Appendix II

The Northern Ireland Dairy Sector – Key Macro Market Drivers

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Contents

- NI Dairy Marketing Strengths & Weaknesses
- The World Dairy Market
- Key Market Drivers

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1. NI Dairy Marketing Strengths & Weaknesses

Marketing - strengths

- The NI dairy sector enjoys access to a number of good routes to market
- Consumption of some dairy products is slightly above the rest of the GB average
- The industry has gained a good deal of experience of working in challenging international markets
- A reduction in GB milk supply – but this might not last – but creates a short term export opportunity
- The proximity to 60 million affluent consumers in GB – this is a massive market opportunity for a range of higher value added products
- Latin America – as a key competitor in the future – is still seen as being an unstable part of the world and has a varied reputation in international markets

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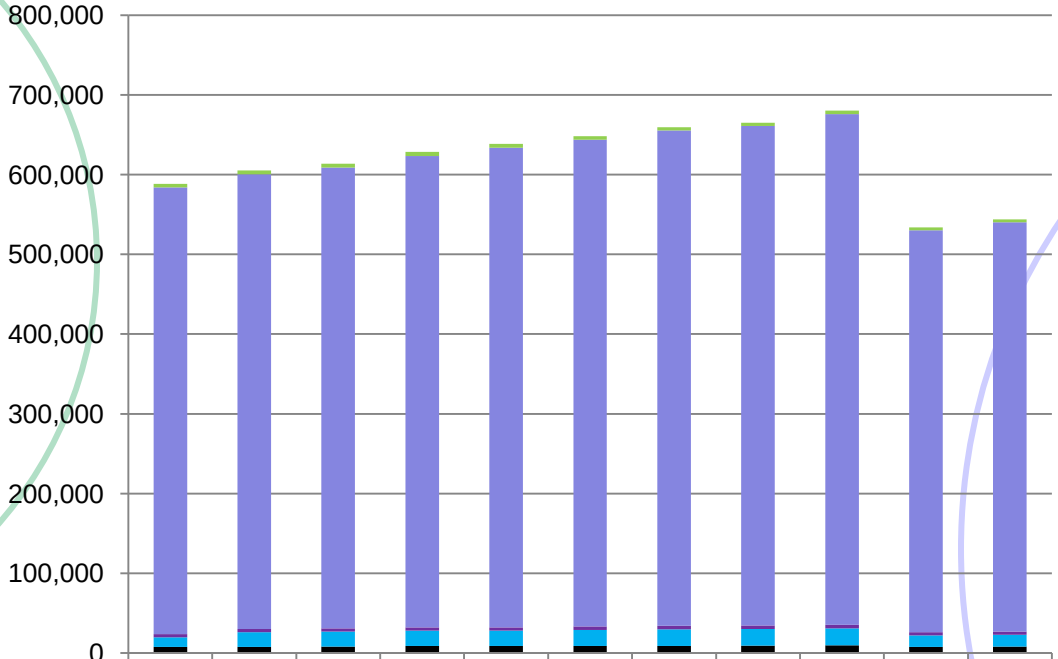
Marketing - weaknesses

- NI has only a very small local market of 1.7 million consumers
- There is limited co operation across supply chain and a cut-throat nature to the supply of the local NI market
- The sector has traditionally been subject to production led thinking – rather than being market led
- The overall limited scale of activity – NI accounts for c. 1.5 % of EU production and the largest NI processors are small by international standards
- The sheer distance to key markets and therefore an inherently exposed position in them
- The NI sector is over dependent on commodity products and CAP support – this will be removed in due course
- The NI industry is often not that really differentiated from the ROI sector – but of course has strong inter linkages

2. The World Dairy Market

World dairy production, 1999 - 2009 ('000 tonnes)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Dairy, Milk, Nonfat Dry	4,642	4,731	4,629	5,057	4,992	4,380	4,382	4,210	4,394	3,536	3,579
Dairy, Milk, Fluid	560,19	570,35	578,18	591,43	601,61	610,56	621,35	626,68	640,76	504,36	513,49
Dairy, Dry Whole Milk Powder	3,930	3,968	4,021	4,033	4,212	4,390	4,445	4,357	4,476	3,871	4,066
Dairy, Cheese	12,123	18,475	18,567	19,125	19,219	20,019	20,582	20,965	21,326	14,366	14,624
Dairy, Butter	7,700	7,816	8,173	8,798	8,766	8,792	8,923	9,078	9,492	7,773	8,169

Years

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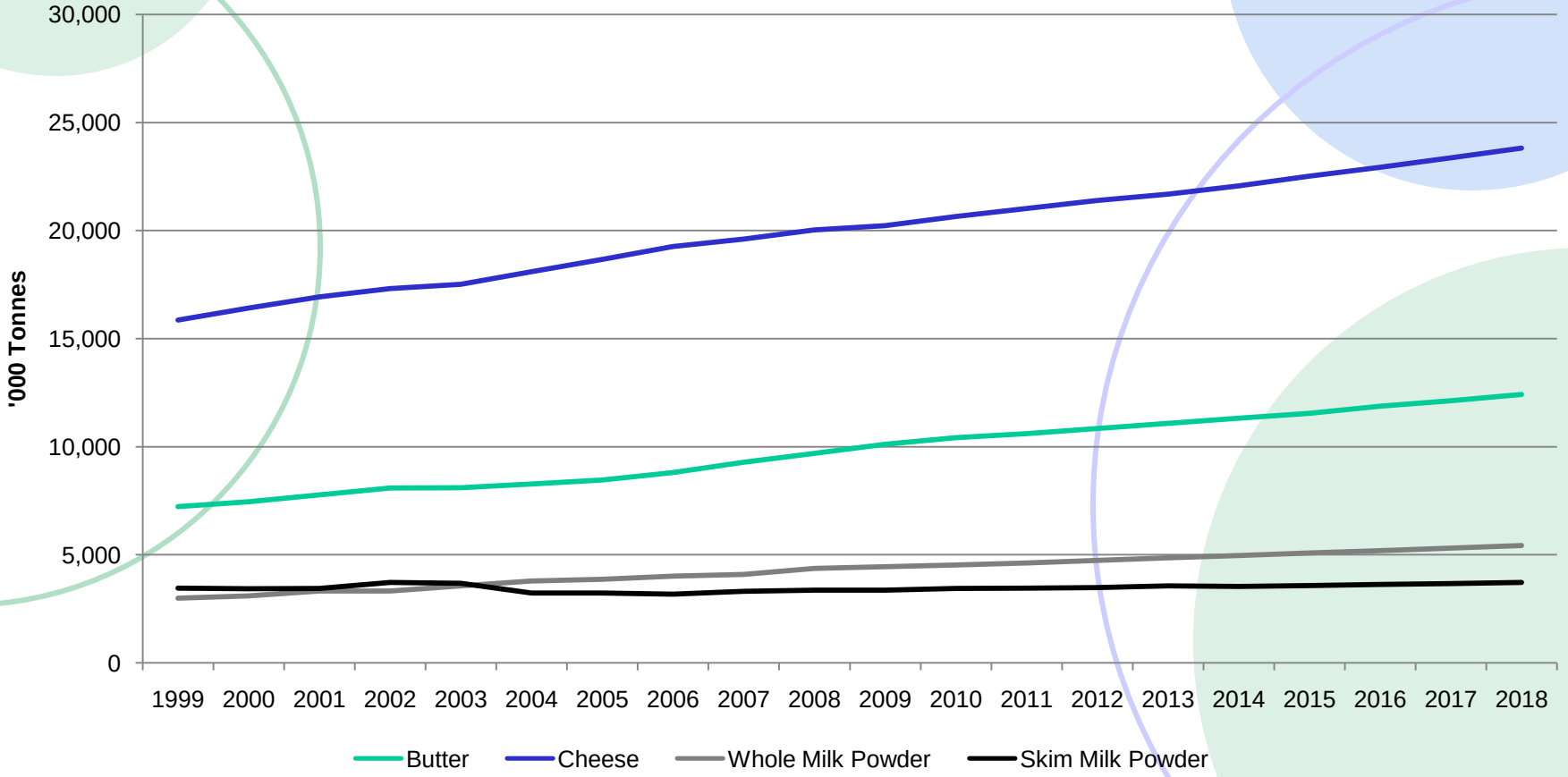
Source: OECD-FAO

World dairy production

- World dairy production has grown for much of the last 10 years but has fallen considerably in the last 2 years on the back of the global recession especially in key international markets such as Russia, the EU and the US
- In the longer term however, both the production and demand for dairy products is expected to recover – see the following slides and graphs
- Much of this growth will come from the fast emerging economies of India, China, Russia and other Asian markets – by up to 30% between now and 2017
- Markets in the more mature countries of the EU and US are still expected to grow but at much lower rates of growth – at rates of between 6 – 12%

World dairy production – 1999 to 2018



Source: OECD-FAO

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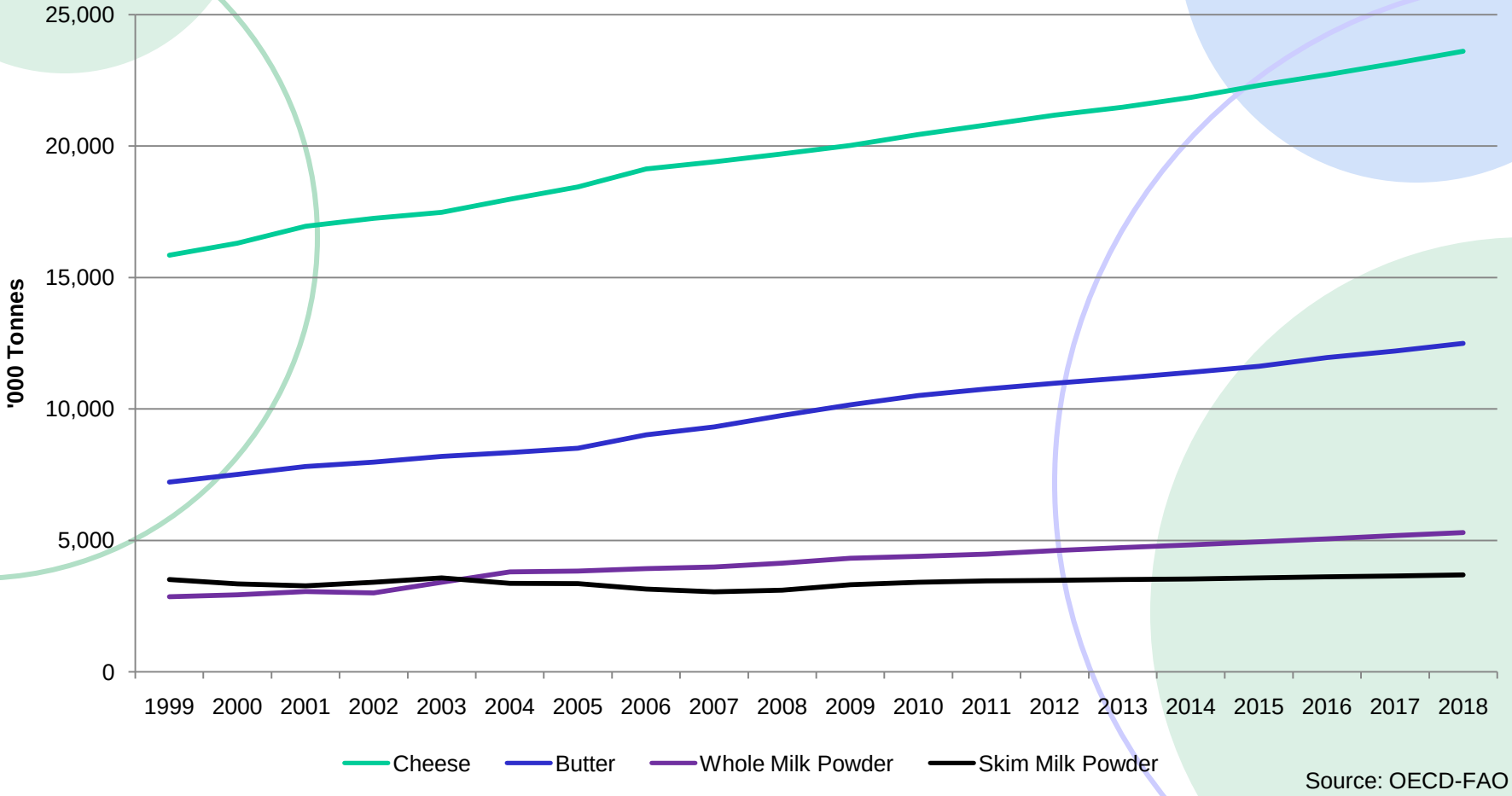
World dairy consumption – 1999 to 2018



Source: OECD-FAO

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Global demand predictions – OECD forecast to 2017 (000 tonnes)

	2008	2017	% Change
World	36, 710	42,505	15.8
OECD	20, 680	22,470	8.6
EU 27	11,960	12,690	6.1
United States	5,760	6,450	11.9
China	1,945	2,595	33.5
India	4,015	5,365	33.6
Australia	355	395	11.3
Sub Saharan Africa	570	750	31.8

