



What the Irish dairy industry must do

"WE can get off the commodity slide, and achieve better returns and a better milk price". This was the main message Dr Liam Donnelly, head of Moorepark Dairy Products Research Centre, delivered to farmers during the series of IFA regional meetings which ended last week in Mitchelstown.

IFA National Dairy Committee executive secretary **Catherine Lascurettes** reviews Dr Donnelly's analysis and concludes that with a "can do" attitude, the dairy industry can overcome some of the pressures CAP Reform will put on commodity returns.

Processing commodities efficiently

The fragmented structure of the Irish dairy processing industry builds in costly duplications and inefficiencies. To improve efficiency, we must achieve greater economies of scale.

Co-operation to build or upgrade high spec commodity processing plants through which the consolidated milk from several co-ops can be processed would maximise savings. The optimal scale for a powder plant in Ireland, says Dr Donnelly, is between 7.5 and 10 tonnes per hour. Moving to that sort of scale would deliver direct savings of about 0.4c/l (1.4p/gal), with further savings from the closure of inefficient sites.

Low capacity utilisation is also a problem. Irish powder plants operate at 50 to 60% of capacity, instead of 90% in the US or Europe. Every 10% increase in capacity utilisation brings a cost saving of 0.28c/l (0.8p/gal). Twice that, or 0.56c/l, is quite achievable, by managing milk supply for maximum plant throughput.

This involves extended milk production, to lengthen the period during which powder plants can be operated at maximum throughput. Dr Donnelly recommends that summer milk producers would use the Moorepark system, because it is indispensable to justify processing investments, and the most profitable way to produce summer milk.

Efficiently produced milk can travel long distances, at a cost which decreases as volumes rise, so remoteness need not be an obstacle to milk collection. A more efficient use of processing plants would increase collection distances in all regions.

Adding value

"New Zealand is relatively poor at adding value and is the wrong example for an industry that aspires to achieving European milk prices". Dr Donnelly believes we must emulate the Danish and Dutch dairy industries, which respectively add 14% and 8% more value to milk than we do.

According to the Prospectus Report, changing our product mix by moving 20% of milk out of commodities (which currently use up 65%) and into specialised ingredients, consumer products and functional/organic foods by 2015 could improve the economic value added to Irish milk by 18% (see graph). This would increase returns to industry by €280m, or 5c/l (18p/gal). Even if the Prospectus report overstates our ability to add value, it clearly makes sense to seek out every opportunity to redirect milk away from butter and powder in search of better returns.

Ireland could do well in developing new speciality cheeses and supplying the food service and industrial sector while reducing its dependence on commodity Cheddar, Dr Donnelly stated, citing his own research for a 2002 IFA commissioned study. Those conclusions are repeated in many other studies of the Irish dairy industry, including the Prospectus report.

This requires an efficient summer and a well-structured winter milk supply. The benefits of better capacity utilisation would offset most of the additional costs of year-round processing. That and improved product returns would be enough to pay the premium necessary to recompense winter producers.

Cost and financing

Taking out inefficiencies and making necessary capital and R&D investments is costly. The controversial vision promoted by the Prospectus report, with only three processors, would cost €500m in the first three years – a daunting prospect. Its high cost and the fear of low competition for milk it would bring about have been the reports main downfall.

Co-ops could achieve many savings and return increases through commercial agreements between enterprises, at much lower cost.

Dr Donnelly suggested co-ops could enter into contract-processing agreements, form joint ventures for marketing and distribution, co-operate

to abolish overlapping milk collection routes, trade milk to make fullest use of the most efficient plants, co-fund R&D projects and even construct and share new plants for product manufacture.

Financing such a strategy would remain a challenge, but if a proper and credible business plan were put to dairy farmers, they might be persuaded to invest.

IFA believes that the Irish Dairy Board, to which dairy farmers already contribute, would have a crucial role to play. Another source of funding could be Enterprise Ireland, which recently stated it would assist R&D projects in the industry.

A 'can do' culture

Making our product mix climb up the value chain and taking out inefficiencies is not an impossible task. To achieve this, Irish milk processors must work together and develop a vision beyond the boundaries of each co-op.

Next week, the Irish dairy industry will come

together at the Dairy Summit, convened by Agriculture Minister Joe Walsh on IFA's request. This must not be just another talking shop or *photo opportunity*.

IFA insists that Minister Walsh must provide leadership and resources to kick-start the indispensable industry-wide process of cost-cutting and product diversification. Our co-ops must respond, and respond fast.

Dr Donnelly said "the greatest source of influence in the debate on future direction should be the producer, who has the greatest vested interest in the outcome".

The decades of comfortable commodity dependence are over, but the necessary "can do" culture will not materialise by miracle. Dairy farmers must demand from their co-op boards and management that they maximise returns by co-operating on cost cutting and on product diversification.

Long-term viable milk prices must be the industry's top priority. The future of dairying in this country depends on it.

