

### Average farmgate price remains firm

Defra's provisional farmgate price for October is 19.69ppl, the highest October price since 2001 and the highest monthly price since November 2003. The main reason for this increase, compared to previous years, is likely to be the effect of profile payment systems which encourage level production.

The average farmgate milk price for the first seven months of the 2005/06 milk year is 18.26ppl, nearly identical to the first seven months of the previous milk year. Despite farmgate price cuts over the summer and autumn period in the liquid milk market, the farmgate price for milk to cheese has increased for many over the summer and the commodity markets have remained relatively firm. Other reasons for the firm prices is the higher butterfat levels (two percentage points higher than last year), lower volumes of spring milk and bonuses for level supply.

### Possible lifting of export ban

Defra has released a consultation document on the feasibility of lifting the EU ban on exporting bovines and bovine products from the UK. This follows a favourable EU veterinary officer's report and a fall in the number of BSE cases to below 200 cases per million cattle earlier this year. However, even if amendments to the current legislation are made in the UK, there is no guarantee that the EU member states and the European Commission will agree to lift the ban. Moreover, a number of member states also have in place additional domestic legislation that currently bans UK imports of cattle; these would also need to be amended before UK exports could be accepted.

**In Context:**

It is too early to tell if - or when - the possibility of exporting cows from the UK will become a reality. However, industry commentators have suggested that at the earliest it would be the end of March 2006. Any opening of the export markets could help farmers get better returns from the market for calves and cull cows.

reflect several factors including higher volumes this year in Northern Ireland compared to last and an expectation that this will continue as supplies rise into the early Spring, and a less optimistic view of milk price trends for the early months of 2006.

### Farmer numbers continue to fall

The number of registered dairy producers has fallen by 4.6% in England and Wales since February, according to DHI figures. In November, the total number of dairy producers in England and Wales stands at 14,367 – 692 less than February 2005.

Region (as set out by the DHI)	No. of producers February 2005	No. of producers November 2005	Percentage change
North	2,394	2,240	-6.43%
North West	3,147	3,026	-3.84%
East	241	232	-3.73%
Midlands	1,759	1,662	-5.51%
South	377	363	-3.71%
Mid West	1,965	1,882	-4.22%
Far West	2,116	2,038	-3.69%
South East	389	369	-5.14%
Wales	2,671	2,555	-4.34%
England & Wales	15,059	14,367	-4.60%

Source: DHI

In England the county that experienced the largest decrease in the number of producers was Yorkshire, where 64 producers were reported to have left the industry between February and November. In Wales 116 producers were reported to have ceased producing between February and November, 63 of these producers were in Dyfed. For more detailed information on the number of producer's in each county please see <http://www.mdcdatum.org.uk/backdata/ProducerNumbers.xls>.

### Milk production reaches trough

The RPA provisional milk production figure for November was 1,029 million litres – 15 million litres lower than the same month last year and 262 million litres under the cumulative three year average. This is partly due to the

### UDF auction prices down on last year

United Dairy Farmers (UDF) has held its monthly milk auction for one and three month contracts from January 2006. One-month contracts for four million litres averaged 19.70ppl - up 0.42ppl on the previous month but 1.60ppl down on the price of 12 months ago. Three-month contracts for 39 million litres (which cover the months of January to March 2006) averaged 18.76ppl, 2.18ppl less than the price of 12 months ago. These lower price levels

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fact that milk production has 'troughed' later compared to the previous year. Industry commentators also suggest that production is not picking up as quickly, out of the 'trough' as was previously expected by some.

### Markets report mixed messages

Wholesale dairy markets currently remain steady although there are concerns that there may be downwards movement in cream, butter, and possibly SMP. Cream prices are currently firm in the run up to Christmas due to firm demand but there are fears that forward cream prices are not realising similar levels. The butter market has been weakening for some time and is expected to possibly weaken further, according to industry commentators, due to fears of over supply and further sales out of EU Private Storage. Skim milk powder prices have been weakening in the EU largely due to a slump in export demand. There are fears that this may continue as world supplies now appear more plentiful.

The cheese market has remained buoyant with prices staying firm in a recent supermarket tender according to industry reports. The increase in cheese manufacturing appears to have been largely taken up by demand and replenishing stocks. At present there has been no movement in the liquid milk market, although processors have noted that they intend to recover margins either through wholesale price rises or farmgate price decreases. According to Arla's preliminary results it appears unlikely that there will be any let up in competition for the foreseeable future, especially in the middle-ground sector (which is seen as the next stage of rationalisation and consolidation in the liquid milk market).

### WTO talks stall

There now appears to be receding hope that any deal will be formalised in Hong Kong this week. There appears to have been intransigence from all sides with developing

countries wanting fundamental reform on agriculture before any discussion on other sectors while the developed countries (including the EU) want fundamental reform of other sectors before giving any ground on agriculture. There also disagreements regarding the level of cuts within each sector: agriculture, industry and services.

So far in agriculture there have been a number of different papers produced from various regions including the EU, US, and groups of exporting countries on how the modalities (actual cuts in subsidies) should be implemented. The general outline of these papers is that export refunds will need to be phased out over a set period of time. There will also need to be cuts in import tariffs, with higher tariffs getting a greater degree of cuts than lower ones and a change to being 'ad valorem' (a percentage tariff rather than a fixed rate tariff). Domestic subsidies that distort trade should also be cut or removed.

### What is likely to happen now?

It now appears that apart from some possible reform regarding access to developed markets for the Least Developed Countries there is unlikely to be a deal at Hong Kong. However, it is unlikely that the talks will completely collapse; negotiations are likely to continue on into 2006. If this occurs, there are time pressures and the formalities of the deal and the detail will have to be confirmed by the end of 2006, otherwise there is the possibility that it might all collapse.

#### In context:

Any reform that will further affect farmgate prices is likely to still be a number of years away. The EU has also categorically said at this point in time that SFP cannot be changed prior to 2013. However, substantial changes can still be made to tariffs and also the implementation of an end date for export refunds.

Quota Prices (4.00%)	Clean			Leased			Average Farmgate Milk Price: October						
Day End 15/12/05	4.83ppl			0.15ppl			2005	19.69ppl			2004	19.51ppl	
Wholesale Dairy Prices	Butter (unsalted)			Skimmed Milk Powder			Mild Cheddar			Bulk Cream			
15/12/05 £=1.763\$	Nov 05	Oct 05	Nov 04	Nov 05	Oct 05	Nov 04	Nov 05	Oct 05	Nov 04	Nov 05	Oct 05	Nov 04	
15/12/05 €=0.677£													
UK £/tonne	1,820	1,830	1,990	1,420	1,420	1,550	2,100	2,100	2,100	840	840	930	
World £/tonne	1,183	1,173	1,102	1,298	1,263	1,236	1,659	1,629	1,478	N/A	N/A	N/A	
Retail Prices	Liquid Milk (retail) 4 pint poly bottle (ppl equivalent)			Liquid Milk (doorstep) (ppl equivalent)			Butter Branded (p/250g)			Mild Cheddar Non-branded (p/kg)			
Nov' 05	52.3			81.7			83			485			
% Change vs Nov 04	+7.6			+3.3			+1.2			+8.2			