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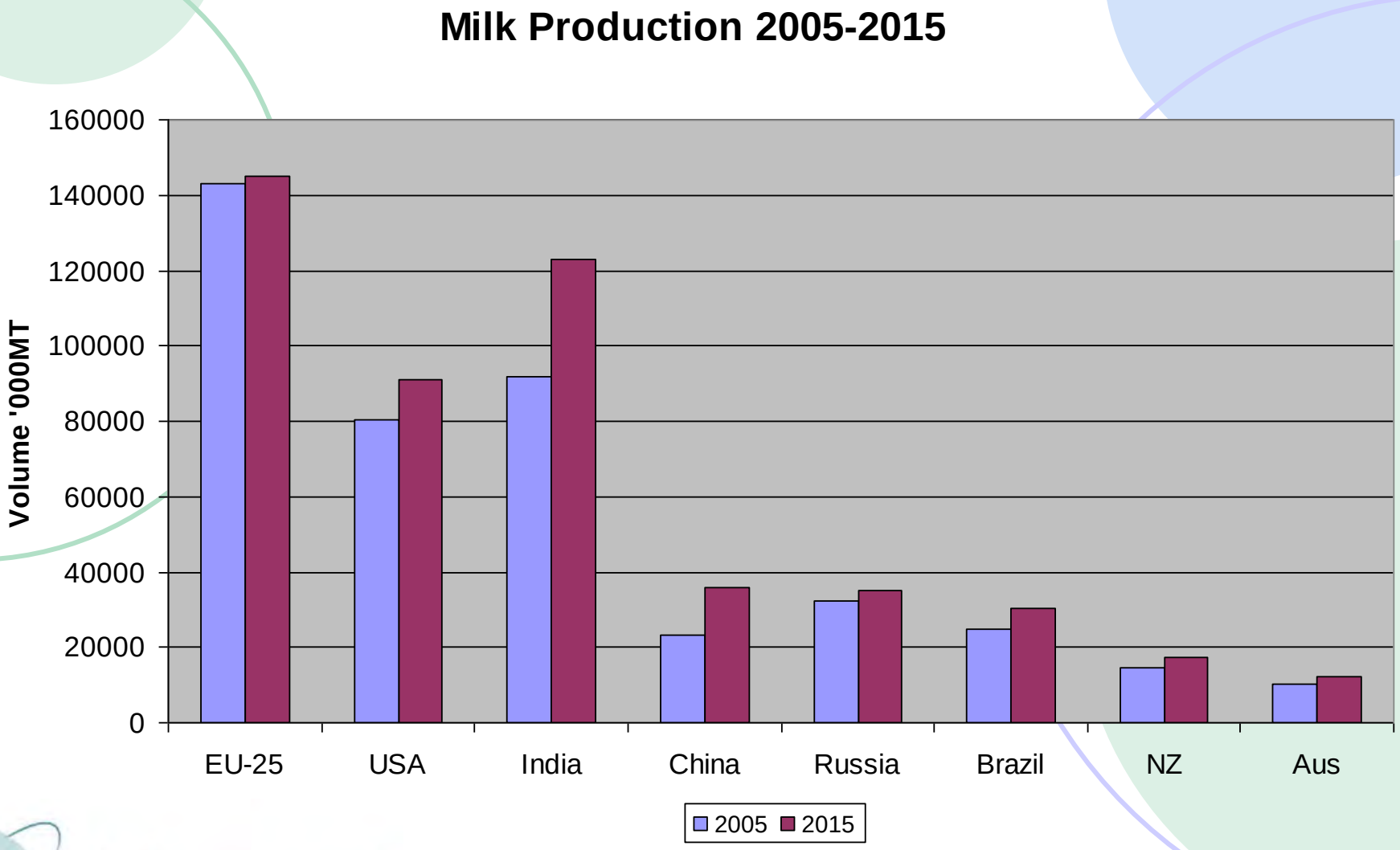
Current and future milk production



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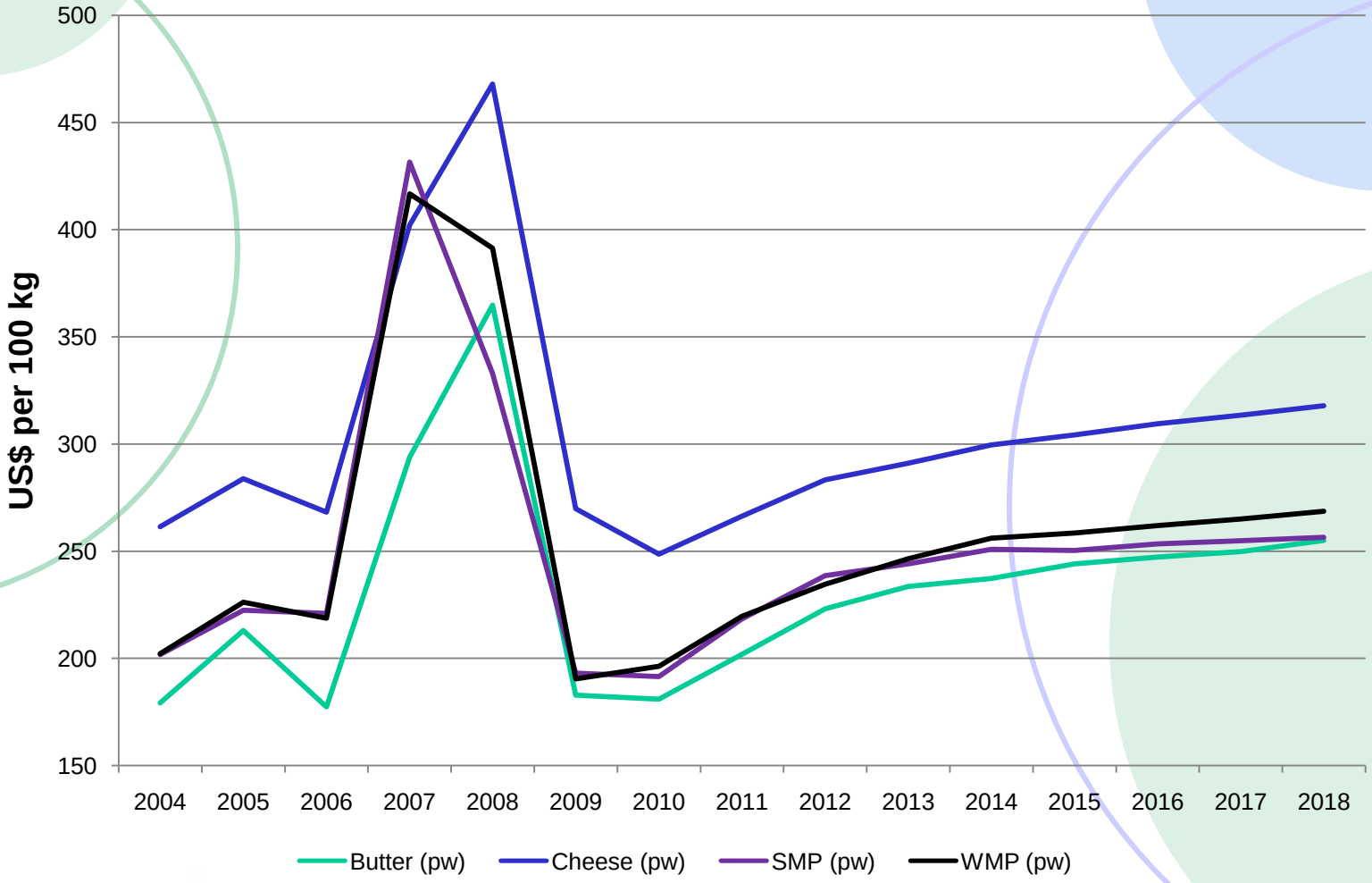
Global milk production - OECD

- The OECD predicts that while there will be modest increases in EU milk production over the next few years, there will be significant increases in overall milk production in India

- There will also be modest increases in most of the other major dairy producing regions of the world such as the US, Brazil, Russia, China, New Zealand and Australia

World price predictions - for selected dairy commodities, 2004-2018



Source: OECD – FAO Agricultural Outlook

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Major dairy exporting countries & regions

Region/Country	Export Share		
	1995-1997	2004-2006	Difference
EU 27	79	72	-6.2
EU15	75	67	-8.7
EU-new	3	6	2.5
Germany	17	15	-2.0
France	15	12	-3.0
Netherlands	14	11	-3.4
New Zealand	8	8	0.9
Denmark	6	4	-1.1
Australia	4	4	-0.2
Ireland	5	3	-1.5
UK	4	3	-1.0
USA	2	3	0.7
Poland	1	2	1.3
Argentina	1	1	0.5
Canada	1	1	-0.3
Brazil	0	0.2	0.2

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Source: LEI Wageningenur

Comment

- World prices for dairy products have shown huge volatility – not seen for a generation - over the last 12 – 24 months and have fallen rapidly after the highs of 2007/2008 were reached – but long term are expected to carry on increasing

- For some time now, the EU has been loosing share in international markets against other emerging producers and suppliers – with ground being gained by the likes of a combination of those suppliers based in Australasia, the US, Latin America or in Eastern Europe – all of which will have a considerably lower cost of production base than the Northern Ireland dairy sector

- The fact that the EU is loosing ground to other lower cost suppliers will all be accentuated by the removal of CAP export subsidies and other forms of EU protection which will render them less competitive in the future

- Rather than trading internationally in global markets – it is expected that increasingly EU dairy producers and processors will be forced to supply a much higher proportion of their production to the internal EU market

Latest Predictions - OECD

- OECD believe that because food is a basic necessity for consumers the agricultural sector is showing more resilience to the economic crisis compared with luxury sectors such as the tourism industry
- As long as the economic recovery begins within 2 to 3 years then only moderate falls in agricultural prices will be experienced
- OECD feel it is unlikely that all farm commodity prices will fall back to their average level before the 2007 - 2008 peaks
- Food and feed will continue to be the largest source of demand growth in agriculture
- Consumption and production are growing fast in developing countries and will continue to do so, by 2017 these countries are predicted to dominate the production and consumption of most dairy commodities
- The future of the dairy industry will also depend upon future policy developments for the industry

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Latest predictions: FAPRI World Outlook 2009

- FAPRI predicts that with growing demand in the next decade for dairy and other resources, prices will strengthen and bring them back to their historic highs. Initially world dairy prices will decline over the coming years but in the long term population and income growth will create upward pressure on prices
- Gains in milk productivity by cow will increase world milk production 18.8%, with most increases coming from the Americas and Asia
- NI milk production will increase by 2% in 2017 compared to 2007, but UK production will be unable to fill its quota
- Australia, NZ and the EU will remain as the largest exporters in the dairy industry (especially for butter where they are predicted to have a combined supply of 90% of total butter exports) but Argentina (in particular for cheese exports) and Brazil will also begin to expand upon their exports
- The EU's cheese exports will decrease slightly due to increase in domestic consumption allowing Argentina and Ukraine to increase their prominence in this market
- Production projections:
  - World butter: production to increase 29.3% over baseline, India accounting for 90% of growth
  - World cheese: production to grow 18.2%, US and EU accounting for about 52.4%
  - World WMP: production increases 21.2% stimulated by strong import demand

Butter - the next 10 years

- Production of butter is forecast to rise by 22.7% from 2009 to 2018 based on OECD-FAO statistics
- Australia, New Zealand and the EU will remain the world's largest exporters, accounting for nearly 90% of world exports by 2018
- Growth is also expected from India which is set to double its production in the next 10 years and large dairy producing countries in South America such as Argentina and Uruguay
- Russia will remain the world's largest net importer of butter as demand continues to outstrip production
- There will also be more opportunities to export butter to South East Asia, especially China, as consumption expands due to economic growth and westernized diets

Cheese - the next 10 years

- Global cheese production is set to increase 17.8% by 2018 according to OECD-FAO
- The US and EU are to be responsible for most of this growth, but EU exports are set to decrease marginally as domestic demand grows stronger
- Australia and New Zealand will continue to be amongst the world's leading net exporters, while Argentina and Ukraine will become increasingly important in the world market during the next decade
- Japan and Russia will remain the world's largest net importers of cheese, accounting for over 40% of world imports each year
- Similarly to butter, a rise in demand for cheese in other South East Asian countries is forecast to result in an annual increase in imports

Milk powders - the next 10 years

- OECD - FAO figures predict world production increases of 21.1% for whole milk powder and 10.3% for skim milk powder in the period from 2009 to 2018
- Government investment and improved economic conditions in South America will boost production and exports in both whole and skim milk powders, especially in Brazil and Argentina
- Despite this growth, the global milk powder export market is expected to still be dominated by the EU, the US, Australia and New Zealand in 2018
- Due to consistent import demand from Asia, Australia and New Zealand are set to increase their exports of milk powders steadily
- The world's largest net importers of skim milk powder over the next 10 years are forecast to be Algeria, Mexico, and Indonesia
- For WMP, net importers of note are set to be Algeria, Malaysia and Saudi Arabia

