

National Assembly for Wales
Rural Development Sub-Committee

Inquiry into the Dairy Industry

November 2009



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Background

1. The closure of the Dairy Farmers of Britain (DFB) operation in Bridgend in June 2009, involving the loss of 279 jobs and 200 million litres of processing capacity, highlighted the ongoing commercial pressure faced by the dairy industry in Wales. Since 2005 900 redundancies have been announced in the milk processing sector. In addition the milk price received by producers has fallen 10.9 per cent in the year since July 2008 and the number of Welsh producers has fallen by 33 per cent over the last five years.

2. At its meeting on 8 July, the Members of the Rural Development Sub-Committee agreed to undertake a short inquiry into the dairy industry. The inquiry focused on the reasons for the recent decline in the industry, future prospects and areas where Welsh Government intervention would be most effective.

The current situation of the dairy industry

Europe

3. The Dairy industry in Europe is currently experiencing significant difficulties, with dairy prices having fallen in some Member States from more than 40 cents per litre in late 2008 to less than 20 cents per litre by June 2009.¹

4. As part of the 2003 Common Agricultural Policy reforms, it was agreed that a 'heath check' review of these reforms would take place in 2008. This review was completed and agreed in late 2008. It included annual increases of 1 per cent in the milk quotas between 2009 and 2013 before the elimination of all milk quotas in 2015. The review also gave Member States discretion to reduce direct payments to fund targeted measures in the dairy sector.

5. However, the recent fall in milk prices and subsequent pressure on the dairy industry throughout Europe has led to calls for the European Commission to reconsider whether the 'Heath check' proposals should be implemented as agreed.

6. In response, Agriculture Commissioner Mariann Fischer Boel has indicated that the Commission has already taken steps to address the situation which have resulted in the withdrawal of the equivalent of 1.6 per cent of the annual milk production from the EU market through increased intervention purchasing and, since February, export subsidy measures.² It has been

¹ Financial Times: [EU moves to ease dairy crisis](#) [accessed on 15 July 2009]

² European Commission Press Release: [Dairy decline can be solved by demand stimulation and restructuring, not new interventions](#) [accessed on 15 July 2009]

estimated that these actions have already cost the Commission some €350m, a figure which is expected to reach €600m by the end of 2009.³

7. These interventions have proved controversial. United States, Australia and New Zealand have protested to the Commission that such interventions run counter to the spirit of a commitment made by the Group of 20 industrialised and developing countries (G20) to avoid protectionist moves to combat the financial crisis.⁴

8. The European Commission published a report in July⁵ analysing the sector in detail and proposing both short and long term measures to address some of the problems faced by the sector. In a presentation to the European Parliament on the 17 September the Commissioner for Agriculture, Mariann Fischer Boel, outlined a number of proposals including short term actions to address the current market crisis such as:

- Changing state aid rules to allow Member States to temporarily offer aid up to €15,000 to farmers under the Temporary Crisis Framework
- Changes to the quota buying-up schemes of Member States⁶.

9. In the medium and long term the Commission has proposed to establish a working group of experts, from Member States and the Commission, to look at a number of issues including:

- the possibility of establishing a legal framework for contractual relationships between farmers and the dairy industry
- the conclusions of the report the Commission has promised to deliver by the end of the year on the workings of the dairy sector supply chain⁷.

10. While the Commission's proposals were broadly welcomed, twenty-one Member States and Members of the European Parliament (MEPs) have continued to press the Commission for an increase in direct financial aid to the sector. The Commission therefore announced on 19 October proposals for a Milk Fund to provide short-term funding to dairy farmers across Europe. The proposal was approved by the European Council on 18 November 2009 who agreed a €300 million fund to be divided between Member States according to their share of EU production.

11. Despite offering increased short-term aid to the sector the Commission has confirmed that it intends to carry on with its proposals under the 2013 Health Check to eliminate all milk quotas by 2015.

