National Milk Agency

Annual Report & Accounts 2003

NATIONAL MILK AGENCY

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Bhunaidh an tOireachtas an Gníomhaireacht Náisiúnta Bainne le soláthar bainne chun óil sa stát seo a rialú mar a leagtar amach é san Acht (um Rialachán Soláthair) Bainne, 1994.

The National Milk Agency was established by the Oireachtas to regulate the supply of milk for liquid consumption throughout the State in accordance with the provisions of the Milk (Regulation of Supply) Act, 1994.

To: Mr. Joe Walsh TD, Minister for Agriculture and Food

Dear Minister
A Aire, a chara

I am pleased to present the Annual Report of the National Milk Agency for 2003 in accordance with Section 18 of the Milk (Regulation of Supply) Act, 1994.

Is cúis áthais dom Tuarascáil Bhliantúil na Gníomhaireachta Náisiúnta Bainne don bhliain 2003 a thíolacadh de réir Alt 18 d'Acht an Bhainne (Soláthar a Rialáil), 1994.

Last year the most significant event in Irish agriculture was the Luxembourg Agreement on the Mid Term Review of the Common Agricultural Policy. The Mid Term Review marks the most fundamental and radical change in the CAP since its inception and will contribute to bringing about a major restructuring of the Irish dairy industry at production, processing and marketing levels.

Ba é an rud ba shuntasaí a tharla i réimse na talmhaíochta in Éirinn anuraidh ná Comhaontú Lucsamburg ar an Athbhreithniú Lárthéarma ar an gComhbheartas Talmhaíochta. Is ionann an tAthbhreithniú Lárthéarma agus an t-athrú is bunúsaí agus is radacaí ar an gComhbheartas Talmhaíochta ó tionscnaíodh é agus beidh sé ina chabhair i dtaca le hathstruchtúrú mór a dhéanamh ar thionscal déiríochta na hÉireann ag an leibhéal táirgthe, ag an leibhéal próiseála agus ag an leibhéal margaíochta.

In the fresh milk sector the aggressive discounting of own label milk by retail multiples, the substantial increase in imports of packaged liquid milk from Northern Ireland by discount multiples and others together with the growing imports by some processors of bulk milk for processing from Northern Ireland for processing for liquid consumption within the State and the substantial increase in imports of packaged liquid milk from Northern Ireland, by discount multiples and others, created a turbulent and uncertain environment for registered milk producers, processors, distributors and small retailers.

The impact of CAP Reform, the growing retailer dominance of the fresh milk market and the growing volumes of fresh milk imports confront registered milk producers and processors with an economic environment and market of unprecedented change and challenge. EU enlargement in May 2004 and the accession of ten new member states to the EU will create additional changes, challenges and opportunities in the EU internal dairy market.

A competitive response to these major economic and market changes will involve a re-structuring of the manufacturing and liquid sectors of the Irish dairy industry and the emergence of fewer, larger and more internationally competitive participants at processing and production levels.

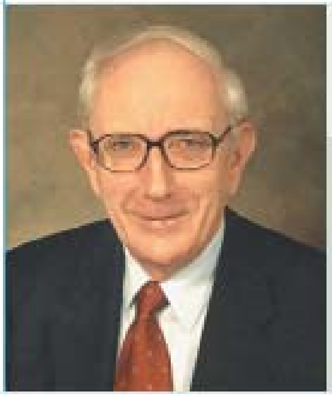
Commercial survival and growth in this new environment will require the achievement of internationally competitive economies of scale marketing and low unit costs across all sectoral levels in the Irish dairy industry.

In the fresh milk sector active cooperation and joint ventures between processors to concentrate liquid milk processing into a smaller number of jointly owned, larger plants is one possible strategy.

Cooperation between processors and producers to facilitate a restructuring of the liquid milk production sector will also be required if the necessary reshaping of the sector is to be achieved.

Mid Term Review of CAP

The Mid Term Review of the CAP is a fundamental policy reform, the objective of which is to make EU agriculture more market oriented and to improve its international competitive position.



Denis Murphy
Chairman

In October last, following extensive consultations and economic analyses, the decision was taken that Ireland should opt for a full decoupling of all direct payments for cattle, sheep and arable crops from production as and from 1 January 2005.

For the dairy sector the CAP reforms, while retaining the milk quota system until 2015, will mean significant changes in market supports and prices for dairy products and consequently in milk prices to producers. Over the next four years, commencing in July 2004, phased reductions in market supports and prices for dairy products of over 6 c/l are forecast to result in a fall of over 20% in farm gate milk prices compared with recent years.

Dairy premium payments will offset some, but not all, of the decreases in milk prices and will be phased in over three years. In 2004 the dairy premium payment will be approximately 1.2 c/l (5.5 c/g), rising to 2.42 c/l (11 c/g) in 2005 and to approximately 3.6 c/l (16.4 c/g) in 2006 to 2013. Dairy premium payments will be coupled with production in 2004 and based on the milk quotas held by producers on 31 March 2004. From April 2005 onwards the dairy premium payments will be decoupled from production and based on the milk quotas held on 31 March 2005.

Following the full implementation of the phased reductions in product price supports, the price paid for manufacturing milk is expected to be approximately 22 c/l (100 c/g) from the market. The decoupled dairy premium payment will be approximately 3.6 c/l (16.4 c/g).

Falling milk prices and rising costs will impact adversely on producers' incomes and will confront producers with alternative choices of either to expand milk production to maintain incomes or to consider exiting the sector.

Teagasc has forecast that the CAP reforms will result in a reduction in the number of dairy farmers from 25,200 today to 18,000 by 2012. While this forecast restructuring of Irish dairy farms will increase average annual milk supplies per farm from 206,000 litres in 2003 to 290,000 litres in 2012, the resultant scale of production will still lag considerably behind the present average annual production per dairy farm of 540,000 litres in Denmark, 420,000 litres in the Netherlands and 400,000 litres in Northern Ireland. Accordingly, if Irish dairy production is to achieve international economies of scale the exodus from dairy farming will be substantially more than currently forecast.

Decoupling will facilitate structural changes in milk production as producers, who cease production after April 2005, can retain their dairy premiums as part of their Single Farm Payments. Consequently the number of milk quotas available for redistribution should increase significantly, giving rise to a reduced milk quota price for those producers, who wish to expand production.

Registers

The level of compliance by registered processors with the Agency's regulatory requirements continued to improve and was reflected in the increased volume of milk supplies registered.

Milk supply contracts between producers and processors, which were registered with the Agency for the milk year 2002/03, numbered 2,736, an increase of 16 contracts on the number of contracts registered in the previous year.

Sixteen liquid milk processors were registered with the Agency, a reduction of one, due to the merger of two large processors during the year.

Milk Supplies

Milk supplies purchased under registered contracts, for processing for liquid consumption, amounted to 468 million litres (103m gallons). This was the highest volume of registered milk supplies since the establishment of the Agency and represented an increase of almost 10 million litres (2.2m gallons) on the previous year. Average milk supplies per contract increased by 2,000 litres to 171,000 litres.

Contracts

Under the 2,583 All Year Round milk supply contracts, 458 million litres (100.7m gallons) were purchased, representing 94% of all registered contracts and 98% of milk supplies purchased under registered contracts. The number of All Year Round contracts fell by 37, while milk supplies registered under these contracts rose by 6.4 million litres (1.4m gallons).

The Winter Contracts numbered 153 and represented 6% of contracts and 2% of milk supplies.

Primary Type contracts, which numbered 1,687 continued to be the dominant type of All Year Round contract representing 62% of all contracts and 59% of all milk supplies. This was a reduction of 412 contracts on the previous year when these contracts represented 77% of all contracts and 79% of milk supplies.

Under the Primary Type contracts the Flat Price System is applied in a seven months winter premium period and in a five months summer period. Six processors implemented the Primary Type contract, compared with nine processors previously.

The reduction in the number of Primary Type contracts was due to the change by three processors from a seven months winter premium period to a six months winter premium period. Over 20% of milk supplies under All Year Round contracts are now compensated for under the six months winter premium period system.

The Flat Price System continued to be the main pricing system for registered milk supplies and was applied in 85% of all contracts, both All Year Round and Winter contracts, and to 86% of milk supplies. The Manufacturing Milk Price Plus Bonus System was applied in 15% of all contracts and to 14% of milk supplies.

Milk Prices

The average milk price paid, excluding value added tax, in 2002/03 to liquid milk producers under all registered contracts was 32.28 c/l (115.6 p/g) compared with the previous year's price of 32.95 c/l (118.0 p/g), a decrease of 0.67 c/l (2.4 p/g) or 2%.

In the calendar year 2003 the average price paid was 32.19 c/l (115.2 p/g), a decrease of 0.51 c/l (1.9 p/g) compared with the previous year's price of 32.7 c/l (117.1 p/g). The price differential between the annual producer price for liquid milk supplies and the estimated average producer price for manufacturing milk supplies was 6 c/l (21.5 p/g), similar to the previous year.

Under the 2,583 All Year Round contracts (94% of contracts and 98% of milk supplies), the weighted average price paid, during the traditional seven winter months period, was 35.2 c/l (126 p/g), a decrease of 0.97 c/l (3.5 p/g) on the previous year. During the five summer months the price paid was 27.88 c/l (99.8 p/g), a decrease of 0.35 c/l (1.3 p/g) on the previous year.

Prices paid in All Year Round contracts using the Flat Price System continued to be higher than prices paid under the Manufacturing Milk Price plus Bonus System by 1.27 c/l (4.6 p/g) compared with 1.69 c/l (6 p/g) in the previous year.

Milk Imports

Imports of bulk milk into the State for processing by creameries and pasteurisers in 2003 amounted to 349 million litres (76.8m gallons) and were the highest milk import volumes since 1999. These milk imports, which do not include packaged liquid milk imports, were mainly cross border movements of milk into the State from Northern Ireland and amounted to almost 7% of domestic milk supplies and to almost 20% of Northern Ireland's annual milk supplies.

Imports of bulk milk from Northern Ireland, mainly by processors located in border counties, for processing for liquid consumption within the State, were 48 million litres (10.6m gallons) and represented 14% of total bulk milk imports into the State, an increase of 15% on the revised import volumes for 2002.

Imports of packaged liquid milk from Northern Ireland mainly by discount retailers, are estimated at 41 million litres (9m gallons), an increase of 15 million litres (3.3m gallons) or 58% on 2002.

Total milk imports for liquid consumption amounted to 89 million litres (19.6m gallons), of which 64% were bulk milk imports for processing and 46% were packaged liquid milk imports. This was an increase of 21 million litres (4.6m gallons) or 31% on the revised import volumes in the previous year and amounted to a 16% share of the 571 million litres (126m gallons) domestic market for liquid milk compared with a revised share of 12% in 2002.

The growing imports of bulk and packaged milk for liquid consumption; the availability of all year round milk supplies in Northern Ireland at producer prices, which in 2003, were approximately the same as producer prices for seasonal supplies of manufacturing milk in the State; the growth and aggressive discounting of own label fresh milk by retailers are all factors, which individually and collectively, pose serious challenges to the stability of the liquid milk sector in the State.

Dairy Sector

In 2003 a fall of 2% in milk prices and little change in total costs resulted in an estimated decline in net margins of 5% in the dairy sector. Net margins per litre in the sector were at their lowest levels since 1991 and the fall in real terms since 1990 was nearly 50%.

During the year product prices were unchanged for butter and skimmed milk powder while cheese prices were weaker as a result of the stronger Euro and the weaker US dollar.

The outlook for 2004 will be strongly influenced by the market response to the commencement in July of the first 6% reduction in the support prices for butter and skim milk powder, the ceiling on butter intervention purchases as well as by the market impact of EU enlargement in May. In the UK, market prices for cheese are likely to reflect the lower support prices for intervention products.

The average annual price for manufacturing milk for the year is forecast to decline by around 4% while the coupled dairy premium of 1.2 c/l (5.5 c/g), payable in October, will be based on producers' milk quotas at 31 March 2004.

Registered Milk Producers

For all milk producers seeking to maintain or increase their incomes, change is inevitable in this new EU environment and market of falling milk prices, rising costs and generally falling incomes.

Specialisation, competitive scale, and cost efficient operations will be essential requirements for commercial success.

Registered milk producers are the leaders in all year round milk production in the State, producing 16% of domestic milk supplies, 26% of milk supplies in the designated winter months (October to February) and 42% of domestic milk supplies in the months of December 2002 and January 2003.

Average milk supplies for registered milk producers in 2003 were 313,000 litres, of which 54% were supplied for processing for liquid consumption and 46% were supplied for processing into manufactured dairy products.

