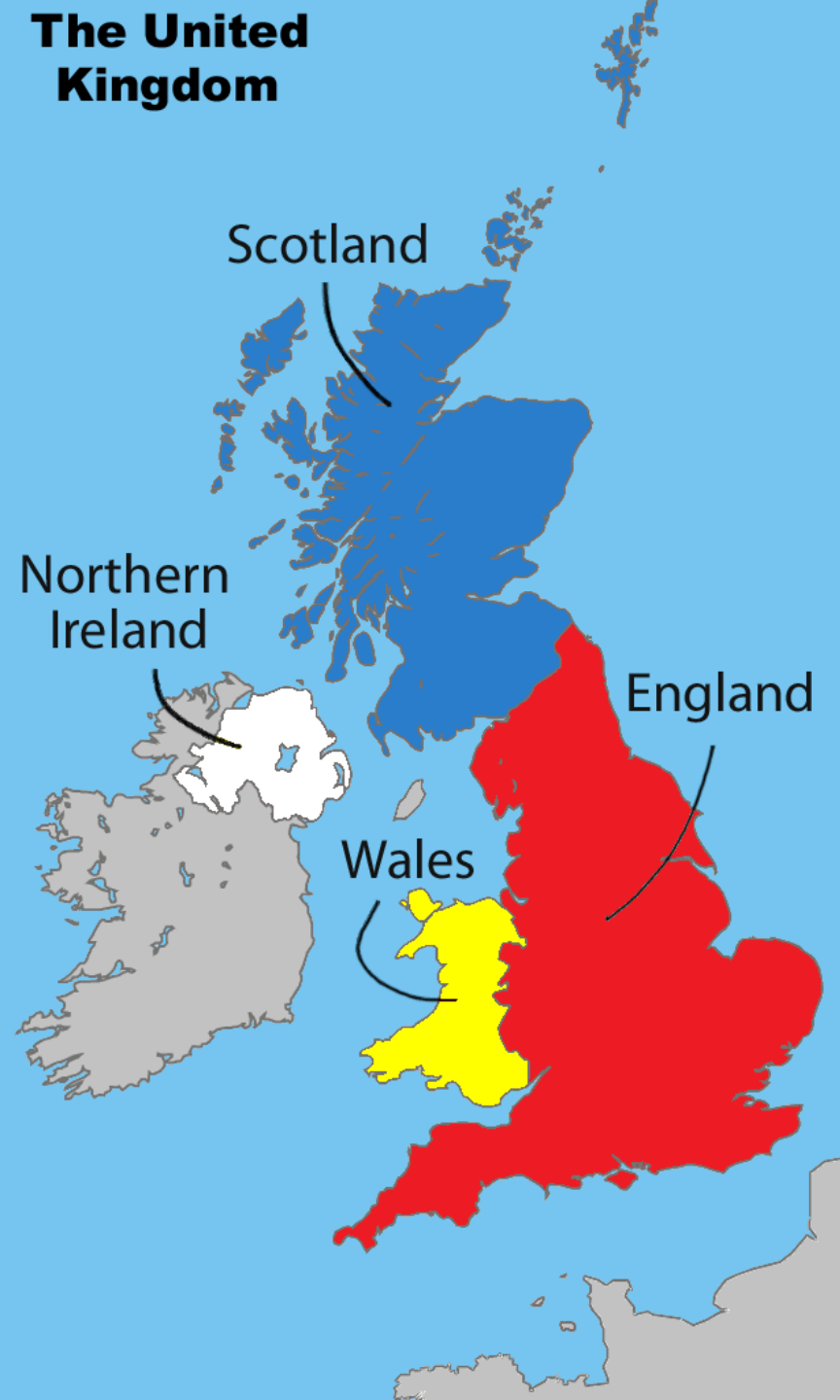




Solving the problems facing the dairy sector

Dr David Dobbin CBE

The United Kingdom



**The largest
indigenous
UK Cooperative**



Vertically integrated Dairy Coop



One integrated supply chain from animal feed & farm inputs through to consumer products & food ingredients