3. Key Market Drivers

There are a number of powerful macro drivers for change in the NI dairy sector – these include

- Global population growth
- The patchy nature of global economic recovery
- Concern over the availability of oil and other energy sources
- The impact of climate change – both in Northern Ireland and in other parts of the world
- Concern over the issue of food security
- The adoption of GM technology in to the supply chain
- The cost of key inputs
- The role of major retailers in food distribution
- The need for innovation in NPD & product marketing
- The agenda of the WTO

- **Each of these is discussed briefly on the following pages**

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3 – 1 Global Population Growth

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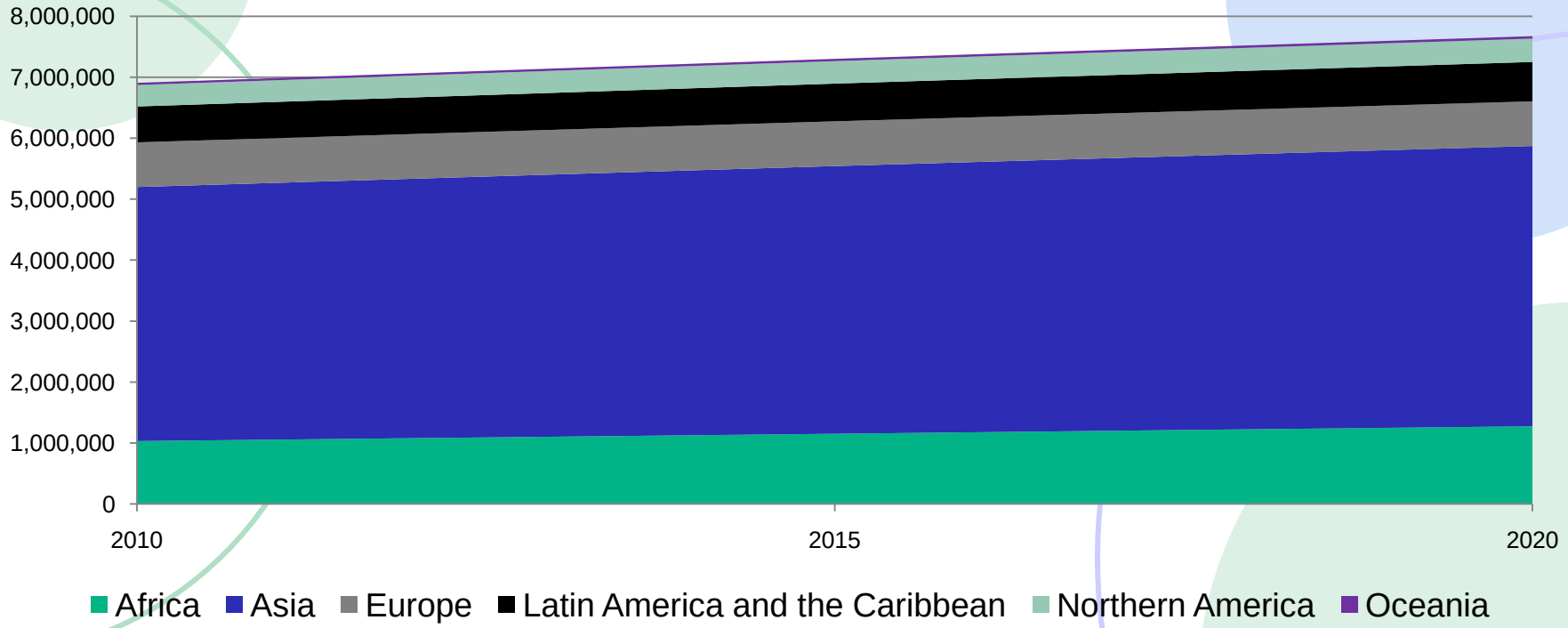
Regional population forecasts (‘000) - 2020



‘000 People	World	Africa	Asia	Europe	Latin America and the Caribbean	Northern America
2010	6,908,688	1,033,043	4,166,741	732,759	588,649	351,659
2015	7,302,186	1,153,038	4,390,603	734,000	618,486	367,956
2020	7,674,833	1,276,369	4,596,256	732,952	645,543	383,384
CAGR	1.06%	2.14%	0.99%	0.00%	0.93%	0.87%

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Source: United Nations

Global population

- It is anticipated that the worlds population is set to increase to some 7.6 billion by the year 2020 – with an estimate of this reaching some 9 billion by around 2050

- There will also be a huge increase in the numbers of consumers moving away from a subsistence style diet to a more Western style diet as literally 100s of millions of consumers become more affluent

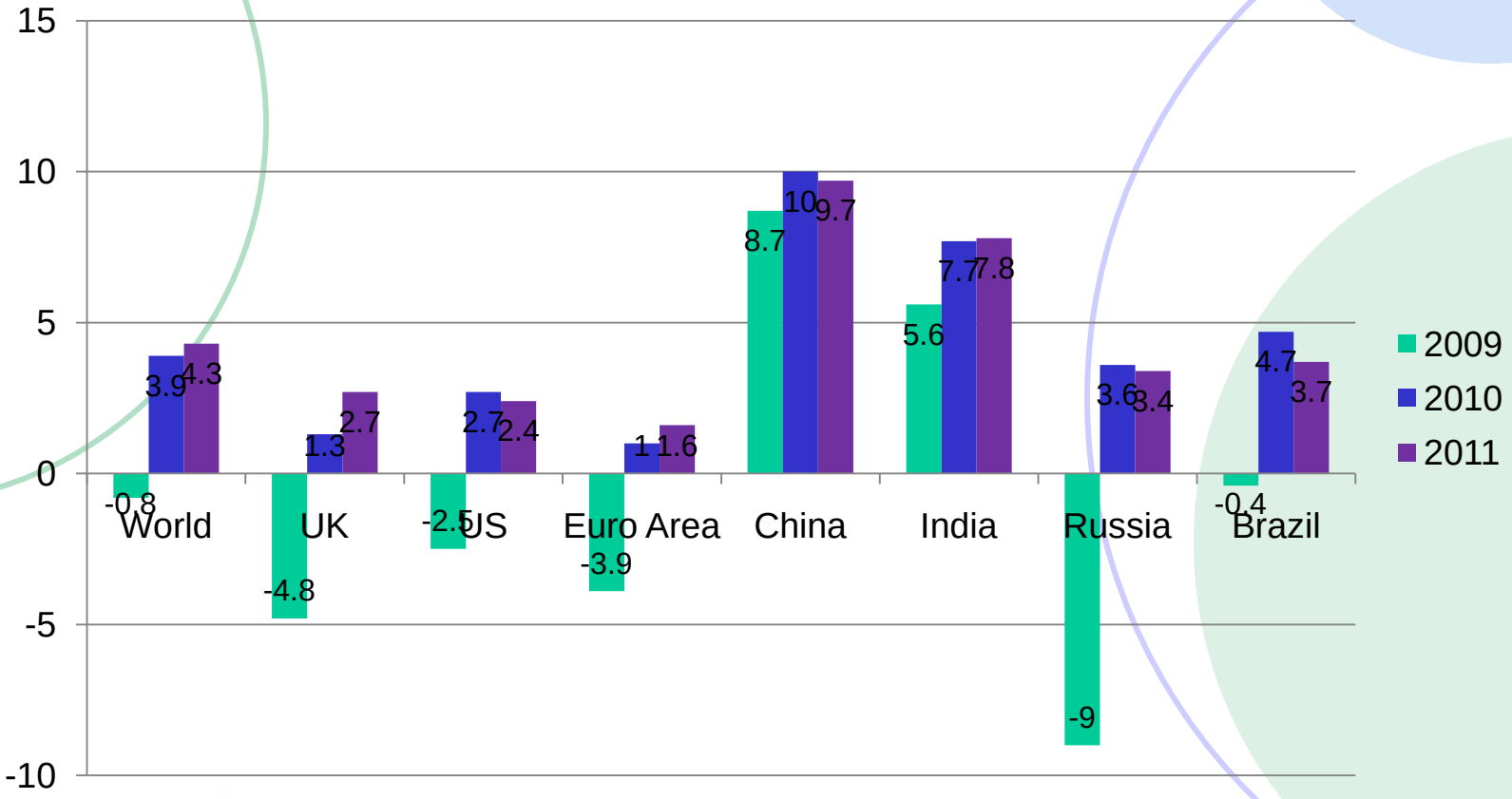
- This represents a substantial increase in the number of global consumers – much of this growth however comes from the likes of China, India, other Asian countries, Africa & parts of Latin America – the EU market is fairly flat in terms of incremental growth

- Feeding such an increased global population represents a major challenge to world agriculture – and not least the dairy sector

- Many countries however around the world – are now seeing this as a major opportunity and despite the challenges ahead – this is a good time to be involved in food (dairy) production and processing

3 - 2 The World Economy

The world still suffers from a patchy recovery from recession



IMF estimates

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World economy

- The IMF are predicting that the world economy will pull itself out of recession in the period between 2010 – 2011
- However, the picture is still very mixed, depending on where you are in the world - markets such as Brazil, Russia, India & China all seem poised for significant economic growth
- The position in the US and EU is much more uncertain
- We also believe that despite this “official optimism” that “on the ground” there still exists a good deal of caution about how international economies will develop in the foreseeable future
- We predict that the economic & financial problems caused by the global recession will not go away quickly – and may well still impact on businesses over the next 3 – 5 years

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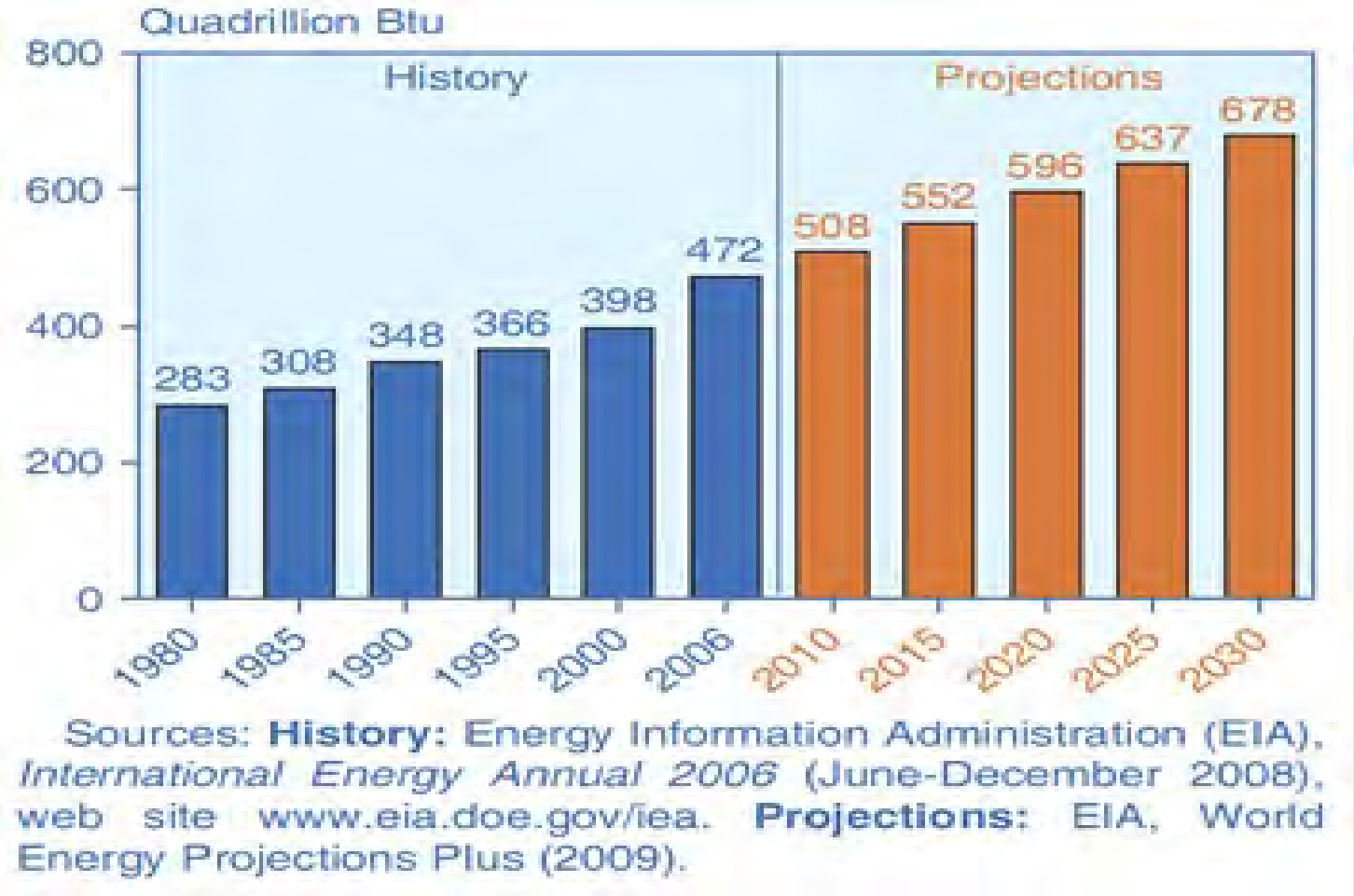
Implications for the NI dairy sector

Production	Processors
Will need to produce more economically. Increase yields and improve connections along the supply chain. What is the raw milk being processed into – powder, milk, cheese	There will be no growth in the EU in the future. This is a mature and well developed market. Competition will be very strong in this area.
Increasing alignment of EU prices and markets with the world market will mean population growth in Africa and China will have an impact on NI dairy producer prices in the future	No growth in the EU market will result in highly competitive markets
For those exporting out of the EU impacts may still be felt with decreases of global milk prices	As populations rise in less developed countries so too will disposable income therefore consumption of added value products will increase
	Populations are projected to grow in less developed countries (e.g. Africa is to more then double), however it will not be a viable option to export without export subsidy
	Need to form close supply chains with buyers. If selling commodities need to adopt lowest cost producer strategy
	Product differentiation and NPD will be required to remain competitive
	Consolidations and mergers to minimize costs and improve supply chain efficiencies

3 - 3 The Availability of Energy Supplies

World marketed energy consumption



Sources: **History:** Energy Information Administration (EIA), *International Energy Annual 2006* (June-December 2008), web site www.eia.doe.gov/iea. **Projections:** EIA, World Energy Projections Plus (2009).