Statutory regulation and the traditional pricing policies for supplies of milk for processing for liquid milk consumption have encouraged registered milk producers to produce all year round, high quality, fresh milk supplies. These supplies have met not only the requirements of consumers for all year round fresh milk but have also generated supplies in the winter period for other fresh milk products and high value added dairy products.

Registered liquid milk producers have a commitment and a culture for all year round milk production. They are a core group to be encouraged by processors as the Irish dairy sector transforms itself and scales up at production, processing and marketing levels to address the opportunities and challenges of the new EU economic environment for agriculture and more competitive markets for dairy products.

Adaptation to the CAP reform changes will require extensive consultation and co-operation between processors and liquid milk producers as well as ongoing encouragement and adequate price incentives from processors to motivate producers to continue with all year round milk production.

Liquid milk producers are facing difficult and complex choices in this new CAP environment and in a competitive market of aggressive price discounting of own label fresh milk at retail level and competition for market share from milk supplies from Northern Ireland.

Future decisions to be made by registered milk producers will be influenced by their existing scale, specialisation and cost efficiency in milk production by the economics of seasonal versus all year round mill production as well as by producers' age profiles, family successions, farm locations off farm incomes and their abilities to secure additional liquid milk supply contracts. The acid test will be whether it will be commercially beneficial for them to continue with the supply of milk for processing for liquid consumption.

Consumption, Retailing and Distribution

The domestic fresh milk market of 571 million litres (126m gallons) is the largest consumer market for milk and milk products in the State. Total consumption increased by 9 million litres (2m gallons) or 2% in 2003 over the previous year.

Fresh milk remains an excellent value for money product for consumers. Since 1995 while the consumer price index has increased by 29% and the food price index by 33% the average annual retail price of fresh milk has increased by only 12%. In the same period the producers' share of the retail price has fallen from 42% in 1995 to 38% in 2003.

Ireland's per capita consumption of milk of 0.4 litres continued to be the highest in the EU after Finland and almost double the EU average.

The share of the fresh milk market sourced from indigenous milk supplies fell to 84% due to the growing volumes of imported milk supplies both bulk and packaged.

Retailers and particularly the larger multiples continue to grow in importance as distribution channels for fresh milk as doorstep deliveries continue to decline Retailers now account for 64% of the distribution channels for fresh milk with doorstep deliveries for 19% and catering for 17%.

In the Irish market over 86% of sales of fresh milk in retail multiples are sold under processors' brands and 14% as retailers' own label products. This contrasts with the UK market where 95% of fresh milk sales by multiples are sold as own label products.

The Irish retail market is highly concentrated with four multiples controlling over 71% of the grocery market. Their increased market dominance as a distribution channel for liquid milk has enabled them to use heavier bargaining power when contracting with processors. The internationalisation of the Irish retail market continues with three major European multiples now operating in the State, two of whom are discount retailers.

Competitive rivalry between retailers to maintain and increase grocery market share has intensified with the entry and rapid expansion of two international discount retailers which has manifested itself in the growth and aggressive discounting of own label food products, which provide lower prices for consumers but return lower margins to processors and to producers.

In October 2003 the retailers' grocery price war intensified and was extended to include fresh milk by a reduction in the price of own label milk, which was initially mainly sourced from imported milk supplies, to 99c for a 2 litre pack. This represented a discount of 41% when compared with processors' branded 2 litre packs retailing at €1.69. At this retail price level there was no margin for the retailer and the margin for processors was substantially reduced.

While this aggressive retail price discounting was taking place in the State, the average retail price of own label milk in 2 litre packs in Northern Ireland in multiples operating both in the State and in Northern Ireland was the equivalent of €1.44 per pack or 45% higher than in the State.

As the 'retail milk price war' in the State intensified producer concerns heightened that this retail price discounting would ultimately be reflected in lower producer prices. These concerns materialised in spontaneous protests by concerned dairy farmers at some retail outlets toward the close of 2003.

Simultaneously Irish consumers were increasingly concerned that the country of origin of food products should be clearly identified on packaging to enable them to make informed choices in their purchasing decisions.

Financial

The Agency's total income amounted to €599,590 in 2003, a decrease of €24,632 on the previous year mainly due to reduced sales from indigenous supplies.

Operating costs for the year amounted to €573,380, an increase of €30,188 or 6% on the previous year. Personnel and related costs which accounted for 66% of total costs increased by 5%. Other costs increased by 6%.

The excess of income of €599,590 over costs of €573,380 resulted in a surplus of €26,210 for the year, representing 4% of total income.

The Accumulated Fund increased to €727,040 at year end and was comprised of cash deposits and government securities (net of creditors and pension contributions) of €614,190, debtors of €102,716 and fixed assets of €10,134.

Membership/Office of the Agency

In 2003 the triennial election of producer members of the Agency by the postal ballot of registered producers, was held in accordance with the Milk (Regulation of Supply) Act 1994. Four of the previously serving members were re-elected – Mr. Daniel Corkery, Mr. Donal Kelleher, Mr. Diarmuid Lally and Mr. Padraig Mulligan. Mr. Eamonn Bray was elected to fill the seat previously held by Mr. Pat Jennings, who did not seek re-election.

Eight of the other ordinary members were re-appointed by Ministerial appointment following nominations from processor, consumer, distributor and retailer interests. Mr. John O'Callaghan was similarly appointed as a new processor representative to replace Mr. Liam Woulfe, who resigned in July 2003.

In September 2004 the Agency and its staff moved to new offices at IPC House, 35-39 Shelbourne Road, Dublin 4.

Compliance

The Agency has complied with the requirements of the Prompt Payment of Accounts Act, 1997 to pay all invoices within 30 days of receipt of invoice.

No requests for information under the Freedom of Information Act 1997 were received by the Agency.

Conclusion

The Agency appreciates the co-operation that it has received during the year from processors and from the representative bodies of producers, processors, consumers retailers and distributors.

Your own Ministerial encouragement and the active support and advice received from the officials of your Department is also very much appreciated.

I wish to express my personal thanks and the thanks of my colleagues to Mr. Pat Jennings, who retired as a producer representative during the year, having served as a member of the Agency since October 2000 and to Mr. Liam Woulfe, who also retired, having served as a processor representative since May 2002.

Finally, I thank the members of the Agency for their wise counsel and valued contributions and Muiris and the Agency's staff for their work and commitment during the year.

Denis Murphy
Chairman

April 2004

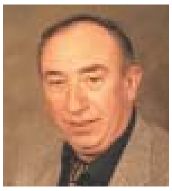
NATIONAL **MILK** AGENCY

IPC HOUSE, 35-39 SHELBOURNE ROAD
BALLSBRIDGE, DUBLIN 4

Chairman

Denis Murphy

Producers' Representatives




Eamonn Bray

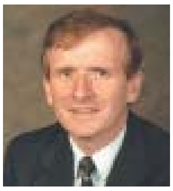
Daniel Joseph Corkery

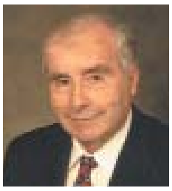
Donal Kelleher

Diarmuid Lally

Padraig Mulligan

Processors' Representatives





Patrick Brophy

George Kearns

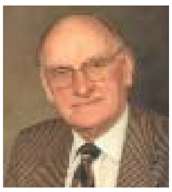
James C. Murphy

John O'Callaghan

Distributors' Representative

Walter Maloney

Retailers' Representative



John Foster

Consumers' Representatives


Richard Donohue

Michael Kilcoyne

NATIONAL MILK AGENCY

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Muiris Ó Céidigh

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Joan Shannon

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Muiris Ó Céidigh
Chief Executive

DEVELOPMENTS IN THE LIQUID MILK SECTOR

Among the main developments in the liquid milk sector in 2003 were:

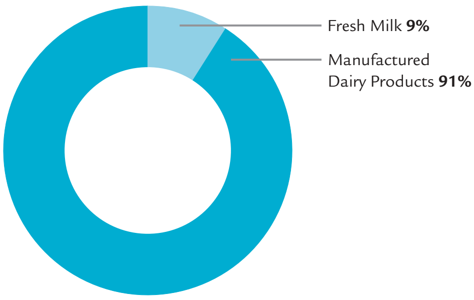
- Mid-term Review of CAP and decisions on decoupling.
- Increase in consumption of liquid milk to 571 million litres.
- Registered milk supplies increased to 468 million litres, the highest level since the establishment of the Agency.
- Liquid and manufacturing milk prices to producers declined by 2%.
- The differential between average annual producer prices for milk for processing for liquid consumption and average annual manufacturing milk prices remained at 6 c/l.
- Milk sales from indigenous milk supplies fell to 84% of the market due to higher imports.
- Imports of bulk milk for processing for human consumption and of packaged liquid milk from Northern Ireland gained a 16% share of the liquid milk market.
- Retail prices for own label milk in the last quarter of 2003, decreased to 99c for 2 litre packs as the multiple retailer's price war was extended to the liquid milk market.
- Producers' share of the retail milk price remained at 38%.
- Retailers now account for 64% of the distribution channels for liquid milk.
- Doorstep delivery as a distribution channel for liquid milk fell to 19% of the market.
- Sales of whole milk comprise76% of total milk sales and sales of lowfat and skim milk comprise 24% of total milk sales.

1. MILK SUPPLIES AND CAP REFORM

Domestic milk supplies to creameries and pasteurisers in 2003 from the State's 25,212 milk producers increased by 161 million litres (35.4m gallons) or 3.2% to 5,200 million litres (1,144m gallons).

91% of domestic supplies were utilised in the manufacture of dairy products mainly for export. 9% of domestic supplies were utilised in the production of heat treated milk for human consumption.

Fig. 1.0 Utilisation of Domestic Milk Supplies

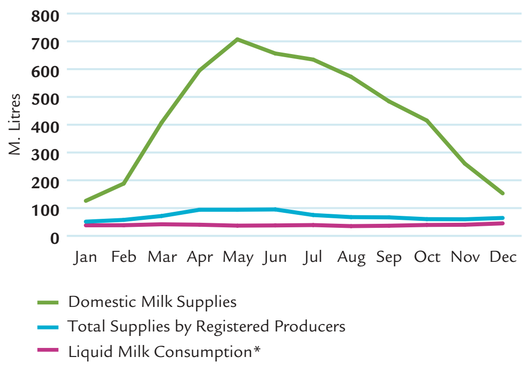


Domestic milk supplies continued to be characterised by a highly seasonal production pattern based on grassland production with 79% of milk supplies being produced in the seven months of March to September and 21% in the five months of October to February inclusive.

The peak to trough month ratio improved to 5.6 times in 2003 from 6.1 times in 2002, due to the increase in milk supplies in January 2003.

Domestic milk supplies during the designated winter months of October to February remained unchanged at 1,088 million litres (239m gallons).

Fig. 1.2 Domestic Milk Supplies, Supplies by Registered Producer and Liquid Milk Consumption – by Month 2003



** Milk sold for human consumption within the State including packaged imports.*

Source: CSO/NMA.

Total milk supplies by registered producers in 2003 amounted to 857.3 million litres (188.5m gallons), or 16.5% of domestic milk supplies. Supplies for processing for liquid consumption amounted to 466.2 million litres (54% of total supplies by registered producers) while supplies for processing into manufactured dairy products amounted to 391.1 million litres (46% of total supplies).

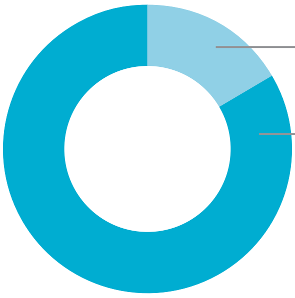
Table 1.1 Seasonality of Domestic Milk Supplies

	2003 m litres	2002 m litres	2001 m litres	2000 m litres	1999 m litres	1998 m litres	1997 m litres	1991 m litres
Peak month milk supplies	707	709	710	696	689	679	726	718
Trough month milk supplies	126	117	118	118	116	120	131	133
Peak to trough ratio	5.6	6.1	6.0	5.9	6.0	5.6	5.7	5.4

Source: Department of Agriculture and Food.

The peak to month ratio for registered milk producers in 2003 was 1.8 times, compared with 1.9 times in 2002.

Fig. 1.3 Domestic Milk Supplies 2003



In the designated winter months October 2002 to February 2003 total milk supplies by registered producers amounted to 283 million litres (62m gallons) which compares with liquid milk consumption (including packaged and bulk milk imports) of 232 million litres (51m gallons), a supply cover of 122%.