Dromona
Cullybackey



Pennybridge
Ballymena



Technical Centre
Ballymena



United Feeds
Belfast



Dale Farm House
Belfast



Mullins
Kilrea



Rowan Glen
Dunfries and Galloway



Dunmanbridge
Cookstown



Kendal
Cumbria



Fivemiletown Cheese



United Feeds



Ash Manor
Wrexham



a taste for l





Specialist powders



Exported across the world

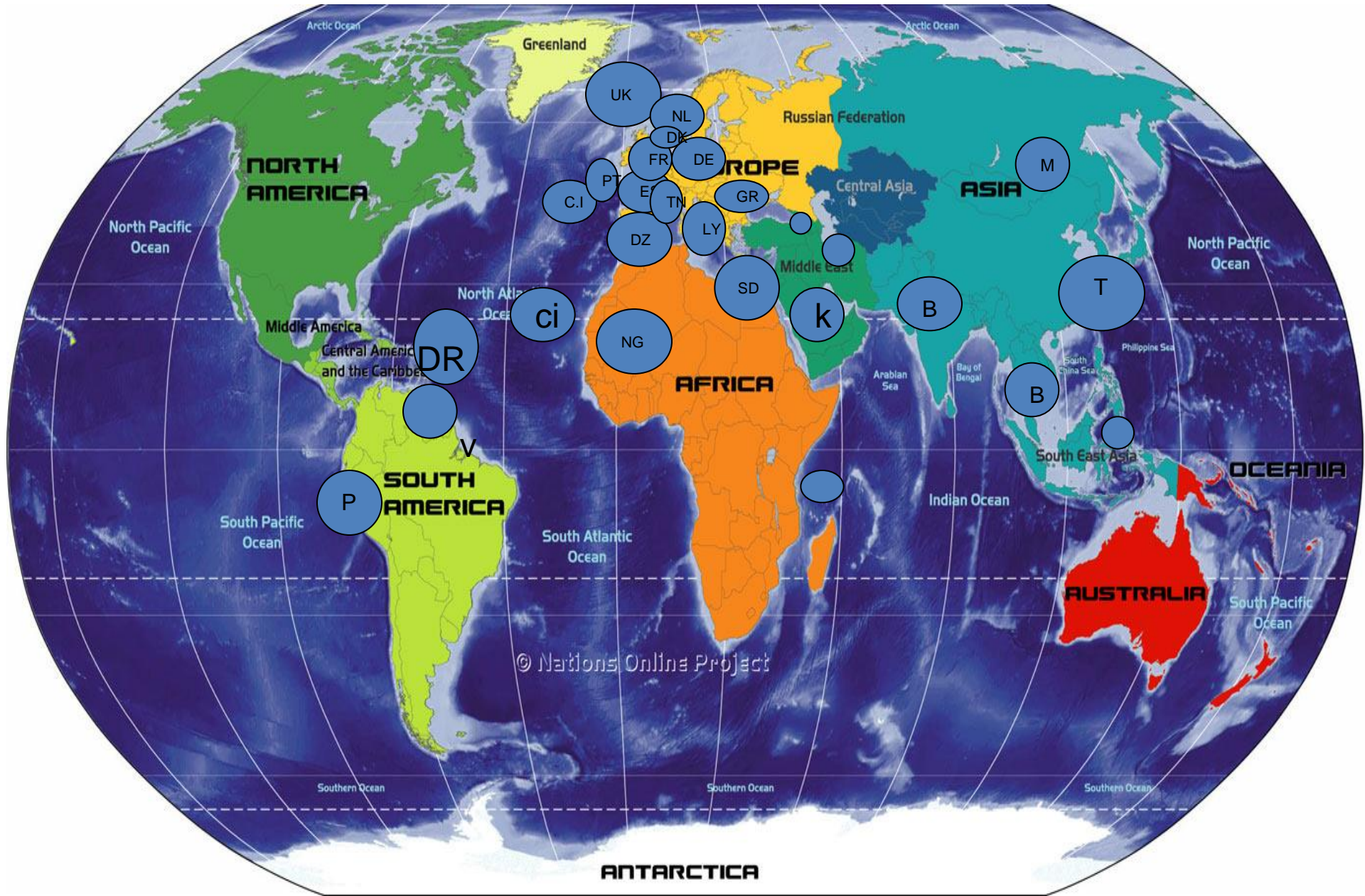
Customised for end user

Enriched milk powders

Whey protein powders



One of the UK's largest dairy exporters



DAIRY UK

Dairy UK - trade association for British dairy supply chain

Bringing together farmers, co-operatives and manufacturers, bottle milk buyers and milkmen across the UK

Dairy UK's objectives: To create an environment:

- in which dairy foods are seen as safe, sustainable and integral to the nation's diet
- that allows the dairy sector to compete and grow without an undue burden of regulation

Dairy UK's members collect and process about 85% of UK milk production

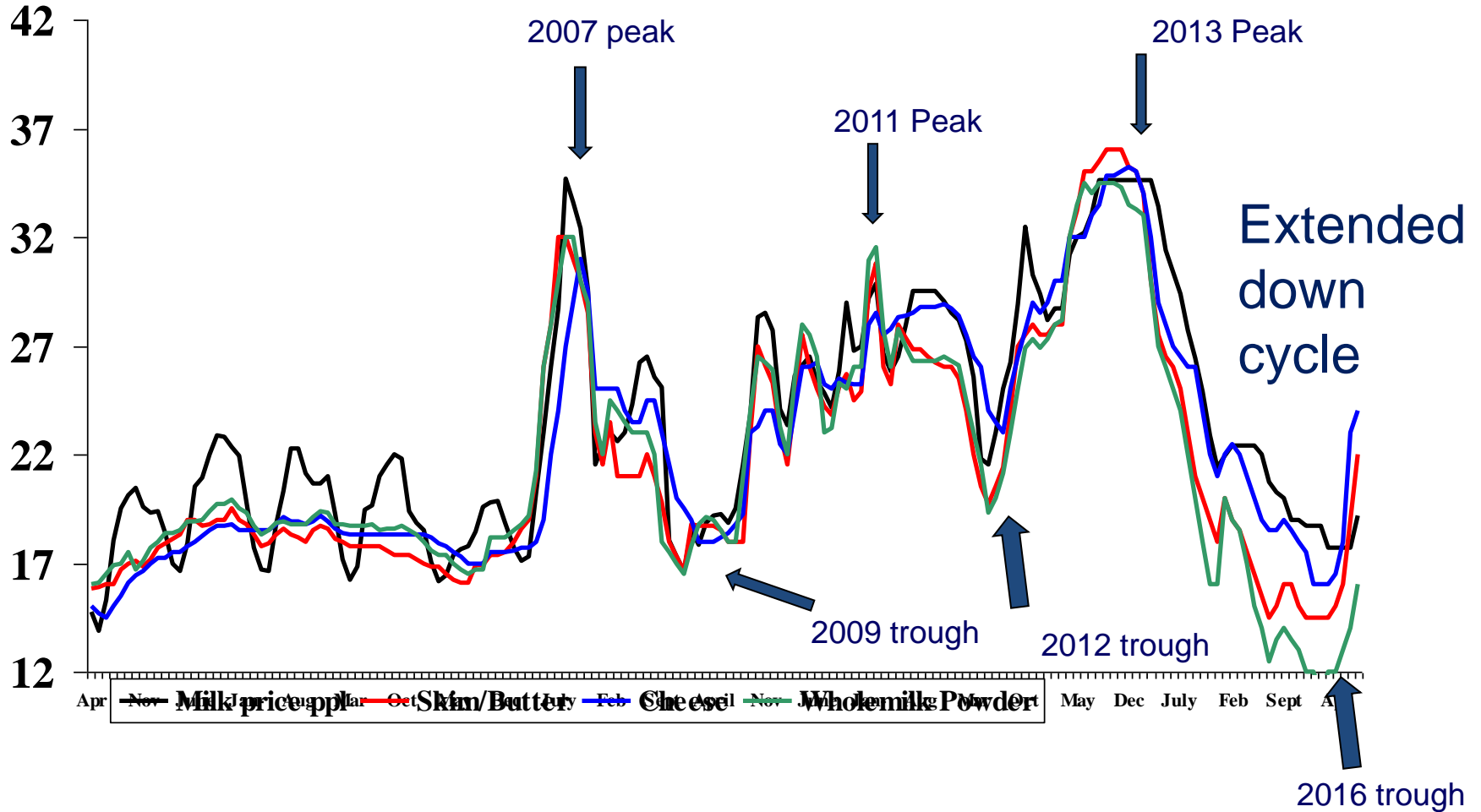


Agri Markets Task Force Expert Group

The **mandate** for the Task Force is to discuss relevant issues, such as market transparency, access for farmers to financial instruments and futures markets to hedge price risks, options for arranging contractual relations within the chain and legal possibilities for organising farmers' collective actions. All of this with a view to improving the position of farmers in the food chain.