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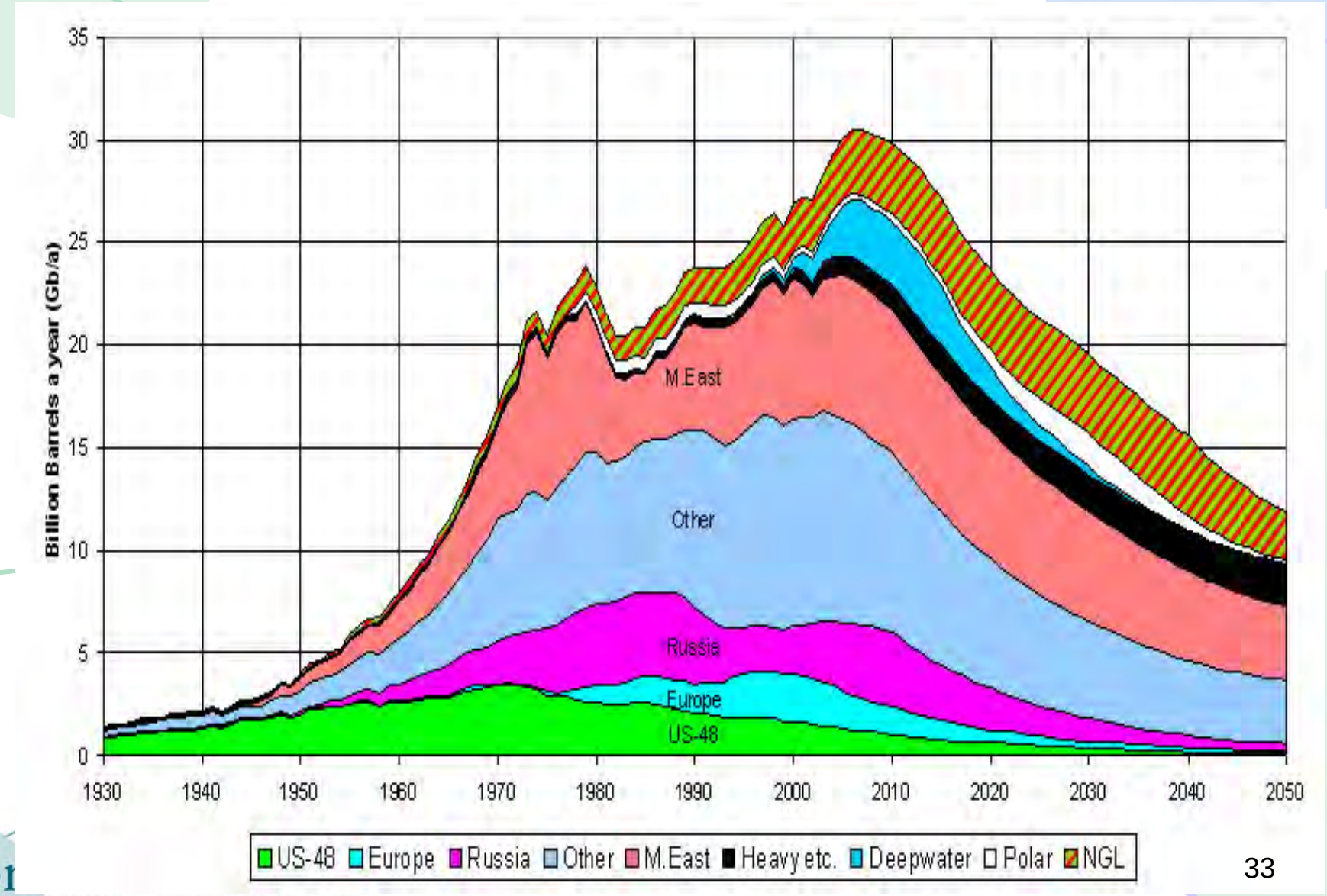
Source: http://timeforchange.org

Global oil production at its peak



Source: Uppsala Hydrocarbon Depletion Study Group, as updated by Colin J. Campbell 15 May 2004

The end of cheap and easily accessible oil ?

- There is good evidence to suggest that the period of readily available oil and other forms of energy might well be coming to something of an end – not immediately – but over the next 25/30 years

- This is especially the case if the modern world still carries on using energy at the same rate as it has done for the last 20 years. New oil and other energy sources will be discovered but in the future, we believe that they will take:
  - longer to find
  - longer to access
  - will be more expensive to obtain

- As a result, it is expected that over time, the cost of oil will be forced gradually upwards – and dairy farming & processing will be forced to consider less intensive methods of production in the future – although so will plenty of others too

- NI with its grass based system of production should be in a position to benefit from this

3 - 4 The Impact of Global & Local Climate Change

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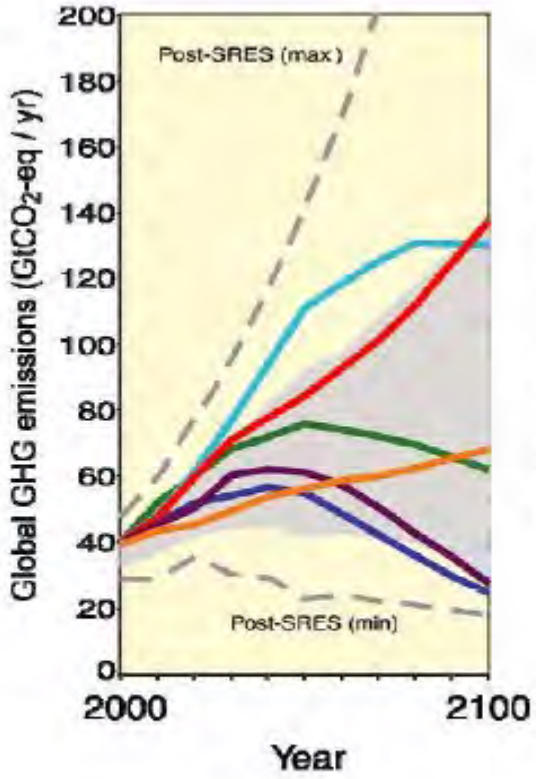
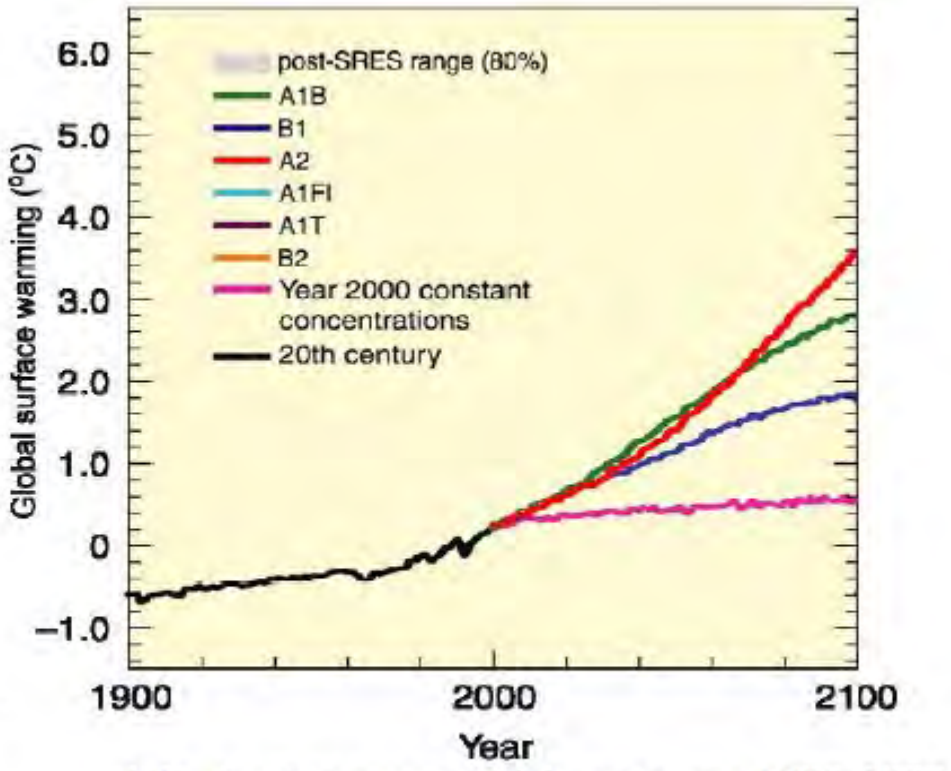
Climate change predictions - IPCC





NB: écart par rapport à la moyenne 1980-1999

Jean-Pascal van Ypersele
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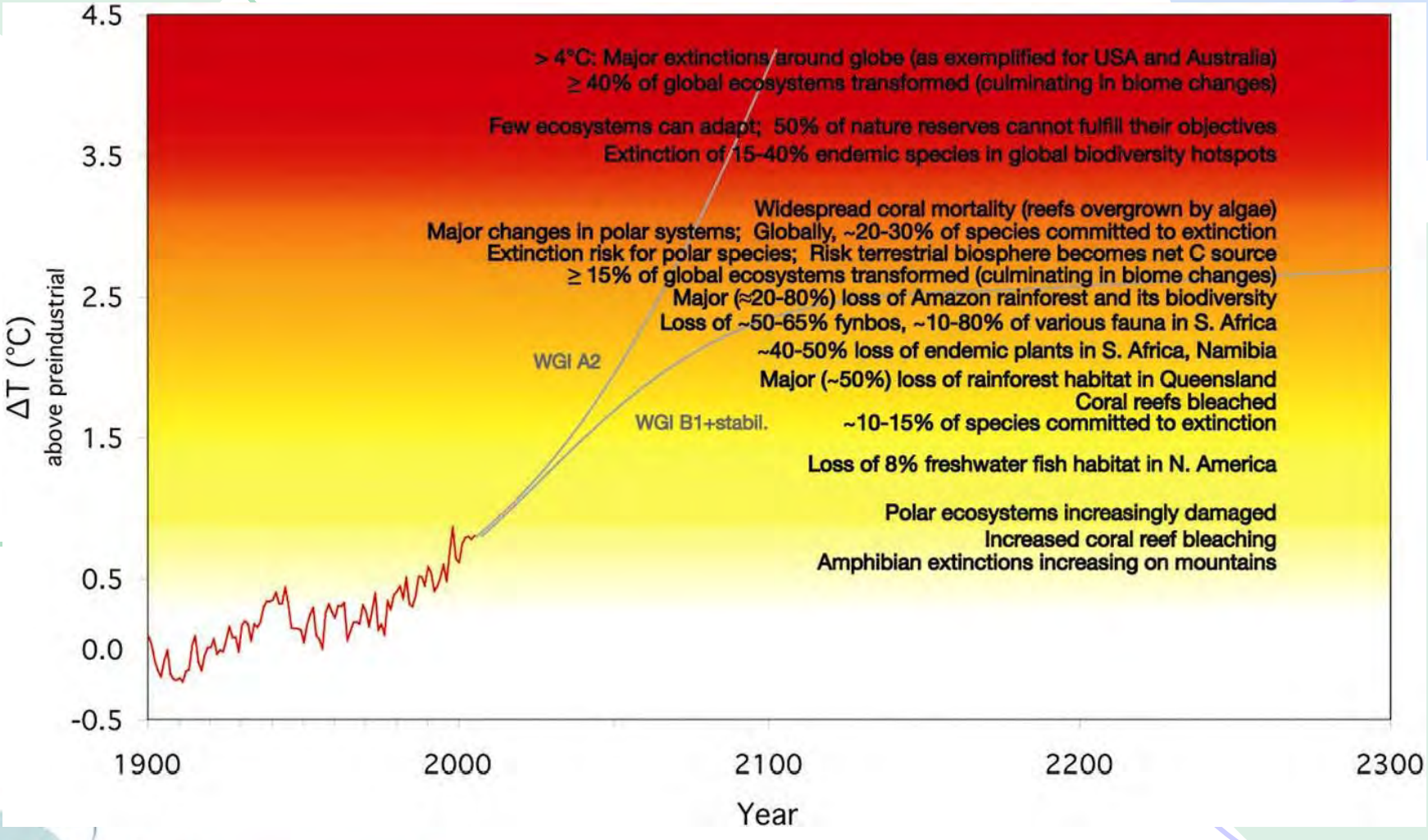
Source: IPCC, AR4 (2007)

