STABLE

Stable Insurance: What are the Alternatives for Dairy Farmers?

Because of the nature of Dairy farming (regular supply of a perishable good), risk management tools for UK farmers have been slow to develop. The milk price has been particularly volatile in recent years and this has caused real issues for the industry. Stable is designed to provide Dairy farmers with a simple, low risk way to protect their farming business from volatile prices. Aside from Stable, there are a few options that the industry uses and the strengths and weaknesses with each one:

FIXED PRICE CONTRACTS

Fixed Price Contracts are quite popular and offer farmers the opportunity to lock in longer-term prices for a portion of milk they produce. Terms vary from 12 months up to five years and contracts are currently being offered by a variety of Co-ops and processors.

Strengths	Weaknesses
• No milk price volatility on a chosen portion of milk produced. • Reduced milk price fluctuations. • Reduced uncertainty. • Provides flexible production levels suitable for the farmer. • Milk prices will not rise if Actual Prices rise above the Fixed Price.	• Prices will not rise with inflation. • Non-fixed production levels are still subject to volatility. • Can tie a producer to a processor. • Farmers cannot fix 100% of their production.

RETAIL MILK SUPPLY CONTRACTS

Direct milk supply contracts are currently being operated by a number of different retailers including; M&S, Waitrose, Co-op, Tesco, Sainsbury and Morrison's. These retailers operate as a dedicated supply pool and in order to gain a retail supply contract, producers generally have to adhere to higher farm standards i.e. health and welfare.

Strengths	Weaknesses
• Pricing is steady, with quarterly/annual reviews. • Reduced milk price volatility. • Reduced uncertainty. • Pricing is higher than the remainder of the milk market. • Additional farm Standard requirements.	• Pricing is subject to the level of contractual volume. • Insufficient contractual volume makes expansion less profitable. • Contracts do not become available often and are generally based on location, rather than the type of producer. • Additional farm Standard requirements. • Some contracts are imposing requirements such as '120 day grazing'.

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A & B CONTRACTS

'A' and 'B' pricing has been around for a number of years, historically to take the seasonality out of milk production. However, the newer milk production models set limits for the total amount of milk delivered ('A' volumes) and how it is delivered over the year. The 'A' price is normally set in advance and based on returns achieved from the processors core markets. These returns are often less volatile, providing a more certain 'A' price. A different 'B' price is paid for production above the 'A' volume, which is based on actual market returns of the Spot Market or linked to the 'market related price' such as AMPE. It can be either higher or lower than the 'A' price depending on the level of supply in the marketplace.

Strengths	Weaknesses
• An opportunity to gain high 'B' prices when the market is good. • Some reduction in milk price volatility.	• Lack of transparency as to how 'A' and 'B' prices are set. • 'A' volumes are set at set a lower amount than actual production can inhibit expansion. • 'A' and 'B' pricing can discourage seasonal production and more efficient production systems. • Producers remain at the mercy of the marketplace, with no fixed pricing and the ability of both the 'A' and 'B' price to change.

DAIRY FUTURES:

Whilst there have been Futures Markets for grain in the UK for as long as exchanges have been available, Futures in the dairy sector are relatively new and less commonly used. There are two formal exchanges in Europe where it is possible to trade dairy Futures; the Eurex and NYSE Liffe. In addition, we are only aware of two processors offering individual producers 'Futures Contracts;' Yew Tree Dairy and Muller Milk.

Strengths	Weaknesses
• Opportunity for dairy processors to hedge risk by using Futures. • Future-based guaranteed milk price schemes available for farmers.	• Not available to individual farmers. • Limited marketplace with low liquidity. • Priced in Euro rather than £GBP. • Margin calls and complex regulation.

STABLE

Price volatility insurance for farmers. It protects agreed downside index price movements for arable, dairy and livestock products and upside price movements for a number of farm inputs.

Strengths	Weaknesses
• Reduced uncertainty. • Open to large and small farms alike. • Reduces the risk of a price fall, without limiting the upside if prices stay high. • Protects a level of downside risk at an amount chosen by the farm. • Provides flexible production levels suitable for the farmer. • No ties to a single processor. • Cost are defined from the beginning. • An automated claims process, meaning quick pay outs at the end of the policy. • Underwritten by syndicates at Lloyd's of London for financial security.	• To reduce the cost of the premium, pay outs are made on completion of the policy.

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