³ Financial Times: [EU moves to ease dairy crisis](#) [accessed on 15 July 2009]

⁴ Guardian: [EU Commission to study stabilising dairy market](#) [accessed on 15 July 2009]

⁵ European Commission, [Dairy Market Situation 2009](#) Communication from the Commission to the Council, June 2009

⁶ Europa Press Release [Milk: Commission proposes further measures to help dairy in short, medium and long term](#) 17 September [accessed 23 September 2009]

⁷ *ibid.*

12. In addition to offering direct support for the dairy industry the Commission has moved to address wider issues relating to inequalities in power in the food supply chain and transparent food pricing by publishing a Communication containing proposals for addressing these issues at a European level⁸. A European Food Prices Monitoring Tool has been launched with the Commission hope will lead to increased price transparency and a more equitable distribution of costs and profits along the supply chain.

UK

13. According to DairyCo (the national levy board for the dairy industry):⁹

For the last twenty years milk supply in the UK has fluctuated between 13 billion and 14 billion litres. However, since the 2003/4 milk year UK milk supply has been on a discernable declining trend. In the latest milk year ending March 2008 only 13.2 billion litres of milk were supplied in the UK, 310 million litres (2.3 percent) lower than the previous year and the lowest level since 1974. Moreover, despite being only part way through the current milk year, it is already apparent that milk supply will be lower again, with DairyCo estimates suggesting annual supply levels may be below 13 billion litres.

14. Key reasons for the decline in the dairy production include a fluctuating milk price, a lack of confidence by farmers to invest in their business, increasing input costs and a lack of dairy replacements, partly due to poor levels of fertility, TB and extreme weather conditions.¹⁰

With British milk production at its lowest level for over 30 years, imports from the Netherlands, Belgium and Northern Ireland were running at a million litres per day by late 2008.¹¹

Wales

15. All of the trends outlined above have had a significant impact on the Welsh dairy sector. According to statistics quoted in the Welsh Government's Strategic Action Plan for the Welsh Dairy Industry, in 2005 some 5,000 people were employed in milk production in Wales and 2,300 in dairy processing activities.¹²

16. The sector has experienced a significant decline in employment in recent years, across producers and processors. The number of milk producers in Wales has reduced by some 33 per cent in the five years to 2008. The total for August 2008 was 2,149, compared to 2,845 in 2003.¹³ Numbers of dairy cows have fallen from 419,000 in 2004 to 390,000 in 2008, a fall of 6.9 per cent.¹⁴

⁸ European Commission, [Communication on a better functioning food supply chain for Europe](#), COM (2009) 591 Communication to the European Parliament, the Council, The European Social and Economic Committee and the Committee of the Regions, 28 October 2009

⁹ [Dairy Co. Factors affecting milk supply: January 2009](#) [accessed on 15 July 2009]

¹⁰ [Gelli Aur Dairy Development Centre website](#) [accessed on 15 July 2009]

¹¹ [BBC news website](#) [accessed on 15 July 2009]

¹² [Welsh Assembly Government Strategic Action Plan for the Welsh Dairy Industry 2007](#): 22 [on 15 July 2009]

¹³ [Welsh Assembly Government: Welsh Agricultural Statistics 2008: 52](#) [accessed on 15 July 2009]

¹⁴ [Cattle Tracing System via Dairy Co website](#) [accessed on 15 July 2009]

17. UK farmgate prices increased by 2.2 per cent in July 2009 to 22.99 pence per litre (ppl) but annual comparisons show that milk price has fallen by 10.9 per cent since July 2008 a decline of 2.83ppl from 25.82ppl.

18. DairyCo data on the milk supply margin demonstrates that the retail gross margin being made by supermarkets and other sellers has increased from 2.27 (ppl) in 1994 to 19.3 (ppl) in 2009.

