DCD DPO LAUNCH & FARMER MEETINGS

JULY STD LIQUID, DAVIDSTOW & ORGANIC PRICE - NO CHANGE

DAIRY MARKETS - AMPE FALLS TO LOWEST LEVEL SINCE 2006

JULY MILK PRICE

No changes are to apply to Standard Liquid, Davidstow or Organic milk prices for July.

The milk price floor agreed back in January to apply to Standard Liquid and Davidstow contracts for the March/June period was an attempt to provide stability after what had been a relentless six months of unprecedented milk price reductions. DCD had hoped that by the time the spring flush had passed and the July price was discussed that dairy markets would have markedly improved.

Unfortunately, against the strong milk volumes, being supplied both in the UK and the EU, plus currency issues (sterling remaining strong vs the Euro), the May AHDB Dairy Co market ingredient data released this week - see chart below - again records further disappointing results.

Dairy Co's 'Cream Index' falls to it's lowest level since April 2012, and market indicator results for AMPE (processing milk into butter/skim milk powder) reduced to it’s lowest position for nine years, and by -1.7p/l this month, -13.1p/l (-43.6%) deficit from the position in May 2014.

MCVE (processing into mild cheddar) has been more stable this month, but still -7.8p/litre (-25.9%) deficit year on year.

Therefore against such a background, to have held Standard Liquid and Davidstow prices at the current level and into a further month of July is a good result.

DCD DPO Launch

DCD officially launched the first Dairy Producer Organisation (DPO) in the UK at the historic Farmers Club, Whitehall, London last week. The launch attracted a comprehensive cross section from the industry, from Government, Defra, NFU, NFUS, Dairy UK, AHDB, Copa Cogeca, Kite, Promar the farming media - plus of course the DCD Board, leaders from all of the specialist retail DCD milk pools and Mike Sheldon and his team at Dairy Crest.

DCD Chairman David Herdman presided over the proceedings and stated within his keynote address:

"At a time when the UK dairy industry is facing considerable challenge, and when so many dairy farmers have no formal representation at all, I am determined to provide our members with a range of options through the DPO to help in the management of their individual businesses. The legitimacy, accountability and rigour provided within a DPO structure helps to future proof effective farmer representation in a fast evolving marketplace".

Farming Minister George Eustice also added Government’s strong support to DCD’s DPO in a BBC One interview from the Devon County Show.

More launch press output on the website, and details about joining the DCD DPO overleaf.
DCD DPO
FARMER MEMBER LAUNCH

The DCD farmer launch of the new DPO commenced this week with Davidstow members. Four sessions were held across the region to explain what the DPO proposition is all about, and the sign up process - along with a dairy market update as you would expect.

What is a DPO?

DPO structure allows constituted and electorally accountable groups of dairy farmers the authority with competition compliance provisions under EU and UK Law (Dec 2013) to collectively negotiate contract terms and milk price. A DPO could potentially represent up to 33% of all milk produced within a member state, so in the UK up to 4.5bn litres p.a.

DCD DPO Evolution

Utilising our successful Dairy Fund application, the DCD Board and Forum Reps reviewed our existing structures and effectiveness, and researched the DPO opportunity, ultimately concluding to evolve to become the first DPO in the UK.

DCD application approved by the RPA (regulatory authority for DPO’s) to become an Agency DPO.

An Agency DPO?

The contract remains between member and processor, but provides DCD the authority to negotiate milk price, and contract options on members behalf on an ‘Agency Basis’.

What will the DCD DPO provide?

- Operational across all contract options, standard, retail aligned, formula and organic
- Retains existing DCD independence benefits, plus...
- The authority to strengthen negotiations
- Provides farmers within a DPO an effective voice and electoral accountability

DCD DPO - ‘in practice’ - FROM JULY 2015

With the RPA approval, DCD held further consultations with Dairy Crest to formalise the new DPO provisions. Dairy Crest has offered its full support to DCD’s ambition to utilise the legal structures EU/UK Government have advocated.

To implement the DPO changes formally, has involved a complete review and evolution of a new Dairy Crest Milk Producer’s Agreement (MPA), as well as a new DCD Member Agreement to enable the new DPO structure to be implemented from 1st July.

These documents are now completed following scrutiny from DC and DCD’s own legal teams to circulate to farmers in the next week.

In summary, the new documents complement each other through the adoption of the DPO, Voluntary Code, and the authority for DCD to act as agent through negotiation.

DCD DPO and new DC Milk Producer Agreement Meetings

See the meeting schedule below detailing the important launch of the new DCD DPO Member Agreements and the new Dairy Crest Milk Producer Agreements to apply to all contracts, plus a Milk Pricing update as well as the latest news regarding the proposed Dairy Crest sale of its dairies business to Muller.

DCD DPO - pricing by ‘negotiation’, not ‘discretion’?

Direct supply milk pricing is still largely applied by ‘discretion’, unless a formal Co op or formulaic method has been established.

Members that opt to join the DPO currently priced by discretion move to negotiated pricing. It must be remembered that the discretionary price may not match the level of the negotiated price.

Voluntary Code (VC) - Implications

The review of the VC from last October now only provides 3 months notice option on a price reduction - not on a price change as previously.

Three months notice option - DPO retained

Within the new DPO ‘negotiated pricing’ a three month notice trigger option is retained, on any negotiation irrespective of price move; upwards, down, or no change. This trigger can only be actioned through a non agreement in negotiation, plus a three day period of further negotiation. If deadlock remains after the three days, then the three month notice option is available to members to activate if they wish.

Negotiations will be ‘contract specific’ to activate the trigger, i.e. Std Liquid, Davidstow, Organic.

The new DPO provisions will make negotiations more meaningful than at present, whilst also increasing the responsibility of those elected to negotiate on members behalf and still providing members an ultimate option to submit notice, if notice trigger is activated, through non agreement.

DPO - changes to payment terms - 1st July

To apply within the existing overall pricing schedules (so not new money).

1) DCD DPO bonus will increase from 0.3p/l to 1p/l (consistent with existing Simplified Formula contracts).

2) A new Loyalty Bonus of 1p/l will apply. If opting for the 3 month notice, this 1p/l would be foregone for the 3 months in question. For any submitting 12 months notice, this 1p/l Loyalty payment would continue to be paid and so would be unaffected.

New Future Contract Options

Will only be available to those members that join the new DPO, i.e. milk for cheese, large farm etc.

DCD DPO Member Sign Up - 1st July

To access the new DPO you will need to study, sign and return both the new Dairy Crest and DCD agreements in advance of 1st July.

DCD are jointly co ordinating this mailout process for ease of admin/saving of cost.

Please do attend your local meeting for a full explanation and interactive Q&A.

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Useful Contacts:
Your DCD Forum Member

Forum contact details can be found via the DCD Website or via the Dairy Crest Farm Connect website

Buffet supper served at 7:20 at all evening sessions, buffet lunch at day time meetings. Please do attend these meetings, be involved, invest a couple of hours into your organisation and it’s future and our members future.