



Milk Suppliers Association
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Private & Confidential – For MSA Members Only – September Update

Dear Member,

My fourth letter of the year covers a number of areas:

AGM update

Thank you to all of you who attended the AGM. It was a successful and highly interactive evening with 45 members attending. The minutes of the meeting are enclosed with this letter. The key headlines include:

- A Chairman's report which outlines the wide scope of MSA activities during the year
- Approval to raise a membership fee in January 2018 of £0.0003/litre (£300 per million litres of output)
- Re-election of the current board

Members meeting – market update

After the AGM I provided a market update. Key elements of the update include:

- A cold late spring impacted negatively on production helping to reduce supply – this was against expectation
- The market is very different from this time last year fuelled by the insatiable demand for cream and butter
- Milk supply has recovered across the world with volumes now very close or slightly above this time last year
- Prices are being driven by the demand for dairy fats
- Record butter & cream prices mean there is little or no cheap milk available for cheese which in turn is keeping the cheese market strong

- This is odd given that SMP (the by-product of cream & butter) is currently trading close to intervention levels
- There are huge stocks of SMP in intervention so if the fat bubble bursts, it is highly likely there will be a sharp correction in milk prices
- Notwithstanding these factors, the futures (UKMFE) currently point to continued strength in the market well into 2018

Putting all of this in context of our prices, the retail market remains exceptionally competitive with cheese sellers still prepared to undersell to win volume. However, Lactalis is working hard to build long term relationships to lower the risk of losing contracts. They have also processed significant volumes of milk through the creamery at Stranraer and this is helping to contain overhead costs. Backed by a strong commodity market, this has put them in a good position to maintain their existing contracts and win new business.

On prices, FMC have paid ahead of the curve in 2017. This helped to secure the supply base and deliver much needed certainty. Our milk price has been above that of the basket average for most of the year and this situation will remain with the recent announcement of price increases for the last quarter (28.5ppl for October and November and 29ppl for December). Looking forward, our aim is to negotiate a minimum price for 2018 but as yet there are too many unknowns to strike a deal. It is likely to be nearer Christmas when we have a better idea of the market. In the meantime, it is essential that we all make the utmost effort to forecast as accurately as possible and control our milk volumes.

Members meeting – Supply Management

Derek Kennedy made a presentation on the mechanics of the new Supply Management system which will be introduced in 2018. Key points of the presentation included:

Operation as a milk pool, planning and forecasting

- The Supply Management system will be operated across the MSA milk pool
- Milk demand for the creamery (known as Core Volume) will be determined from forecast sales of cheese through brands, own label and premium exports
- The requirement for Producers to forecast monthly production, at least four times per year

Reference volume

- Explanation that Reference Volumes will be allocated to individual producers with a guarantee that all the milk supplied within these amounts will be paid as per the standard pricing schedule
- The basis of determining Reference Volumes will take into account forecast and historic production levels at an individual level and the overall group position
- A right to appeal the individual allocation of a Reference Volume if there are mitigating circumstances

Monitoring

- Actual production will be monitored against individual Reference Volumes on a monthly basis
- A reconciliation between the total supply from the group and demand from the creamery will be conducted quarterly
- Individual positions will be visible each month via milk statements and a revamped FMC web-portal

Quarterly Positions and Potential Penalties for Over Production

- If the volume supplied by all MSA members is equal to or less than the agreed Core Volume demand of the Creamery, then there will be no penalties applied for any over production relative to Reference Volumes at individual level
- If the volume from all MSA members is more than the agreed Core Volume demand from the Creamery, penalties will be applied but only to individuals who have over-produced relative to their Reference Volume
- The method used to determine individual levels of over production will incorporate a Threshold calculation similar to that used within the old milk quota regime, to temporarily reallocate unused litres from those under their Reference Volume to those over
- The rate of deductions applied on excess litres above the Reference Volume plus Threshold will be the difference between the standard litre price and the value that Lactalis can obtain for the milk from processing it into a commodity product and/or selling on the spot market, the values will vary from quarter to quarter depending on market returns
- Any deductions due will be notified to individual producers just after the end of each quarter and will be collected in the first month of the following quarter

In summary:

- No deductions will be made if the collective volume supplied by all MSA members does not exceed the Core Volume (which is determined from forecast cheese sales)
- There will be no individual deductions if an individual's actual production does not exceed their individual Reference Volume
- Deductions, if applicable due to the overall group being over, will be applied only to those individuals that significantly exceed their Reference Volume
- Reference Volumes will be reviewed annually and are not fixed forever
- Supply Management offers protection rather than restrictions to MSA members who produce in accordance to their agreed forecasts and Reference Volume

If you require further information about the Supply Management system, please contact Derek Kennedy on 07951 711079. A copy of the presentation, which includes an example is available at the MSA website in the secure member area (see: <http://www.msa.scot/secure/>).

Members meeting – KTIF Skinny Milk Project

Hamish Walls provided the final presentation of the evening summarising the Knowledge Transfer and Innovation Skinny Milk Project. The key aims of the project are to:

- Improve the viability of your farm and embed the capacity for ongoing improvement
- Provide you with a straightforward approach to help you reduce costs

The service is totally confidential and further details about the project are available on the MSA website (see <http://www.msa.scot/>). If you would like to participate please call Hamish on 07836 679901.

MSA website

To conclude my letter covering the AGM, I would like to encourage you to visit the MSA website (see <http://www.msa.scot/>). All of the presentations made on the evening are posted in the member area and if you have any questions arising from in this letter, please don't hesitate to give myself or any member of the Steering Committee a call.

Thank you for your continued support, the Steering Committee will continue to work hard on your behalf.

Yours sincerely

Rory H Christie

For and on behalf of the MSA Steering Committee

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