Projected risks due to critical climate change



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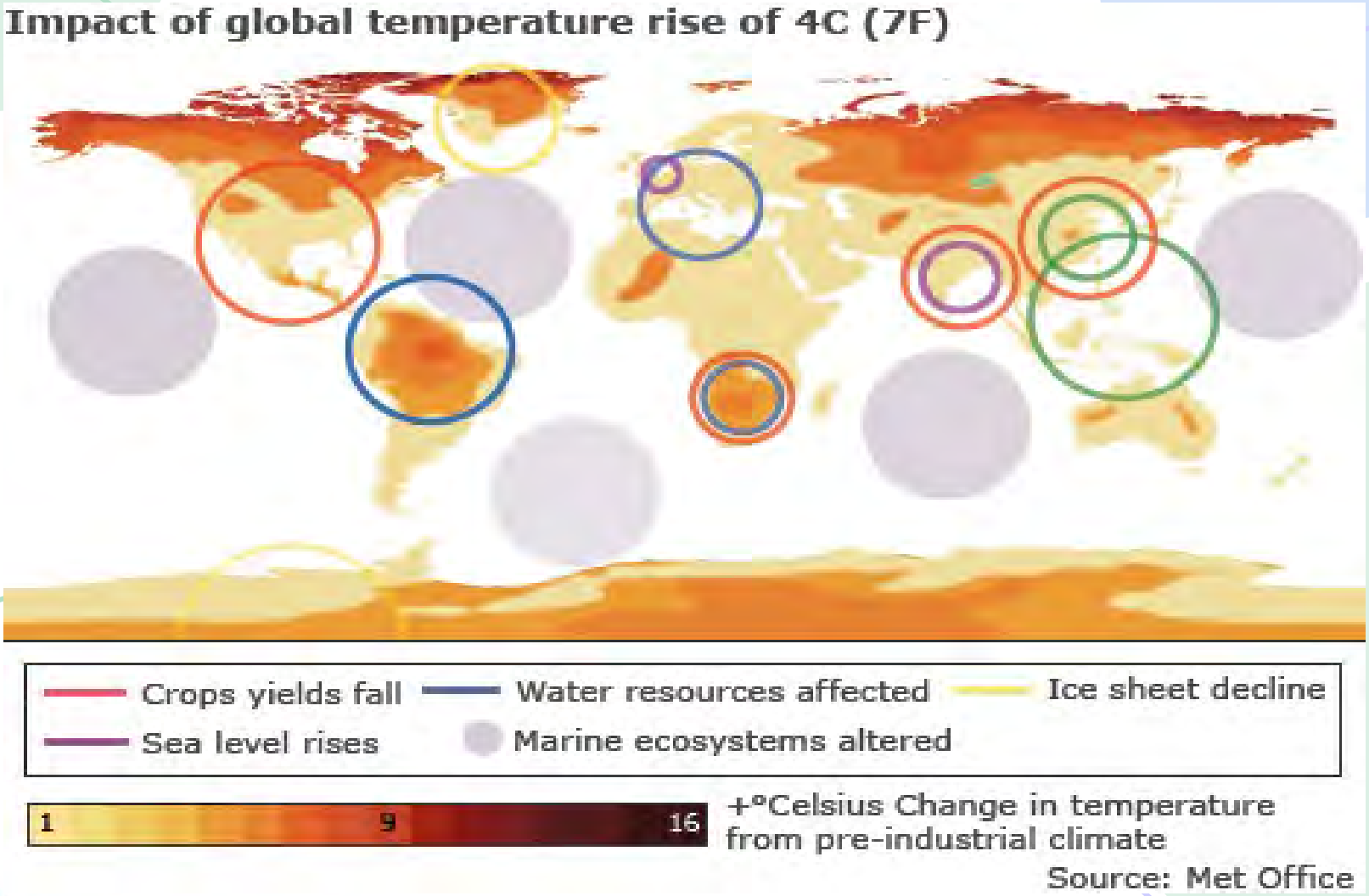
Source: IPCC, AR4 (2007)

Climate change in the UK & ROW



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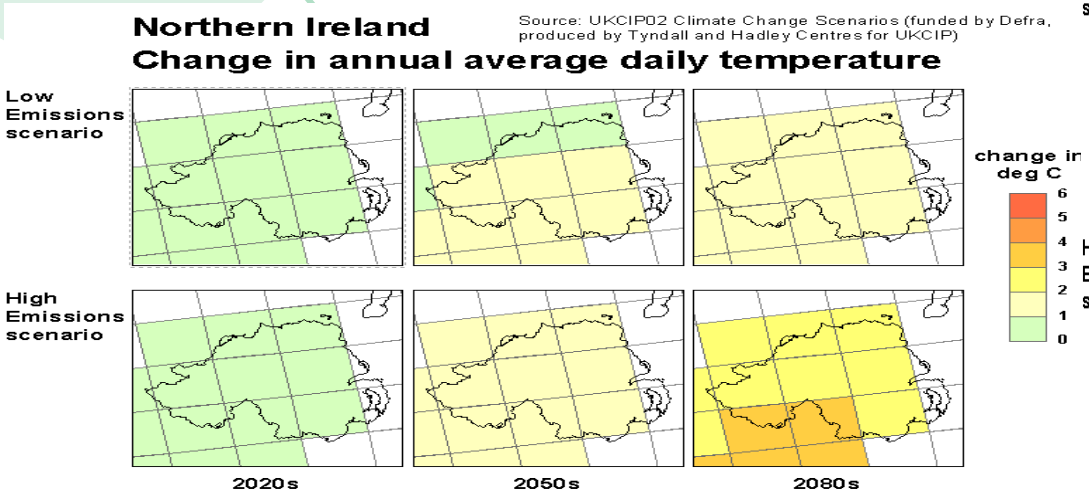
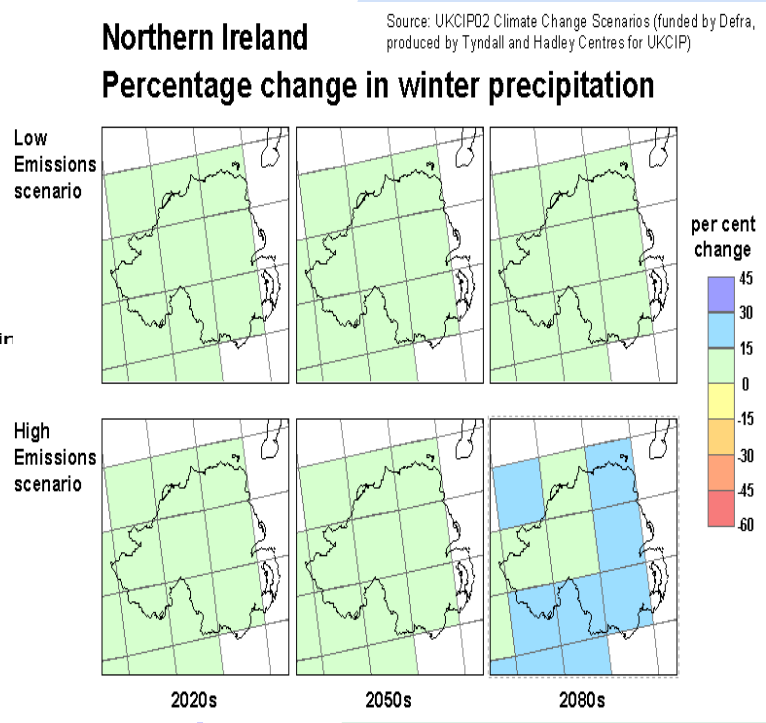
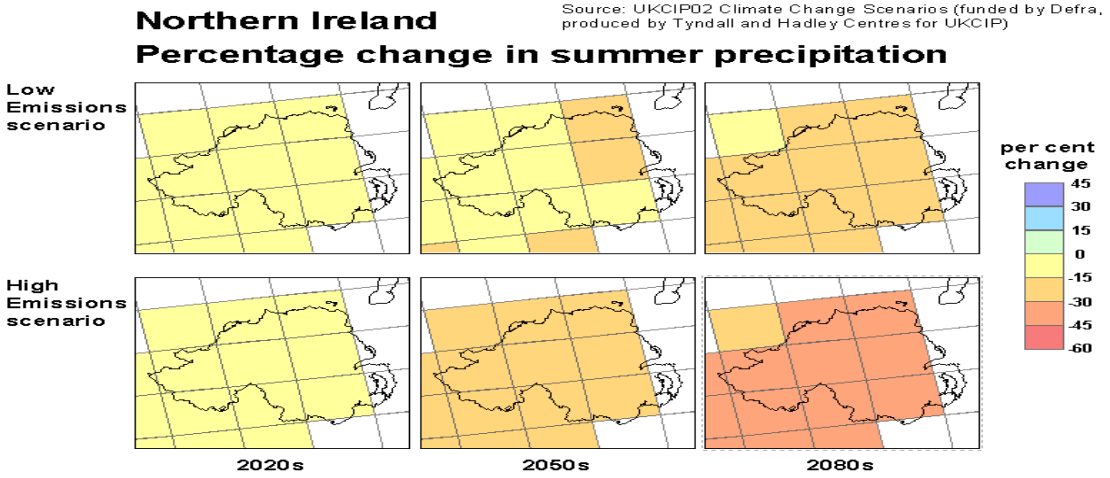
Global impacts – can be summarised as:

- **Australia and NZ** – there are already significant and almost on going water shortages
- **US** - it is expected that there will be decreases in crop yields and water availability, especially in areas such as California – a major dairy producing region in the US
- **Asia** – will see water shortages, rise in temperatures leading to mudflows and avalanches etc, increased pressure on irrigation systems
- **Latin America** – there will be extreme dry seasons and these are expected to be more common across the region
- **Europe** – there will be drought in SE Europe, but increased risk of severe and flash floods in Northern Europe on a more regular basis and considerably wetter winters, leading to reduced & huge variation of yields

What about NI ?







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Northern Ireland - possible impacts

Climate Change Feature	Impact on receptor
Hotter summers	❑ Potential need for greater ventilation / cooling systems in animal housing ❑ Increased need for shade ❑ Heat may benefit some crops, through may damage others
Sea level rise	❑ Loss of coastal, estuary and floodplain agricultural land – major implications for polder areas at Lough Foyle ❑ Erosion of land and salinisation of ground water
Reduced soil moisture	❑ Possible increase in crop stress, with implications for yield e.g. grass yield. Further implications in NI of providing winter fodder due to reduced silage crop
Change in Storminess	❑ Increased crop damage ❑ Increased soil erosion ❑ Damage to agricultural buildings / changes in building specifications
Other	❑ Potential implications for farm management – through note there are many other factors such as grant schemes, government policies, consumer patterns etc.