In the months of December 2002 and January 2003, total supplies by registered producers amounted to 112 million litres (25m gallons) and were 18.4 million litres (4m gallons) in excess of liquid milk consumption (including packaged and bulk milk imports) in those months, a supply cover of 119%.

Milk Imports

Last year total milk imports into the State for processing by creameries and pasteurisers amounted to 349 million litres (76.8m gallons), the highest milk import volumes since 1999 and an increase of 70 million litres (15.4m gallons) on 2002. These milk imports which do not include packaged liquid milk imports, were mainly cross border movements of milk into the State from Northern Ireland and represented 7% of domestic supplies and 20% of Northern Ireland's annual milk supplies.

Imports of bulk milk from Northern Ireland, mainly by processors located in border counties, for processing for liquid consumption within the State, amounted to 48 million litres (10.6m gallons), an increase of 6.4 million litres or 15% on revised bulk milk import volumes for 2002.

Imports of packaged liquid milk from Northern Ireland mainly by discount retailers, were estimated at 41 million litres (9m gallons), an increase of 15 million litres or 58% on the previous calendar year.

Total imports of milk for liquid consumption, amounting to 89 million litres (19.6m gallons), increased by 21 million litres (4.6m gallons) an increase of 31% on the previous year and were equivalent to a 16% share of the 571 million litres (125.6m gallons) market for liquid milk compared with a revised 12% share in 2002.

The reported bulk milk imports for processing for liquid consumption of 52 million litres (11.5m gallons) in 2002 were revised downwards in 2003 to 42 million litres (9.2m gallons) as milk volumes previously reported to the Agency as imports for processing, were on inspection by the Agency, found to be more correctly classified as domestic supplies.

Impact of CAP Reform

The Mid Term review of CAP will contribute to bringing about a major restructuring of the Irish dairy industry at production, processing and marketing levels.

For the dairy sector CAP reform, which retains the milk quota system until 2015, will mean significant changes in market supports and prices for dairy products and consequently in milk prices to producers.

Commencing in July 2004 there will be a phased reduction over four years of 25% in the support prices for butter together with a phased reduction of 15% over 3 years in the support prices for skim milk powder. Access to intervention will only be available from March to August and the quantity of butter to be taken into intervention will reduce from 70,000 tonnes in 2004 to 30,000 tonnes in 2008.

Following this phased reduction in product price supports equivalent to over 6 c/l, the price for manufacturing milk is expected to be approximately 22c/l (100 c/g) or 20% lower than the level it has been for the past few years.

Dairy premium payments to be phased in over three years will offset some but not all of the decrease in milk price. In 2004 the dairy premium payment will be approximately 1.2 c/l (5.5 c/g), rising to 2.42 c/l (11 c/g) in 2005 and to approximately 3.6 c/l (16.4 c/g) in 2006 to 2013.

The dairy premium payment will be coupled with production in 2004 and will be based on the milk quota held by a producer on 31 March 2004. From 2005 onwards the dairy premium will be decoupled from production and based on the milk quota held on 31 March 2005.

Decoupling the dairy premium for 2005 will allow producers, who cease production after March 2005, to retain the value of the dairy premium payment as part of their Single Farm Payment while giving rise to a reduced quota price for those producers who wish to expand in milk production. After April 2005 the number of milk quotas available for redistribution should increase significantly, and enable producers, who wish to expand production, to gain additional quotas.

Teagasc has forecast that the CAP reforms will result in a reduction in the number of dairy farmers from 25,200 today to 18,000 by 2012. This forecast restructuring of Irish dairy farms would increase annual average milk supplies per farm from 206,000 litres from 46 cows in 2003 to 300,000 litres from 60 cows in 2012. The resultant scale and productivity would still lag considerably behind the present average annual production per dairy farm of 540,000 litres from 76 cows in Denmark, 420,000 litres from 60 cows in the Netherlands and 400,000 litres from 60 cows in Northern Ireland. Accordingly, if Irish dairy production is to achieve international economies of scale the exodus from dairy farming is likely to be substantially more than currently forecast.

2. FRESH MILK MARKET

National consumption of fresh milk in 2003 was 571 million litres (125.6m gallons), an increase of 9 million litres or 1.6% on the 562 million litres (124m gallons) consumed in 2002.

The fresh milk market of is the largest consumer market in Ireland for milk and milk products. Per capita milk consumption in Ireland of 0.4 litres per day is the highest in the EU after Finland and almost double the EU average of 0.21 litres per day.

Fresh milk continues to be a real value for money product for consumers. Since 1995 while the food price index increased by 33% and the consumer price index by 29% the average retail price of fresh milk has increased by only 12%.

While the price of milk has fallen in real terms and in comparison with other food products, the spread between retail and farm gate milk prices has continued to widen with the producers share of the retail price falling to 38% in 2003 compared with 42% in 1995.

Table 2.0 Retail Milk Prices/Producers Share of Retail Milk Price

	2003 c/l	2002 c/l	2001 c/l	2000 c/l	1999 c/l	1998 c/l	1997 c/l	1996 c/l	1995 c/l
Annual* Retail Price	86	85	83	81	80	80	80	80	77
Producer Price	32.19	32.70	33.26	32.09	32.70	32.98	32.70	32.19	–
Producer Price % Retail	38%	38%	40%	40%	40%	40%	41%	41%	42%

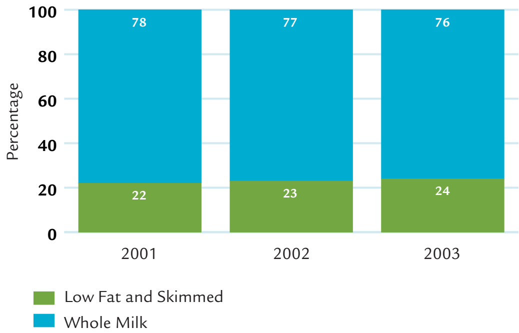
Source: CSO/NMA.
** Excludes doorstep deliveries.*

Table 2.1 Consumer Price Index/Food Price Index/Retail Price Index

	2003	2002	2001	2000	1999	1998	1997	1996	1995
Consumer Price Index	129	124	119	113	107	106	103	102	100
Food Price Index	133	129	123	116	112	108	104	102	100
Retail Milk Price Index	112	110	108	105	104	104	104	104	100
Producer Price Index	100	102	101	100	101	102	102	100	–

Source: CSO/NMA.

Fig. 2.2 Fresh Milk Sales – Product Mix 2001-2003



Sales of whole milk declined by 1% and accounted for 76% of the market while sales of lowfat and skimmed milk increased by 1% to 24% of the market.

Retail Market

The retail sector has experienced considerable change with two international discount multiples gaining a 5.7% share of the grocery market. While some multiples and symbol groups maintained their market shares other retail outlets have experienced falling market shares. The smaller retailers' share of the grocery market has fallen from 23.5% to 17.1% in the last three years.

The process of retail consolidation continues with four multiple groups now commanding over 71% of the Irish grocery market. Competitive rivalry between multiple retailers to aggressively defend market shares has intensified with the market entry and rapid expansion of the two discount retailers.

Table 2.3 Grocery Market Shares %

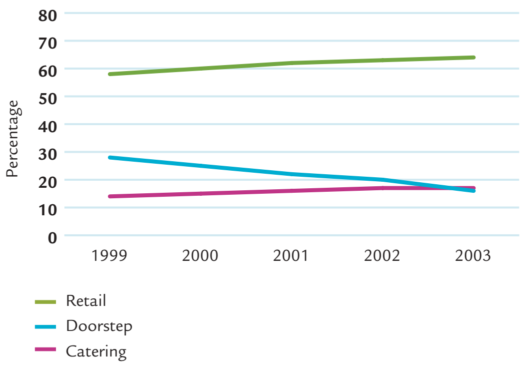
	2003	2002
Tesco	23.5	23.7
Dunnes	21.0	22.0
SuperValu	19.0	18.8
All others	17.1	19.6
Superquinn	8.2	8.9
Lidl	4.0	1.1
Centra	2.9	2.9
Spar	2.6	2.5
Aldi	1.7	0.5
Total	**100**	**100**

Source: RGDATA.

The growth of retailer's own label food products has contributed to changing the balance of power in the food supply chain in favour of retailers. Cut price discounting of own label food products has increasingly become an important weapon in the retailers' competitive armoury to improve market share. While these retailers pricing tactics result in lower prices to consumers they return lower margins to food processors and ultimately to food producers.

In the fresh milk sector retailers and particularly the larger multiples continue to grow in importance as distribution channels for fresh milk as doorstep deliveries continue the decline. Retailers now control 64% of the distribution channels for fresh milk while doorstep deliveries have a 19% share and catering has a 17% share.

Fig. 2.4 Fresh Milk Market Channels 1999-2003



Source: Industry Estimate.

In the Irish fresh milk market over 86% of sales of fresh milk in retail multiples are sold under processors' brands which contrasts with the market situation in the UK where 95% of fresh milk sales are sold as retailers' own label brands.

In October 2003 the retail multiple price war was extended to fresh milk when the price of own label fresh milk was reduced to 99c for 2 litre packs, equivalent to a discount of 41%, on the retail prices of processors' branded milk. Own label milk in multiples was retailing at a discount of 50% on doorstep milk prices.

In the same month retail multiples which were operating both in the State and Northern Ireland were retailing own label milk in 2 litre packs in their outlets in Northern Ireland at equivalent prices of €1.44 per pack, a price difference of 45 cent per pack compared with their own label milk prices in the State.

Northern Ireland

Milk supplies in Northern Ireland in 2003 were 1,777 million litres (391m gallons) from 4,425 milk suppliers and were equivalent to 34% of domestic milk supplies in the State.

Since 1993, annual milk supplies in Northern Ireland have increased by 468 million litres (103m gallons) or 36%. Since that time the U.K has been regarded as one region for milk quota purposes, which has enabled producers in Northern Ireland to purchase additional milk quotas.

Table 2.5 Northern Ireland Milk Supplies 1993-2003

	Milk Supplies	
	m litres	Index
1993	1,309	***100***
2000	1,627	125
2001	1,793	137
2002	1,774	136
2003	1,777	136

Source: RGDATA.

Average milk supplies per producer of 400,000 litres (88,000 gallons) were almost double the average milk supplies per producer of 206,000 litres (45,000 gallons) in the State.

Seasonal milk supply patterns in Northern Ireland differ significantly from the State, with a peak to trough month ratio of less than 1.9 times compared with 5.6 times in the State.

22% of Northern Irelands' milk supplies, including packaged milk, were exported to the State in 2003 compared with 17% in 2002.

In Northern Ireland 13% of annual milk supplies are processed for liquid milk consumption.

In 2003 the average producer price in Northern Ireland increased by 2.14 p/l or 13.6% increasing to 20.58 p/l in December. 58% of milk processed in Northern Ireland is not sourced directly from producers but is purchased by a farmer co-operative, which trades its milk by auction under one month and three month contracts. The co-operative processes almost 40% of its annual supplies through a subsidiary company which is the largest processor in the Northern Ireland liquid milk market. The general recovery in producer prices was reflected by a rise in auction prices for milk achieved by the co-operative with a weighted monthly average of 20.46 p/l (29.31 c/l) in 2003.

The auction prices in the last quarter of 2003 were 11% higher than the same period in 2002 with the average price over the 3 month period 31.87 c/l (22.13 p/g) compared with 31.19 c/l (19.85 p/g) in 2002 in that period.

In 2003 the dairy sector in Northern Ireland returned an average price to producers for all year round milk supplies equivalent to the average producer price for manufacturing milk supplies in the State, where milk supplies had a lower butterfat content and were supplied on a seasonal basis.

Between 1996 and 2001 average producer prices in Northern Ireland were higher than average producer prices for manufacturing milk supplies in the State by over 1 c/l but were less than producer prices for liquid milk in the State by almost 3 c/l. In 2002 however average producer prices in Northern Ireland fell below manufacturing milk prices in the State by 1 c/l and behind producer prices for liquid milk by 6 c/l.

3. NATIONAL REGISTERS OF THE AGENCY

Register of Processors

The number of registered processors (each group of registered processor companies within the State being taken as one) was sixteen following the merger of two processors during the year.

The number of heat treatment establishments licensed to process milk for liquid consumption was twenty-three. Twenty-two of these establishments were operated by processors registered with the Agency.

One processor operating a heat treatment establishment in the State has not registered with the Agency. This processor imports most of its milk supplies from Northern Ireland and purchases some supplies from a corporate milk purchaser, which purchases supplies from producers within the State. No contracts have been registered in respect of these supplies to date and enforcement procedures have been initiated.