19. Since 2005, over 900 redundancies have been announced within dairy processing in Wales, as shown in the table below:

Redundancies within dairy processing

Company	Date announced	No. of redundancies	Location
Saputo	July 2009	40	Newcastle Emlyn
Dairy Farmers of Great Britain	June 2009	279	Bridgend
First Milk	January/February 2009	140	Maelor, Wrexham
Aeron Valley	March 2007	44	Felinfach, Ceredigion
Dairygold	April 2006	115	Felinfach, Ceredigion
Longslow	October 2005	100	Mochdre, Colwyn Bay
Dairy Farmers of Great Britain	April 2005	200	Llangadog

Source: Media reports

20. Until recently, the dominant companies within Wales were First Milk and Dairy Farmers of Britain, who between them processed in excess of 60 per cent of all milk produced in Wales. However, the closure of the DFB plant at Bridgend in June 2009 means that there is now no large scale bottling operation in Wales.

Welsh Government policy

21. The One Wales Agreement contained a commitment to produce a Strategic Action Plan for the Welsh Dairy Industry. This Plan was published in November 2007.¹⁵ It was developed in partnership with the Dairy Strategy Group (a representative group for the industry in Wales) and the Milk Development Council (MDC), and identified ways in which all those working in the supply chain, including processors and producers can work with each other and the Welsh Government to respond to challenges.

¹⁵ Welsh Assembly Government [Strategic Action Plan for the Welsh Dairy Industry 2007](#) [accessed on 15 July 2009]

Evidence Taken

22. At a meeting in Cardiff on 1 October, the Committee took oral evidence from the following organisations:

- NFU Cymru;
- Farmers' Union of Wales;
- First Milk;
- Rachel's Dairy;
- Llaeth y Llan Village Dairy;
- Dairy Strategy Group.

23. The Committee wishes to thank everyone who provided written and oral evidence to the inquiry.

Summary of the main issues

Pricing

24. The Committee heard that one of the major concerns for the industry was the inequitable distribution of the price paid by the consumer for dairy products and the fall in farmers' share of the price. According to NFU Cymru and others, supermarket margins have increased substantially over recent years, while farmers' margins have fallen significantly over the same period.

25. The Committee was told by the farming unions and by Terrig Morgan of the Dairy Strategy Group that an independent ombudsman was needed to ensure fair play between the supplier and the retailer and to cut out any malpractice. It was not suggested that the ombudsman would have a role in setting prices.

26. Eifion Huws of the Farmers' Union of Wales (FUW) said:

... we are not asking for households to pay any more for the milk or the cheese. All that we are asking for is a fairer share of that price. The money is there because, 10 years ago, the supermarkets were making 6.5p profit on a litre of milk, but today, that figure is 16.5p.

27. Whilst Neil Burchell of Rachel's Dairy believed consumers were not prepared to pay a significant premium for local choice milk.

The retailers want to have local choice milk because it is a good marketing tool, but they are not prepared to pay a significantly higher price. So, the price at which the retailer demands that the processor supplies it is below your capability if you are a small dairy, and that was the problem with Dairy Farmers of Britain: it had contracts to supply local choice milk, which lost it money.

28. Concern was raised by the FUW about the development of regional monopolies and the need for greater regulation of supermarkets by the Office of Fair Trade. Nick Fenwick told the Committee:

It is not just an issue about competition; it is also an issue about the development of monopolies and the Office of Fair Trade's failure to properly

regulate supermarkets, and the very different treatment that it gave to milk processing companies compared with supermarkets.

.... we are seeing the development of regional monopolies, which I do not believe is healthy for competition. By definition, it cannot be so.

29. The Committee also heard of the need for dedicated supply chains. According to NFU Cymru, dedicated supply chains were being introduced by the retailers for liquid milk throughout the UK. It was suggested that, as the majority of milk in Wales goes into cheese production, dedicated cheese supply chains should be established to create a link between the producer and retailer, to give a fair market price to the producer.

State Aid

30. The NFU Cymru were concerned that the decisions by the European Commission to allow Member States to temporarily increase the level of state aid they are able to give farmers from €7,500 to €15,000 would be anti-competitive. They believed that UK farmers could be disadvantaged if some Member States increased aid to their farmers but UK farmers did not receive similar aid from the UK Government. According to Mansel Raymond:

We are concerned that, at the moment, some member states are prepared to go down the road of giving aid to support their dairy farmers in the short term. We believe that that would be anti-competitive, if we did not receive similar aid from our Government.

