

Written evidence submitted by Dairy UK (AB22)

Dairy UK

1. Dairy UK's mission is to promote the consumption of UK dairy products domestically and internationally. We do this through being a strong and influential processor-led organisation with strong partnerships with farmers and stakeholders along the supply chain. Between them, Dairy UK's members collect and process about 85% of UK milk production. Information on Dairy UK can be found at www.dairyuk.org

Proposed Amendments

2. Dairy UK is proposing three amendments covering
 - Financial assistance for economic sustainability
 - Financial assistance to processors for marketing
 - Protection of dairy terms

A: Financial Assistance for Economic Sustainability

3. Dairy UK would propose that in:
 - a. Part 1, Chapter 1, section 1, paragraph (2a), the word: '**productivity**' is replaced with '**economic sustainability**'.
 - b. Part 1, Chapter 1, section 1, paragraph (5) the words:

“improving productivity”, in relation to carrying on an activity includes-

are replaced with:

“improving economic sustainability”, in relation to carrying on an activity, includes, but not exclusively, -

Rationale

4. The dairy industries of England, Wales and Northern Ireland will be faced with a very challenging commercial environment over the next ten years. The industry will need the support of Government to succeed. As enabling legislation the Agriculture Bill should give the Government the maximum possible flexibility to support the industry in meeting the myriad commercial challenges that it may face. As currently drafted the Bill does not confer sufficient discretion to the Secretary of State to enable the Government to provide the range of support the dairy sector may require.
5. Productivity is a narrow concept that focuses on the rate of output per unit of input. 'Economic sustainability' would be a more appropriate concept as it covers a broader range of criteria that would be relevant to the future of agriculture. It would open up a

wider spectrum of policy objectives for consideration than would be available from a narrow focus on productivity, efficiency and quality that is referred to in the Bill. In particular the Government's needs to be able to consider measures that fall under the multiplicity of issues that affect industry competitiveness as it is this issue that determines the success of a sector rather than purely productivity.

Commercial Challenges Facing the Dairy Sector

6. The range of commercial challenges the sector will face will include:

- a. If the Government's aspirations for future trade relations with the EU met then UK dairy farmers will continue to face zero tariff competition from their EU counterparts who will continue to enjoy the provision of some measure of income support from the CAP.
- b. The Government has indicated its intention to negotiate Free Trade Agreements with the Australia, New Zealand and the USA. All these states have sizeable exportable surpluses for dairy.

Table 1: Dairy Exportable Surplus of Target FTAS

	Milk Production: Million Tonnes	Milk Equivalent of Exports %
USA	97.7	15
Australia	9.2	44
New Zealand	21.3	93

Productions costs in Australia and New Zealand are generally below that of the UK which would enable these states to claim market share in the UK through price discounting. Average milk prices in the USA are broadly comparable to the UK but many US states operate a system of end-use pricing under the Federal Milk Marketing Orders. This means that the price of milk charged to dairies is varied according to the market for which the milk is utilised. This again could confer a price advantage on US product in the UK market. These countries are also more minded to permit the use of technologies and production methods that are not always acceptable in the UK.

- c. The Government is pledged to phasing out the income support provided to farmers in England through direct payments. These payments play a significant role in ensuring the profitability of dairy farms. Removal of these payments will make many dairy farms unviable.

Table 2: Value of Direct Payment to Dairy Farmers in England

Single Farm Payment		Farm Business Income	
2014/15	2015/16	2014/15	2015/16

23,400	20,300	83,800	43,900
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- d. The availability of EU labour, across all ranges of skills, has been central to the economic sustainability of dairy farming in England. Dairy farmers are suffering from a shortage of labour now. The availability of labour has been identified as the biggest immediate challenge to dairy farmers by Dairy UK's Farmers' Forum.
 - e. In the absence of labour from the EU dairy farmers will have to make major investments in labour saving technology which remains generally under-developed for the agriculture sector.
 - f. Under the government's Clean Air Strategy dairy farmers will be required to make significant investments in a variety of technologies to emissions from farms. The Government's intention is for dairy farmers to be subject to the same system of permitting operated by the Environment Agency under the Integrated Pollution Prevention and Control regime for the pigs and poultry sector. This will have significant cost implications for dairy farmers. Integral to this system is a requirement for farmers to invest in best available techniques that would be specified through a reference document that would drawn up by the Environment Agency.
 - g. The Government's proposed Environmental Land Management System will primarily focus on the provision of public goods. The precise funding mechanism for the ELMS has not been made clear. There is a recognition by Defra that payments based on costs incurred/income forgone is not an adequate basis to ensure sufficient participation in agri-environment measures. However, it is clear that the ELMS is not intended to support the viability of the core enterprise of dairy farms which is the production of food.
7. In this situation dairy farmers will need to significantly improve their competitiveness if they are to prosper in the environment that can be expected over the next ten years. Government support to achieve this objective will be essential if the industry to retain its current scale, let alone reach its full potential. The terms of the Bill need to be drafted in this context.