Register of Producers

For the milk year 2002/03, the number of producers recorded in the Register of Producers at 31 December 2003 was 3,133, a net increase of 40 in the number of producers registered in the previous year.

Table 3.0 Register of Producers

Year	Registered Producers	De-registered Producers	New Producers
1995/96	3,360	2	2,472
1996/97	3,344	57	41
1997/98	3,300	142	98
1998/99	3,181	129	10
1999/00	3,209	66	94
2000/01	3,359	25	175
2001/02	3,093	282	16
2002/03	3,133	58	98

Register of Producers as at 31 December in each year.

In 2002/2003, 98 new producers were registered and 58 producers were deregistered, following notification to the Agency that they had permanently ceased to supply milk for processing for liquid consumption. This notification procedure results in some producers, who have no registered contracts in place, remaining on the Register of Producers until such notifications are received.

Register of Contracts

Table 3.1 Register of Contracts

Milk Year	Number of contracts
1995/96	3,344
1996/97	3,284
1997/98	2,908
1998/99	2,833
1999/00	2,762
2000/01	2,837
2001/02	2,720
2002/03	2,736

Register of Contracts at 31 December in each year.

For the milk year 2002/03, 2,736 was the number of milk supply contracts between processors and producers registered was as 31 December 2003, a net increase of 16 contracts on the previous year. During the year 2,720 supplementary agreements renewing milk contracts were submitted and registered by the Agency pursuant to Section 6 (2) (d) of the Act and 98 new contracts were registered. 82 contracts were de-registered as supplemental agreements renewing these contracts were not submitted to the Agency.

Since 1995/96 the number of contracts registered with the Agency has fallen by 608 or 18%.

The Register of Contracts is maintained as an open register, which allows producers and processors to register contracts in respect of individual milk years. Contracts continue to be registered throughout the year.

Table 3.2 Contract Types

Milk Year	Total	Contract Types All Year Round	Winter Months Only
1995/96	3,344	3,206	138
1996/97	3,284	3,151	133
1997/98	2,908	2,783	125
1998/99	2,833	2,709	124
1999/00	2,762	2,642	120
2000/01	2,837	2,725	112
2001/02	2,720	2,620	100
2002/03	2,736	2,583	153

Register of Contracts at 31 December each year.

Table 3.3 Classification of Contracts

Contract Type	Contracts* 2002/03		Contracts* 2001/02		Supplies 2002/03		Supplies 2001/02		Average Supplies Per Contract 2002/03
	number	%	number	%	m litres	%	m litres	%	litres
Primary	1,687	62	2,099	77	275.8	59	364.0	79	163,485
Secondary	367	13	–	–	95.5	20	–	–	262,942
Other	529	19	521	19	86.7	19	87.6	19	162,003
All Year Round	**2,583**	**94**	**2,620**	**96**	**458.0**	**98**	**451.6**	**98**	**177,313**
Winter Months Only	153	6	100	4	10.1	2	7.1	2	66,013
Total	**2,736**	**100**	**2,720**	**100**	**468.1**	**100**	**458.7**	**100**	**171,089**

** Contracts registered on 31 December 2003 and 2002 respectively.*

All Year Round contracts continued to be the main contract type representing 94% of all contracts. Winter Months Only contracts represented 6% of all contracts.

Under the 2,736 milk supply contracts, a total of 468.1 million litres of milk for heat treatment for liquid consumption were purchased compared with 458.7 million litres in the previous year under 2720 contracts. This represented an increase of 16 in the number of registered contracts and an increase of 9.4 million litres in milk supplies purchased.

Average supplies per contract increased to 171,089 litres from 168,640 litres in the previous year, an increase of 1%.

All Year Round contracts numbered 2,583. Under these contracts 458 million litres of milk were purchased, representing 94% of all contracts and 98% of milk supplies. Winter Months Only contracts numbered 153 under which 10.1 million litres of milk were purchased representing 6% of all contracts and 2% of milk supplies.

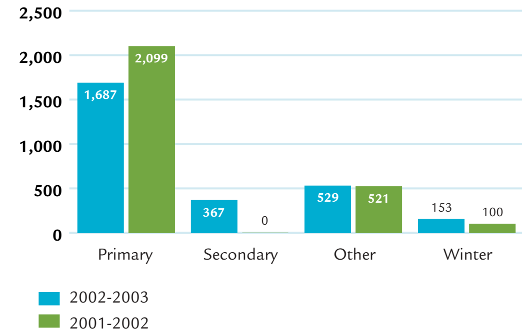
The Primary Type of contract is the All Year Round contract with a Flat Price system and a seven months winter price premium period (September to March). Under the 1,687 Primary Type contracts, 275.8 million litres were purchased representing 62% of all contracts and 59% of milk supplies.

The Secondary Type of contract is an All Year Round contract with a Flat Price System and a six months winter price premium period (October to March). Under the 367 Secondary Type of All Year Round contracts, 95.5 million litres were purchased representing 13% of all contracts and 20% of milk supplies.

Under the 529 Other Types of All Year Round contracts which varied in their pricing systems, 85.7 million litres were purchased. This represented 19% of all contracts and 19% of milk supplies.

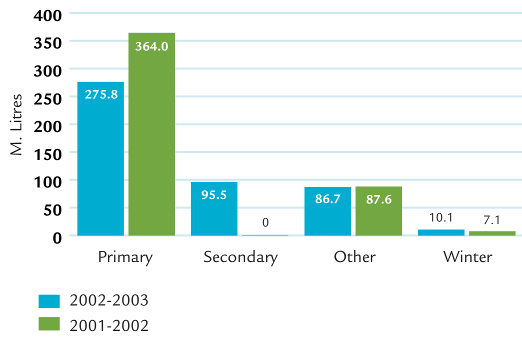
The number of Primary Type contracts fell by 412 and the milk supplies covered by these contracts fell by 88.2 million litres as three processors (two of which had previously merged during the year) changed from a Primary Type contract to a Secondary Type contract with a six months winter premium period (October to March). Secondary Type contracts now represent 13% of contracts and 20% of milk supplies under all contracts.

Fig. 3.4 Contract Types – Number



* *The Secondary Type contract was introduced in 2003.*

Fig. 3.5 All Contract Types/Milk Supplies



* *The Secondary Type contract was introduced in 2003.*

4. MILK PRICING SYSTEMS

Table 4.0 Classification of Registered Contracts by Pricing Systems

	Contracts				Milk Supplies			
	2002/03		2001/02		2002/03		2001/02	
Pricing Systems	number	%	number	%	m litres	%	m litres	%
Flat System								
All Year Round Contracts	2,239	82	2,282	84	396.4	85	389.5	85
Winter Contracts	75	3	73	3	5.3	1	4.9	1
Total	**2,314**	**85**	**2,355**	**87**	**401.7**	**86**	**394.4**	**86**
MMP System								
All Year Round Contracts	344	12	338	12	61.6	13	62.1	13
Winter Contracts	78	3	27	1	4.8	1	2.2	1
Total	**422**	**15**	**365**	**13**	**66.4**	**14**	**64.3**	**14**
Total All Pricing Systems	**2,736**	**100**	**2,720**	**100**	**468.1**	**100**	**458.7**	**100**

Registered at 31 December 2003 and 31 December 2002 respectively. Figures adjusted for rounding.

Two systems of milk pricing are used by processors when purchasing milk from producers for processing for liquid consumption – the Flat Rate Price System (Flat System) and the Manufacturing Milk Price plus bonus System (MMP System).

The Flat System is the main pricing system and is used both in the All Year Round contracts and in the Winter contracts. Under the Flat System, milk is paid for at a price per litre, with no price differentiation for milk constituents.

The Flat System was applied in 2,314 contracts (85% of contracts) and to 401.7 million litres of milk purchased under those contracts (86% of milk supplies purchased). This represented a decrease of 41 in the number of Flat System contracts and an increase of 7.3 million litres in the milk volumes purchased under the Flat System when compared with the previous year.

Fig. 4.1 All Contracts – 2002-2003 Pricing Systems

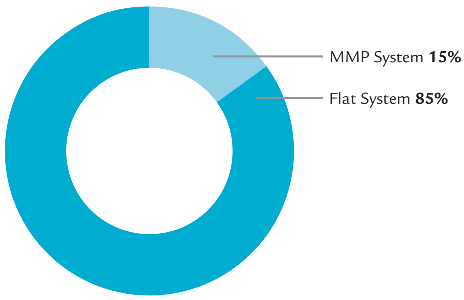
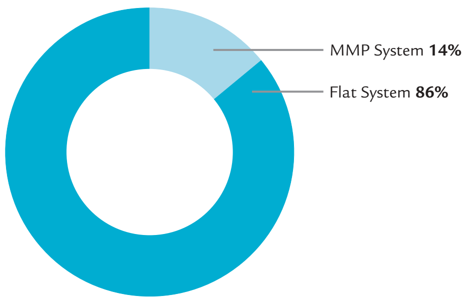


Fig. 4.2 All Contracts – 2002-2003 Milk Supplies



Under the MMP System, a milk price linked to manufacturing milk prices is paid with the addition of variable or fixed bonus payments. Bonus payments are generally dependent on the achievement of minimum percentages of annual EU quota being supplied in specified winter months. The manufacturing prices used are normally flat monthly prices for manufacturing milk containing 3.6% butterfat and 3.3% protein. Five processors used this System.

The MMP System was applied in 422 contracts (15% of contracts) and to 66.4 million litres purchased under those contracts (14% of milk purchased under registered contracts), an increase of 57 in the number of such contracts and an increase of 2.1 million litres in milk volumes purchased compared with the previous year.

Table 4.3 Classification of Pricing Systems by Type of Contract

	Contracts				Milk Supplies			
	2002/03		2001/02		2002/03		2001/02	
Contract Type	number	%	number	%	m litres	%	m litres	%
All Year Round – Primary	1,687	62	2,099	77	275.8	59	364.0	79
All Year Round – Secondary	367	13	–	–	95.5	20	–	–
All Year Round – Other	185	7	183	7	25.1	6†	25.5	6
All Year Round Flat System	**2,239**	**82**	**2,282**	**84**	**396.4**	**85**	**389.5**	**85**
All Year Round MMP System	344	12	338	12	61.6	13	62.1	13
Total All Year Round	**2,583**	**94**	**2,620**	**96**	**458.0**	**98**	**451.6**	**98**
Winter Flat System	75	3	73	3	5.3	1	4.9	†1.5
Winter MMP System	78	3	27	1	4.8	1	2.2	†0.5
Total Winter Months	**153**	**6**	**100**	**4**	**10.1**	**2**	**7.1**	**†2**
Total All Contracts	**2,736**	**100**	**2,720**	**100**	**468.1**	**100**	**458.7**	**100**

Registered at 31 December 2003 and 31 December 2002.
†Adjusted for Rounding.

The Flat System was applied in 2,239 All Year Round contracts and to 396.4 million litres purchased under those contracts, representing 82% of all registered contracts and 85% milk supplies. It was also applied in 75 Winter contracts, and to 5.3 million litres purchased under those contracts representing 3% of all contracts and 1% of milk supplies purchased under all contracts.

The MMP System was applied in 344 All Year Round contracts covering 61.6 million litres representing 12% of all registered contracts and milk supplies. It was also applied in 78 Winter contracts covering 4.8 million litres of milk purchased.

Since 1995, prices paid under the MMP System for All Year Round contracts have on average been lower than those paid under the Flat System. In 2002/03 the price differential between Flat System prices and MMP System prices was 1.27 c/l (4.6 p/g) compared with 1.69 c/l (6 p/g) in the previous milk year.

The Primary Type of contract is the main type of All Year Round contract using the Flat System and a seven month winter premium period (September to March).

The Secondary Type of All Year Round contract uses a Flat System and a six month winter premium period. Under most Secondary Type contracts all the milk supplied by producers during the winter premium period is paid for at liquid price.

