

**Opening statement to the Joint Oireachtas Committee on Agriculture, Food and the Marine on Fixed Milk Price Contracts, their future and Ornua's Role in the Dairy Sector**

*Wednesday 22<sup>nd</sup> June 2022*

Chairman, members of the Committee, thank you for this invitation to meet with the Joint Committee on Agriculture, Food and the Marine to discuss Fixed Price Milk Contracts and their future, and Ornua's role in the dairy sector.

I would like to take this opportunity to thank the Committee for the flexibility it has shown to Ornua in scheduling this meeting, as I was very keen personally to be here. However due to diary conflicts it has not been possible to attend any earlier than today.

**Introduction to Ornua**

By way of introduction to the Joint Committee members, Ornua is a dairy co-operative, Ireland's largest dairy exporter and owner of the Kerrygold brand. We are a second-tier co-op, in that we are owned by almost all of the dairy Co-ops across Ireland, including 8 of the 9 processing Co-ops. Our Members, in turn, are owned by some 14,000 dairy farmers.

There is no mandatory obligation on our Members to trade and collaborate with us, but they do so as we create significant value for them.

Ornua's purpose is to create value for Irish family farms. We export to 110 countries worldwide, have annualised sales of over €2.5 billion and a global team of 2,900 employees. In existence now for over 60 years, we operate from 10 business units worldwide, including 16 production facilities and 9 innovation centres, and we have sales and marketing teams working, in-market, right across the globe.

As a cooperative of cooperatives, we operate collaboratively with our key stakeholders: our farmers, our member processing companies and our own employees.

Our key role is to build long term, sustainable and value-add routes to market internationally for Irish dairy products. Complementing this, we have a number of businesses that leverage our core competencies to generate additional profits. This combination of value-add routes to market and profitable businesses enables us to pay to our Members:

- strong purchase prices for their products (as evidenced by the Ornua PPI, now paying out at an Index of 178.5 which equates to a milk price equivalent of 55.2 cpl excluding a processor margin) and
- the Ornua Value Payment (OVP) which is a combination of product premia (over the base purchase price) and a performance-based cash bonus. The Ornua Value Payment to Members was €78m in 2021.

## **Ornua's Value**

Over and above being a key customer for all our Members, our value to our shareholders lies in:

- our cooperative structure,
- the strength of our market return, in terms of our purchase prices
- the strength of our brands (in particular Kerrygold), our long-term customer relationships and our overall business performance, in terms of our Ornua value payment,
- our funding of Members' working capital,
- market volatility management,
- product innovation, and
- market intelligence and insights

Kerrygold is Ireland's only food brand with a retail value in excess of €1 billion and 2021 marked another record year for the brand, with volume growth up 12%. Kerrygold continues to be the fastest selling brand on supermarket shelves in Germany and is the No.2 butter brand in the US; over 11 million packets of Kerrygold butter and cheese are sold weekly around the globe.

Importantly for today's discussion, as a co-operative whose purpose is to create value for 14,000 Irish farming families, we successfully captured and returned significant value to our Member Coops last year. As mentioned above, the Ornua Value Payment in 2021 was €78 million. This is a record payout, up 13.5% year-on-year, and amounts to a CAGR of 26.5% over the last 5 years. It is an important contribution to our Member Coops which, in turn, supports farmers' incomes.

In addition, we purchased €1.2 billion (389,000MT) of premium Irish dairy products and we paid strong prices as reflected in the Ornua Purchase Price Index (PPI). We are confident that this purchase figure will be exceeded again this year in both value and volume terms.

This performance delivers on our commitment to maximise returns to our Member Co-operatives and the 14,000 farmers who supply them.

### **Market Volatility and Risk Management**

Market volatility is very much a feature of today's dairy commodity market, and this market risk has to be managed.

In 2015, Ornua presented to this Committee on the risks to dairy farm incomes of greater market volatility and the need for resilience and adaptability. For farmers, the best insulator against volatility is a combination of market return, fixed milk price schemes, margin protection measures and efficient and shrewd financial planning (particularly in those key times of plenty).