Measures to Improve Economic Sustainability

- 8. There are potentially a multiplicity of measures that could be taken to support improving the economic sustainability of the dairy sector. A non-exhaustive illustrative list is given below. Rather than seeking to identify all possible measures now, the wording of the Bill should be sufficiently generalised to cater for a broad spectrum of possible future initiatives.
- 9. Possible areas for Government support schemes for the dairy sector could include:

- i. **Big Data***

UK governments should be enabled to commit resources to proactively facilitate the digitisation of agriculture and the utilisation of 'big data' to enable identification of challenges and opportunities through industry benchmarking.

ii. Grant Aid schemes

Schemes could address specific deficiencies in capital investment. For the dairy sector aid schemes could initially be focused on:

- Animal Health and Welfare measures
- Nutrient management
 - Development of IT solutions (including a replacement the PLANET nutrient management software)
 - Cover crops
 - Soil conditioning
 - Fencing to protect water courses
- Slurry management
 - Rain water harvesting
 - Separating clean and dirty water
 - Slurry removal
 - Slurry storage
- Slurry spreading
- Tracks and troughs
- Maintenance of ditches and hedges
- Renewables
- Staff training

iii. Measures to assist industry restructuring

Policy instruments may be required for facilitating industry entry and exit.

iv. Labour

The possibility should exist for resources to be made available for funding staff training at all levels of the agriculture sector.

v. Research and Development and Knowledge Transfer

This could cover a very broad spectrum of possible areas.

vi. Volatility

The Government should be able to develop measures to assist the industry to cope with income volatility. These could include:

- subsidised or tax efficient saving schemes,
- subsidising income or margin insurance schemes,
- tax breaks to help the industry cope with income volatility.
- assistance for the development of private sector price risk management mechanisms.

B: Financial Assistance to Processors for Marketing

10. Dairy UK would propose that in:

- a. Part 1, Chapter 1, section 1, paragraph (2b), the phrase ‘...or by a processor.’ Is added to the end of the sentence.
- b. Part 1, Chapter 1, section 1, paragraph (5) the definition is added:

“‘processor”, means a person who carries on, or is to carry on, the processing, transformation or reconfiguration of agricultural goods’.

11. Only a minute fraction of the milk produced by dairy farmers in the UK is marketed directly to consumers. Over 99% of the raw milk produced by farmers is processed into drinking milk and dairy products by dairy processing companies, either as farmer owned co-ops, or privately owned dairies. Processing is integral to creating value from the production of raw milk.

12. As currently drafted the Bill would only provide financial assistance to producers for supporting ‘ancillary activities’ defined as ‘selling, marketing, packaging, processing or distributing products, which are all the activities undertaken by processors.

13. The existing phrase at the end of the paragraph ‘...or for a producer’, does not reflect the transfer of ownership of raw milk that takes place when milk is sold to a private dairy. The amendment proposed would give legal clarity to enable aid to be given to all types of processors.

14. Without a prosperous and dynamic processing sector any financial assistance to farmers may be nugatory.
15. The dairy processing industry would in particular welcome financial assistance for marketing UK dairy products in export markets. Under Regulation 1144/2014 the EU provides €100 per annum for the promotion of EU agricultural products within and outside the EU. The UK no longer has access to this funding.
16. The UK Government has the ambition of placing 80% of UK trade under Free Trade Agreements within three years. This will open up new market opportunities to the UK dairy industry whilst also creating major competitive challenges on its domestic market. It will need the resources to communicate to new markets the particular characteristics of UK dairy products. Explicit provision for this possibility should therefore be made in the new Agriculture Bill.

Marketing standards

17. Dairy UK welcomes the powers conferred to the Secretary of State and Welsh Ministers to improve the marketing standards for a range of products, including milk and other dairy products.
18. In respect of the set of consumer protection laws which regulate the use of a wide range of dairy denominations, this represents an opportunity to strengthen current enforcement in the UK to ensure that the objectives of these rules are met.

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