Fig. 4.4 All Contract Types – Pricing Systems

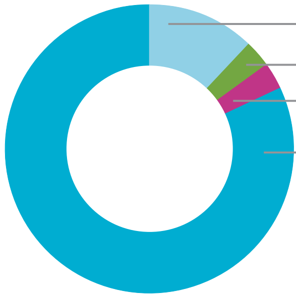
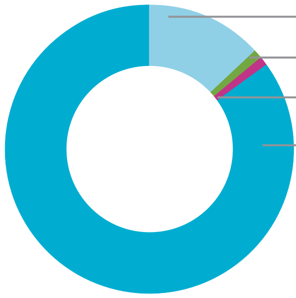


Fig. 4.5 All Contract Types – Milk Supplies



5. ALL YEAR ROUND CONTRACTS – PRICES PAID

Table 5.0 All Year Round Contracts – Pricing Systems/Milk Supplies

	Contracts				Milk Supplies			
	2002/03		2001/02		2002/03		2001/02	
Pricing Systems	number of contracts	% of contracts	number of contracts	% of contracts	m litres	% of All Year Round milk supplies	m litres	% of All Year Round milk supplies
Flat System	2,239	87	2,282	87	396.4	87	389.5	86
MMP System	344	13	338	13	61.6	13	62.1	14
Total	**2,583**	**100**	**2,620**	**100**	**458.0**	**100**	**451.6**	**100**

Under the 2,583 All Year Round contracts 458 million litres of milk were purchased representing 94% of all contracts and 98% of all milk supplies, a reduction of 37 in the number of these contracts and an increase of 6.4 million litres in milk volumes purchased under these contracts compared with the previous year. The number of these contracts utilising the Flat System fell by 43 to 2,239 while the volumes of milk purchased under these contracts rose by 6.9 million litres to 396.4 million litres representing 87% of All Year Round contracts and 86% of milk supplies purchased under these contracts.

Fig. 5.1 All Year Round Contracts – Pricing Systems for Contracts – Number

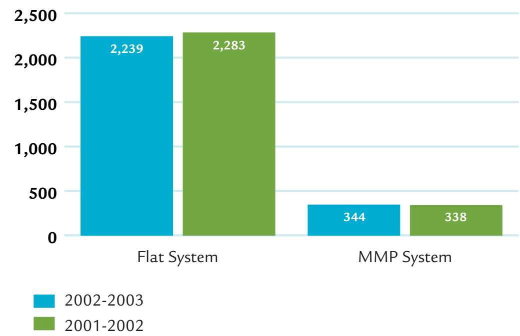


Fig. 5.2 All Year Round Contracts – Pricing Systems for Milk Supplies

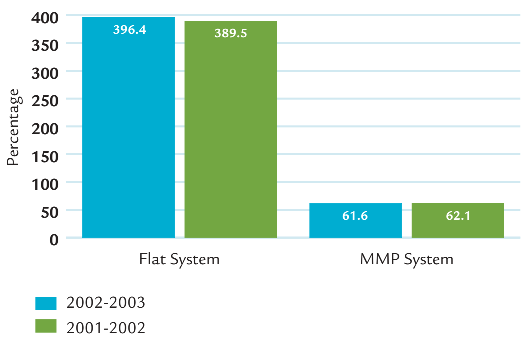


Table 5.3 All Year Round Contracts – Flat System – Prices Paid

	Contracts		Milk Supplies						
Months	number	% of All Year Round milk supplies	m litres	% of All Year Round milk supplies	Number of Process-ors	2002/03 Flat Prices Annual* Average c/l	2001/02 Flat Prices Annual Average c/l	2002/03 Flat Prices Annual Average p/g	2001/02 Flat Prices Annual Average p/g
Primary Type Contracts									
Winter Sep/Mar (7)	1,687	66†	162.4	35	6	35.91	36.62	128.6	131.0
Summer Apr/Aug (5)			113.4	25		28.28	28.33	101.4	101.4
Sub Total	**1,687**	**66†**	**275.8**	**60**	**6**	**32.83**	**33.14**	**117.5**	**118.6**
Secondary Type Contracts									
Winter Oct/Mar (6)			44.5	10	1	35.82	–	128.2	–
Summer Apr/Sep (6)	367	14	51.0	11	1	26.94	–	96.4	–
Sub Total	**367**	**14**	**95.5**	**21**	**2**	**31.09**	**–**	**111.3**	**–**
Other Type Flat Contracts									
Oct/Sep (12)	185	7	25.1	6	6	32.59	32.59	116.7	116.7
Total	**2,239**	**87**	**396.4**	**87**	**14**	**32.40**	**33.11**	**116.0**	**118.5**

** Prices are in respect of All Year Round contracts which apply the Flat System. Prices and are ex farm, attainable prices, exclusive of VAT and inclusive of all quality and other bonuses and before deduction of statutory levies and collection charges. Prices are weighted by monthly volumes purchased.*

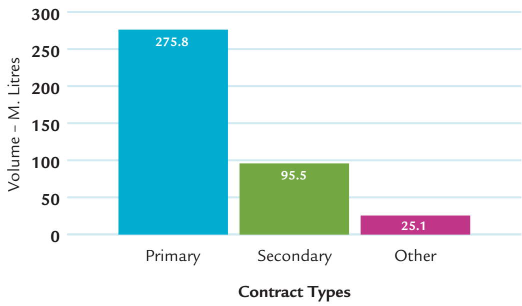
† Figures adjusted for rounding.
– System not in use.

The Primary Type contracts now represent 66% of All Year Round contracts and 60% of supplies under All Year Round contracts. The new Secondary Type contract represent 14% of All Year Round contracts and 21% of supplies under All Year Round contracts.

Two processors operated Secondary Type contracts.

The Other Type contracts numbered 185 under which 25.1 million litres (5.5m gallons) were purchased, representing 7% of All Year Round Flat System contracts and 6% of milk purchased under those contracts. Six processors operated these Other Type contracts.

Fig. 5.4 Structure of All Year Round Contracts – Flat Systems – Milk Supplies



The annual average prices paid by the six processors using Primary Type contracts in 2002/03 and in the previous year are set out in Table 5.5 above. Annual average prices paid under these 1,687 contracts ranged from 32.35 c/l (115.82 p/g) to 33.14 c/l (118.66 p/g) in 2002/03 a difference of 0.79 c/l (2.83 p/g). The average annual Flat price paid under all Primary Type contracts was 32.83 c/l (117.5 p/g).

Under the 367 Secondary Type All Year Round Contracts the average annual price was 31.09 c/l (111.3 p/g).

Table 5.5 All Year Round Primary Type Contracts – Flat System – Prices Paid

	Annual average prices		Winter Prices 7 months		Summer Prices 5 months		Change in annual average prices	Change in annual average prices
	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02		
	c/l	c/l	c/l	c/l	c/l	c/l	c/l	p/g
A	33.14	34.31	35.00	36.15	30.00	31.42	(1.17)	(4.19)
B	32.94	33.72	34.84	35.61	29.89	30.72	(0.78)	(2.79)
C	–	33.56	–	35.93	–	30.53	–	–
D	33.07	33.60	34.62	35.61	29.89	30.72	(0.53)	(1.90)
E	32.35	34.65	33.78	36.31	28.49	30.72	(2.30)	(8.23)
F	32.75	33.45	36.31	37.19	27.82	28.20	(0.70)	(2.51)
G	33.08	33.12	34.00	35.10	31.22	29.90	(0.04)	(0.14)
H	–	31.84	–	37.19	–	26.99	–	–
I	–	32.51	–	36.83	–	27.0	–	–
All	**32.83**	**33.14**	**35.91**	**36.62**	**28.28**	**28.33**	**(0.31)**	**(1.11)**
p/g	***117.5***	***118.6***	***128.6***	***131.1***	***101.2***	***101.4***	***1.11***	

Prices are in respect of Primary Type contracts which apply the Flat System and are ex farm, attainable prices, exclusive of VAT and inclusive of all quality and other bonuses and before deduction of statutory levies and collection charges. Prices are weighted by monthly volumes purchased. Three contracts using the Primary Type Pricing System ceased to be in use (–).

In 2002/03 the processors operating Primary Type contracts H and I above merged and subsequently changed to a Secondary Type Contract (Type 1 in Table 5.6).The Processor operating the Primary Type contract C above in 2001/02 changed to a Secondary Type contract in 2002/03 (Type 2 in Table 5.6). *This processor also continued to operate a contract applying an MMP System.*

Table 5.6 All Year Round Secondary Type Contracts – Flat System – Prices Paid

	Average Annual Price	Winter Prices 6 month	Summer Prices 6 month
Contract	c/l	c/l	c/l
Type 1	30.88	36.02	26.40
Type 2	31.11	35.80	26.99
Total	**31.09**	**35.82**	**26.94**
p/g	***111.3***	***128.2***	***96.4***

Prices are in respect of Secondary Type contracts which apply Flat System prices and are ex farm, attainable prices, exclusive of VAT and inclusive of all quality and other bonuses and before deduction of statutory levies and collection charges. Prices are weighted by monthly volumes purchased.

Table 5.7 Other Types All Year Round Contracts – Flat System – Prices Paid 2002/03

	Annual Price	Winter Price	Summer Price
Contract	c/l	c/l	c/l
A	33.59	26.29	29.89
B	30.86	33.28	28.72
C	30.35	32.90	27.18
D	33.97	36.78	28.45
E	26.68	27.58	26.22
F	32.12	32.12	–
G	39.93	40.01	39.85
Total	**32.59**	**35.34**	**28.62**
p/g	***116.7***	***126.5***	***102.4***

Prices are in respect of Other Type All Year Round contracts operating pricing systems other than the Primary Type or the Secondary Type apply the Flat System and are ex farm, attainable prices, exclusive of VAT and inclusive of all quality and other bonuses and before deduction of statutory levies and collection charges. Prices are weighted by monthly volumes purchased.

Table 5.8 All Year Round Contracts – MMP System – Prices Paid

	Contracts Number	Contracts % of All Year Round Contracts	Supplies m litres	Supplies % of Supplies All Year Round Contracts	Number of Processors	Annual Weighted Average Base Price		Bonus Range		Annual Weighted Average Monthly Bonus		Annual Average (Base Price Plus Bonus)	
	2002/03	2002/03	2002/03	2002/03	2002/03	2002/03 c/l	2001/02 c/l	2002/03 c/l	2001/02 c/l	2002/03 c/l	2001/02 c/l	2002/03 c/l	2001/02 c/l
(A) Variable Monthly Winter Bonus													
Type 1	155	6	28.8	6	1	26.46	27.46	3.03-8.38	3.35-6.98	3.84	3.69	30.30	31.15
Type 2	41	2	6.6	2*	26.73		27.28	1.1-19.58	1.40-18.15	5.63	5.21	32.36	32.49
Sub Total	**196**	**8**	**35.4**	**8**	**1**	**26.50**	**27.44**	**1.1-19.58**	**1.40-18.15**	**4.18**	**3.91**	**30.68**	**31.35**
(B) Variable Monthly Bonus													
Type 1	39	1	7.5	1*	1	26.41	28.06	1.18-12.5	0.84-8.31	6.22	4.55	32.63	32.61
Type 2	53	2	6.3	1	1	28.23	28.35	0.56-5.58	0.56-5.59	3.15	3.26	31.38	31.61
Sub Total	**92**	**3**	**13.8**	**2**	**2**	**27.24**	**28.25**	**0.56-12.5**	**0.56-8.31**	**4.81**	**3.68**	**32.05**	**31.93**
(C) Fixed Monthly Winter Bonus													
Type 1	31	1	4.3	1	1	26.46	27.53	13.68	12.57	4.94	4.57	31.40	32.10
Type 2	25	1	8.1	2	1	26.76	27.89	8.38	6.98	4.63	3.03	31.39	30.92
Sub Total	**56**	**2**	**12.4**	**3**	**2**	**26.66**	**27.78**	**8.38-13.68**	**6.98-12.57**	**4.74**	**3.51**	**31.40**	**31.29**
Total	**344**	**13**	**61.6**	**13**	**5**	**26.70**	**27.64**	**0.56-19.58**	**0.56-18.15**	**4.43**	**3.78**	**31.13**	**31.42**

Manufacturing prices and bonuses paid ex farm, exclusive of VAT and inclusive of all quality bonuses and before statutory levies and collection charges.
**Adjusted for rounding.*

The average annual price paid under the Other Type All Year Round contracts applying the Flat Price System was 32.59 c/l and ranged from 30.35 c/l to 39.93 c/l with the highest price being paid by a small processor; specialising in organic milk.

All Year Round Contracts – MMP System

The MMP System was applied in 344 All Year Round contracts and to 61.6 million litres of milk purchased under those contracts, representing 13% of all, All Year Round contracts and 13% of milk purchased under those contracts. This System was operated by five processors. One processor operated two types of contracts.

Under the All Year Round contracts using the MMP System, the average annualised monthly bonus added to manufacturing milk prices in 2002/03 was 4.43 c/l (15.9 p/g) representing an increase of 0.65 c/l (2.3 p/g) on the previous year.

