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The Dairy Industry in the Republic of Ireland – strategic direction, current state and challenges moving forward

1 Introduction/context

This briefing paper provides an overview of the current state of the dairy industry in the Republic of Ireland in terms of strategic direction, current status and the challenges that industry faces going into 2015 and beyond.

This briefing paper is prepared at a time when dairy farmers across the EU are facing considerable reductions in the price that they have been receiving for their milk due to factors such as rising EU production, and potentially associated market oversupply due to the Russian import ban for EU milk and milk products, and the decline in Chinese demand for dairy products over 2014.

Recent headlines within the Republic of Ireland have painted the stark picture of a projected 50% decrease in income¹ for dairy farmers in 2015.

¹ [Teagasc forecasts 50% income cut for dairy farmers. RTE news website, 2nd December 2014](#)

2 Strategic Direction

2.1 Food Harvest 2020

The primary document driving the development of the dairy industry within the Republic of Ireland is the Irish Government's Agri-Food Strategy, Food Harvest 2020² which was published in 2010, and established a vision for the development of the agri-food industry under three headings:

- Act Smart;
- Think Green;
- Achieve Growth.

Food Harvest 2020 established recommendations and associated growth targets for all sectors of the Irish agri-food sector by the year 2020 and the dairy industry specific growth targets were as follows:

- 50% increase in milk production – increasing the 2008/2009 average annual milk production of 5bn litres to 7.5bn litres in 2020 ;
- Growth in Exports;
- Growth in Employment;
- Sustainable returns; and
- Reduced Green House Gas (GHG) emissions per litre of milk produced.

In addition to these five growth targets Food Harvest 2020, established a total of 15 dairy specific recommendations under 4 thematic headings, as set out in table 1 below.

Table 1: Dairy sector recommendations within Food Harvest 2020

Thematic Heading	Recommendations
Milk Processing	<ul style="list-style-type: none"> • The processing industry must move towards a small number of scaled operators who have the scale and culture to drive efficiency and value added in line with key international competitors who have already achieved consolidation; • The processing sector must ensure that processing capacity meets the expected increased milk supply post quotas; • Given that indicative costings are believed to be in the region of €400m, the industry at all levels must engage on alternative options for financing the expansion in capacity to process anticipated volume growth, including investigating efficient solutions to the processing of milk during the period of peak seasonal milk supply.
Farm Competitiveness	<ul style="list-style-type: none"> • The future of the sector requires a co-ordinated national approach. DAFF should facilitate this through establishment of an activation group to encourage stakeholder engagement; • DAFF and livestock industry should continue to support Teagasc and ICBF in their programme of genetic improvement, including the application of new and emerging genomic technologies that will contribute to a more profitable dairy farming sector;

² [Food Harvest 2020, A vision for Irish agri-food and fisheries \(2010\)](#)

	<ul style="list-style-type: none"> • Producers, with the support of state agencies and AHI, should adopt a best-practice approach to animal health to facilitate improvements in the quality of milk being produced; • The Industry should support AHI in its mission to enhance value for livestock farmers and the agri-food industry through superior animal health; • In the run up to quotas being abolished in 2015, DAFF should implement a more flexible and fully national Milk Quota Trading Scheme for the remainder of the milk quota regime.
Technology Transfer	<ul style="list-style-type: none"> • Teagasc should set a target of ensuring that 9,000 progressive milk suppliers are participating in vibrant discussion groups, implementing advanced production techniques and preparing management accounts for their enterprises as underpinned by the Dairy Efficiency Programme; • DAFF and Teagasc should encourage primary producers to optimise efficiency by adopting new technology and best commercial practice. Attendance at relevant discussion group meetings, farm walks and demonstration events should be built into the conditions of new schemes as appropriate; • Training schemes and college education programmes at all levels must be critically examined to ensure appropriate practical/technical content, and a greater focus on business and project management skills.
R&D and marketing	<ul style="list-style-type: none"> • The processing sector, supported by Enterprise Ireland, Teagasc and third level institutions, must develop an investment strategy that will facilitate more commercially focussed R&D; • R&D should be targeted to new product and process development with a greater focus on product areas with added-value potential, such as nutraceuticals and functional foods; • The relevant State agencies should develop fresh marketing initiatives that promote strong brand recognition of Irish grass-based milk products, possibly in the context of a more focused application of the 'Ireland - the Food Island' concept to the dairy sector; and • Research must continue into strategies to reduce GHG emissions in the sector, with involvement in international research initiatives on the issue. This research should include efforts to identify new technology-based mitigation strategies, efforts to improve all GHG-related herd management parameters (breeding, fertility, nutrition, etc.) and efforts to improve quantification of all emissions and mitigation efforts.

