

The drivers behind the recent price drop and why things are set to improve

# Price-cut facts and figures

We take a look at UK farm-gate milk prices and ask if producers can expect to be paid more for their milk later this year.

text **Rachael Porter**

Liquid milk producers have had a tough year so far, culminating in the recent 2ppl milk price cut that has been made on virtually all liquid milk contracts. The first to make a cut in April was Dairy Crest – a move that was quickly followed by other buyers and processors.

“Dairy Crest lost a large contract to supply Tesco and is also closing two processing plants. Its financial results, which were published in May, didn’t paint a rosy picture either. So a price cut was always on the cards for its suppliers,” says the Farm Consultancy Group’s Charles Holt. But there’s more to it than that. The dairy auctions, run by Fonterra and United Dairy Farmers NI, have also seen prices tumble.

The milk price on the commodity market is low and, in fact, the Fonterra price is now below the 10-year trend line. “But this could be good news and may signal an end to the price squeeze and may even be a sign that prices are set to stabilise, if not increase slightly.

“It’s also winter now in Australia and New Zealand, so there’s less milk being produced there. If supply dips slightly then this should help to increase the milk price,” says Mr Holt.

Back to the UK’s current situation and he thinks that Dairy Crest has been made a scapegoat in the farm-gate milk price cut round. “It was just the first to make a cut – the other buyers were just waiting for someone else to make the first move. And once they did, they were all quick to follow suit and it’s interesting that all, but a few exceptions, have cut their prices by 2ppl – not 0.5ppl or any other amount.

“It was always going to happen, the only question was who was going to make the first move. But I think a lot of people are surprised at the severity of the cut on some contracts.”

buyer	price
<b>top five</b>	ppl
Dairy Crest M&S – profile	32.18
Dairy Crest M&S – variable	32.18
Dairy Crest Waitrose	31.09
Dairy Crest Sainsburys – profile	30.54
Dairy Crest Sainsburys – variable	30.54
<b>bottom five</b>	ppl
United Dairy Farmers (NI) 4	26.48
First Milk Balancing Compositional – profile	27.15
First Milk Cheese – profile	27.13
First Milk Balancing Compositional – dual pricing	26.84
First Milk Cheese – dual pricing	26.82

Table 1: Top and bottom five UK monthly milk prices paid in March 2012 (source: DairyCo)

He believes that some suppliers should not have cut prices quite so severely – namely those processing some milk into cheese. “The cheese market is buoyant and producers selling milk to cheese processors have escaped price cuts in the main – and so they should with demand for cheese remaining so strong.”

With liquid milk it’s all about supply and demand. The commodity market is important – UK milk producers are operating in a global market place and, world wide, there is a lot of milk being produced at the moment. “China, Europe and the US are all doing well at the moment,” says Mr Holt.

Mergers, like the one between Milk Link and Arla, are good for producers as they’ll give them more ‘power’ when it comes to negotiating milk price. “But milk producers are still, predominantly, ‘price takers’ – if processors and buyers want to cut the milk price, there’s very little then they can or will do about it.”

➔ Keep up to date with the dairy trade and milk prices at: [www.globaldairytrade.info](http://www.globaldairytrade.info) and [www.dairyco.net/datum](http://www.dairyco.net/datum)



## Average milk price in March

According to the most recent DEFRA figures, the average UK farm-gate price stood at 28.62ppl in March. This was a 0.27ppl (0.9%) decrease on the February 2012 average price. But annual comparisons show a 2.06ppl (7.8%) increase year on year.