The annualised average price (base price and monthly bonus) was 31.13 c/l (111.5 p/g) compared with 31.42 c/l (112.5 p/g) in the previous year, a reduction of 0.29 c/l (1.0 p/g). While most processors increased bonuses over manufacturing prices the reductions in the average base manufacturing prices price more that offset the increases in bonuses.

The MMP System applies a bonus to a base manufacturing price. There were three methods of bonus payments:

A. Variable Monthly Winter Bonus

A variable bonus was paid in specified winter months. This pricing method was applied in 196 of the All Year Round contracts and to 35.4 million litres of milk purchased under those contracts representing 8% of All Year Round contracts and related milk supplies. One processor operated two types of variable bonuses.

In the first type, which applied to 155 contracts, bonuses ranging from 3.03 c/l (11 p/g) to 8.38 c/l (30 p/g) were paid during six winter months (October to March) on a weighted average base price of 26.46 c/l (94.74 p/g), a decrease of 1 c/l (3.58 p/g) on the weighted average base price in 2001/02. The annualised average monthly bonus was 3.84 c/l (17.5 p/g), an increase of 0.15 c/l (0.5 p/g) on the previous year but insufficient to maintain the annual average price (base price and bonus) at the 2001/02 level which declined by 0.85 c/l (3p/g).

In the second type, which applied to 41 contracts, bonuses ranging from 1.1 c/l (4 p/g) to 19.58 c/l (70 p/g) were paid during 5 winter months (October to February) on a weighted average base price of 26.73 c/l (95.7 p/g) a decrease of 0.55 c/l (2.5 p/g) in the weighted average base price in the previous year. The annualised average monthly bonus was 5.63 c/l (20 p/g) an increase of 0.42 c/l (2.0 p/g) on the previous year, but was insufficient to maintain the annual average price (base price and bonus) at the 2001/02 level, which declined by 0.13 c/l (0.5 p/g).

The annual average price (base price and bonus) was 30.68 c/l (109.8 p/g), a reduction of 0.67 c/l (2.4 p/g) on the previous year's price.

B. Variable Monthly Bonus

Under this pricing method a variable bonus was paid on manufacturing prices in each calendar month.

This method was applied in 92 of the All Year Round contracts under which 13.8 million litres of milk were purchased, representing 2% of All Year Round contracts and related milk supplies.

This method was operated by two processors, who applied two types of bonus systems.

In the first type, bonuses ranging from 1.18 c/l (4.2 p/g) to 12.5 c/l (44.7 p/g) were paid in each calendar month, on a weighted average base price of 26.41 c/l (94.6 p/g), a reduction of 1.65 c/l (5.9 p/g) on the previous years price. The annualised average monthly bonus was 6.22 c/l (22.3 p/g) compared with 4.55 c/l (16.3 p/g) in 2001/02.

In the second type, the bonuses ranged from 0.56 c/l (2 p/g) to 5.58 c/l (20 p/g) in 2002/03, the same as in 2001/02. The annualised average monthly bonus was 3.15 c/l (11.2 p/g), slightly less than in the previous year.

The annual average price (base price and bonus) was 32.05 c/l (114.75 p/g), an increase of 0.12 c/l (0.4 p/g) on the previous year's price.

C. Fixed Monthly Winter Bonus

Under this pricing method a monthly fixed bonus was paid in specified winter months.

This method was applied in 56 of the All Year Round contracts under which 12.4 million litres of milk were purchased representing 2% of the All Year Round contracts and 3% of milk purchased under these contracts. This method was operated by two processors with two different types of pricing systems.

In the first type, a bonus of 13.68 c/l (49 p/g) was paid, an increase of 1.11 c/l (4 p/g) on the previous year on a weighted average base price of 26.46 c/l (94.7 p/g) in four winter months (November to February). The annualised average bonus was 4.94 c/l (17.7 p/g) compared with 4.57 c/l (16.4 p/g) in 2001/02, an increase of 0.37 c/l (1.3 p/g).

In the second type, a bonus of 8.38 c/l (30 p/g) was paid in six winter months (October to March) on a weighted average base price of 26.76 c/l (95.8 p/g). The annualised average bonus was 4.63 c/l (16.6 p/g) compared with 3.03 c/l (11 p/g) in 2001/02.

The annualised average price (base price and bonus) was 31.4 c/l (112.42 p/g), an increase of 0.11 c/l (0.4 p/g) on the previous year's price.

Table 5.9 All Year Round Contracts

All Year Round Contracts – Average Flat Prices Paid

	2002/03 2,239 contracts	396.4m litres	2001/02 2,282 contracts	389.5m litres
Period	c/l	p/g	c/l	p/g
Winter Months, September-March (7)	35.62	127.5	36.51	130.7
Summer Months, April-August (5)	27.97	100.1	28.39	101.6
Annual Average	**32.40**	**116.0**	**33.11**	**118.5**

All Year Round Contracts – Average MMP Prices Paid

	2002/03 344 contracts	61.6m litres	2001/02 338 Contracts	62.1m litres
Period	c/l	p/g	c/l	p/g
Winter Months, September-March (7)	32.83	117.5	34.01	121.7
Summer Months, April-August (5)	27.06	96.9	27.14	97.2
Annual Average	**31.13**	**111.4**	**31.42**	**112.5**

All Year Round Contracts – Average Combined Flat Prices and MMP Prices Paid

	2002/03 2,583 contracts	458.0m litres	2001/02 2,620 contracts	451.6m litres
Period	c/l	p/g	c/l	p/g
Winter Months, September-March (7)	35.20	126.0	36.17	129.5
Summer Months, April-August (5)	27.88	99.8	28.23	101.1
Annual Average	**32.28**	**115.6**	**32.93**	**117.9**

Prices are in respect of All Year Round contracts which apply the Flat System or the MMP System and are ex farm attainable prices, exclusive of VAT and inclusive of all quality and other bonuses and before deductions of statutory levies and collection charges. Prices are weighted by monthly volumes purchased. In the case of contracts applying the MMP System, prices are based on a standard milk composition of 3.6% butterfat, 3.3% protein and/or minimum winter month volume requirements. Payment periods have been standardised to a seven winter months premium period and a five summer months period.

The average annual Flat Price paid to registered producers under the All Year Round contracts in 2002/03 was 32.40 c/l (116.0 p/g), a decrease of 0.71 c/l (2.5 p/g) on the previous year. During the seven winter months, the weighted average price was 35.62 c/l (127.5 p/g), a decrease of 0.89 c/l (3.2 p/g). The average summer price was 27.97 c/l (100.1 p/g), a decrease of 0.42 c/l (1.5 p/g) compared with the previous year.

Table 5.10 All Year Round contracts 1995/96 to 2002/03
price differential for Flat System and MMP System paid differentials

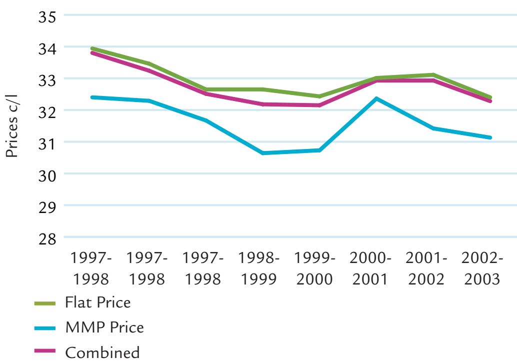
	All Year Round Average Flat Prices		All Year Round Average MMP Prices		Differential	
Year	c/l	p/g	c/l	p/g	c/l	p/g
1995/96	33.77	120.9	32.30	115.6	1.47	5.3
1996/97	33.46	119.8	32.28	115.6	1.18	4.2
1997/98	32.65	116.9	31.67	113.4	0.98	3.5
1998/99	32.65	116.9	30.64	109.7	2.01	7.2
1999/00	32.43	116.1	30.73	110.0	1.70	6.0
2000/01	33.01	118.2	32.36	115.9	0.65	2.3
2001/02	33.11	118.5	31.42	112.5	1.69	6.0
2002/03	32.40	116.0	31.13	111.4	1.27	4.6

The average annual price paid under the MMP System to registered producers in 2002/03 under the All Year Round contracts was 31.13 c/l (111.4 p/g), a decrease of 0.29 c/l (1.1 p/g) on the previous year. The average winter price fell by 1.18 c/l (4.2 p/g) while the average summer month price fell by 0.08 c/l (0.3 p/g).

Since 1995 average annual prices paid to producers under the MMP Systems have been lower than prices paid under the Flat Systems.

The annual milk price paid in the All Year Round contracts under both the Flat System and the MMP System was 32.28 c/l (115.6 p/g) a decrease of 0.65 c/l (2.30 p/g) on the previous year. The price paid during the seven winter months was 35.20 c/l (126.0 p/g) a decrease of 0.97 c/l (3.5 p/g). During the five summer months the price paid was 27.88 c/l (99.8 p/g), a reduction of 0.35 c/l (1.3 p/g) on the previous year.

Fig. 5.11 All Year Round Contracts – Average Flat and MMP Prices



6. WINTER CONTRACTS – PRICES PAID

Under the Winter contracts a producer undertakes to supply milk for processing for liquid consumption during some or all of the prescribed winter months (October to February). Such contracts represent a small proportion of registered milk contracts and supplies (6% of all contracts and 2% of milk supplies).

In 2002/03, the number of Winter contracts was 153, an increase of 53 in the number of Winter contracts registered in the previous year. Under these contracts, 10.1 million litres of milk were purchased representing an increase of 3 million litres in the volumes of milk purchased in the previous year. The increase in contracts and milk supplies was due to one processor contracting with new producers for winter milk supplies only.

Table 6.0 Winter Contracts

	Contracts				Milk Supplies			
Payment System	2002/03 number	2001/02 number	2002/03 % of Winter Contracts	2001/02 % of Winter Contracts	2002/03 m litres	2001/02 m litres	2002/03 % of Winter Contracts	2001/02 % of Winter Contracts
Flat System	75	73	49	73	5.3	4.9	52	69
MMP System	78	27	51	27	4.8	2.2	48	31
Total	**153**	**100**	**100**	**100**	**10.1**	**7.1**	**100**	**100**

Fig. 6.1 Winter Contracts – 2002-2003 Pricing Systems

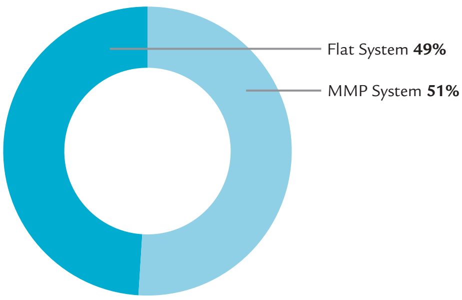


Fig. 6.2 Winter Contracts – 2002-2003 – Supplies – Pricing Systems

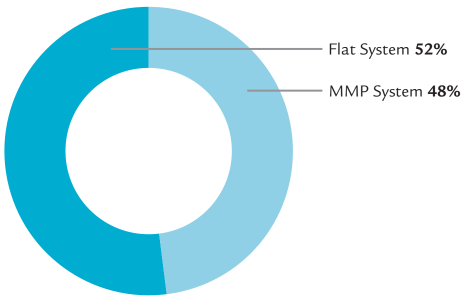


Table 6.3 Winter Contracts – Pricing Systems

	Price		Contracts				Milk Supplies					
	2002/03	2002/01	2002/03		2001/02		2002/03		2001/02		2002/03	2001/02
Pricing System	Average Price – Winter Months c/l	Average Price – Winter Months c/l	Number	% of Winter Months Contracts	Number	% of Winter Months Contracts	m litres	% of Winter Months Contracts	m litres	% of Winter Months Contracts	Number of Processors	Number of Processors
Flat System	36.5	37.5	75	49	73	73	5.3	52	4.9	69	4	3
MMP System	32.4	37.4	78	51	27	27	4.8	48	2.2	31	1	1
Total	**34.5**	**37.5**	**153**	**100**	**100**	**100**	**10.1**	**100**	**7.1**	**100**	**5**	**4**

Figures adjusted for rounding.

Five processors had Winter Months Only contracts in place. Four processors applied the Flat System.

In 75 of the Winter Contracts the Flat System was applied to 5.3 million litres at prices averaging 36.5 c/l (130.7 p/g) for winter month periods ranging from 4 to 7 months, a reduction of 1 c/l (3.6 p/g) on the previous year. These contracts represented 49% of the Winter contracts and 52% of the milk purchased under those contracts.