Capacity

31. According to NFU Cymru, the dairy industry has seen a massive drop in milk production and producer numbers in Wales. In the past five years, there has been a 6.9 per cent drop in the dairy herd in Wales and milk production is at a 40 year low. Currently, there are only 2,093 milk producers in Wales, compared with 3,977 10 years ago. The collapse of Dairy Farmers of Britain earlier in the year also had a significant affect on the industry in Wales, resulting in financial difficulties for a number of Welsh farmers.

32. It was suggested that the reason there was no longer any substantial milk processing in Wales was down to cost. According to Neil Burchell:

The three large milk processors in the UK all process as close to the milk fields as possible, and as close to the demand as possible. Unfortunately, although the main milk fields in north and south Wales are strong milk fields, they are not close to the large centres of demand, and the infrastructure is not there for supply.

Creating demand for Welsh products

33. Neil Burchell raised the issue of creating demand for Welsh products among consumers. He was concerned that whilst it was possible to create a super efficient dairy industry in Wales, unless consumers wanted to buy Welsh products, there would be no market for Welsh food and drink which would create a different form of crisis.

My concern is that we could create a super efficient dairy industry in Wales, but unless the consumers want to buy Welsh products, Welsh food and drinks, we will not have a market and we will end up in a different form of crisis. So, one area that I want to discuss and address today is how we go about creating or developing the image of Welsh food, building that brand, and creating the demand for Welsh foodstuffs, not just in the UK, but across Europe.

34. In addition, both Gareth Roberts of Llaeth y Llan Village Dairy and Neil Burchell, felt that Welsh provenance had not been a particular benefit to their businesses to date. Neil Burchell said:

We are proud of our Welsh heritage and roots, but unfortunately the consumer research that we have done has said that, outside of Wales, Wales is not considered to be the home of great food. Therefore, you will not develop your sales by marketing your brand as a local Welsh brand. Within Wales, it is extremely positive, and Welsh people have the greatest propensity to buy local products of any part of the UK, but outside Wales, that kind of marketing is not successful.

35. Gareth Robert also described the difficulties he had experienced in trying to sell his products in England, due to increased consumer preference for regional produce.

36. However, Neil Burchell also stated that there was nonetheless an opportunity to develop the image of Welsh food, build the brand and create demand for Welsh foodstuffs, not just in the UK, but across Europe.

There is the opportunity to build the Welsh brand, and to promote Wales as the home of great food, but the focus of the activity needs to be on marketing it outside of Wales and not inside, because Welsh consumers are already convinced.

37. This point was echoed by Paul Flanagan, First Milk, who told the Committee that they were trying to move as much as possible into branded products, as this would provide insulation from what was happening in the marketplace. He told the Committee it was possible to earn two to two and a half times more for branded cheese than for standard mild, and they had found regional provenance a definite advantage. Mr Flanagan stated that:

A lot of energy has been put behind Welsh beef and lamb, and there is an opportunity to put more energy and support into the promotion of Welsh cheese; that would be helpful, because there is an opportunity there

38. The potential of using procurement by the Welsh Government and other public bodies in Wales as a cost-effective method of creating demand for Welsh produce was raised in several of the evidence submissions. The NFU Wales stated:

There needs to be an increase in the proportion of milk and milk products procured by WAG, Public institutions and Local Authorities in Wales. Whilst there are some good examples of local produce used in public procurement much more needs to be done. The Welsh Assembly Government Local Sourcing Action Plan published earlier this year states that 66% of milk and only 29% of added value dairy products used in the Welsh public sector are sourced from Wales. Clearly this shows that there is significant room for improvement.

39. The Committee also noted that the Welsh Government's Local Sourcing Action Plan 'Food and Drink for Wales' highlights a decline in supplies of Welsh milk purchased by local authorities and higher education sectors.¹⁶

Need for investment

40. The Committee was told that investment was a top priority to make the industry efficient and able to compete with European producers. Traditionally, the dairy industry had relied on the next generation to come in and take over but, given the unsociable hours and unprofitability of the industry, this was no longer happening. The investment required to run a dairy herd was significant and many of the dairy units dated back to the 1970s but confidence in the industry was so low, people were not prepared to invest in dairy farm infrastructure.

