CHARLES HOLT

Charles Holt, an independent consultant with the Farm Consultancy Group, looks for some good news on the thorny issue of milk price. While there are no signs of an imminent increase, a 'bonus scheme' introduced by one Dutch co-operative has caught his eye and he says that it may offer some relief to despondent milk producers and their beleaguered bottom lines.

No sign of milk price increase, but one co-operative is 'managing' supply

'Price incentive' measures

There's no sign of an imminent, or even a distant, milk price increase on the horizon. In fact there may even be further tightening before prices start to ease. But a move, by Dutch co-operative FrieslandCampina, to pay member producers a temporary allowance for continuous milk supply in February could help to ease the relentless pressure on their dairy businesses.

The 'bonus' should be an incentive for producers to keep their milk supply at the same level for a period and the co-operative has introduced this temporary measure – which came into force on January 1 and will run until February 11, 2016. This is because the milk supplied by its members is expected to increase faster than expected during the next few weeks.

And if it did so, it would mean that the organisation's processing capacity would be insufficient, from January until mid-February 2016, which could leave the co-operative with a glut of milk.

Additional payment

So, instead, it has said that for a milk supply that is equal to or lower than the milk production in the reference period between 13 December and 27 December inclusive, producers will receive an additional payment for the supplied milk of 2.00 euro per 100kg of milk – that's an extra 1.5ppl.

It will be interesting to see how producers react to this and it's certainly something to keep a close eye on. Most producers remember milk quotas and this will work in a similar way. They understand that the pressure on milk price is the result of market forces – supply and demand – and that this move will go some way to reducing the downward pressure on their own milk price.

I'm sure that most members will welcome the stability – and the additional 1.5ppl – that this measure brings. The co-operative is actually paying them more for producing the same amount of milk – who wouldn't be happy about that?

If it's a success, that similar 'price incentive' measures could be introduced by other milk buyers and possibly by UK processors. I suspect that they're watching and waiting to see what happens at FrieslandCampina.

A precedent may have been set, particularly if producers embrace it and it works for this co-operative. No processor wants to be flooded with milk that they then have to sell on an equally flooded spot market. And tightening supply in this way will have positive repercussions as far as the wider milk supply and milk price are concerned. It could contribute to improving prices in the longer term.

New Zealand producers have reacted to the low milk price by culling unproductive cows, reducing feed intakes and drying off low yielders. They're used to dealing with volatility and they know what to do to survive in a tough economic climate. And they're already seeing the benefits of taking a step back in terms of milk supply. The result is that milk price is beginning to increase a little there. So that's another glimmer of hope for all producers. |

Average price

The UK average farmgate milk price in November – the latest figure available as CowManagement went to press – was 24.2ppl. December's average farmgate milk price will be a little down on the November figure, as will January. And there's still a huge range of milk prices being paid, with some producers receiving as little as 16ppl and others, such as those with premium supermarket contracts, seeing more than 30ppl.