2.2 Agri-Food Strategy 2025

The Department of Agriculture, Food and the Marine (DAFM) is currently preparing a national strategy for the Agri-Food Sector up to 2025, which will seek to consolidate and build upon Food Harvest 2020³.

Whilst publication of the new draft Strategy by the DAFM Minister is not envisaged until June 2015, it should be noted that DAFM has published a number of background documents with the aim of supporting the public consultation into the new Strategy which closes on the 9th January 2015, and this includes a background paper for the dairy industry⁴.

³ [2025 Agri-Food Strategy, Department of Agriculture, Food and the Marine website, 16th December 2014](#)

⁴ [Dairy Background paper in support of 2025 Agri-Food Strategy consultation, DAFM website, 19th December](#)

3 State of the dairy industry in the Republic of Ireland in 2014

3.1 Statistical overview

This section of the briefing paper draws upon data from the Central Statistics Office, Teagasc and the Department of Agriculture, Food and the Marine to paint a picture of the state of the dairy industry within the Republic of Ireland in 2014.

3.1.1 Key demographics relating to milk producers and processors

According to data within the Dairy Industry Background paper⁵ prepared in support of the Agri-Food Strategy 2025 consultation in 2014, the Dairy Industry within the Republic of Ireland is marked by the following demographic data:

- There are almost 18k milk suppliers supplying to 90 registered milk purchasers;
- 82% of the milk produced is processed by the six major processors (Glanbia, Kerry, Dairygold, Lakeland, Aurivo and Arrabawn);
- The top 6,000 milk producers account for 60% of the milk supplied; and
- The age profile of the sector is 52% over 50 years of age; 48% under.

3.1.2 Number of dairy cows

Figure 1 below shows the number of dairy cattle within the country between December 2005 and December 2013. It is clear from the data in figure 1 that the number of dairy cattle within the Republic of Ireland has increased over the December 2005 to December 2013 period, with there being 1,082,500 dairy cattle in December 2013 as compared to 995,800 in December 2005. **This growth of 86,700 cattle constitutes an overall percentage increase of 8.7%.**

⁵ [Dairy Background paper in support of 2025 Agri-Food Strategy consultation, DAFM website, 19th December](#)

Figure 1: Total number of dairy cows within the Republic of Ireland - December 2005-December 2013⁶

