

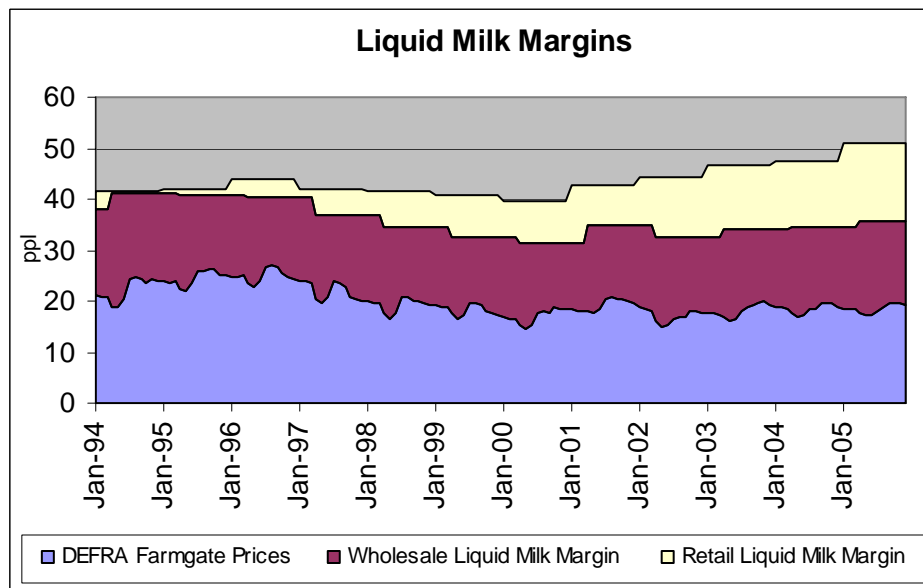


## The OFT provisional decision against supermarkets and dairies over price fixing, announced 20 September

The MDC is unable to comment on the OFT provisional findings as we have not seen the full report. However please find below some factual background information in response to questions we have received this morning.

**All this information and more is available on the MDC's Datum market information website: [www.mdcdatum.org.uk](http://www.mdcdatum.org.uk)**

### Who makes what money in the supply chain?



Source: MDC Datum

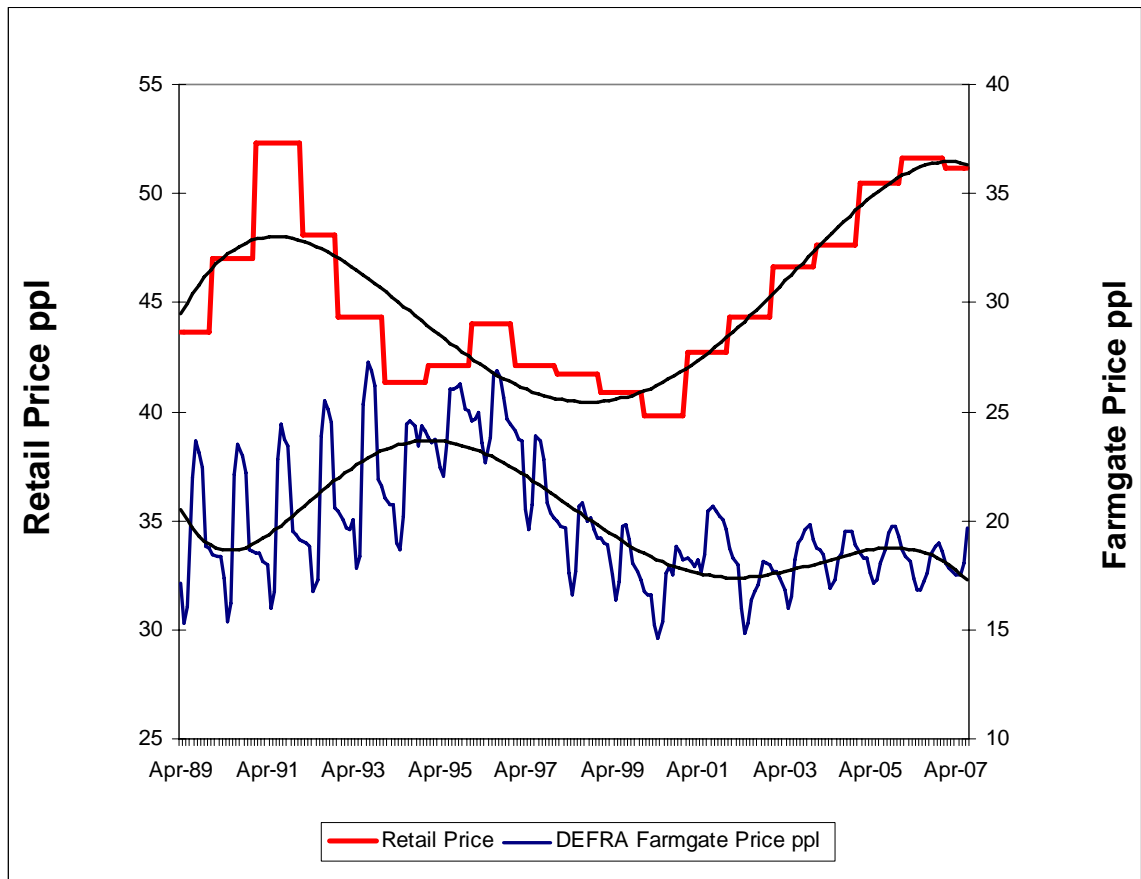
The above graph shows indicative margins made in the supply chain for liquid milk over the past decade. These are indications of gross margin and do not represent profit.