Ornua itself has invested significantly in volatility management resources, skills and mechanisms to ensure our own product prices trade in a narrower, less volatile range than the commodity markets (as evidenced by the PPI) and to ensure that we can provide an option – *and I would stress it is only an option* - for our Co-op Members to hedge or de-risk a portion of their business. Indeed, we know that our fixed product price schemes have brought welcome stability to our Co-op Members over the past number of years.

Ornua is not involved in the operation of any fixed milk price schemes for farmers or in setting the structure or parameters of these schemes. Our involvement is to provide a bridge to manage volatility and hedge uncertainty for our customers, our business and our suppliers – that is our Member Co-ops. Those Co-ops in turn may or may not offer fixed milk price contracts to their farmers.

We have of course become aware of a certain number of farmers, and farm families, under financial stress, and indeed mental strain, due to the fixed milk price arrangements they have in place with their Co-ops, given the unprecedented and unexpected rise in input costs in 2022.

While we are not involved in managing these schemes, we strongly believe that it is incumbent on everybody to step up and support these hardship cases.

To this end, Ornua has offered a flexible programme to our Members to enable them to target such cases amongst their own farmer supply-base in whatever way they see fit.

Ornua's fixed price contracts with its Members are for an agreed volume of product (be it butter, cheese or powders) purchased at an agreed fixed price. We have offered to increase the contractual purchase price on 10% of this volume, subject to the Member supplying the same volume in 2023 at the increased price. This is intended as an option for the Member Co-ops and a potential contribution to addressing the difficulties that have arisen. It is not and was never intended to be a full solution to bridge the price between fixed and prevailing milk prices for all of the Irish dairy sector.

The Ornua offer is based on an assumption that 10% of the volume of Ornua purchases on a fixed price basis is from milk supplied by farmers in hardship. Therefore, Ornua's offer is a price increase of an average of c. €1,000 per MT, on 10% of product purchased from the Member Co-Op in 2022. This offer can be managed by the Co-Op in whatever manner they deem most appropriate for their situation. It would equate to 10 cpl on 10% of the volume or 1 cpl on all of their volume. There is a link to 2023, in that the volume and price are, in turn, fixed for 2023 at the same increased return.

As Ornua is not involved in the design or management of any of the fixed milk price schemes, we have no data on hardship cases. This information is held by the individual Co-ops and it is only they who can determine whether to take up this discretionary offer and how it should be used.

Ornua is also not the Member Co-ops' sole customer for their fixed product price contracts. The Irish Farmer's Journal recently estimated that more than 1 billion litres of Irish milk was in fixed milk price schemes<sup>1</sup>. If this is accurate, Ornua is a counterparty for less than a third of the milk in fixed milk price contracts.

Ornua's offer of support is being funded by Ornua. It is entirely separate to the payment supports recently brought in by individual dairy processors and aims to provide equity across all our Members, while helping Co-ops to target hardship cases. Some Member Co-Ops have taken up the Ornua offer and others have chosen not to.

The principle of equity is important in this context, as not all of our Members offer a fixed milk price scheme to their farmer suppliers, while others reportedly have only a small proportion of their farmers in such schemes and an even smaller number of hardship cases. Not all Members will therefore avail of this offer (and to be fair to them, there does appear to be a challenge in supporting just a proportion of farmers and not all others) and yet all farmers will ultimately be implicated - the cost of Ornua's offer will impact Ornua's annual result and the overall amount of Ornua's 2022 Value Payment

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<sup>1</sup> <https://www.farmersjournal.ie/fixed-milk-price-compensation-what-is-your-co-op-doing-697393> 18th May 2022

Despite this, and notwithstanding the fact that Ornua is only one of a number of customers used by the processing Co-ops to off-set their fixed milk price schemes, we believe that our offer of support is the right thing to do, is balanced and is in keeping with our values.

### **Closing remark on the future of FMP schemes**

In finishing, I would say that while confidence in fixed milk price schemes has been very significantly impacted by the negative experience of some farmers in 2022, we believe, given the volatility of world markets, that hedging and de-risking tools will continue to have a place in all our businesses. Having said that, lessons will need to be learnt from recent experience and consideration given to how income margins can be protected under any new schemes if there is an appetite for them; as well as to ensuring that farmers are appropriately advised on the use of volatility management mechanisms in their businesses so that they strike the right long-term balance between income stability and market adaptability when seeking to de-risk their businesses.

John Jordan  
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