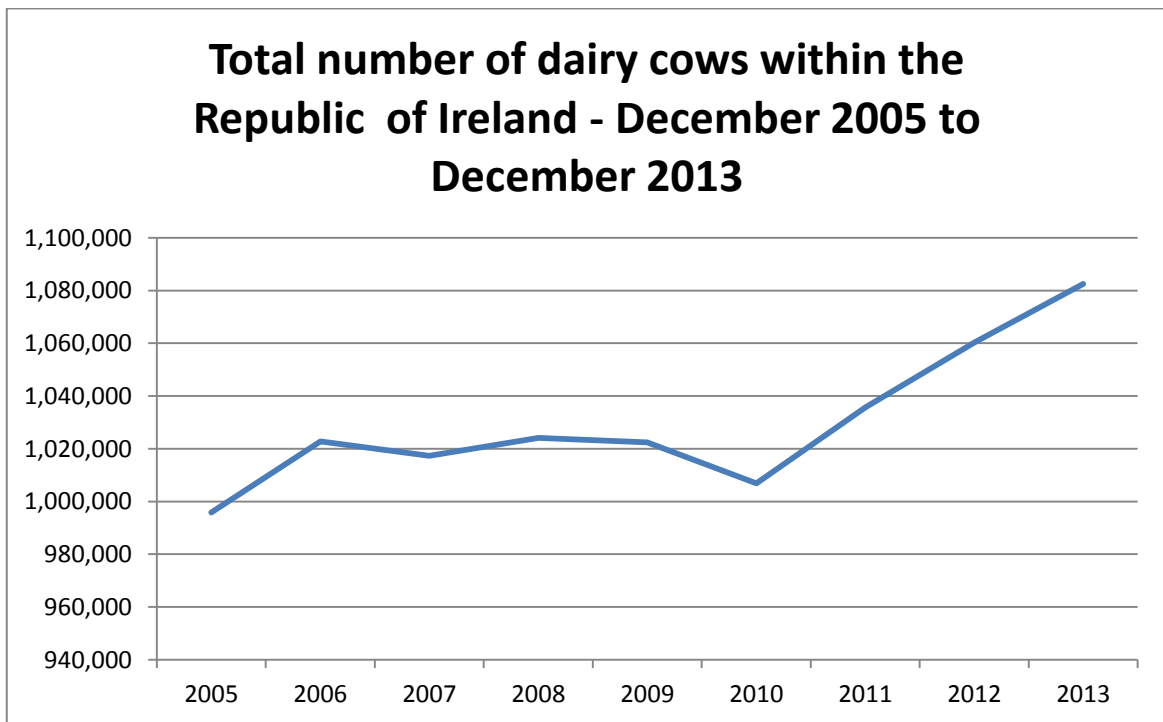
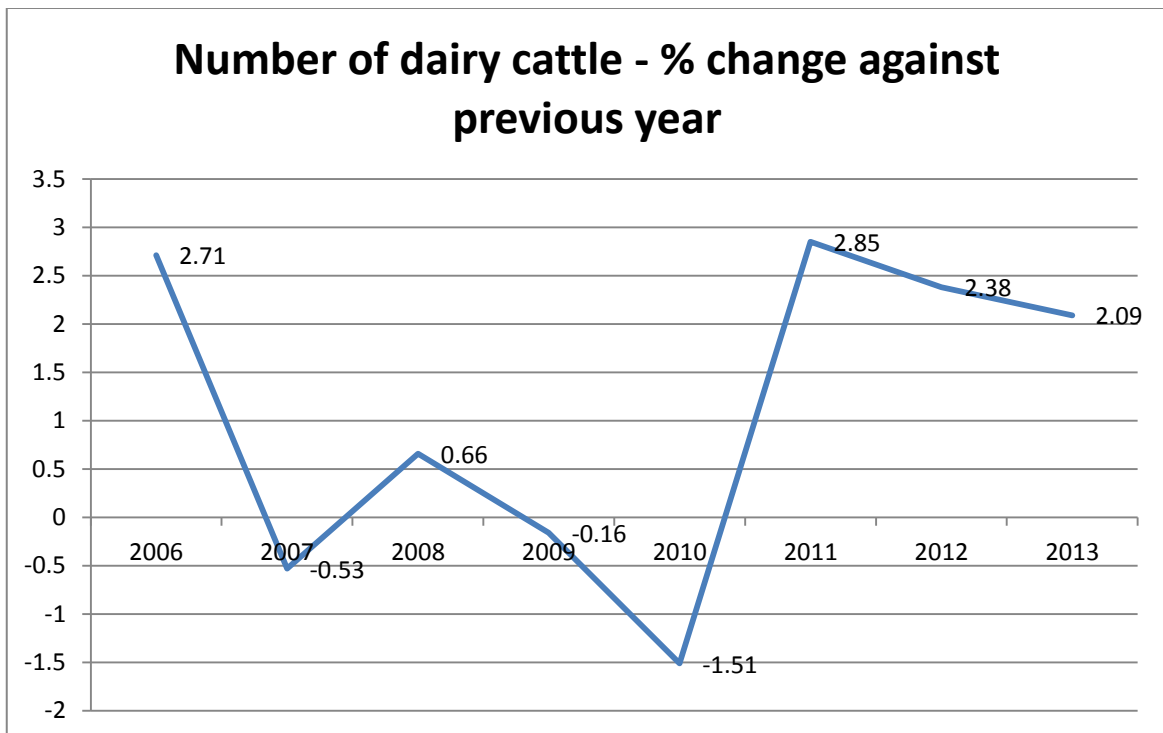


Figure 2: Number of dairy cattle - % change against previous year⁷



In terms of the scale and timing of growth in the dairy sector over the period of December 2005 to December 2013, figure 2 sets out the growth or decline in dairy cattle numbers in a particular year as opposed to the number in the previous year.

⁶ Derived from CSO statistics for Farm Animals in December (Thousand) by Type of Animal and Year 2005 – 2013
<http://www.cso.ie/multiquicktables/quickTables.aspx?id=aaa06>

