



Question marks over Prospectus

Individual dairy farmers might feel they had no say if one huge processor handled 70% of the country's milk, Carbery Milk Products chief executive Dan MacSweeney said last week. He also questioned whether this could really generate €250m extra for farmers. He was responding to questions from the European Dairy Farmers Discussion Group who visited the Carbery plant at Ballineen, Co Cork. **Jack Kennedy** reports

How are dairy markets worldwide?

On the negative side dairy markets are particularly tough and markets are very slow. World market prices have improved somewhat this year but export refunds have been reduced to neutralise this benefit. Currency has moved in the UK, that does not help cheese sales to there. On the positive side cheese production is down in the UK and in Ireland and this will help to restore a market balance in time.

Australian droughts have helped us to some degree, but the USA have massive over-production and have huge stocks of product and these stocks are affecting market balance and will continue to do so. The moving of 166,000 tons of surplus American SMP to post war Iraq is going to reduce Middle Eastern demand and affect EU supply.

You have 1,850 family farm milk suppliers averaging 40 to 50 cows: what is your present thinking on the Fischler proposals?

I believe European supports must stay. I believe that our Government shouldn't agree to any support cuts beyond Agenda 2000 levels. I fully believe Minister Walsh will not allow this to happen. This means that the Fischler proposals must be vigorously defended.

The future for small to medium farm enterprises is going to depend a lot on the income stream of each individual farm. A lot of farmers have recognised the reality that EU supports are going to be reduced. Dairy incomes are going to be less going forward. Many have identified other income streams, whether it be other farm enterprises or an off-farm income. This type of planning will allow medium-sized enterprises to survive into the future.

What are your thoughts now on Prospectus?

I will support anything that will help milk suppliers. If this means more consolidation either through joint ventures or rationalisation then so be it.

In my opinion, butter should be the first product to consolidate. Cream is around 50% solids and doesn't have a very high transport cost. Rationalisation of other commodities should also follow.

Casein and cheeses will be more difficult to rationalise into large-scale plants because of recent large investment in many of the existing plants and also extensive investment needed in large scale plants that would include primary milk processing, processing of the whey stream and the 'effluent and services infrastructure'.

The thrust of the report is good and gives direction. Worldwide there are changes. In New Zealand, where one co-op has control of 90% of the milk pool, some farmers are organising to set up their own cheese processing co-op again. So while scale is important and gives savings, there are also other issues to be addressed, adding value being the primary one. Also farmers need to feel they have a real say and that can be more difficult in a very large unit. So I would wonder about the proposal to have 70% of the national milk pool in one company.

The cost of milk production advantage that we have in Ireland relative to our European colleagues is something that should have been focused on more. It is a point of differentiation at production level and one that we can build on.

I need to be convinced about the Prospectus conclusion that a large company with 70% of the national milk pool could generate €250m added value. It would be nice to believe this but experience tells me that it is a highly optimistic assumption and I would worry if the project depended on it for viability.

Prospectus did a good job on a very difficult task. While one might not agree on all the conclusions, the debate on rationalisation is

now well and truly on as a result of it.

Will quotas remain important?

Quotas will remain, as we all know at this stage, well into the next decade. This is good if supports stay with them. European farming, because of high costs of production, health and safety and environmental legislation, needs quotas allied to meaningful support levels, to maintain a viable agriculture base in the community.

This is to the benefit of the non-farming community as well as farmers for many reasons, not least of which are food safety, security, food supply guarantees and the environmental well being of the countryside.

Carbery's pre-tax profits halved to €3.88 million in 2002, why?

In an effort to maintain milk prices to suppliers, profit was reduced substantially last year. Cheese makes up a big proportion of Carbery's business.

Sixty five percent of the Carbery turnover comes from cheese with 30% in ingredients and 5% in alcohol. Due to the pressure on world cheese market prices and no intervention support available, prices spent much of the year below the intervention price equivalent. It was one of the worst years for cheese in a long time.

How much money or what percentage of company workforce are spent on R+D?

Last year we just opened a research centre at our facility in Ballineen. This is a very important investment for the future of our business. Research and development plays a major role and around 14% of total employees are involved in research.

What are the challenges ahead for Carbery?

Our major challenge is to make the correct investment decisions that will allow our business to grow in order to bring extra value to our milk suppliers and shareholders.

We need to continue to add value to our product portfolios and we need to continue to give our customers new and innovative products that will allow us to grow our sales.

We also need to control our cost base, particularly in our Irish operation as recent years have seen very high inflation levels and a major hike in insurance costs.



Dan McSweeney, CEO of Carbery Milk Products, Ballineen, Co Cork who answered the questions of the European Dairy Farmers Discussion Group last week