In 78 of the Winter contracts the MMP System was applied to 4.8 million litres of milk at prices averaging 32.4 c/l (116.0 p/g) for five winter months (November to February), a reduction of 5 c/l (17.9 p/g) on the previous year. They represented 51% of the Winter contracts and 48% of the milk purchased under those contracts.

7. ALL CONTRACTS – PRICES PAID

Table 7.0 Prices Paid Under All Contracts and Pricing Systems

	2002/03 2,736 Contracts for 468.1m litres		2001/02 2,720 Contracts for 458.7m litres	
Period	c/l	p/g	c/l	p/g
Winter Months September-March (7)	35.15	125.8	36.18	129.5
Summer Months April-August (5)	27.88	99.8	28.23	101.1
Annualised	**32.28**	**115.6**	**32.95**	**118.0**

** Prices are in respect of both All Year Round and Winter contracts utilising the Flat System and the MMP System and are ex farm attainable prices exclusive of VAT and inclusive of all quality and other bonuses and before deductions of statutory levies and collection charges. Prices are weighted by monthly volumes purchased. Payment periods on all contracts are standardised to a seven winter months premium period and a five summer months period.*

The annual average price for all contracts and milk supplies in the milk year 2002/03 was 32.28 c/l (115.6 p/g), a decrease of 0.67 c/l (2.4 p/g) on the previous year.

The average price paid in the winter months was 35.15 c/l (125.8 p/g), a decrease of 1.03 c/l (3.7 p/g) on the previous year. In the summer months the average price paid was 27.88 c/l (99.8 p/g), a reduction of 0.35 c/l (1.3 p/g) on the previous year.

In the calendar year 2003 the annual average price paid was 32.19 c/l (115.2 p/g), a decrease of 0.51 c/l (1.9 p/g) compared with 2002.

8. PROCESSORS

Processors

Industry consolidation in the processing sector continued during the year with the number of processors reducing from 17 to 16 following the merger of two processors.

The industry structure is highly concentrated. Two processors with annual milk supplies in excess of 40 million litres (8.8m gallons) account for 71% of all registered contracts and 72% of registered milk supplies.

Five processor groups operated more than one heat treatment establishment. The two largest processors with 70% of domestic sales, operated 7 heat treatment establishments while the 14 other smaller processors with 30% of sales operated 16 plants.

Three processors with annual supplies between 20 million and 40 million litres (4.4m and 8.8m gallons) accounted for 12% of registered contracts and 12% of registered milk supplies.

Twelve processors with annual milk supplies for processing for liquid consumption of less than 20 million litres (4.4m gallons) accounted for 17% of all registered contracts and 16% of milk supplies.

Processing Plants

The number of heat treatment establishments licensed to process milk for liquid consumption in the State was twenty three.

Twenty two of these processing plants were operated by processors registered with the Agency. Average annual milk supplies processed per plant were 23 million litres (5m gallons) including imported supplies.

Table 8.0 Structure of Registered Contracts by Processor Supply Bands 2002/03

Milk Supply Bands m litres	Number of Processors	Contracts		Total Contracted Supplies	
		number	%	m litres	%
0-20	12	354	17	73.8	16
20-40	2	323	12	54.8	12
Over 40	2	1,959	71	339.5	72
Total	**16**	**2,736**	**100**	**468.1**	**100**

**Contracts are minimum supply contracts. Actual purchases at liquid prices under these contracts were 468.1 million litres.*

9. STRUCTURE OF REGISTERED CONTRACTS BY CONTRACTED SUPPLIES

Table 9.0 Structure of Contracts by Contracted Supplies 2002/03

Contracted Supplies in Litres	Number	% of Contracts	Average Supplies Litres	% Supplies
0 to 99,999	1,169	43	54,895	14
100,000 to 199,999	855	31	143,982	27
200,000 to 299,999	358	13	243,500	19
300,000 to 399,999	152	5	342,624	12
400,000 to 499,999	84	3	449,448	8
500,000 to 599,999	45	2	540,030	5
600,000 to 699,999	26	1	658,982	4
Over 700,000	47	2	1,070,246	11
Total	**2,736**	**100**	**166,674**	**100**

Fig. 9.1 Distribution of Contracts/
Milk Supplies 2003-2003 by Milk Supply Bands

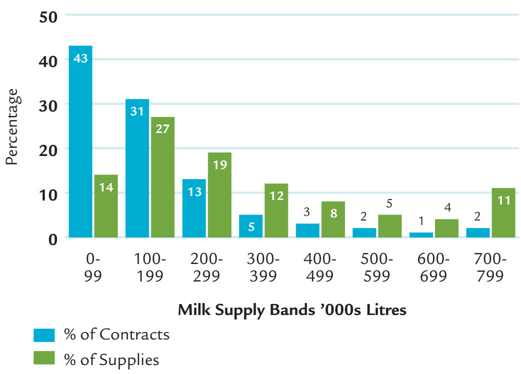
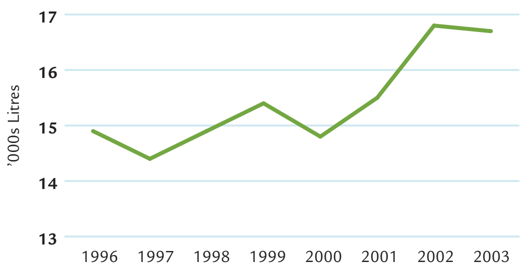


Fig. 9.2 Average Supplies per Contract 1996-2003



The structure of registered milk contracts is highly concentrated with 74% of the contracts with annual contracted supplies per contract of less than 200,000 litres accounting for 41% of the contracted supplies and 26% of the contracts with annual contracted supplies per contract greater than 200,000 litres accounting for 59% of contracted supplies.

- 2,024 contracts (74% of the contracts) were for annual supplies of less than 200,000 litres (44,000 gallons) and accounted for 41% of total supplies.

- 510 contracts (18% of the contracts) were for annual supplies of between 200,000 litres (44,000 gallons) and 399,999 litres (88,000 gallons) and accounted for 31% of supplies.

- 117 contracts (5% of contracts) were for annual supplies of between 400,000 litres (88,000 gallons) and 599,000 litres (132,000 gallons) and accounted for 12% of supplies.
- 26 contracts (1% of contracts) were for annual supplies in excess of between 600,000 litres (132,000 gallons) and 699,000 litres (154,000 gallons) and accounted for 4% of the supplies.
- 47 contracts (2% of contracts) were for annual supplies in excess of 700,000 litres (154,000 gallons) and accounted for 11% of the supplies.

Total supplies by registered milk producers amounted to 857 million litres (186m gallons) of which 54% was supplied for processing for liquid consumption and 46% for processing into manufactured dairy products.

Registered milk supply contracts are for minimum daily supplies of milk for processing for liquid consumption and differ from actual supplies.

Registered contracts provide for a planned level of daily supplies to processors by individual producers. Actual supplies may differ and provide a more accurate analysis of supplies.

Table 9.3 Structure of Contracts by Actual supplies by Producers in 2002/03

	Number of Suppliers	Average Supplies Litres	% of Suppliers	% of Supplies
0 to 99,999	1,124	100,795	41.1	12.1
100,000 to 199,999	813	296,877	29.7	25.1
200,000 to 299,999	396	496,338	14.4	20.5
300,000 to 399,999	176	699,315	6.4	13.0
400,000 to 499,999	103	890,945	3.8	9.7
500,000 to 599,999	42	546,243	1.5	4.9
600,000 to 699,999	31	639,704	1.1	4.2
Over 700,000	51	965,473	1.9	10.5
	2,736	171,116	100	100

In 2003 liquid milk producers (11% of producers in the State) supplied 16.7% of the total milk production within the State.

10. STRUCTURE OF MILK SUPPLIES OF REGISTERED PRODUCERS

Information to follow.

11. THE NATIONAL INSPECTORATE

Inspectors of the Agency conduct regular inspections of processors and producers and monitor the implementation of contract terms and supplies of milk to processors for liquid milk processing. Last year the inspectors carried out 228 inspections of processors and visited 23 producers

In the inspections at processor level, purchases of milk from registered producers are reconciled with sales of liquid milk and are checked for prices paid to producers. Data is further analysed with a view to assessing the adequacy of winter milk supplies in relation to winter milk sales.

Inspectors also visit individual producers and inspect monthly milk statements for volumes supplied and prices paid. These producer statements are then cross checked at the individual processor plants.

Monthly returns are submitted to the Agency by processors stating milk supplies purchased from producers and other processors for processing for liquid consumption, imports of milk for processing for liquid consumption, sales of milk for liquid consumption and for processing for liquid consumption

Processors have assisted the Agency by providing data for statistical analysis on a regular basis. In addition they have provided industry estimates where specific data is not available.

Data compiled by the inspectors is published in the Agency's Annual Report with the objective of improving price and supply information for the industry to aid competition and transparency.

12. MEETINGS OF THE AGENCY

Members	Meetings Attended 2003
Denis Murphy – Chairman	8
Eamonn Bray[1]	2
Daniel Joseph Corkery[2]	8
Patrick Jennings[3]	5
Donal Kelleher[2]	3
Diarmuid Lally[2]	6
Padraig Mulligan[2]	8
Patrick Brophy[4]	6
George Kearns[4]	7
James C Murphy[4]	6
John O'Callaghan[4]	1
Walter Maloney[4]	7
John Foster[5]	8
Richard Donohue[5]	6
Michael Kilcoyne[4]	8
Liam Woulfe[6]	4

1 *Elected 31 October 2003.*
2 *Re elected 31 October 2003.*
3 *Did not seek re election in October 2003.*
4 *Appointed 9 December 2003.*
5 *Appointed 14 January 2004.*
6 *Resigned 28 July 2003.*

The Agency held eight meetings during the year.

In 2003 the triennial election of producer members of the Agency by postal ballot by registered producers was held in accordance with the Milk (Regulation of Supply) Act 1994. Four of the previously serving members were re-elected – Mr. Daniel Corkery, Mr. Donal Kelleher, Mr. Diarmuid Lally and Mr. Padraig Mulligan. Mr. Eamonn Bray was elected to fill the seat previously held by Mr. Pat Jennings, who did not seek re election.

Eight of the other ordinary members were re-appointed by Ministerial appointment following nominations received from processor, consumer, distributor and retailer interests. Mr. John O'Callaghan was similarly appointed as a new processor representative to replace Mr. Liam Woulfe.

The Chairman and Chief Executive had meetings with Department of Agriculture and Food officials, updating them on issues arising in the liquid milk sector and in the regulation of the supply of liquid milk for processing.

Meetings were also held with representatives of Teagasc, the National Dairy Council, the Food Safety Authority, the IFA, the I.C.M.S.A. and the Fresh Milk Producers Association.

The Agency also sought the advice of expert economists on aspects of the liquid milk sector during the year.

Financial Statements

for the year ended 31 December 2003

NATIONAL MILK AGENCY

NATIONAL MILK AGENCY

STATEMENT OF MEMBERS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

The Milk (Regulation of Supply) Act, 1994 requires the members to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the National Milk Agency (Agency) and of the surplus or deficit of the Agency for that period. In preparing those financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Agency will continue in business.

In accordance with the Act, the members are responsible for keeping proper books of account and other books and records as are necessary to give a true and fair view of the Agency's business and affairs. The members are also responsible for safeguarding the assets of the Agency and hence for taking reasonable steps to provide adequate protection in this regard.

INDEPENDENT AUDITORS' REPORT

to the members of the National Milk Agency

NATIONAL MILK AGENCY

We have audited the financial statements for the year ended 31 December 2003 which comprise of the Income and Expenditure Account, Balance Sheet, Cash Flow Statement and the related notes 1 to 12. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Agency's members, as a body, in accordance with Section 18(1) of the Milk (Regulation of Supply) Act, 1994. Our audit work has been undertaken so that we might state to the Agency's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Agency and the Agency's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of member and auditors

The members' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Irish law and accounting standards are set out in the Statement of Members' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and Auditing Standards issued by the Auditing Practices Board for use in Ireland and the United Kingdom.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with law. We also report to you our opinion as to: whether proper books of account have been kept by the Agency and whether the information given in the Members' Report and Chairman's Statement is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding members' remuneration and transactions with the Agency is not given and, where practicable, include such information in our report.

We have read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements.

This other information comprises the Members' Report and Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

NATIONAL MILK AGENCY

INDEPENDENT AUDITORS' REPORT

to the members of the National Milk Agency (continued)

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Agency as at 31 December 2003 and of its surplus for the year then ended.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Agency. The financial statements are in agreement with the books of account.

In our opinion the information given in the Chairman's Statement and Members' Report is consistent with the financial statements.