⁷ *ibid*

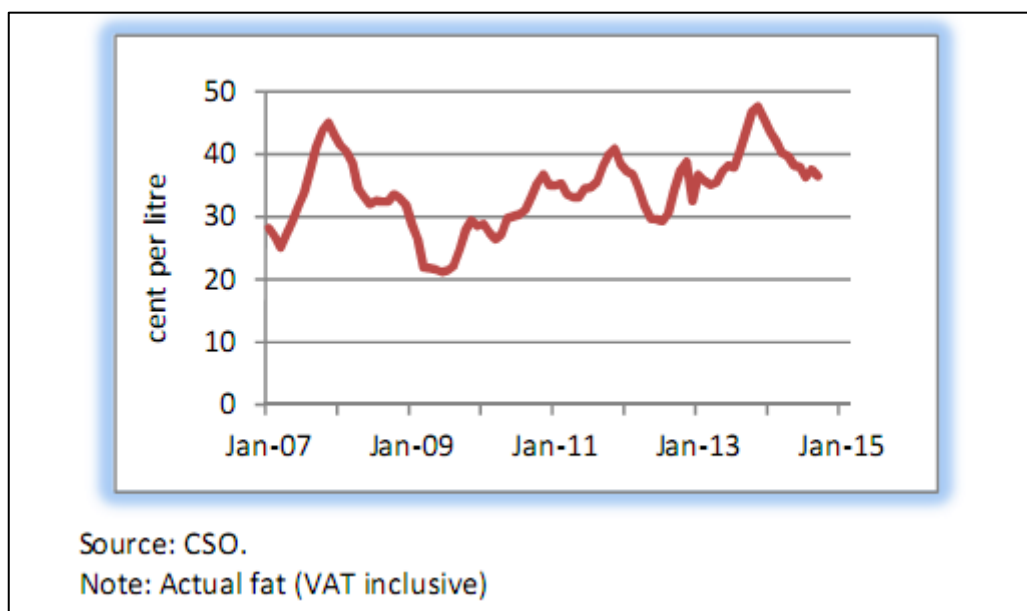
Whilst the time series for this data is limited, the **notable trend here has been the sustained year on year growth in dairy cattle numbers between 2010 and 2013, a period notable due to the publication of Food Harvest 2020 in 2010.**

3.1.3 Farmgate price for milk

CSO data covering the period from January 2007 until September 2014 highlights the volatility and variation in the farm gate price for milk. The data in figure 3 reveals that **January 2014 marked the highpoint for the price of milk and that since this date the price has fallen back.**

The annual average national milk price is estimated to be 37.6 cent per litre (vat inclusive) in 2014. This is a decline of just 5 percent meaning that producers have yet to experience the full impact of the decline in dairy commodity prices in 2014⁸

Figure 3: Irish Farm Gate Milk Prices Actual fat (vat incl.) 2007 – Sept 2014⁹



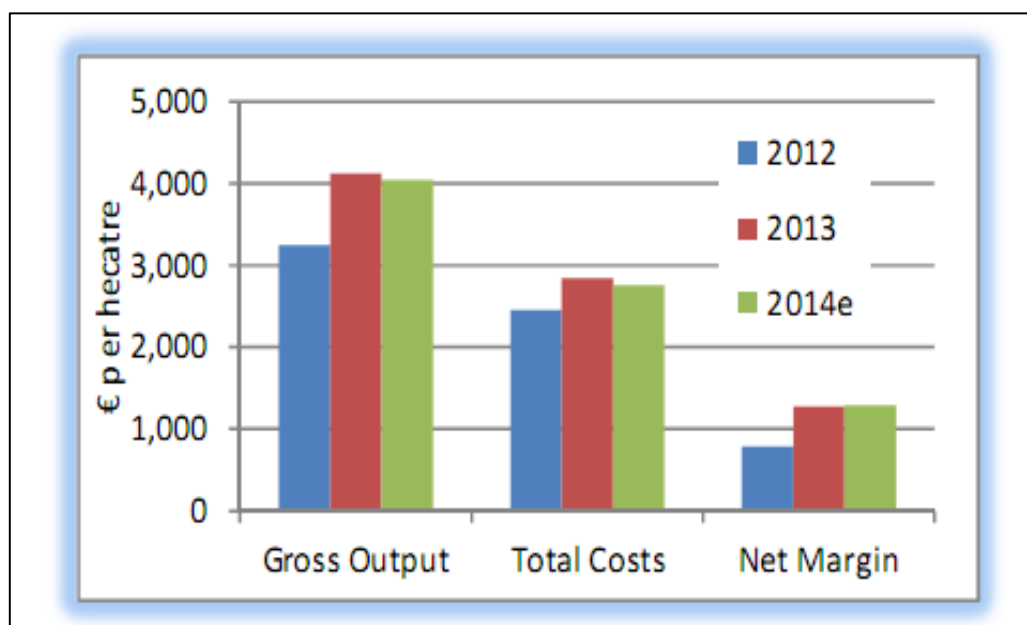
3.1.4 Gross output, total costs and net income per hectare

Figure 4 provides 2012, 2013 and estimated 2014 data for the dairy industry's gross output, costs and net income per hectare. This data which is taken from the Teagasc Outlook 2015 document reveals that **2014 is estimated to have been a good year for the Irish Dairy Industry, with net margin per hectare at €1,287 being 2% higher than the net margin recorded for 2013.**