The table below shows how this has changed over time. Please note that these figures are indicative however, the trend shown over time is representative of changes to margins over the same time period.

Liquid Milk (ppl)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Farmgate Milk Price	24.5	24.9	22.0	19.3	18.3	17.0	19.2	17.1	18.1	18.5	18.5
Processor Gross Margin	16.3	15.5	15.7	15.8	14.7	14.6	14.8	15.9	15.6	15.9	16.8
Processor Selling Price	40.8	40.4	37.7	35.1	33.1	31.6	33.9	33.0	33.7	34.4	35.3
Retail Gross Margin	1.3	3.6	4.4	6.6	7.7	8.2	8.8	11.3	12.9	13.1	15.6
Retail Price	42.1	44.0	42.1	41.7	40.8	39.8	42.7	44.3	46.6	47.5	50.9

**Are the prices farmers get linked to retail prices?**

- Historically there has been little direct link between retail prices and farmgate prices, as shown in the graph below which tracks the retail price of liquid milk and the average farmgate price.



Source: MDC Datum

### What are farmgate prices linked to?

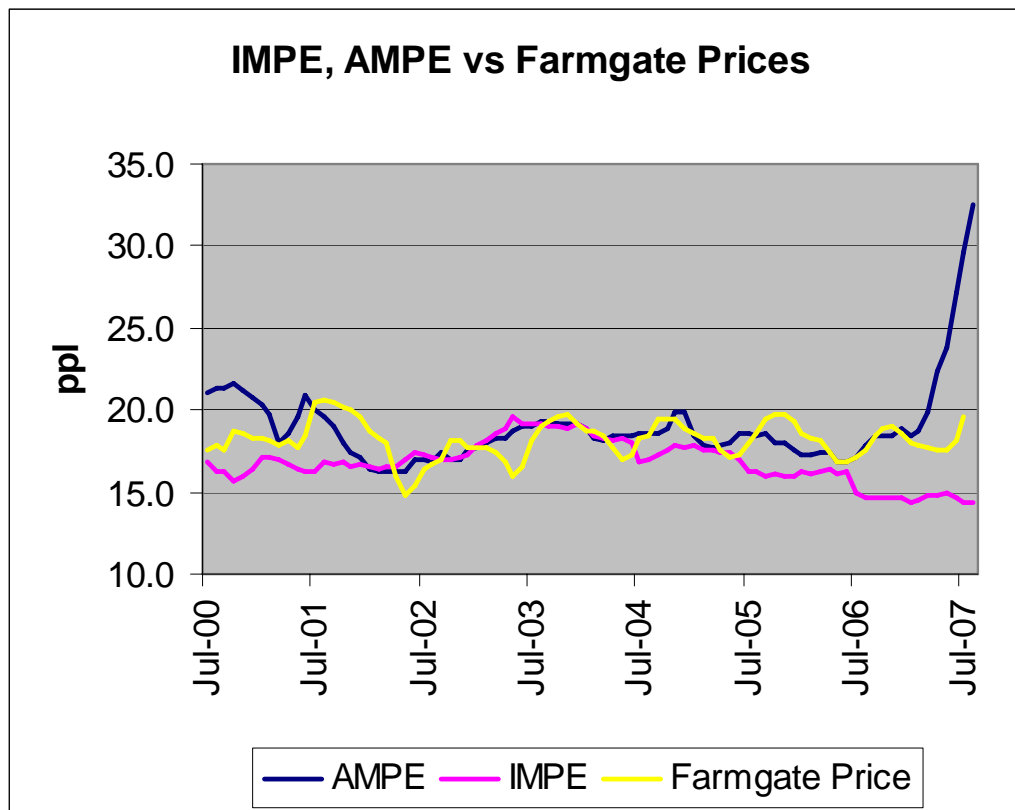
The price farmers receive has in the past tended to be related to commodity market prices. The level of return from commodity markets is illustrated by the levels of IMPE and AMPE in the graph below.