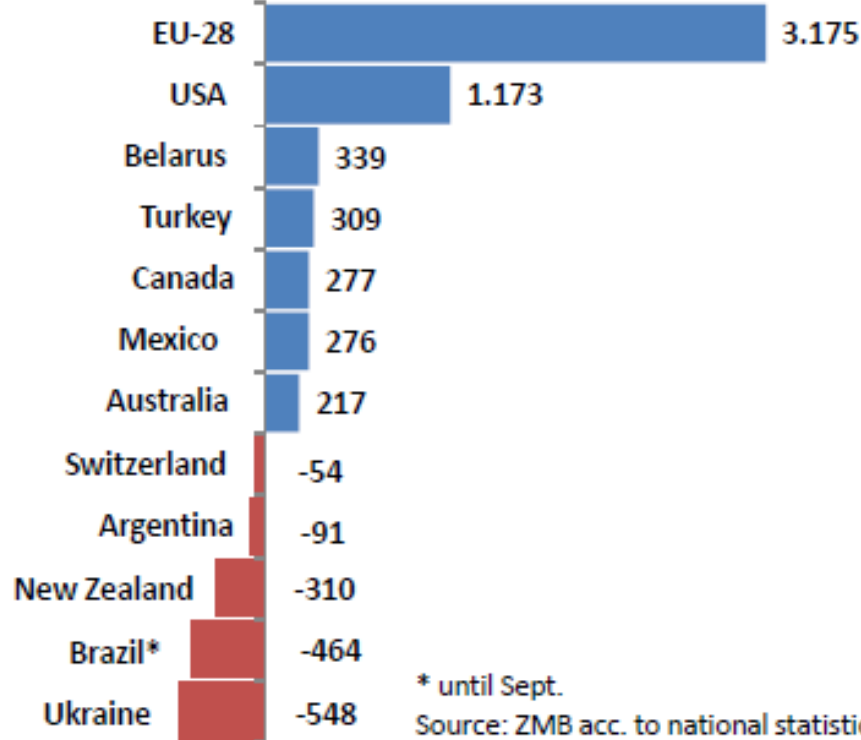
Lowest real returns in 20 years



Growth in milk supply mainly in EU & Northern Hemisphere

Changes in milk volumes in important regions

± 1 000 tons in Jan-Dec. 2015 vs 2014



© ZMB

Impact of strong
El-Nino-Event
lower than expected

Post Quotas



Milk price

is the main control mechanism of output

Post Quotas



***The net growth in EU milk output
has to be exported***

Post Quotas



***The net growth in EU milk output
has to be exported***

***The EU has to be globally competitive
to grow***

Increasing volatility



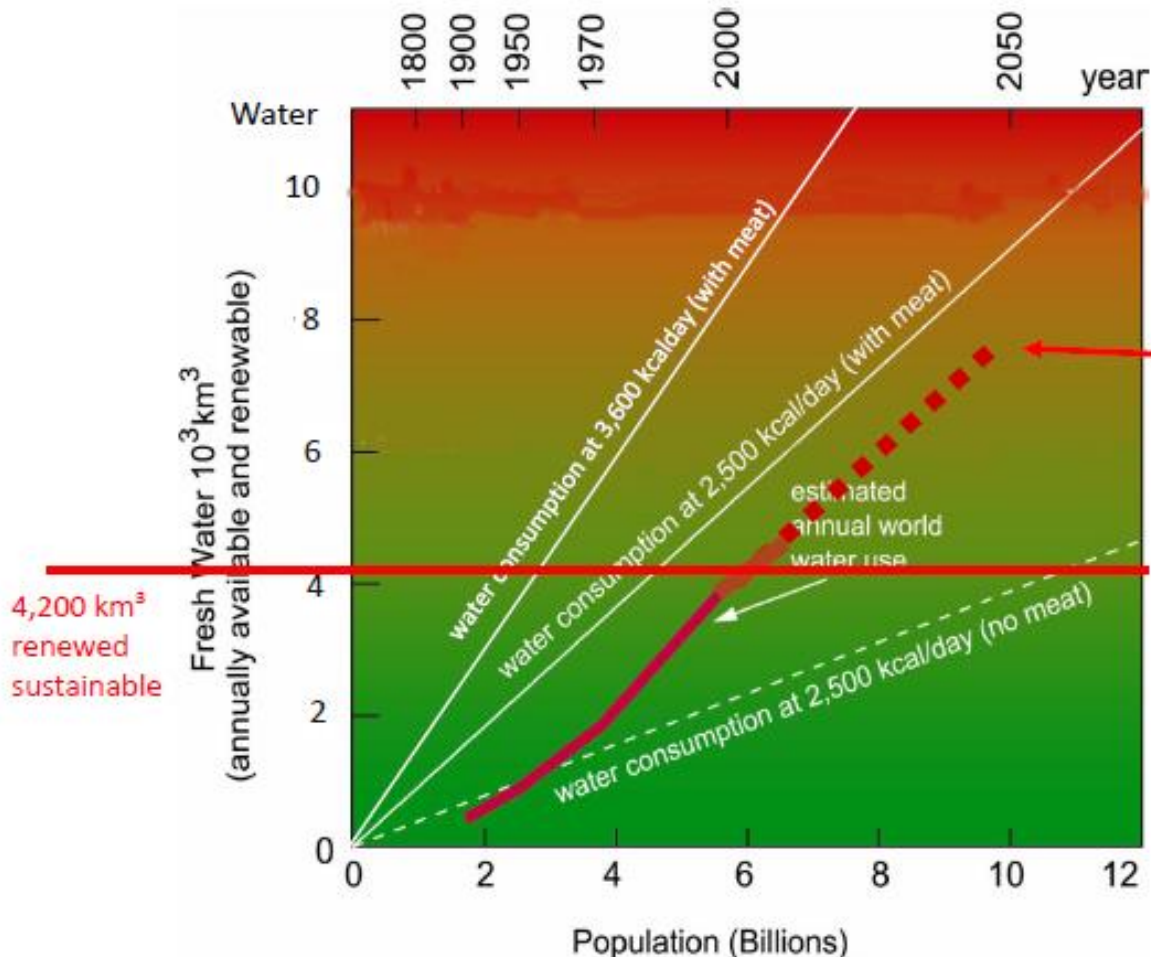
- Demand relatively constant so volatility largely supply related
- Weather always a factor – climate change more erratic patterns?
- Removal of EU market management measures
- Knock on volatility from currency, oil and other commodities
- Faster transaction speed & transmission of information
- Increasing trade liberalisation - global flows of product & money
- Speculation and investment in commodities



Volatility what's the problem?

- Surviving deep or extended down cycles
- Uncertainty - more difficult to plan investments
 - more difficult to obtain finance
- Challenge - managing increased risk

Global water withdrawals, population and diet: scenario 2050... We have a problem!



Source: A. Zehnder, Swiss Federal Institute of Aquatic Science and Technology ETHZ 1999 and 2030 Water Resources Group

Outlook: Falkenmark/Lannerstadt: Consumptive water use to feed humanity – curing a blind spot; in: Hydrology and Earth System Sciences, 9.2005, pp 15-28 (published by European Geoscience Union) and Shiklomanov 1999