⁸ [Outlook 2015: Economic Prospects for Agriculture, Agricultural Economics and Farm Surveys Department, Teagasc, 2nd December 2015](#)

⁹ *ibid*

Figure 4: Average Gross Output, Costs & Margins per hectare for Irish Milk Production in 2012, 2013 & estimate for 2014¹⁰



3.1.5 Production levels in relation to quota

The European Union introduced a quota regime for milk in 1984¹¹ which effectively set a limit on the levels of milk which Member States could produce. Any production over and above the national quota level set by the EU means that a Member State is subject to a so called 'superlevy', which is in effect a cash penalty. This 'superlevy' is payable to the European Commission and Member States are required to meet the national 'superlevy' penalty by taking money from producers who exceeded their individual quota.

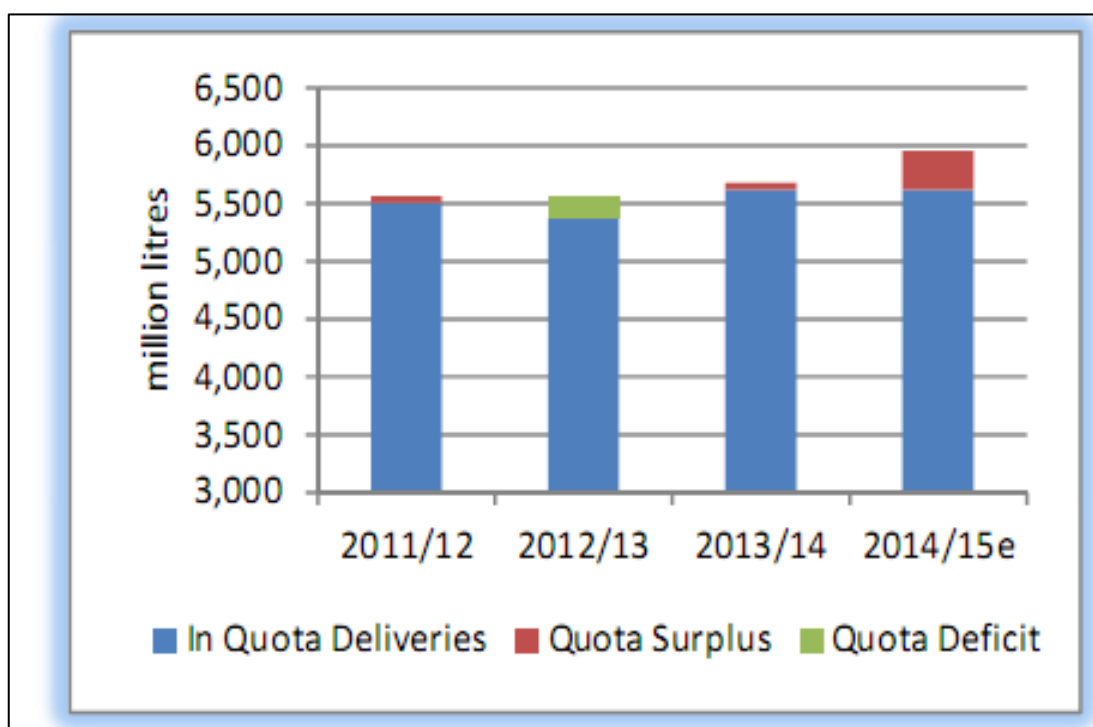
The quota system and associated restrictions on milk production are scheduled to end on the 31st of March 2015¹².

Data presented in figure 5 highlights the fact that the **Republic of Ireland has exceeded its milk quota allocation in 2013/14 and on the basis of estimated data is also likely to exceed quota by a greater level than the 2013/14 period.**

¹⁰ ibid

¹¹ [Council Regulation \(EEC\) 3950/92 of 28 December 1992 establishing an additional levy in the milk and milk products sector](#)

¹² [EU Council Regulation No. EC 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products \(Single CMO Regulation\), Articles 66 and 204 point 4.](#)

Figure 5: Irish Milk Deliveries (fat adjusted) and Quota Surplus/Deficit (quota year basis)¹³

In quantifiable terms the Republic of Ireland was 0.6% over quota in the 2013/14 milk quota year, a situation which saw the nation incurring a €10m ‘superlevy’ fine¹⁴.

According to data from the Department of Agriculture Food and the Marine up until the:

...30th November 2014, Ireland is 6.51% over quota when account is taken of the butterfat content of milk deliveries during the same period¹⁵.

