported for the weeks ending 3<sup>rd</sup> and 10<sup>th</sup> May were negligible.

Compared to the first survey participation fell from 32 companies to 22 and estimated volume coverage from 11.3bn litres to 9.1bn. However, of the companies that had participated in the first survey but not the second, none of them had forecast a requirement to dispose of milk in the first survey.

Milk production has peaked in many regions so the pressure on industry capacity should be abating. However Dairy UK will repeat the survey in the week ending 24<sup>th</sup> May to check progress.