Ernst & Young
Registered Auditors

Dublin
30 March 2004

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 December 2003

NATIONAL MILK AGENCY

	Note	**2003 €**	2002 €
Income			
Milk levy – continuing operations	*2*	**576,132**	599,807
Other income	*3*	**23,458**	24,415
		599,590	624,222
Expenditure			
Staff costs		**321,312**	295,723
Administration costs	*4*	**246,777**	240,127
Depreciation		**5,291**	7,342
		573,380	543,192
Surplus/(deficit) for the year		**26,210**	81,030
Accumulated fund at beginning of year – surplus		**700,830**	619,800
Accumulated fund at end of year – surplus		**727,040**	700,830

Approved by the Members on 30 March 2004

Denis Murphy – *Chairman*
Pat Brophy – *Member*

NATIONAL MILK AGENCY

BALANCE SHEET

at 31 December 2003

	Note	2003 €	2002 €
Assets Employed			
Fixed Assets			
Tangible assets	*6*	**10,134**	6,432
Current Assets			
Debtors	*7*	**102,716**	130,915
Investments	*8*	**53,734**	51,841
Cash at bank and in hand	*9*	**952,776**	840,186
		1,109,226	1,022,942
Current Liabilities			
Creditors	*11*	**(392,320)**	(328,544)
Net Current Assets		**716,906**	694,398
Total Assets Less Current Liabilities		**727,040**	700,830
Financed by			
Accumulated fund – surplus		**727,040**	700,830

Approved by the Members on 30 March 2004

Denis Murphy – *Chairman*
Pat Brophy – *Member*

NATIONAL MILK AGENCY

CASH FLOW STATEMENT

for the year ended 31 December 2003

	2003 €	2002 €
Operating activities		
Net cash inflow from operating activities (note (a))	**118,870**	107,487
Returns on investments and servicing of finance		
Interest received	**2,713**	3,477
Capital expenditure		
Payments to acquire tangible fixed assets	**(8,993)**	(1,460)
Management of liquid resources (note (b))		
(Increase)/decrease in twenty-eight day deposits:		
Deposit account	**(64,249)**	(282,562)
Pension account	**1,920**	(96,386)
	(62,329)	(378,948)
Sale of government securities	–	277,348
Net cash outflow from management of liquid resources	**(62,329)**	(101,600)
Increase in cash *(note (c))*	**50,261**	7,904

Reconciliation of Net Cash Flow to Movement in Net Funds

	2003 €	2002 €
(Decrease) increase in cash on hand	**48**	(310)
Increase in cash at bank – current account	**50,213**	8,214
Increase in cash	**50,261**	7,904
Increase in liquid resources	**62,329**	101,600
Non-cash movement	**1,893**	9,890
Movement in net funds for the year	**114,483**	119,394
Net funds at beginning of year	**892,027**	772,633
Net funds at end of year *(see note (c))*	**1,006,510**	892,027

NATIONAL MILK AGENCY

CASH FLOW STATEMENT

for the year ended 31 December 2003 (continued)

Note (a)

Reconciliation of operating surplus (deficit) to net cash inflow from operating activities

	2003 €	2002 €
Surplus (deficit) for year	**26,210**	81,030
Depreciation	**5,291**	7,342
(Increase) decrease in debtors	**28,199**	(21,140)
Increase in creditors	**63,776**	53,622
Interest received	**(2,713)**	(3,477)
Non cash increase in government securities	**(1,893)**	(9,890)
	118,870	107,487

Note (b)

Liquid resources

Liquid resources comprise deposits with maturities of less than a year when acquired and investments in government securities.

Note (c)

Analysis of changes in net funds

	At 1 January 2003 €	Cash flows €	Non cash €	At 31 December 2003 €
Cash at bank and in hand	18,755	50,261	–	**69,016**
Cash deposits	821,431	62,329	–	**883,760**
	840,186	112,590	–	**952,776**
Investments held as current assets	51,841	–	1,893	**53,734**
Net funds	892,027	112,590	1,893	**1,006,510**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

NATIONAL MILK AGENCY

1. Accounting Policies

(a) Accounting convention
The financial statements are prepared under the historical cost convention.

(b) Depreciation
Depreciation is calculated to write off the cost of tangible fixed assets over their expected useful lives as follows:

Furniture	10 years
Office equipment	5 years
Computer equipment	3 years

(c) Superannuation benefits
A final draft of the staff superannuation scheme referred to in paragraph 14 of the Schedule to the Milk (Regulation of Supply) Act, 1994 has been submitted for approval to the Department of Agriculture and Food and the Department of Finance by the Agency's pension advisor.

The Department of Finance has confirmed to the Agency that the Exchequer will bear the cost of paying all superannuation benefits to and in respect of the pensionable employees of the Agency, subject to the payment by the Agency to the Department of Agriculture and Food of all employer and employee contributions collected to date and for the future (see note 12).

The Agency's annual contributions for staff superannuation benefits are based on actuarial advice and are charged to the Income and Expenditure Account in the year to which they relate.

Superannuation contributions paid by the Agency and its staff are held in a separate bank account (see note 9).

2. Milk Levy

A levy of 0.127cent per litre (2002: 0.127cent) of milk purchased for processing for liquid consumption is payable by milk processors under Section 8 of the Milk (Regulation of Supply) Act, 1994.

The milk levy receivable included in the financial statements is based on returns received from processors or their estimated milk supplies where returns have not been received.

NATIONAL MILK AGENCY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003 (continued)

3. Other Income

	2003 €	2002 €
Deposit and other interest	**21,565**	14,525
Interest on government securities	**1,893**	9,890
	23,458	24,415

4. Administration Expenditure

	2003 €	2002 €
Staff expenses	**59,032**	66,300
Members' expenses	**22,564**	23,755
Chairman's remuneration	**7,618**	7,615
Stationery	**8,790**	6,523
Annual report	**20,280**	17,970
Telephone	**14,952**	12,568
Postage	**5,391**	4,796
Publications	**4,695**	1,400
Reports	**9,450**	11,400
Legal fees	**10,397**	7,831
Computer consultancy	**10,918**	25,407
Audit fees and advices	**9,143**	3,696
Rent	**28,341**	24,572
Insurance	**4,693**	3,736
Accounting fees	**2,800**	2,800
Electricity and cleaning	**3,560**	3,652
Repairs and renewals	**3,996**	1,293
Miscellaneous	**13,031**	14,813
Relocation cost	**2,429**	–
Producer election cost	**4,697**	–
	246,777	240,127

5. Taxation

The Agency has been included as an exempt body under the Taxes Consolidation Act, 1997 (Amendment of Schedule 4) Order, 2002, effective from 30 December 1994.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003 (continued)

NATIONAL MILK AGENCY

6. Tangible Fixed Assets

	Furniture €	Office equipment €	Computer equipment €	Total €
Cost				
At 1 January 2003	8,989	14,464	56,118	79,571
Additions	3,206	4,694	1,093	8,993
At 31 December 2003	**12,195**	**19,158**	**57,211**	**88,564**
Depreciation				
At 1 January 2003	8,804	14,085	50,250	73,139
Charged in year	506	1,514	3,271	5,291
At 31 December 2003	**9,310**	**15,599**	**53,521**	**78,430**
Net book amounts				
At 31 December 2003	2,885	3,559	3,690	10,134
At 31 December 2002	185	379	5,868	6,432

7. Debtors

	2003 €	2002 €
Amounts falling due within one year		
Milk levy receivable	**88,098**	124,640
Prepayments	**11,905**	1,293
Other debtors	**2,713**	4,982
	102,716	130,915

8. Investments

	2003 €	2002 €
Government securities	**53,734**	51,841

Investments held at 31 December 2003 comprise investments in government securities which are stated at cost plus accrued interest which equates to their market value.

NATIONAL MILK AGENCY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003 (continued)

9. Cash at Bank and in Hand

As at 31 December 2003 an amount of €345,844 (2002: €297,764) was being held in a separate bank account to meet the obligations in relation to the superannuation scheme for the Agency to be approved by the Department of Agriculture and Food and the Department of Finance (see notes 1(c) and 12).

10. Commitments

At 31 December 2003 the Agency had annual commitments under binding operating leases as set out below:

	Building €	Other €	Total €
Operating leases which expire:			
Within one year	26,000	2,252	28,252

11. Creditors (amounts falling due within one year)

	2003 €	2002 €
Pension contributions	**345,844**	297,764
Accruals and other creditors	**46,476**	30,780
	392,320	328,544

12. Superannuation Commitments

The National Milk Agency, in accordance with the provisions of the Milk (Regulation of Supply) Act, 1994, is required to establish a superannuation scheme operated on a defined benefit basis for its employees. A final draft of the staff superannuation scheme has been submitted for approval to the Department of Agriculture and Food and the Department of Finance by the Agency's pension advisor.

The Agency's annual contributions have been assessed by a professionally qualified actuary and are charged to the Income and Expenditure Account in the year to which they relate. The charge for the current year amounted to €34,965 (2002: €33,615). The Agency's superannuation contributions and superannuation contributions collected from employees are held in a separate bank account and will be paid over to the Department of Agriculture and Food on final approval of the staff superannuation scheme. At 31 December 2003 the amount held in the separate bank account was €345,844 (2002: €297,764) (see note 9).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003 (continued)

NATIONAL MILK AGENCY

12. Superannuation Commitments (Continued)

Financial Reporting Standard 17 ("FRS 17") was issued in November 2000 and requires additional transitional disclosures on a phased basis in respect of defined benefit schemes. In certain circumstances FRS 17 permits defined benefit schemes to be accounted for as if they were defined contribution schemes with no requirement to account for the fair value of the assets and liabilities of the scheme or, in the transitional period, to disclose the scheme liabilities.

The Department of Finance has confirmed to the National Milk Agency that, subject to the payment by the Agency to the Department of Agriculture and Food of all employer and employee contributions collected to date and for the future, the Exchequer will bear the cost of paying all superannuation benefits to and in respect of the pensionable employees of the Agency. The rate of employer's contribution will not exceed 16.66%.

The Department of Agriculture and Food has also confirmed to the National Milk Agency that, subject to the National Milk Agency making the payments as detailed in the paragraph above, it will accept responsibility for meeting the superannuation entitlements of the members of the proposed scheme in respect of their membership of that scheme and of the former Dublin District Milk Board pension scheme.

Accordingly the National Milk Agency considers that since this arrangement will have the same financial effect as a defined contribution scheme no FRS 17 disclosures are required.

NATIONAL MILK AGENCY

APPENDICES

Statutes and Statutory Instruments relating to the Agency

Statutes

Milk (Regulation of Supply) Act, 1994

Milk (Regulation of Supply) (Amendment) Act, 1995

Milk (Regulation of Supply) (Amendment) Act, 1996

Freedom of Information Act, 1997 (Prescribed Bodies) (No. 2) Regulations, 2002

Statutory Instruments

S.I. No. 409 of 1994 – Milk (Regulation of Supply) (Establishment of National Milk Agency) Order, 1994

S.I. No. 460 of 1994 – National Milk Agency (Election Day) Order, 1994

S.I. No. 234 of 1995 – National Milk Agency (Members) Regulation, 1995

S.I. No. 252 of 1995 – Milk (Regulation of Supply) Act 1994 (Section 5) (Commencement) Order, 1995

S.I. No. 253 of 1995 – Milk (Regulation of Supply) (Levy) Order, 1995

S.I. No. 254 of 1995 – National Milk Agency (Winter Months) Regulations, 1995

S.I. No. 309 of 1995 – National Milk Agency (Revocation of Election Day) Regulations, 1995

S.I. No. 347 of 1995 – Milk (Regulation of Supply) (Levy Returns) Regulations, 1995

S.I. No. 348 of 1995 – Milk (Regulation of Supply) (Application for Registration) Regulations, 1995

S.I. No. 265 of 1996 – National Milk Agency (Fees) Regulations, 1996

S.I. No. 184 of 1997 – National Milk Agency (Election Day) Regulations, 1997

S. I. No. 185 of 1997 – National Milk Agency (Conduct of Elections) Regulations, 1997

S.I. No. 271 of 2000 – National Milk Agency (Conduct of Elections) (Amendment) Regulations, 2000

S.I. No. 272 of 2000 – National Milk Agency (Election Day) Regulations, 2000

S.I. No. 368 of 2003 – National Milk Agency (Election Day) Regulations, 2003

S.I. No. 369 of 2003 – National Milk Agency (Conduct of Elections) (Amendment) Regulations, 2003

NATIONAL MILK AGENCY

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