Need sustainable business model
that is viable for processors & farmers

Pursue sustainable growth

Become better not just bigger

Be market rather than production led

Be better at managing risk and volatility

Strategies to grow market in value as well as volume

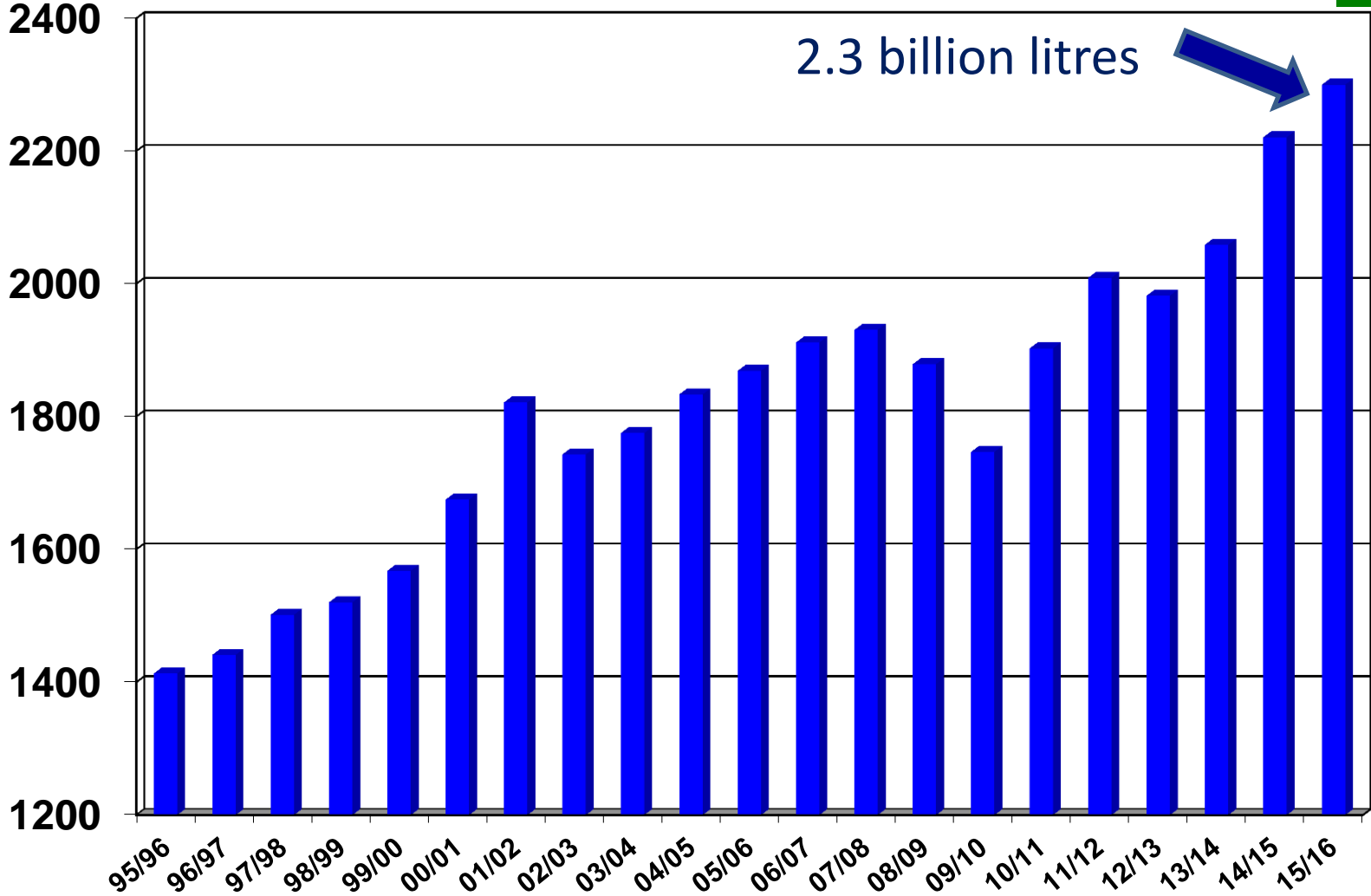
Predicted annual growth rate in Dairy Product Consumption: 2014 to 2024

- World production & consumption = +1.9%
- Developed Countries = +0.9%
- Developing Countries = +3.0%
- Imports (traded products) = +2.4%

Consumption of milk solids to increase by 25% by 2024

400M more mouths to feed in the world by 2020

Record NI Milk Production ('000 litres)



