

news release



SEMEX DAIRY CONFERENCE
15-17 JANUARY 2017
RADISSON BLU, GLASGOW





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SEMEX NEWS RELEASE

Arla launches “most ambitious strategy to date

The dairy industry is facing serious challenges with declining consumption, the devaluation of dairy products and the uncertain political environment. So said Arla Foods UK boss Thomas Pietrangeli at the 2017 “Brave New World” Semex conference. The sector needed to seize the opportunities through faster innovation, by embracing the digital world and by stepping up the health agenda and messaging surrounding it, he said. The problem was that the industry was being “out communicated” in this regard. “We have to win the communication game,” he said.

Arla has, he said, pledged to help put the industry on a firmer footing by becoming “the champion of British dairy” in its 2020 strategy. It would do this by being a brand leader, by innovating, by being the preferred dairy partner, by being a cost leader and being the natural home for dairy farmers.

“We want to change the value of the milk category, and move more milk from being in a “basic” range on retailers shelves to “basic + benefit”. To do this the firm has stepped up the innovation game by expanding its existing brands like Lurpak and Cravendale, by introducing new products such as Farmers Milk, Best of British, and an organic branded product, all of which are selling for more than standard milk. Arla has also entered the yogurt category.

Its brands are performing well, he stated, and this is helping the firm grow. But the recent market challenges has reduced revenues slightly to just under €5 billion. UK farmers are also currently having their price pegged back by 3ppl due to post Brexit currency movements, which has resulted in Arla’s pricing performance against its peer group reducing. In 2014 and 2015 its price was over 1ppl ahead of its peer group here, but in 2016 it was just 0.3p higher.

“In a changing competitive market, challenging market we have launched our most ambitious plan to date in our 2020 strategy,” he said. “We want to be the champion of British dairy, a brand leader known for healthy products, who is recognised as a product innovator and a driver of differentiated products,” he stated. It would also continually promote its farmer owned roots,” he pledged.

Presenting on the market outlook for 2017, Arla’s Senior Vice President Thomas Carstensen said that the prospects for this year were good. EU milk supply in the first half of the year would be in negative territory, there were major concerns over the Dutch situation with phosphates and the likelihood that it could take out between 1 and 1.8 billion litres of milk in that country alone, and demand was quite strong. “Global supply recovery is not expected until at least until the second half of 2017 and I see more upsides than downsides in 2017,” he said.

“On the upside there is balanced supply, growth in China and Asia, the Dutch phosphate issue, reduced milk volumes in China and Brazil and the dollar v the Euro. On the other there is low oil prices (that affects demand in oil rich nations) EU intervention and NZ milk growth.” But he said he wasn’t concerned too much about the EU being sat on its SMP mountain. “The EU has a history of dealing with this,” he said.

Volatility would continue as it could not be stopped. And anyone who thinks a futures market in Europe is the answer is mistaken, he believed. “We have the EEX for SMP and butter. But that might reach a volume of 800m kgs in a year for the EU, out of a total of 150 billion kgs. “It is not a market that individual farmers can hedge milk prices,” he believed. “Arla is trying to participate but the volumes traded are not huge in comparison to the overall market.”



Tomas Pietrangeli, ARLA



Thomas Carstensen, ARLA



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Brexit an opportunity for better trade, says kiwi trade advisor



Francis Reid, FONTERRA

Advice and comment on life in a post Brexit world came thick and fast at the Semex conference, with the EU's trade policy adviser from New Zealand's largest co-operative Fonterra urging the UK to learn from his country's experience of tariffs and trade.

"Don't pull up the draw bridge on trade," insisted Francis Reid. "That is what New Zealand once did and that is the road to ruin. Brexit is an opportunity to push for more open trade, not less. Achieving that will be good for both the UK and the EU, he said.

Although New Zealand produces one seventh of the milk in the EU it is the second largest exporter after the EU, sending 3m tonnes around the world.

"Tariffs continue to be a major barrier to trade in many markets, and non tariff trade barriers (such as testing requirements, compositional standards and factory registrations) also have significant impacts on trade flows," he said. "In fact tariffs are often lower for rocket launchers and flamethrowers than for dairy. Milk and cheese have 13.6% higher tariffs on average than artillery, rocket launchers and flamethrowers," he added.