This DAFM assessment would suggest that the European Commission will be imposing a considerable, though as yet uncalculated, milk quota ‘superlevy’ on the Republic of Ireland for the 2014/15 period.

3.2 Progress against the targets set out in Food Harvest 2020

A key element of the Republic of Ireland’s Food Harvest 2020 Agri-Food Strategy published in 2010 has been a commitment to publish annual progress reports.

Within this context September 2014 was marked by the publication of the fourth such report entitled Food Harvest 2020: Milestones for Success 2014¹⁶. **In overall terms Milestones for Success 2014 states that the agri-food industry within the Republic of Ireland has seen a 24% increase in exports against the 2010 target of**

¹³ [Outlook 2015: Economic Prospects for Agriculture, Agricultural Economics and Farm Surveys Department, Teagasc, 2nd December 2015](#)

¹⁴ [Eight Member States exceeded their 2013/14 milk quota, European Commission Press Release, 3rd October 2014](#)

¹⁵ [Milk super levy situation, Department of Agriculture Food and the Marine website, 19th December 2014](#)

¹⁶ [Food Harvest 2020: Milestones for Success 2014, DAFM, September 2014](#)

40% by 2020, and a 23% growth in value-added production against the 2010 target of 40% by 2020.

With specific regard to the dairy industry Milestones for Success 2014, identifies a 42% increase in the output value of the milk sector to €2.05 billion, resulting from a 10% increase in volume terms. This 10% growth in volume is still below the 50% growth in volume projected for 2020, but it was achieved in spite of restrictions placed on milk production by the EU milk quota system.

4 The Chinese dairy market – status and Irish export data

China is becoming an increasingly significant export destination for Irish Dairy products. Confirmation of this fact is revealed in table 2 below which provides a breakdown for the source of Chinese Skimmed Milk Powder (SMP) imports in October 2013 and October 2014. SMP imports from Ireland have risen by 14.8% when comparing October 2013 to October 2014.

Table 2: Source of Skimmed Milk Powder (SMP) imports in China in October 2013 and October 2014¹⁷

Country	2013 Volume (metric tons)	2013 Market share (%)	2014 Volume (metric tons)	2014 Market share (%)
Australia	1,451	6.6	695	4.4
Denmark	540	2.5	883	5.5
Ireland	208	0.9	2,507	15.7
New Zealand	9,152	41.6	5,356	33.6
Other	3,166	14.4	2,449	15.4
United States	7466	34	4,041	25.4
World	21983	100	15931	100

Whilst the Republic of Ireland market share has grown it should however be noted that in overall terms Chinese imports for many dairy products have declined when comparing October 2014 to October 2013. The data in table 2 reveals the scale of this decline with Whole Milk Powder (WMP) imports down 72%, SMP down 27% and butter down 39%. The only commodity to have bucked this trend is cheese, which has seen a 19% increase in import volume. In general terms however there does appear to be a drop in Chinese dairy product importation which could be as a result of economic conditions or an increase in domestic dairy production.

Table 3: Chinese imports for selected dairy products – October 2014 and comparison with October 2013¹⁸

Commodity	Imports in tons	% change compared to October 2013
Whole Milk Powder	15,358	-72

¹⁷ Derived from data within *October 2014 – China Dairy Import Volume Analysis* published 24 November 2014 by Highground Dairy Trading - <http://www.highgroundtrading.com/pdf/exports/October%202014%20China%20Dairy%20Imports%20-%2011-24-14.pdf>

¹⁸ *ibid*

Skimmed Milk Powder	15,931	-27
Butter	2,196	-39
Cheese	4,647	19

Despite the apparent decline in demand over the last year it is worth noting that the OECD/FAO predict a rising demand for dairy products within China up until 2022:

The total dairy product import growth (in milk equivalent) is projected to rise by about 60% in 2022 compared to the base period (2010-12), largely as a result of slower growth in domestic production¹⁹.

5 Russian import ban - impacts on Irish Dairy product exports

On the 7th August 2014 the Russian government announced a 1 year import ban for a range of EU agricultural commodities, including milk and dairy products.

This ban was a direct response by the Russian government to those countries which *...imposed economic sanctions against Russian companies and (or) individuals or has joined such sanctions²⁰* as a result of the situation in Ukraine.

The impacts of the Russian ban on the Republic of Ireland's dairy exports are yet to be fully determined, but DAFM Minister Simon Coveney's initial assessment²¹ in August seemed to suggest that these may not be as significant as those facing other EU Member States in the short to medium term:

...Whilst Ireland's agri-food export trade with Russia represents less than 2.5% of total agri-food export, this very much belies the importance of this market in terms of its future potential. The obvious preference is for a normalisation of trade relations but these issues cannot be viewed without taking into account the overall political context.