Source: Preparing for a Changing Climate in NI, Jan 2007,

Northern Ireland – future predictions

Climate Change Feature	Impact of receptor
Wetter winters	❑ Potential drop in some crop yields ❑ Greater difficulties in accessing fields (water logging) – problematic harvesting and ground preparation ❑ Increase in wet weather animal health problems ❑ Pest and disease problems ❑ Impact on drainage systems
Drier summers	❑ Potential impacts on crop yields ❑ Increased need for irrigation and change in farming methodology e.g. for potatoes ❑ Potential for new crops or crop varieties to be introduced ❑ Increased need for greater water supply – cost implication
Warmer winters	❑ Increased change in range of native / alien pest and disease problems therefore chemical intervention may increase ❑ Reduced vernalisation ❑ Animals can be left in fields for longer / housing period decreased ❑Increased grazing on freer draining soils ❑ Reduction in frost damage ❑ Lengthening of growing season

The threat of climate change

- There is extensive evidence that the world climate is, and/or has begun to change in a way and at a rate not seen before – this will have serious impacts on the way that agriculture operates – and dairy farming is by no means excluded from this. Water usage is an area that appears to be of particular concern

- While no part of the world can be complacent about the impacts of climate change, the more extreme changes in weather that might well be experienced are more concentrated in parts of the world such as:

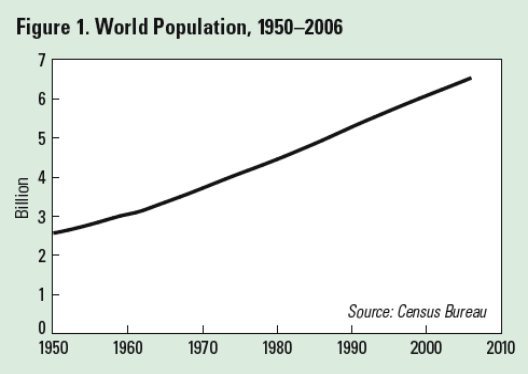
  - Southern Africa
  - Latin America
  - Asia
  - Southern EU & North Africa

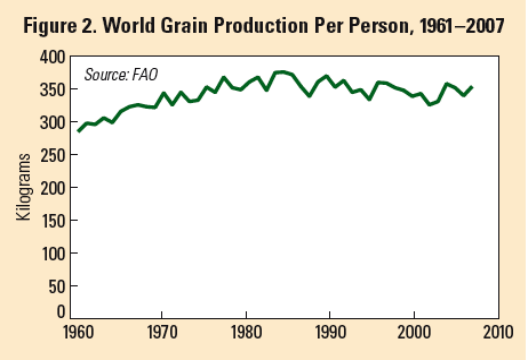
- It might be that Northern Ireland escapes the worst impacts of climate change – it will still be relatively temperate and mild, with a good deal of rain - we believe that Northern Ireland will still fundamentally be a good place to farm and process dairy products

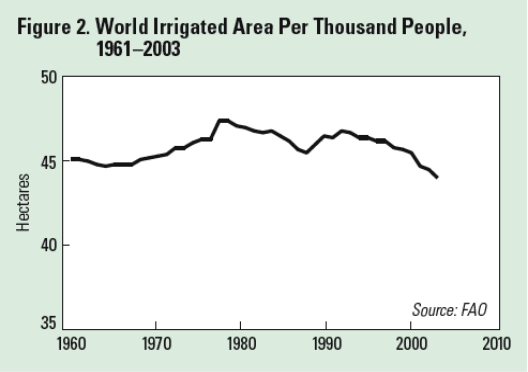
3 - 5 The Issue of Food Security

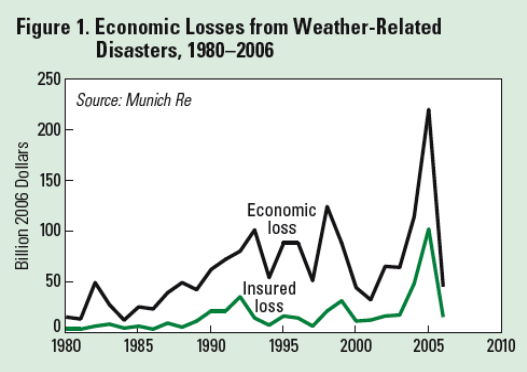
Food security - what is happening globally ?

Despite the absolute increase in food production, world population growth is outstripping the increase, and per capita grain production is now flat and per capita irrigated agricultural land area is falling









These factors suggest that business-as-usual food production may not continue to match population growth in future.

The effects of possibly peaking oil supply are coinciding with what appears to be a peaking of food production growth.

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The UK position on food security

Gordon Brown stated *"The principal food security challenge for the UK is a global one. We cannot deal with higher food prices in the UK in isolation from higher prices around the world".*

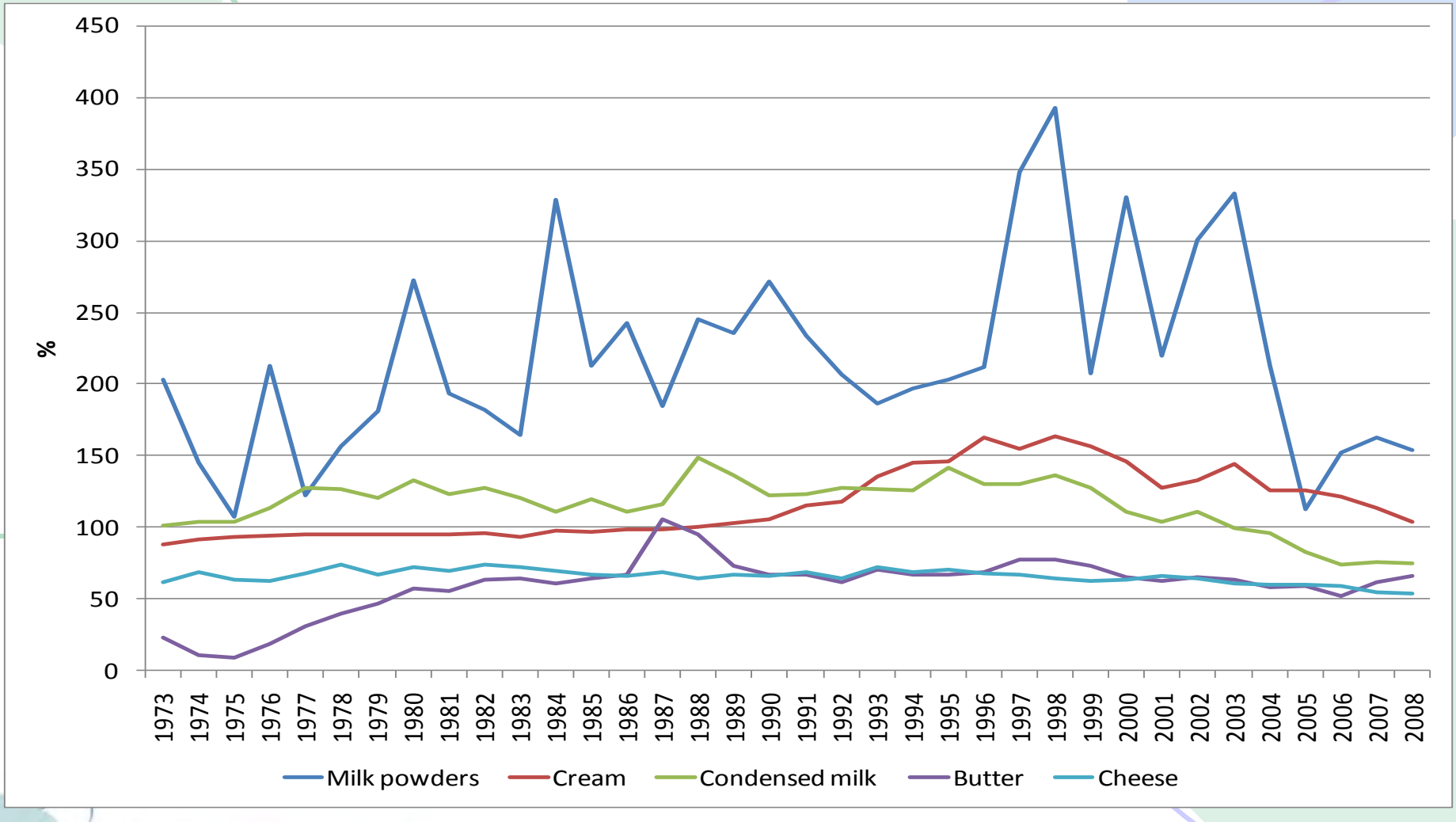
Food Matters Towards a Strategy for the 21st Century

- The UK Food Security Assessment: this was launched in August 2009
- It has concluded: *"we are food secure",* however there are also some major challenges:
  - The UK is committed to outcome of the Doha Round of trade talks – & to deliver a substantial increase in agricultural market access (through reduced import tariffs) and a reduction of domestic support and subsidies
  - The UK wants to improve resource efficiency, adapt to climate change and promote biodiversity
  - The UK wants to fill knowledge gaps on climate change, alternative crops etc & identify how the UK agricultural sector can sustainably increase its productivity and carry out more work on the R & D of biofuels
  - **To continually negotiate with EU for radical reform of CAP and phase out market distortions and subsidies**

Food security

- This is becoming an increasingly important issue for politicians and food processors/retailers alike
- Self suffiency in dairy products across the UK has fallen considerably over the past 10 years in particular – see the following diagram
- The concern is that there might not be enough milk producers to supply the UK market – especially with liquid milk and the UK would be forced to import milk from the Continent on a regular basis – this is a highly emotive subject
- There will also be a scramble by food processors and retailers to secure supplies from the best producers
- In some cases, this will accelerate the move towards direct supply contracts in the dairy sector between farmers, processors and retailers as they look to sure up supplies of dairy products
- Whether the concern is from politicians or from commercial customers, there is a feeling that this is a good time to be a primary producer – that they are actually wanted - not always the case in the past, of course

UK self sufficiency in dairy products, 1973 - 2008 (%) – includes stock changes



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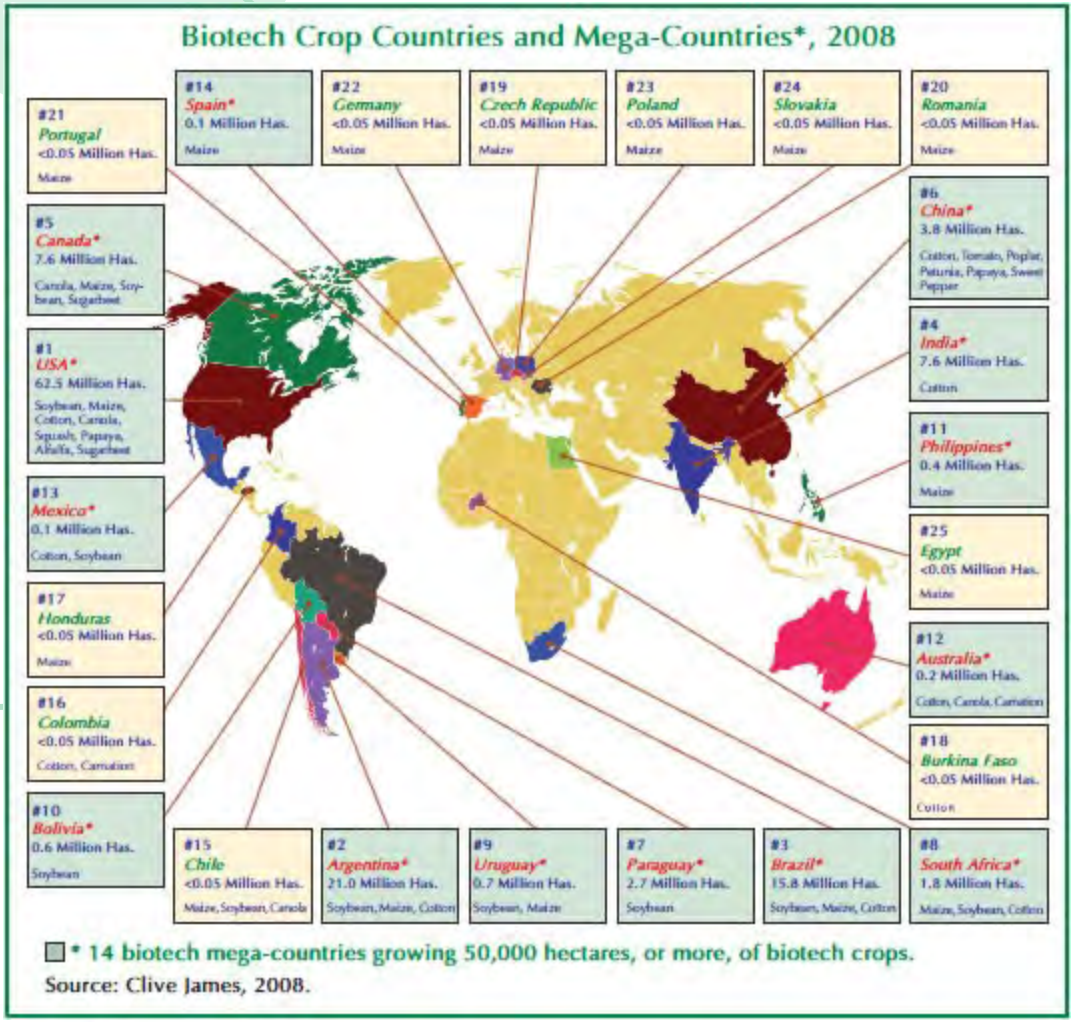
3 - 6 The Adoption of GM Technology

Global GM production



Top 5 GM Producers, 2008

- US – 62.5 Million ha
- Argentina – 21 Million ha
- Brazil – 15.8 Million ha
- India – 7.6 Million Ha
- Canada – 7.6 million ha