Up our game *Taking charge of our destiny*

Market led

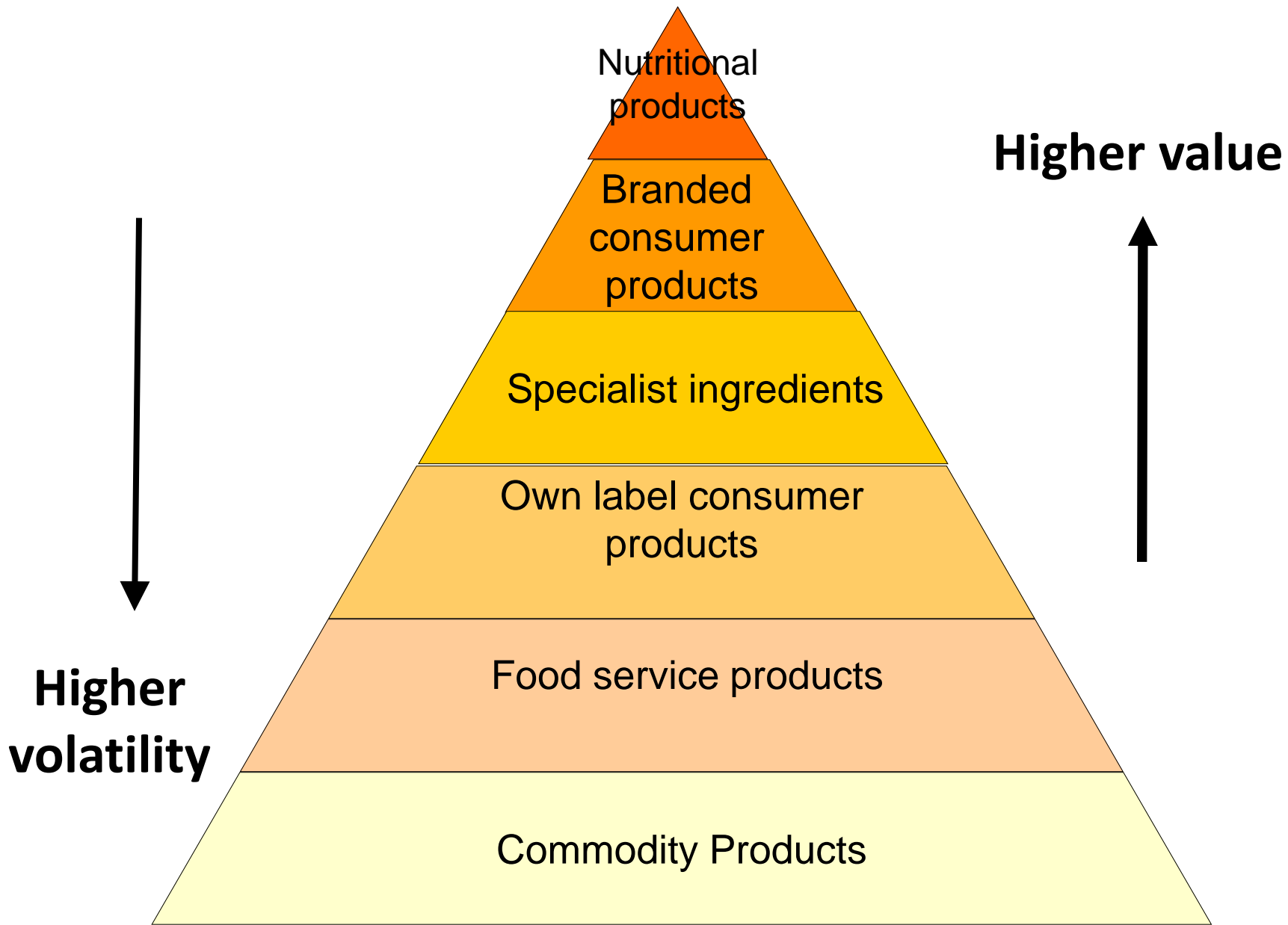
- *Grow in response to customer demand*
- *Grow/stimulate demand*

Be more competitive

- *Up our game along the supply chain*
- *Take out cost, be more efficient*
- *Build USP – improve our offering, food integrity*