As far as the EU was concerned CAP reform and price convergence between the EU and NZ mean that dairy tariffs are anachronistic. Fonterra wants to see a Free Trade Agreement with the EU set up as soon as possible, and this would unlock market opportunities.

"The UK wants partners like New Zealand. And it could take two to three years to negotiate a FTA instead of the normal five to ten year timescale," he believed.

After Brexit a UK:New Zealand FTA should be agreed as soon as possible, as both countries have shared values. Currently the UK imports barely any product from New Zealand, with just 0.26% of the country's dairy exports ending up here. This is despite the UK being the third largest dairy importer by value behind Germany and China, with the second largest deficit. It is the largest cheese importer in the world.

Despite this, though, he urged the UK not to protect its borders as that would be a disaster. *"You have to be outward looking and become more efficient. Open markets with limited barriers to trade increase resilience to market shocks and facilitate participation in global value chains."*

"Britain maybe a big importer, but it is also a large exporter, and after Brexit will be the fifth largest after the EU, NZ, the USA and Australia. Brexit is an opportunity for the UK and the EU to push for more open trade, not less. A good Brexit, for the UK and for the world, will help to halt the rise of protectionism. Open markets facilitate investment, increase competitiveness, and maximise consumer choice and product innovation."



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Eustice upbeat, but the “to do list” is a long one

The Brexit decision was the right one, reassured farm minister George Eustice in a confident, measured and well-received speech, although some delegates said his speech lacked detail or substance and not everyone was convinced by Eustice’s cool, calm and collectedness as far as Brexit was concerned.

“For the first time in 50 years the UK has the opportunity to develop agricultural policy from first principles, without the hindrance of EU law,” he told the Semex conference. “We need to untangle the complexities of the CAP and design something that works for the UK.”

His potential post Brexit “to do list” was certainly a long one for the industry and sector, and included the market, aligned and non aligned contracts, the Voluntary Code, grants for farming and processing, risk management, the environment, animal welfare and husbandry, contract farming and new entrants into the sector and the role of the Grocery Code Adjudicator.

“Milk prices are not getting to farmers as fast as I would like. I understand the arguments but we must get money to the farmers faster,” he said. It was one of many comments regarding the fairness of the market and the need for it to be improved.

“We need to learn the lessons of the downturn and on contracts, especially aligned ones. I want to see more of them but understand the counter arguments and the misery of those not on them. And we have to question A & B pricing, and to assess whether it is right or wrong. There are two schools of thought. They can sharper market reactions but can also be a market distortion and can be abused. We need to discuss whether they work fairly,” he said.

He also cited many potential tools that could be brought to bear and improved to help:

“We need to assess the Voluntary Code to see if it is fit for purpose. We have to look at the legal position of Producer Organisations so that that farmers have a fair position in the marketplace. There is no legal obligation for processors to recognise PO’s so maybe that is an area we need to look at. We are already looking at the scope of the GCA and there is a call for evidence out for its review, and we are looking at market transparency and futures. There is a statutory requirement in other countries for market transparency and if we are serious about having futures we may have to look at transparency too.”

Despite the last two years and the challenge of the downturn “it was an exciting and refreshing time” for the sector, he concluded.



George Eustice MP, Minister of State for Agriculture



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The “incredible challenge” of Brexit



John Jordan, ORNUA FOODS EUROPE

It is an “incredible challenge” to negotiate Brexit terms over a two year period, said John Jordan, the CEO of Ornuia Foods Europe (formerly The Irish Dairy Board). He should know: “We (i.e the Irish) started in 2002 to prepare for quota removal in 2015,” he said. “There is two years to prepare for Brexit.” And he questioned whether the UK had enough skilled negotiators to sort out trade agreements. “It is a massive ask.”

Brexit posed significant challenges to the dairy industries of both Ireland and the UK, he added, and he cited the Irish mushroom sector where many growers had already gone bust because their industry was reliant on the sterling: euro rate. And that has crashed post Brexit.

Likewise the Irish dairy industry was very dependent on the UK, with considerable cheese exports here, and 1000 of the 2000 people employed by Ornuia around the world located on our shores. But the Irish had been expanding its marketing horizons in the run up to quota removal as a result of predicted increases in milk volumes, and these had materialised according to the forecasts. Now Ornuia exports to 110 different countries, and has several other business interests abroad. It has, for example, new cheese manufacturing facilities in Saudi Arabia and

China, has a Kerrygold powder packing plant in Nigeria and has acquired an ingredients business in the US.