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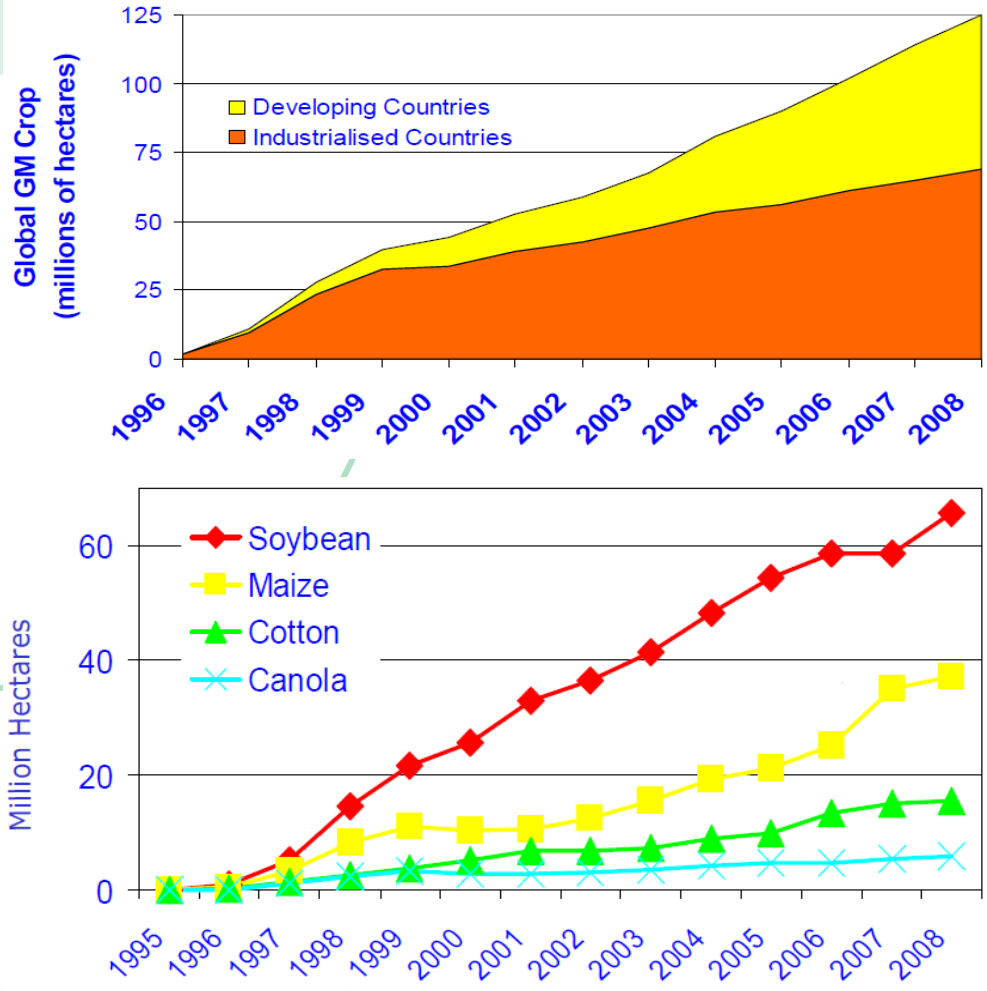
Global GM production



Source: ISAAA

- The global use of GM crops has risen rapidly in the past decade
- Developing countries now account for 45% of global GM crops
- Soybeans are the most common GM crop, accounting for approximately 60% of global soybean plantation area

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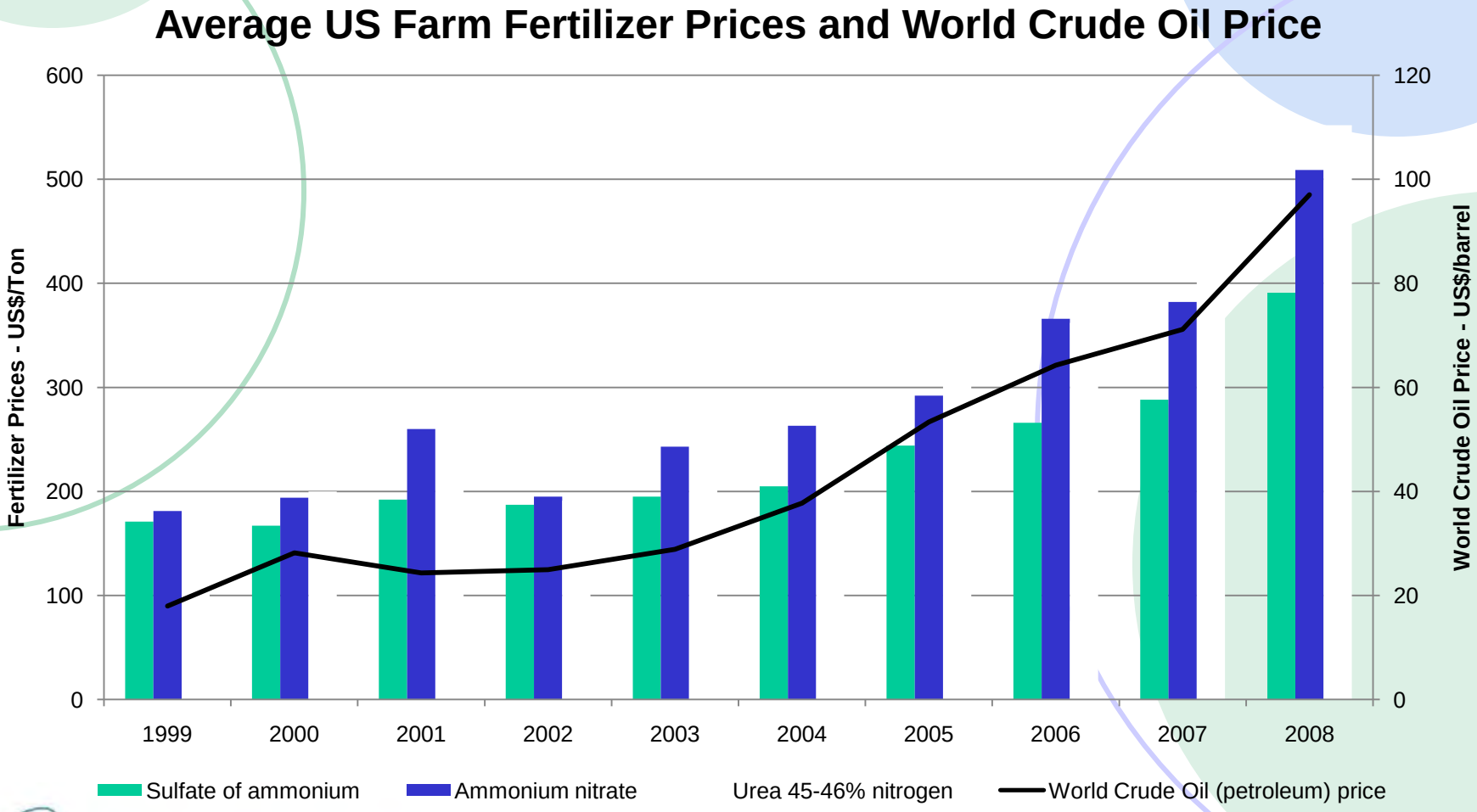
GM production

- GM production of key crops such as wheat, soybean and maize is increasing around the world at a rapid pace:
  - with the exception of small scale planting in a small number of EU countries
  - GM plantings are especially forging ahead in countries such as the US, Argentina and Brazil – all of whom will compete strongly in international dairy markets with NI producers in the future – their ability to access cheaper feeding material will only enhance the edge they might well have
- GM products used in animal feedstuffs will see those who do not use it at some considerable disadvantage in the future, as GM driven feeding costs will come down vis a vis grass based producers
- A study carried out by the NI Grain Trade Association estimated that the overall cost of non adoption of GM crop to the Northern Irish agricultural sector could be to add some 25% in costs to the animal feed sector – and the AIC has suggested that across the UK this could be the equivalent of some £60 million per annum
- The NIGTA report concludes that this would render food production completely uncompetitive (in NI)

3 – 7 The Cost of Key Inputs

The rising costs of key inputs



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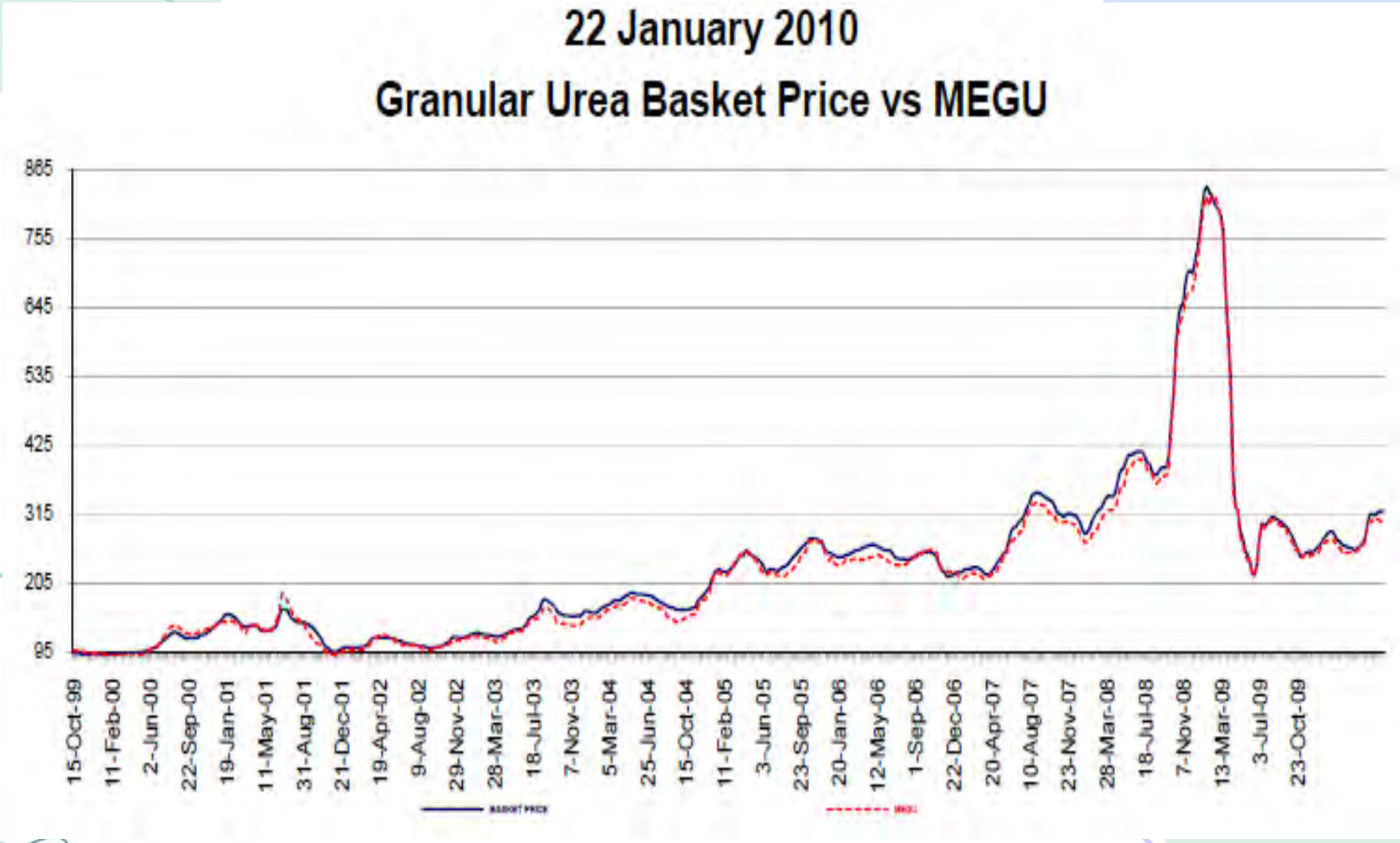
The cost of key inputs: 1999/2010