41. According to Mansel Raymond:

...., before we see any upturn in milk production in Wales, producers will need to see a profitable future and have confidence to invest.

42. The NFU Cymru also raised the issue of investment to enable farmers to comply with environmental legislation and the need for consistency. In the view of the NFU Cymru, it was essential that Wales did not have different environmental standards to other member states.

43. Terrig Morgan, Chair of the Dairy Strategy Group, stated that in the past the dairy industry had experienced difficulty in accessing some agri-environment schemes and that he hoped the industry would be able to access the new Glastir agri-environment scheme proposed by the Welsh Assembly Government.

The move away from specific payments is good for me, as a dairy farmer. I guess that with a little bit of good will on behalf of the Welsh Assembly Government, we will be able to access these schemes, and I look forward to Glastir and the new schemes.

Access to information

44. The FUW congratulated the Dairy Development Centre and DairyCo on its facilitation of the flow of information to the industry. Nick Fenwick said,

DairyCo provides the industry with excellent information, and demonstration farms are a key part of that and are invaluable to the industry.

45. They voiced concerns about the way in which key stakeholders had been kept informed of progress in delivering the Strategic Action Plan for the Welsh Dairy Industry.

I emphasise the need for an update on the targets that have or have not been hit as regards that strategic action plan. The only update given so far was published last November as a one-and-a-half page article in *Gwlad*, and it is anything but a professional update.

¹⁶ Welsh Assembly Government, [Local Sourcing Action Plan 'Food and Drink for Wales'](#) [accessed 20 November 2009]

46. This point was supported by the NFU Cymru. According to Mansel Raymond:

Many of our members are involved in the dairy strategy group, but nobody from the NFU is on that dairy strategy group, so nothing is reported back to the NFU.

47. Terrig Morgan recognised that while the Group has completed detailed evaluation of progress in delivering the Strategic Action Plan, dissemination of that information to the industry could be improved.

We are monitoring it on a regular basis with the staff of the Welsh Assembly Government. There are two members of staff in Aberystwyth who look after the dairy sector, and we report regularly to the dairy strategy committee. I am quite aware that we are not pushing that out enough to the producer. It is a problem with which we need to grapple, and I am quite aware of that. We are not getting the message through to the milk producer in Wales about what is happening and what we are doing. We need to improve on that greatly.

48. He also described the difficulty the Dairy Strategy Group had experienced in accessing specific statistics for Wales:

...in the beginning, we were unable to get information on the number of sold dairy cows in Wales. When I first took the job, we undertook the first Promar analysis of Welsh dairy farming, which we published in 2006 or 2007, but it was difficult to get hold of these statistics. It should not be difficult, because we have only to change the June census to include an extra box for the single farm payment. Such information is essential in helping us to make policy decisions.

Skills and Training

49. Neil Burchell highlighted the need to encourage more young people into the food industry. He suggested that:

At the moment, we have an absolute dearth of qualified young people coming into the food industry.

50. Paul Flanagan agreed with Neil Burchell on the importance of providing good training and development opportunities for those working in the industry.

I agree with Mr Burchell that training and development are particularly important. We are working on that at First Milk; we have a First Milk academy that starts in business clubs, of which we have nine in Wales. We also run courses on good business management for producers, and we spend a lot of time with our young producers. That is important.

51. Terrig Morgan also described the need for a change of skills in the dairy industry and the processing sector.

Conclusions and Recommendations

Conclusions

52. As part of its inquiry into the Production and Promotion of Welsh Food, the Committee received substantial evidence highlighting the need for an Ombudsman to protect farmers and suppliers from exploitation by supermarkets and ensure transparency in the food chain. This inquiry into the dairy industry has also highlighted the inequitable distribution of the price paid by the consumer for dairy products and the fall in farmers' share of that price as a major issue. The Committee therefore renews its call for the Minister for Rural Affairs to continue to put pressure on the UK Government to establish a UK Ombudsman as quickly as possible. We also call for the appointment of a 'Welsh dairy champion' whose role would include representing the interests of the industry in Wales to the UK Ombudsman.