“Despite this the UK will remain a huge market for Ireland,” he said. “But the percentage of trade is diminishing as we look for markets elsewhere,” he said.

Growth regions were Africa, China, the Middle East, UK (where it has been particularly successful with Pilgrims Choice, which is now the Number 2 brand and “bigger than every brand below it put together”) and the US (where Kerrygold is the Number 3 butter brand and the top selling imported butter, on the back of heavy promotion and a ‘Kerrygold is a grass fed’ product image).

But just as Brexit poses challenges for the Irish here so do changes in the US administration, he stated. *“The US is a trade barrier country. It has protectionists measure and it is a hard place to do business in. We used to send people to get experience in the US, but before Christmas we applied for four work visas and all four were rejected.”*

“We are all operating in a world of significant change,” he stated. “We must make decisions based on the most accurate information available, and stay close to, and focus on, your customer or consumer. We have to continually innovate and - in line with the title of the conference - be brave.”

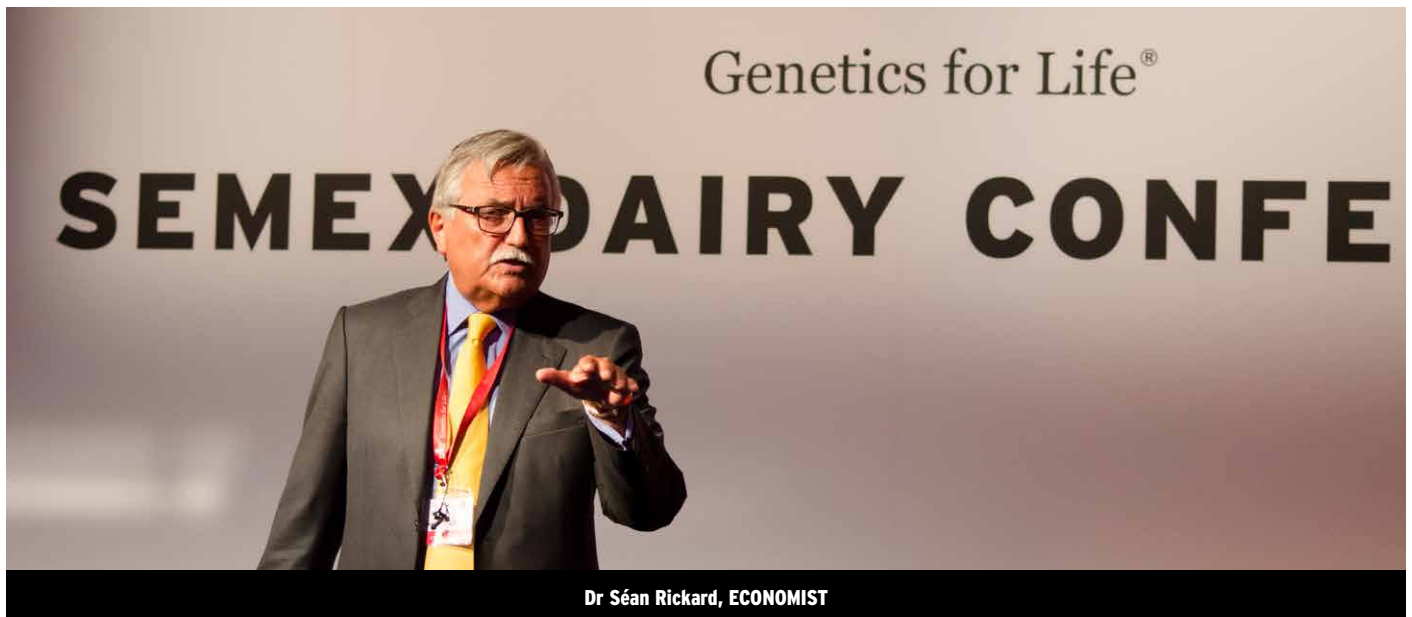


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Dairy could be one of biggest losers under post Brexit tariffs



Dr Séan Rickard, ECONOMIST

Anyone who thinks the UK will be sorted by 2020 on Brexit is living in fantasyland, was the stark message from seasoned and controversial economist Sean Rickard. “Despite what you heard the Minister hasn’t got a clue what he is going to do post 2020 on Brexit,” he insisted.