... While work is continuing to determine exactly what products are covered by the ban, the Minister noted that initial indications were that casein, infant formula and tea extract are not being banned. Casein accounted for €11.3 m of Ireland's €17.8m dairy exports to Russia in 2013.

Minister Coveney's initial assessment of the more limited impact on the Republic of Ireland's dairy exports was also backed by data contained in a European Commission²² press release from the 3rd September 2014, which revealed that the EU dairy product exporters with most to lose from the Russian import ban were as follows:

- Netherlands (€257million dairy exports to Russia in 2013);

¹⁹ [Highlights, Agricultural Outlook 2013-22, OECD,FAO ,2013, Page 82](#)

²⁰ [Putin signs decree on countermeasures to Western sanctions, TASS Russian News Agency, August 6th 2014](#)

²¹ [Statement from Minister Simon Coveney TD regarding Russian Trade Sanctions, 7th August 2014](#)

²² [Questions & Answers on the potential impact of the Russian measures against EU agricultural products and the EU response so far, European Commission press release, 3 September 2014](#)

- Finland (€253 million dairy exports to Russia in 2013);
- Latvia (€160 million dairy exports to Russia in 2013);
- Germany (€159 million dairy exports to Russia in 2013); and
- Poland (€140 million dairy exports to Russia in 2013).

8 EU market mechanisms – overview and Irish position on utilisation

Under the provisions of Council Regulation (EC) No 1308/2013²³, the EU has the ability to deploy a number of mechanisms in circumstances where market conditions for particular commodities deteriorate, and a simple overview of a number of these mechanisms is set out in table 4 below.

Table 4: EU market intervention mechanisms²⁴

Mechanism	What the mechanism does
Intervention	When market prices for certain agricultural products fall below a predetermined level, the public authorities of the member states may intervene to stabilise the market by purchasing surplus supplies, which may then be stored until the market price increases. The product may then be returned to the market for sale, exported to a third country or disposed of in an alternative way
Export refunds	Export refunds may be paid by the European Union to trading companies that sell certain agricultural goods in third countries. The refund normally covers the difference between the internal EU price and the world market price. Export refunds in 2013 reached the rate of zero for all products, and they may only be activated when the market conditions are such that exceptional measures are justified.
Private Storage Aid (PSA)	Some products have a seasonal cycle, meaning that in certain periods there is a relative over-production, while later in the year there is a relative shortage. Certain external factors may increase the seasonal peak beyond normal expectations, thus potentially causing the market price to fall. In such cases it may be decided to temporarily support producers of products, such as olive oil and butter, regarding the cost of private storage

The European Commission announced on the 28th August²⁵ 2014 that it would open Private Storage Aid (PSA) for butter, Skimmed Milk Powder (SMP) and certain cheeses in order to alleviate the impact of Russian restrictions on imports of EU dairy products and to limit the negative effects on the internal market. The European Commission also confirmed that the period for public intervention of butter & SMP would be extended until the end of the year.

²³ [REGULATION \(EU\) No 1308/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 establishing a common organisation of the markets in agricultural products and repealing Council Regulations \(EEC\) No 922/72, \(EEC\) No 234/79, \(EC\) No 1037/2001 and \(EC\) No 1234/2007](#)

²⁴ [Glossary of terms related to the Common Agricultural Policy, European Commission website, 19th December 2014](#)

²⁵ [European Commission announces emergency market support measures for the milk sector, European Commission Press Release, 28th August 2014](#)

The European Commission then moved to close the measure for Private Storage Aid (PSA) of cheese²⁶, on the 23rd September following a:

...disproportionate surge in interest for this measure from cheese producers in certain regions not traditionally exporting significant quantities to Russia.

Phil Hogan, the new EU Agricultural Commissioner, commenting on the impacts of the Russian import ban and the EU reaction to it stated²⁷:

...First of all, I am very conscious of the deteriorating market conditions in the dairy sector, exacerbated by the impact of the Russian ban, and the effects that it has on dairy producers.

In recent days, the Commission adopted additional market measures, prolonging availability of private storage aid and public intervention until after the first of January 2015. This is essential for ensuring the safety net is active and operational in order to contribute to the stabilisation of the market.

Furthermore, we have also adopted specific targeted support for dairy farmers, and we continue to closely monitor the situation in all countries affected by the ban.

For other sectors, the Commission is carefully monitoring the situation. I am well aware that the economic situation is not looking good for some of the product affected by the Russian ban. The Commission reacted quickly earlier in the year by rolling out a series of measures to help affected farmers and producers, and we will continue to remain vigilant on this issue, which is of the highest geopolitical and economic importance to European agriculture.