53. Another recurring theme is the need to create demand for Welsh products. In his evidence to the Committee, Paul Flanagan of First Milk highlighted the energy that has been put into promoting Welsh beef and lamb, and called for that energy and support to be put into the promotion of Welsh cheese. The Committee previously urged the Welsh Government to support the establishment of organisations to develop, promote and market other Welsh produce following the model of Hybu Cig Cymru. In her response to the Committee, the Minister advised that it was not considered viable to establish similar organisations to Hybu Cig Cymru for other sectors due to lack of resources. The Committee therefore recommends that in implementing the Strategic Action Plan for the Welsh Dairy Industry, Minister for Rural Affairs develops a new model for promoting Welsh dairy products, drawing on best practice in other sectors.

54. Evidence gathered by the Committee also suggested that there is a gap in training provision for people wishing to enter the dairy processing sector and consequently a shortage in the number of qualified people entering the industry. The Committee therefore urges the Minister to work with her cabinet colleagues and training providers to address the issue.

55. The Committee is concerned that the recent temporary change in European State Aid rules could lead to the Welsh dairy industry being disadvantaged compared to its European competitors. Whilst we acknowledge that budgetary constraints make it difficult for the Welsh Government to increase the level of aid available to the industry, we would urge the Minister to take steps to ensure that the Welsh dairy industry does not suffer as a result of the rule changes.

Recommendations

1. The Committee renews its call on the Minister to continue to put pressure on the UK Government to establish a UK Ombudsman as quickly as possible.

2. The Committee recommends that the Welsh Government establish an independent Welsh Dairy Champion to represent and promote the interests

of Welsh dairy producers and processors, including providing a voice for the Welsh dairy industry at the UK level through making representations to the UK Ombudsman.

3. The Committee believes that increased public procurement has the potential to make a big impact on the demand for Welsh dairy produce at minimal cost. We recommend therefore that the Welsh Government secures an increase in the proportion of dairy products procured from dairy producers and processors in Wales, and reverses the decline seen in local authority procurement over recent years.
4. The Welsh Government should take action to encourage dairy producers to move away from producing milk for mass produced commodity products to the production of value added premium products.
5. The Committee recommends that the Minister for Rural Affairs develops a new model for promoting Welsh dairy products, drawing on best practice in other sectors.
6. The Welsh Government should ensure that the best possible use is made of the European Milk Fund to allow investment in infrastructure for dairy producers to improve the efficiency and effectiveness of the dairy industry in Wales.
7. The Committee believes that ensuring a sustainable flow of new entrants into the dairy industry is essential. The Committee recommends that the Minister for Rural Affairs carries out an assessment of current training provision and works with Cabinet colleagues to develop a strategy that will ensure that adequate numbers of qualified people are attracted into the processing sector in Wales.
8. The committee recommends that in developing proposals for the new Glastir scheme, the Minister for Rural Affairs pays particular attention to ensuring that the scheme is more accessible and attractive to dairy farmers than has been the case for previous agri-environment schemes, and that Glastir contributes to safeguarding the future of dairy producers in Wales.
9. The Minister should work with her cabinet colleagues to ensure that the benefits of operating in Wales, including government support and access to convergence funding, are promoted to companies within the dairy sector.
10. Renewed effort should be made by the Welsh Government and the Dairy Strategy Group to disseminate regular updates to the industry on the implementation of the Strategic Action Plan for the Welsh Dairy Industry in order to ensure the continued buy-in of producers and other key stakeholders.
11. The Committee is concerned by the potentially distortive effects of increased levels of state aid to the dairy industry in some EU Member States, and the negative effect this could have on the sector in Wales. We urge the Minister to work with her UK and European colleagues to ensure a level playing field within the European market, and to focus the support that is

currently provided through Farming Connect and DairyCo on developing the Welsh dairy industry's competitiveness.