Speaking prior to Prime Minister Theresa May’s announcement that the UK would be leaving the Single Market, he stated that *“the only feasible option is to remain as part of the European Economic Area, as that will change little in the short term and could in place by 2020”*. But that would mean the UK would have to accept the free movement of labour. Theresa May subsequently ruled membership of the EEA out.

“If the industry has WTO tariff based access to the EU then dairy would be one of the biggest losers,” he said. *“After a while we will get preferential trade agreements, but that won’t happen by 2020. It will be nearer 2025 to 2027,”* he believed.

Setting our own trade barriers would also be not good for dairy, he insisted. *“They cannot be part of a strategy for us to be internationally competitive as all they result in is declining performance,”* he said.

One advantage of Brexit was that the UK could now create an agricultural policy that was science based,

compared to the CAP that was effectively a social policy, he believed. *“The CAP was a social policy that had many targets, and it missed them all. Now we can have an agricultural policy.”*

This science policy should be based on the principles of sustainable intensification, and would require farmers to become *“super efficient”* and internationally competitive. But he warned that any farmer who thinks there would be less regulation *“is living in cloud cuckoo land”*. Support payments would also be eroded.

And there will be several downsides from Brexit - not least in the free flow of labour and greater instability. *“A serious concern for many dairy farms and their food processor customers is the prospect of restrictions on EU migrants with knock-on effects for productivity,”* he said.

He said the farm sector was the one least able to cope with the risks associated with instability. More sharing of risk was required throughout the supply chain, with true partnerships and co-operation.

“There is a lot of talk about this, but the agricultural industry is one of the worse for partnerships and co-operation,” he believed. *“But it has to come. Co-operation is the seed corn of more competition and faster advances in a complicated world.”*



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Tesco expands TSDG, but compliance gets tougher

Britain's biggest retailer Tesco is building on the success of its Sustainable Dairy Group model by expanding it to cover a wider number of farmers, by upping the conditions and disciplines for supplying it, and by telling consumers what it is doing, said Nic Parsons, the agricultural manager for dairy at the retailer, at the Semex conference.

The changes that had been recently introduced were “*evolution not revolution*”, he said, as the fundamentals of the scheme that was set up in 2007 were still sound. Over the last few months it had increased the number of core farmers on the scheme by 100 (and would be further expanding across its cheese group from this April), had made the supply of farm business data compulsory, had introduced quarterly pricing based on feed, fuel and fertiliser, brought in a “QVIS” scorecard monitoring system and set up a Promar support package for farmers.

“The changes we have brought in are to increase business security, create a stronger group, increase volumes and have a more robust scheme to enable us to tell the TSDG story to consumers,” said Mr Parsons.

QVIS measures a number of parameters in a supplying business, covering factors such as quality, value, innovation and service, and with a different emphasis put on each element. As a result of QVIS there would be winners and losers within the pool, with the top 5% of farmers being given additional Tesco litres and the bottom 5% put on notice. They will be reviewed after three months and those that had made improvements would have their notice rescinded.

In order to communicate what Tesco is doing to consumers it launched the “*Fair Farmers Guarantee*” last summer, he explained. This has been extremely successful and would be rolled out across other products.



Nic Parsons, TESCO



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Reduce our use of critical antibiotics else they will be banned

The issue of antibiotic resistance featured prominently at the conference, with Semex's global solutions co-ordinator Steven Larmer updating delegates on the progress of the firm's award winning and exclusive Immunity+ genetics, and Professor David Barrett from the University of Bristol outlining the challenges for the industry. He couldn't have been more stark in his *"use them responsibly or lose them"* message.

"Currently it is estimated that there are between 20,000 and 25,000 human deaths per year in the EU due to AMR (Antimicrobial resistant) pathogens," he said. *"AMR affects us all, either in our own professional lives or personal health care."* It is also estimated that there could be 10 million deaths by 2050 across the globe, costing \$100 trillion.

But the subject of AMR in livestock was not an easy one to get to grips with, as the issue was not just related to the use of the drug in livestock. Food chain contamination, farm run off into water courses, direct interaction with animals and pasture contamination could all contribute to the problem.