Add value

- *Hunt out opportunities in domestic & export markets*
- *Promote our products*



NPD Pillars



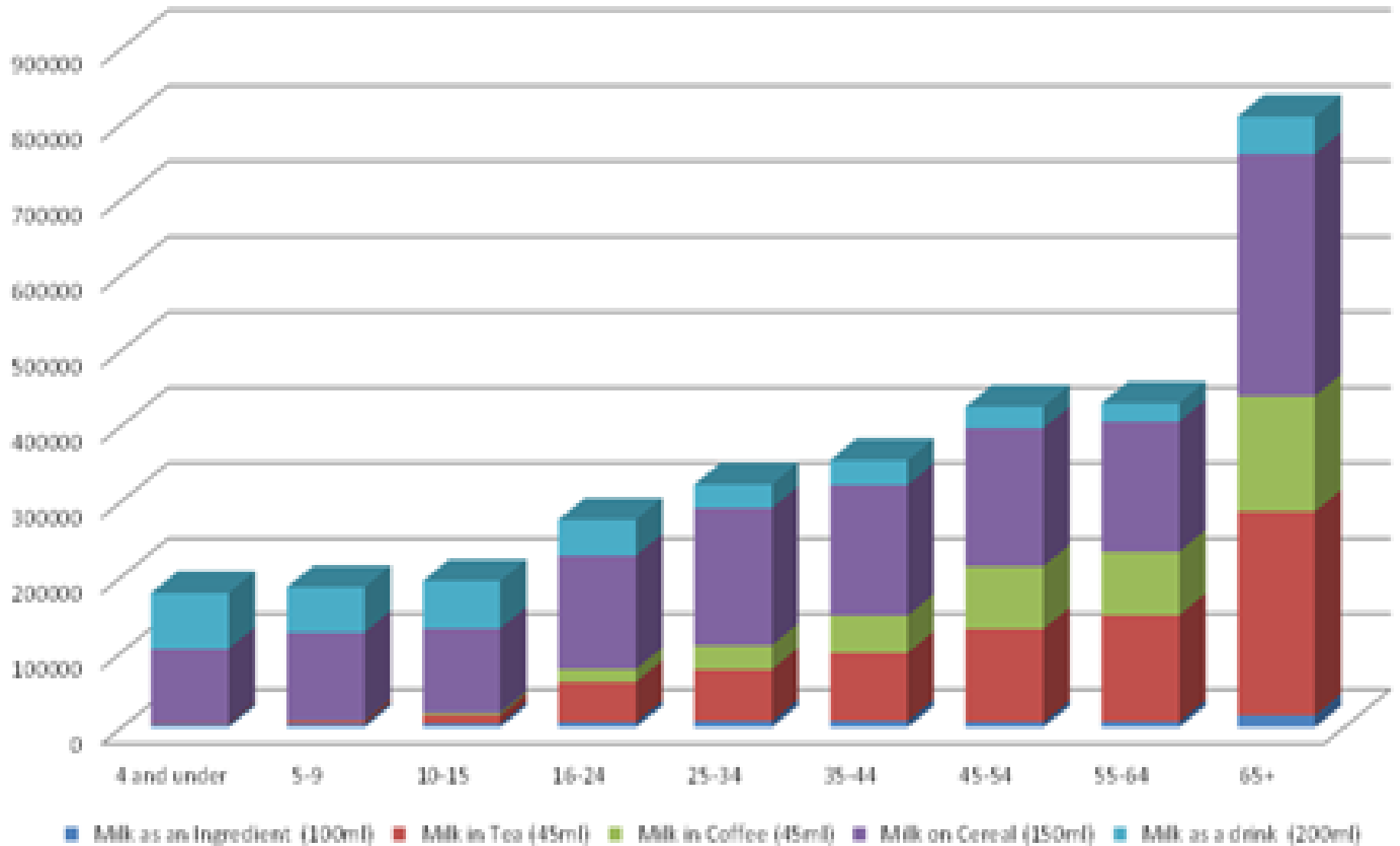
Current dairy trends



How to turn 17.5p/100g into 35.5p/100g



Milk volume consumption by age (million litres)



3 A Day Campaign

- Milk, cheese and yogurt are nutrient rich. They provide good quality protein, calcium and a range of other vitamins and minerals
- To get the same amount of calcium as the body can absorb from one glass of milk we'd have to eat 63 Brussel spouts, 11 servings of spinach and 4 servings of broccoli
- Government guidelines in some countries recommend 3 A Day of dairy as a simple way to ensure people meet their daily calcium needs

The time is right for
UK farmers to be
more ambitious



AHDB'S Sir Peter Kendall

Productivity needs
to improve
The current 1.4%
annual improvement
is woeful

Getting better on Farm

Upper
quartile



3ppl
opportunity

Median



5ppl
opportunity

Bottom
quartile





Getting better on Farm



Genetic improvement = 1.5%

- *yield, health, quality*

Improved Management – best practice = 1.5%

- *grassland, nutrition, recording, financial, technology*

3.0%

Target annual improvement = 2.5%





Agri Markets Task Force Expert Group

- Strengthen the farmer's position in the supply chain
- Looking at net margins not just prices
- Clearly a role for Coops/milk processors to manage volatility and transmit market requirements for output & quality
- Solutions which will kick in during the next upturn



Agri Markets Task Force Emerging Themes

- Price transparency improving price/demand signals to farmers
- Futures & financial instruments
- Role of contracts - longer term and forward
- Encouraging innovation & new technology adoption
- Access to finance
- Improving productivity & competitiveness
- Eliminating unfair trading practices

The Challenge

**Economic
sustainability**

Need Business model that is viable for processors & farmers

Need to pursue sustainable growth

Be market rather than production led

Work on growing market in value as well as volume

Be more competitive, becoming better not just bigger

Key goal

Profitable dairy processors
paying a competitive and
sustainable milk price