

Dairygold confident on post quota processing

Friday 10th February, 2012

Speaking at the ASA/ACA Conference titled 'Economic and Agri-Food Prospects' in the Horse & Jockey in Thurles, Co. Tipperary today, Dairygold Chief Executive, Jim Woulfe told attendees that Dairygold was in a very good position regarding options for post quota processing and looked forward to processing all the milk that the Co-op's members will produce once the quota restriction on milk production ends in 2015.

"Like other processors the ending of quotas offers Dairygold its first real opportunity in over 30 years for substantial Dairy growth. In Dairygold our team are excited about the future opportunities and confident about our ability to process and market up to a 50% increase in milk production by 2020." Mr Woulfe said.

Elaborating on the Co-op's efforts to prepare for the expected post quota milk production expansion Mr Woulfe said;

"Our priority objective over the last year of intensive analysis has been to identify the most efficient and cost-effective post quota processing strategy for the business taking into account product returns. Effectively we are seeking the optimum solution for our members. We have and continue to investigate a variety of possibilities in that regard, including stand alone and co-operative efforts.

"We have also focussed on scenarios that can facilitate an incremental expansion in processing capacity to meet the growth in milk volumes. This would give us the flexibility to engage in a careful and phased investment in processing infrastructure. We do not want to waste farmers' money and with a phased approach our Members can be confident that their investment will be cautiously measured and aligned to definite increases in milk deliveries."

Mr Woulfe told attendees that the starting point for Dairygold's evaluations was a commitment to accept and process all milk delivered by its Members in line with *supplier agreements* post quota. The Co-op was currently in the process of analysing the data from a comprehensive survey of its milk suppliers' projections on milk output expansion carried out in January.

"While we are still collecting and collating data, the initial findings indicate an increase in excess of 50% in milk production by Dairygold suppliers up to 2020, comprising of a 22% increase in the combined years 2014/2015 followed by a projected growth of approximately 5% in each of the five following years to 2020. Most importantly milk expansion will provide Dairygold milk suppliers with additional income. At current milk prices Dairygold potentially will be paying an additional €160 million annually to its farmers by 2020. This income will have a significant knock on multiplier effect on the wider economy, especially in Munster."

Mr Woulfe re-iterated the Dairygold plan to have the processing capacity in place for the initial surge in milk deliveries in 2014/2015 but warned suppliers that producing over their individual quota limits is not advised and will incur a substantial EU levy.

“Dairygold’s product strategy is firmly established in cheese and dairy ingredients. Our Cheddar and Whey facilities in Mitchelstown are well invested and delivering scale and efficiency. The latter facility supplies much of our ingredients portfolio including our higher value infant nutrition Ingredients. It’s located on a site of some 60 acres with planning in place for expansion.”

“Milk-drying facilities seem to offer the most economically advantageous and beneficial option to deliver post quota processing capacity. Drying offers flexibility, it can be built up gradually in a modular fashion and it allows for the production of a variety of products including Whole Milk Powder, Infant Milk Formula Base and Fat Filled Milk Powder. In Dairygold it has the added attraction of fitting into our ambitions for expansion in the supply of speciality dairy ingredients to the IMF sector.”

“In the meantime our Mallow site is an excellent brown field site of 22 acres which would facilitate a major processing expansion. Mallow has a long tradition in the production of milk powders and would be an ideal location for additional drying capacity where the infrastructure already in place would reduce the capital cost of significant expansion.”

“Sweating our existing assets makes absolute sense for Dairygold as they offer established infrastructure with significant potential – road networks, water, electrical power stations, natural gas, effluent plants, etc. Whatever about the requirement for new build, we see further collaborations in milk processing as being essential in order to maximise efficiency and avoid unnecessary capital spend.”

“Right now the conclusion of our planning for post 2015 is firmly on top of the Board and management priorities and we will have a plan formally concluded in the coming weeks. However, the availability of a cost effective Dairygold solution places the organisation in the fortunate position of having a benchmark against which all other proposed options and solutions can be adjudicated.”
He confirmed.

On marketing of the additional dairy product Mr Woulfe said; *“The Irish Dairy Board is a very effective sales and marketing arm for a substantial proportion of Irish milk processors’ output. The Kerrygold brand has a real competitive advantage and the Board’s sales capability reaches all the major developing economies that are recognised as growth markets. Dairygold has been working closely with the IDB to develop that organisation’s strategic growth plan which aims to increase Irish dairy exports by leveraging its international brands and building new routes to value and growth markets. Dairygold’s own commercial team will continue to be firmly focussed on selected key markets/customers where speciality products with a B2B focus will be further developed and grown.*

In relation to financing milk expansion at processing level Mr Woulfe said,

“Inevitably, expansion will require funding, specifically capital investment in processing capacity. In seeking to secure that funding we will look at all possible stakeholders in whatever configuration evolves as the best option, including our own resources, bank lenders, business partners, milk suppliers and the Government.

“However, our approach will seek to minimise the impact on our milk suppliers. A revolving fund is a structure that has worked well in the co-operative sector in the past and we are looking closely at this option. The impact on members would be minor and incremental while the repayment will include an interest top-up. The appropriate safeguards can be built in to protect supplier income in a volatile market.”

On the issue of Milk Supply Contracts with milk suppliers Mr Woulfe confirmed,

“Milk volume forecasting will be essential to ensure appropriate cost-effective milk processing. Therefore I believe that it will be necessary to have in place milk supply agreements/ contracts in order to ensure security and predictability of supply. It is likely that a post quota scenario would see each milk supplier being required to forecast milk supply volumes on a rolling year basis. Allied to this, I believe there will be a requirement for a Quality Assurance Scheme at farm level as it will become an important element in driving higher value customer and product specification.”

Ends.