IMPE and AMPE measure the returns from processing raw milk into dairy commodity products (butter and skimmed milk powder); they take into account both the cost of processing and a profit margin. The final price is a factory gate price, ie the price paid to farmers plus the cost of transport to the factory.

AMPE measures returns from the wholesale market whereas IMPE measures returns from selling butter and skimmed milk powder (SMP) into intervention stores.

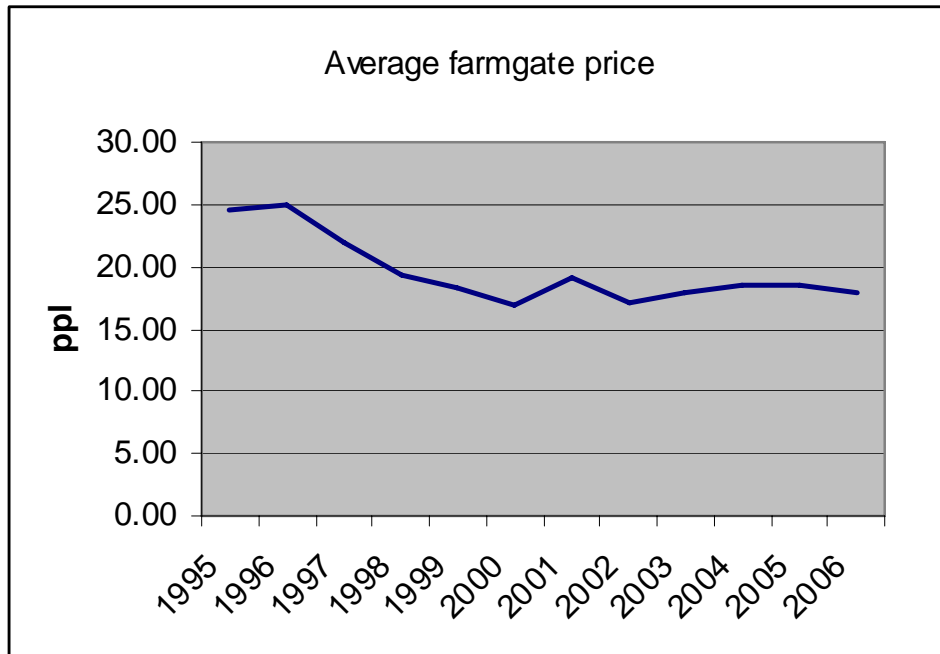
Intervention is a market support mechanism operated by the EU which provides a floor to the price for both butter and SMP.

IMPE and AMPE have recently diverged, due to both the reduction of support from the EU and, more significantly, demand for dairy commodity products increasing on the world market.



Source: MDC Datum

**How have farmgate prices changed over time?**

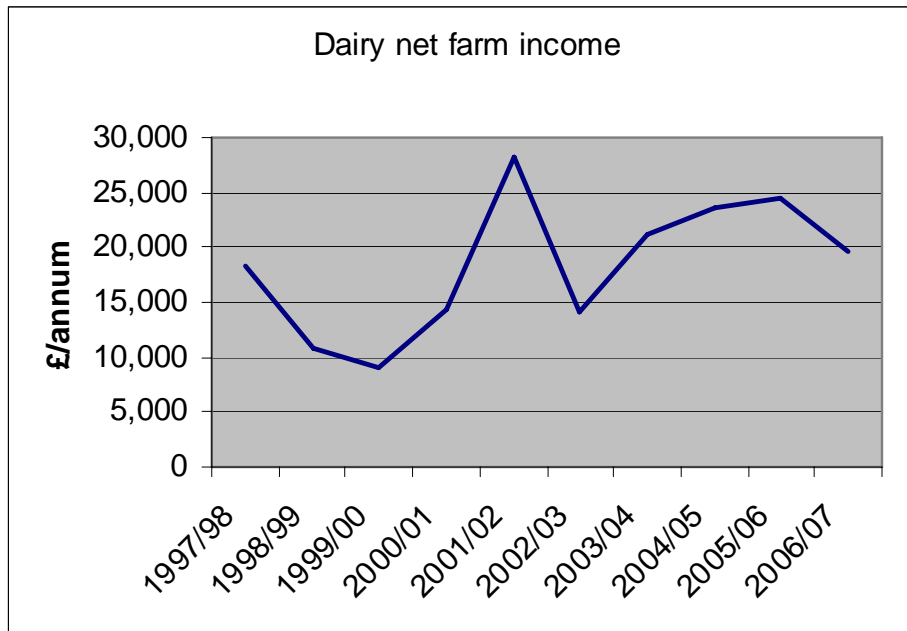


Source: Defra

	<b>Average Farmgate Price</b>
<b>1995</b>	<b>24.47</b>
<b>1996</b>	<b>24.87</b>
<b>1997</b>	<b>21.95</b>
<b>1998</b>	<b>19.26</b>
<b>1999</b>	<b>18.30</b>
<b>2000</b>	<b>16.91</b>
<b>2001</b>	<b>19.13</b>
<b>2002</b>	<b>17.05</b>
<b>2003</b>	<b>18.01</b>
<b>2004</b>	<b>18.45</b>
<b>2005</b>	<b>18.46</b>
<b>2006</b>	<b>17.94</b>