It was, he said, vital to reserve the *"Critically Important Antibiotics"* for humans, particularly the third and fourth generation cephalosporins and the flouroquinolones. *"There is a significant increase in the regulatory oversight of veterinary antibiotics, especially to restrict/ban the use of the CIAs in animals,"* he said. *"We should only use the CIAs as a last resort."*

The key factor in reducing antibiotic use in farm animals was to keep them healthier in the first place, he believed,

and then to encourage best practice in antibiotic use. Vets are the gatekeepers for antibiotic use as they are all POM drugs.

The University of Bristol's Langford Farm Animal practice has its own protocol for the use of protected antimicrobials, and has reduced overall antibiotic use and effectively phased out the wholesale use of flouroquinolones through changes to herd health management, via its prescribing policy and through farmer training and education. And it has done these without having a negative effect on livestock health.

"It is possible to achieve marked reductions in the quantity of protected antimicrobials used while keeping farmers on board, and while continuing to improve animal health and welfare, and without the need for legislation. The use of CIAs as first line treatments cannot be justified," he said.

There was much work to do on farm to bring the sector up to speed on the issue, he added. A study had shown that 89% of farmers assessed by the University had CIA on their farm, and 74% kept a proportion of antimicrobials after their expiry date.

"Stewardship is a shared responsibility," he insisted, *"with the drivers for change being farmers, vets, processors, retailers, consumers and politicians."*

"My challenge to the industry is to stop using all CIA's by 2020. I don't want them banned I want them in my armoury but unless we reduce their use they will be banned," he concluded.



Prof. David Barrett, UNIVERSITY OF BRISTOL



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Healthier animals and lower antibiotic use starts with semen choice

Farmers can improve the health of their animals and thus contribute to reducing antibiotic use before an animal is even conceived by opting to use Semex's award winning Immunity+ genetics, said Dr Steven Larmer, the firm's global dairy solution's coordinator.

"Selection for higher disease immunity is the ultimate goal, and the starting point for a healthier dairy," he said. "Immunity+ sires will change the way that dairies select for health."

The Immunity+ concept is a simple one, he said, but built on 20 years of immune-genetic research by Dr Bonnie Mallard at the University of Guelph in Canada. Genes for high immune response are highly heritable at around 30%, which is similar to production traits. This means that cows bred from sires with higher levels of immunity will inherit genes that better equip them to resist most commonly occurring diseases like mastitis, listeriosis, brucellosis, E. coli, bacterial pneumonia, metritis, and digital dermatitis.

Immunity+ offspring cows have less disease and also respond better to commercial vaccines and have better quality colostrum, he told delegates.

Trials on a large dairy in the US showed that mastitis rates fell 27%, metritis levels by 17% and the incidence of retained placentas by 32%, he reported. Another saw a 19% fall in mastitis, a 21% fall in metritis and an 8% fall in retained placentas, among falls in other disease incidences. Collating the results of 35 dairies and covering 35,000 cows showed that Immunity+ sired cows had 10% fewer cases of mastitis, 12% fewer incidences of lameness, and 10% fewer cases of miscellaneous illnesses. Mortality in cows was 20% less and was also 16% down in heifers. When the findings of the study was applied to a UK situation, with average disease incidences taken, the value of Immunity+ was put at a conservative £77, he said.

"Immunity+ sires build up the disease resistance genes for healthier cows and more profitable dairies," he concluded.



Dr. Steven Larmer, SEMEX ALLIANCE



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The global problem of labour

This year's Semex conference had a truly global perspective, with speakers from the UK, EU, Ireland, New Zealand, the US and South America. There was, however, one central and worrying theme that kept popping its head up time and time again, and which could significantly affect the fortunes of the sector in each region: the shortage of labour.

US dairy manager David Harvatine, who milks 2200 cows at Aurora Ridge Dairy in New York state, and who provides contract labour services for two other dairies, stated that *"it is hard to find people who want to work on a farm let alone milk cows. There is the potential to make a lot of money, but even so people are not knocking down the door to work"*.

Fortunately, he said, technology like Ai24 had come to the fore on his farm which had not only significantly improved pregnancy performance but helped massively on the labour front.

"With ai24 we have the ability to know where a cow is in her heat and allows us to decide her exact breeding plan. It allows great timing for AI and ET, and we get good performance.