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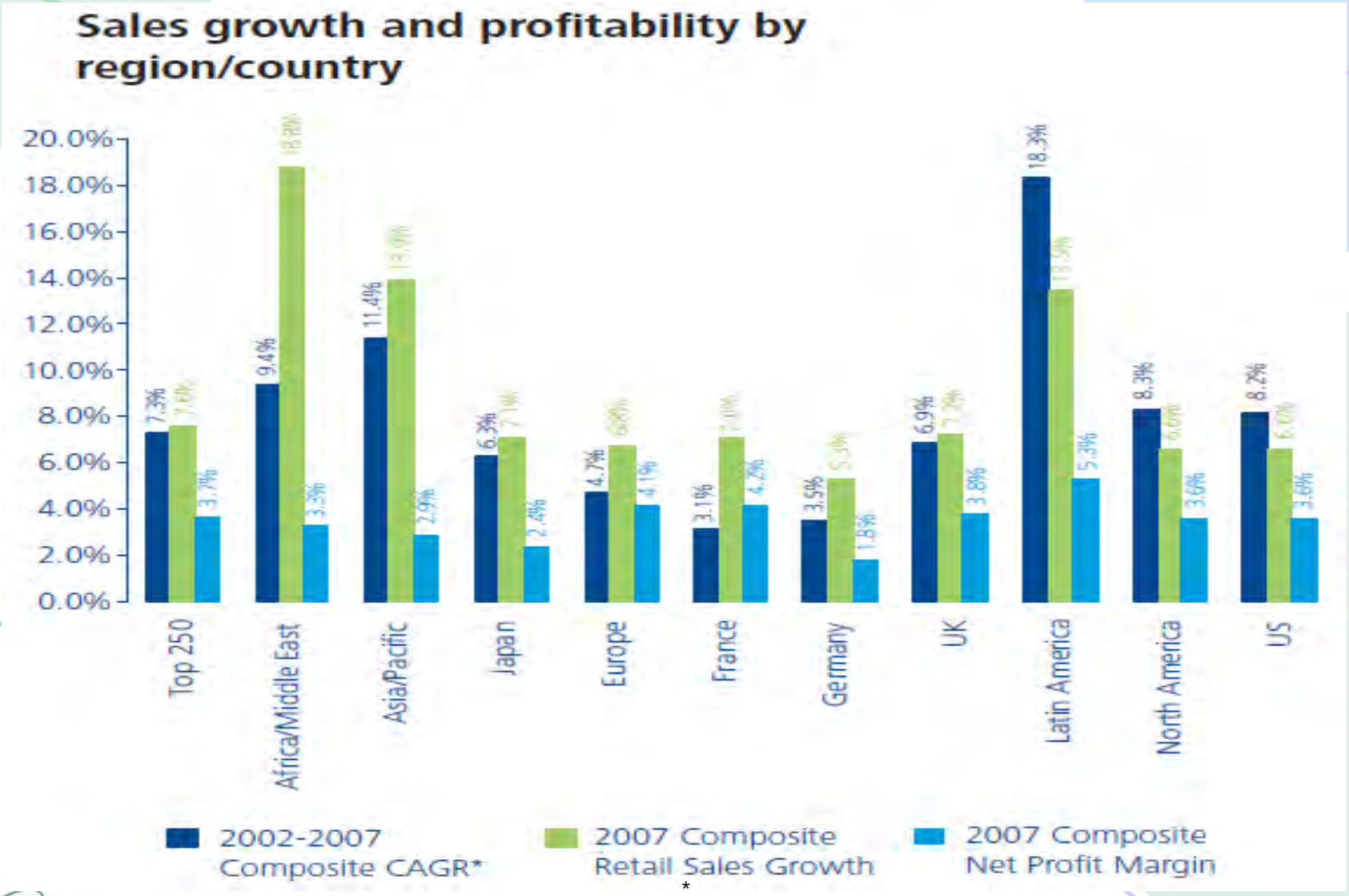
Cost of key inputs

- The cost of many key inputs including feed stuffs and fertilisers soared during the period 2007 – 8: in line with the price hikes seen in global commodities
- The price of fertiliser has since come back down significantly and farmers are now (early 2010) probably only paying 50% of the price they were faced with less than 12 months ago
- While it is expected that prices will not see the huge levels of variation seen in 2007 – 8, it is expected that there will be more volatility in the price of inputs than has been seen in the past
- This poses a threat in the ability of NI dairy farmers to plan ahead with any degree of certainty
- There is also similar uncertainty over the price and availability of other key inputs to dairy farming and processing – such as oil/gas, foreign exchange and interest rates - all of which are commonly expected to be more volatile in their nature over the next 5 years and beyond

3 – 8 The Role of Major Retailers in Food Distribution

Global retail developments



* Compound Annual Growth Rate in retail sales

Results reflects Top 250 companies headquartered in each country/region

Source: Deloitte

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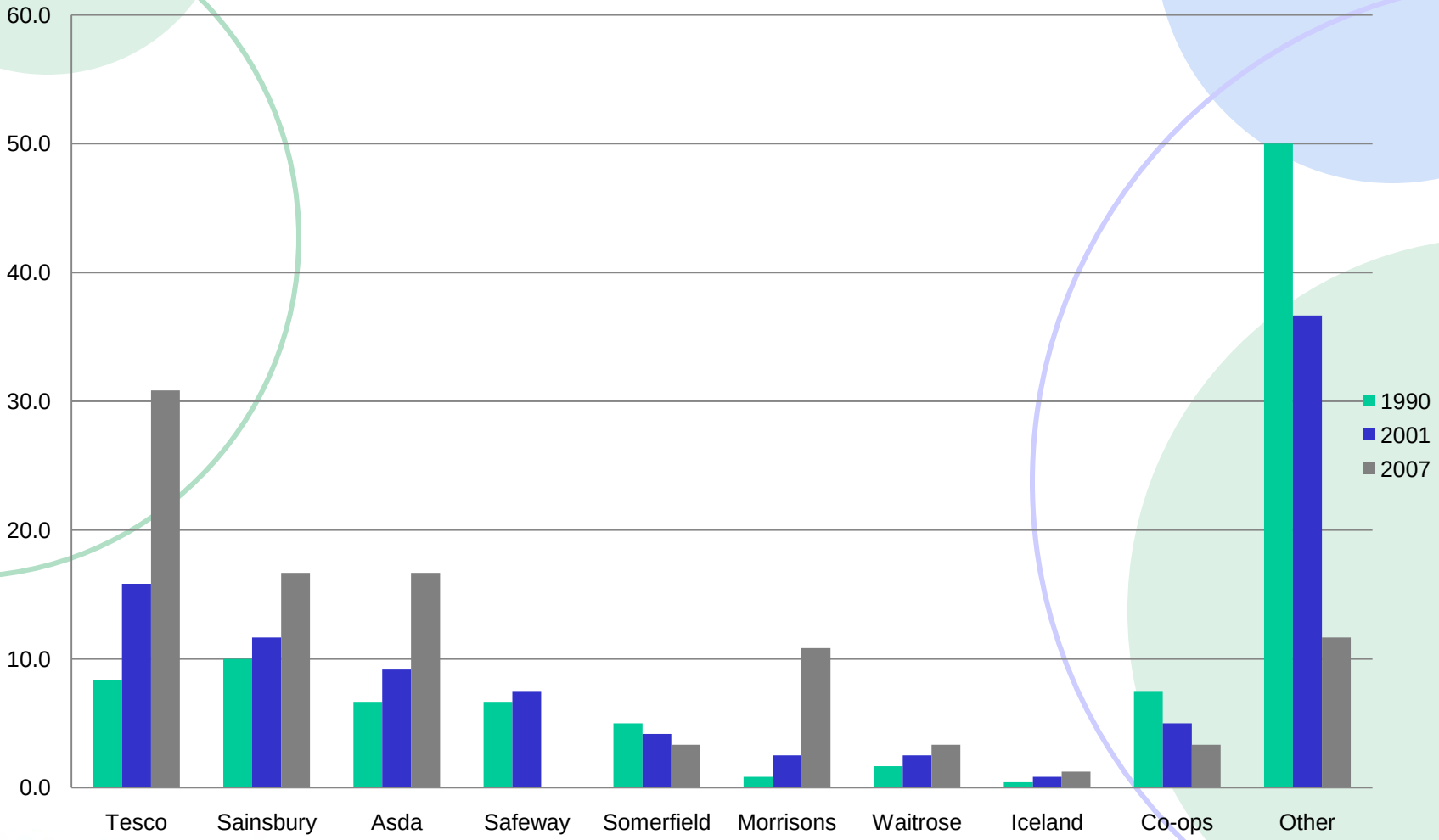
UK retail consolidation: 1990 - 2007



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Retail & supply chain consolidation

- Retail consolidation is seemingly a fact of life
- The UK market has now become highly concentrated - with the top 4 players now accounting for c. 80% of the overall food market
- A similar situation can be found in most other European markets
- As a result of this power in the market – retailers can and do exert huge commercial and technical pressure on their suppliers (and in turn their suppliers too) – but the rewards are potentially high – but a long term view is required and a willingness to enter in to a partnership – even if this appears to be one sided
- As an example, Tesco in the UK offer their dairy farmers a fixed and guaranteed price based on actual costs of production, as well as the opportunity for additional payments depending on market conditions
- In non EU markets – the leading international retail chains such as Wal Mart, Carrefour, Tesco and others are all poised for expansion in fast growing markets such as India, Russia, China and the Middle East
- The organised sector of the market in these counties is still very small – in India, it is less than 5% - but will grow rapidly as huge numbers of consumers move from subsistence living to a more middle class style of living
- The role of international retailers will be influential in the development of supply chains in these markets and they will take the expertise, skills and thinking - as well as some of their suppliers – with them

3 - 9 The Need for Innovation in NPD

The need for innovation

- There are on a global basis – 100's of dairy companies – many of them produce essentially the same products – it is crowded and standing out from lots of other companies is challenging
- One of the key differentiators in the battle to win and retain customers is the ability to innovate either products and/or services – ideally both – it is especially important for winning business with major retailers and foodservice companies
- Innovation can of course mean different things to different people – and can be seen at various stages of the supply chain
- Successful dairy companies such as Arla and Valio - based in Denmark and Finland respectively – often however have the innovation process at the very heart of their business
- The EU dairy sector is at the heart of the innovation trend in the global dairy sector – and accounts for over 60% of all innovations – the majority of these are in areas such as NPD and developing the functionality of dairy products
- Innovation in the NI sector has often been a lop sided process – with a small number of companies showing a high level of innovation – but too many not being able to display high enough levels of NPD and innovation in order to keep pace with other international dairy companies

Number of recent innovations in the dairy sector

Region/Country	Number	%
EU 27	449	61
USA	142	19
New Zealand	29	4
Canada	16	2
Australia	12	2
Brazil	1	0
Switzerland	30	4
Japan	10	1
Other countries	50	7

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Source: LEI Wageningenur

Types of recent dairy innovation

(In % of total)	Dairy Innovation	Food Navigator	Total
Product	44	34	42
Process	9	9	9
Marketing	26	35	28
Organisational	19	18	18
New Source of Material Goods	2	5	3

Sub Category Product Innovation	Number	%
New Bacteria/Spread	9	1.5
New properties of ingredients (way of use)	71	12.2
New ingredients (functionality)	129	22.2
New product variety	262	45.1
New final product	22	3.8
Packaging	88	15.1

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Source: LEI Wageningenur

3 - 10 The Agenda of the CAP & WTO

The view from Brussels.....

- The EU Agricultural Commissioner visited Northern Ireland in May 2009 – at the Balmoral Show

- Key statements made in her speech included the following:

  - There **might** be a soft landing on quota issues – but NI is not at full capacity anyway
  - NI must add value to its industry
  - It must focus on high quality
  - It must avoid what were described as international spot markets and be better at marketing per se and add more value
  - Export re funds are not part of long term EU policy
  - In the future, the EU market prices will be set by demand and supply and the EU does not intend to support the sector in other ways

CAP reform

- The core aims of the CAP reform is to:
  - simplify the single payment scheme
  - modernise market management tools
  - and address new environmental factors
- Growing demand in the EU and globally resulted in the EU increasing the milk quota by 2% in April 2008
- In November 2008, it was agreed a 1% quota increase would be necessary each year for 5 years beginning 2009/10 - but with the complete lapsing of the quota regime in 2015
- Due to low prices seen in much of 2009 across the EU, short term support can be expected in terms of intervention cover and export refunds - but are not likely to be around for much longer

CAP reform

- FAPRI has produced a report on the likely outcomes in the dairy industry if the proposed milk quota % was implemented between 2009 – 2013 and eventually abolished in 2015
- The main outcome would see a redistribution of milk production across the EU with production expansion in ROI (12% increase) and Poland (7% increase) but moderate falls elsewhere in the EU
- For commodities FAPRI predicted the following:
  - Butter: EU and UK prices to decrease as export subsidies are still important
  - SMP: EU and UK prices to increase slightly
  - Cheese and WMP: minimal change in UK prices as these products are determined by world markets
- A change in UK prices would result in a slight decline in milk producer prices in the UK
- A decrease in NI milk production (5% lower than 2008) would most likely occur due to decline in prices and expansion in ROI milk production meaning less milk would need to travel from NI to ROI

World Trade Organisation (WTO)

- **The Doha Development Round of WTO trade negotiation talks began in 2001 but is yet to be concluded**

- The aim of the talks is to reduce trade barriers and increase '*fair and market orientated*' global trade

- Agriculture is key element of the Doha round with the negotiations aimed at:
  - market access: substantial reductions
  - **exports subsidies: reductions of, with a view to phasing out, all forms of these**
  - domestic support: substantial reductions for supports that distort trade

- The talks have so far been protracted with the latest round held in Geneva in July 2008, the 8th so far, broke down with little progress made

- **In July 2009, leaders at the G8 summit agreed to aim for a conclusion of the talks by the end of 2010 - but there can be no guarantee this will happen**

What does this mean to the NI dairy sector ?

- The direction of change in international policy reform is set – the removal of export subsidy and other forms of market distortion
- The removal of export subsidies is not good news for NI dairy processors – or farmers
- It would leave the NI sector exposed to intensifying competition from the likes of Brazil, Argentina, the US, the Ukraine and in the longer term, even the likes of India – who will compete on a straight price basis with NI and other EU exporters
- Exports to traditional export markets – outside the EU – would be very difficult – to sustain
- Building replacement markets in the rest of the UK and other EU countries will take time and is not easy - the markets are already well supplied and highly competitive