The Irish Government's position on the utilisation of EU market mechanisms to alleviate the pressures on the Republic of Ireland's dairy industry was articulated by DAFM minister Simon Coveney in response to a Dail question on the Dairy Industry on the 10th December²⁸:

...Under the new Common Agriculture Policy there is a range of tools available to mitigate the worst impact of downward price volatility, including Aids to Private Storage, Intervention and Export Refunds and I have called on the EU Commission to deploy these tools as appropriate.

²⁶ [Private Storage Aid for cheese closed, European Commission Press Release, 23rd September 2014](#)

²⁷ [Simplification as a top priority in 2015, Commissioner Hogan Speech to European Parliament, Committee on Agriculture and Rural Development meeting, 3rd December 2014](#)

²⁸ [Dail Debate, 10th December 2014, Written answer by Minister Simon Coveney's response to question on the dairy industry by Deputy Brendan Smith, Question 82, 10th December 2014](#)

9 Looking forward – challenges for the Irish Dairy Sector in 2015 and beyond

9.1 Outlook 2015: Economic Prospects for Agriculture – Dairy specific elements

Teagasc, the Republic of Ireland's Agriculture and Food Development Authority published its Outlook 2015: Economic Prospects for Agriculture document on the 2nd December 2014²⁹. The document includes projections for the dairy sector, with key points including:

- An intentions survey conducted by the Teagasc National Farm Survey suggests that Irish national milk production will increase by 10% in 2015 relative to the 2014 level. It is expected that the bulk of this expansion will come from existing cows on existing farmland;
- International dairy market prices will remain depressed in the first half of 2015, and while a price recovery may take hold as the year progresses, the possibility also exists that the weak market could continue for the full year;
- In 2015, an annual average decrease in milk prices of about 28% compared with 2014 is forecast;
- Net margin per litre of milk is forecast to fall by 82% in 2015 to an average of 2 cent per litre;
- Based on forecast production levels, output price and input cost movements, dairy margins per hectare are likely to fall substantially in 2015 compared with 2014, even on farms that expand production, with average net margins likely to be no more than €300 per hectare;
- At this point a super levy situation at the end of the 2014/15 quota year is inevitable and steps to minimise the extent of the liability that will arise, by limiting production in the remaining months of the quota year are required. Accordingly producers who end up over quota in 2014/15 will also face a superlevy bill in 2015, which typically will be much larger than any which have arisen in the past.

9.2 Dairy Background Paper – 2025 Agri-Food Strategy

The dairy background paper³⁰ produced by DAFM in support of the public consultation for the 2025 Agri-Food Strategy identified a number of issues that will affect the prospects for the global, EU and Irish dairy market up until 2025 as follows:

- Underlying any positive outlook for international dairy prices is the assumption of continued strong growth in incomes among developing countries, especially in the Middle East, North Africa, South East Asia and China. Any slowdown in economic activity in any of these could impact significantly on dairy prices;

²⁹ [Outlook 2015: Economic Prospects for Agriculture, Agricultural Economics and Farm Surveys Department, Teagasc, 2nd December 2015](#)

³⁰ [Dairy Background paper in support of 2025 Agri-Food Strategy consultation, DAFM website, 19th December](#)

- The development of Chinese market self-sufficiency in milk and dairy markets will be a key determinant of price development on world dairy markets. It is currently expected that Chinese milk production will start to grow again from this year (2014). Any delay in this happening would result in higher dairy prices worldwide;
- In 2015, the EU system of milk quotas is scheduled to end. The FAO/OECD Outlook projects a smooth transition, because actual output remained below EU quota levels in most member states to date. Other observers (such as dairy sector in Ireland) expect a strong supply reaction in the European Union end of quota which could have a commensurate impact on global prices for dairy products, arising from a higher degree of volatility of dairy product supply from the European Union;
- As evidenced in recent years, unusual weather events can have a major impact on dairy markets through their effects on feed grains or pasture conditions. A departure from normal weather conditions, which cannot be unexpected any longer, given climate change modelling which suggests an increase in sporadic and extreme weather events, will have an obvious effect on supplies;
- Environmental legislation can have strong impacts on the future development of dairy production. The greenhouse-gas emissions from dairy activities make up a considerable share of overall emissions in some countries and any policy changes could have an impact on the dairy industry in those and other markets; and
- Market impacting potential exists in various free trade agreements (FTA's) and/or Regional Trade Agreement Agreements RTA's), through specific market access changes and the simplification of bilateral sanitary requirements.