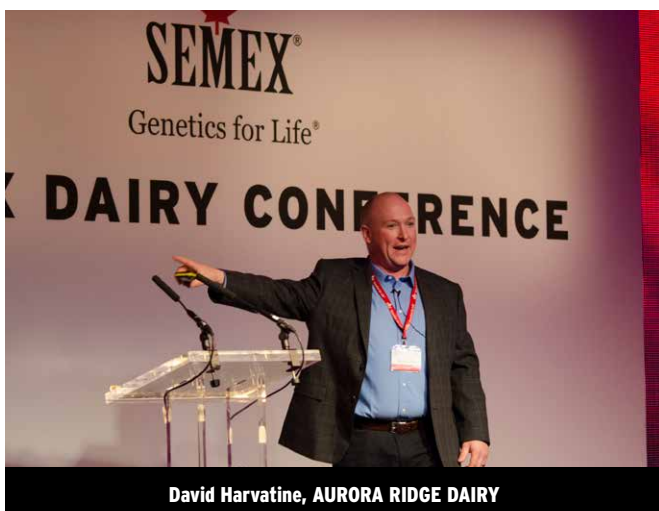
"And on labour, when there were problem cows we used to have to look for and manage 100% of the cows to find the problem 5%," he said. "With Ai24, and using headlocks, though, we can find the 5% and leave the 95% alone. That saves a massive amount of time and effort." The system is also good for spotting rumination problems, which again saved time and money.

He was also genomically testing all of his heifers to enable him to adopt a *"keep the best, sell the rest"* replacement philosophy and has also shifted more of his genetics to Immunity+ in order to produce healthier animals that required less management, he stated. *"It makes sense. Who doesn't want fewer cases of retained placentas, metritis and mastitis?"*

"The future has to involve the use of technology like ai24 and Immunity+ to help us on labour, feed efficiency and health and welfare issues," he concluded.

Claudio Aragon, Semex's dairy director in Brazil, brought his expertise in that part of the world to the conference. There were many challenges for the key milk production countries, Argentina and Brazil (who produce around 60% of the continent's milk) - not least over the amount of money for investment, climate and politics. *"As the political situation stabilises these countries could produce a lot of milk,"* he said.

But labour was also a major issue there: *"People do not want to work on farms. They want to move to the cities,"* he said. And it wasn't just labour quantity that was affecting the industry. The quality of it was also a major issue. *"The labour might be cheap, but it is no good if the quality isn't there. It is a limit to growth. We are seeing an awful lot of robots going into Brazil because of the quality of the labour,"* he added.



David Harvatine, AURORA RIDGE DAIRY



Claudio Aragon, SEMEX BRAZIL



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Genomics forms the platform for Longmoor Holstein's future

Breeding healthy, high genetic merit cows that produce high quality milk in a sustainable way is the objective of Longmoor Holstein's owner Stuart Rogers, from Dorset. And he isn't frightened of telling the word about what he is doing either - Stuart is one of the increasing number of farmers who have embraced the digital world in order to front up his herd's marketing.

His 250 cows, milked twice a day, average 10,700 litres, with 3281 litres coming from forage. But such high performance doesn't happen by chance - the goal is to ensure each cow achieves its genetic potential by being kept healthy and productive. Technology and excellence in housing and management all play a major part in the success, he told the 2017 Semex conference.

"Every calf counts," he stated. Their care includes camera monitoring in the calving pen, good colostrum management, housing in hutches to begin with, and the use of calf jackets "which I wish I had invented, they are so good. The calves have done really well in them". Calves are weighted regularly to ensure they meet his exacting growth rates and are ready to breed at 400kgs and to calve down at 23 months.

Genomic technology is increasingly becoming a huge part of his breeding strategy, he explained. He started using genomic sires in 2010 and the last time he bought a proven sire was in 2012. He is fully convinced by the technology: *"Genomics stacks up. It removes the guesswork. Breeding cows without genomics is like playing pin the tail on the donkey. You are blindfolded and in the dark. I used to think some of my cow families were good, but genomics shows that some are not as good as I think they were. What we see in the genomic figures we see in reality,"* he stated.

Now he is moving on to genomically testing all of his heifers. *"This is the only way to realise the true value of all of your heifers,"* he said. *"I used to test a few of them but that is no good. You have to test them all."* The heifers are either put to sexed semen or to beef, depending on the results of the test.

He was, he said, excited by the future for cattle breeding: *"Breeding and maintaining a healthy and productive herd is our priority and there has never been a more exciting time to breed cows. We have to adopt, adapt and embrace the technology and surround yourself with the best,"* he advised.



Stuart Rogers, LONGMOOR HOLSTEINS