### How have dairy farmer incomes changes over time?

Please note that these figures include subsidy payments, but exclude unpaid farmer and spouse labour.

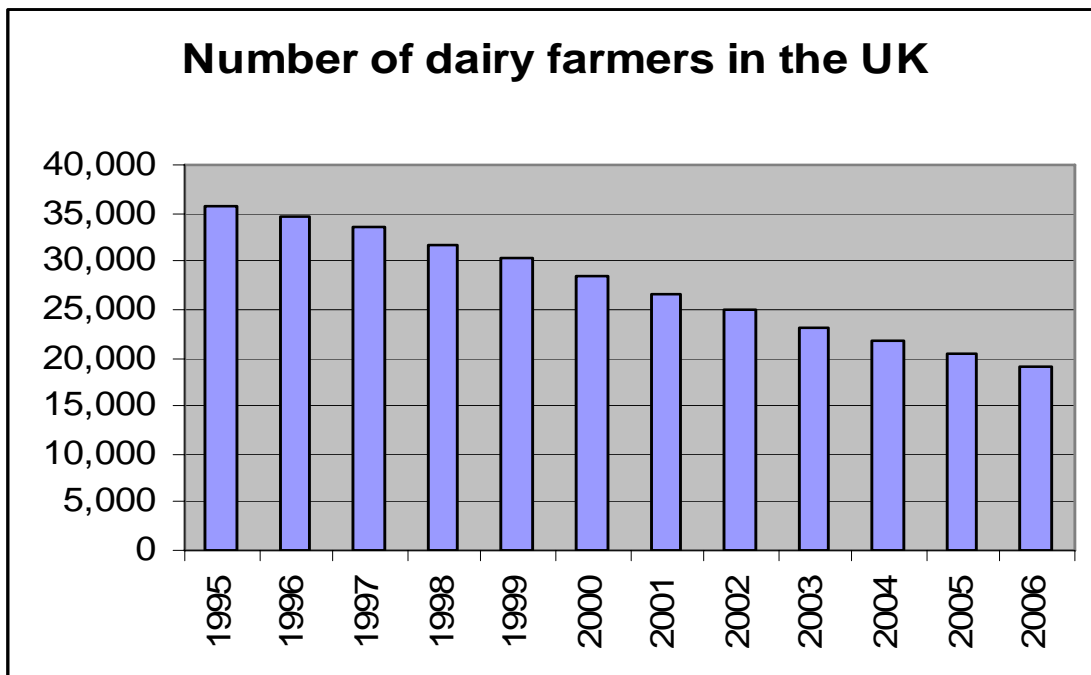


Source: Defra

	<b>Dairy net farm income</b>
<b>1997/98</b>	<b>18,400</b>
<b>1998/99</b>	<b>10,900</b>
<b>1999/00</b>	<b>9,000</b>
<b>2000/01</b>	<b>14,300</b>
<b>2001/02</b>	<b>28,200</b>
<b>2002/03</b>	<b>14,200</b>
<b>2003/04</b>	<b>21,100</b>
<b>2004/05</b>	<b>23,700</b>
<b>2005/06</b>	<b>24,500</b>
<b>2006/07</b>	<b>19,700</b>

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**How many dairy farmers are there and how has this changed over time?**



Source: Defra

	<b>UK Dairy farmers</b>
<b>1995</b>	<b>35,741</b>
<b>1996</b>	<b>34,570</b>
<b>1997</b>	<b>33,528</b>
<b>1998</b>	<b>31,753</b>
<b>1999</b>	<b>30,221</b>
<b>2000</b>	<b>28,422</b>
<b>2001</b>	<b>26,556</b>
<b>2002</b>	<b>24,930</b>
<b>2003</b>	<b>22,992</b>
<b>2004</b>	<b>21,616</b>
<b>2005</b>	<b>20,313</b>
<b>2006</b>	<b>19,011</b>

**How have retail prices changed over time?**

See the following link for retail price information in previous years.

<http://www.mdcdatum.org.uk/backdata/RetailPrices.xls>

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