



Dairy SCOTLAND
UK

GOING FORWARD

A SUMMARY OF SCOTLAND'S
DAIRY AGENDA

THE UNITED VOICE OF THE DAIRY INDUSTRY

FOREWORD



Dairy UK is the united voice of the dairy industry.

Dairy UK brings together dairy processors, farming representatives, co-ops and doorstep delivery businesses in an organisation that exists to articulate the views and concerns of all those involved in the dairy industry.

The dairy industry is a vital segment of the UK food sector that is responding dynamically to the challenges facing it. Major changes have taken place to adapt the industry to the wholesale transformations that have occurred in our market place and international trading environment. The industry has striven to achieve much greater efficiency throughout the sector at both farm level and in processing.

This has involved sustained rationalisation of dairy farms and major investment in new state of the art processing capacity. The structure of the industry is being radically remodelled to create much closer co-operation and collaboration throughout the supply chain. The same impetus behind this process of restructuring informed the creation of Dairy UK as the single united voice for the sector.

To take on successfully the challenges of tomorrow the industry needs a close working partnership with government. Consequently Dairy UK has prepared this document which sets out the policies we believe need to be implemented in order for the government to give the industry the support it requires.

At the same time the document concludes with a statement of the range of strategies the industry is pursuing in order for it to sustain itself in the future.

We welcome feedback on the issues raised by this document and, if you have any queries or concerns, please don't hesitate to contact us.

Sir Don Curry
Chairman of Dairy UK

THE IMPORTANCE OF THE SCOTTISH DAIRY INDUSTRY



The prosperity of the Scottish dairy sector has major economic, social and environmental implications for Scotland.

Around 1,500 dairy farmers produce 1.2 billion litres of milk. Dairy processors employ 3,000 people and the turnover of the sector is around £800million.

Dairy farmers play a major role in maintaining the current rural landscape. The dairy industry's products form a major part of the diet of consumers and they provide clear and substantial nutritional benefits.

The sector is subject to the intense price pressure created by the market driven economics of the food industry and the reduction in price support created by the reform of the dairy sector Common Agricultural Policy. Consequently processing margins are constantly under pressure and returns to many dairy farmers are below their costs of production.

UK and EU policies and regulations touch upon almost every aspect of the sector. The scale of regulatory involvement in the life of the industry means that it needs the active engagement of government to achieve its commercial objectives.

Jim Begg
Director General of Dairy UK

ECONOMIC ISSUES

CAP Reform

Only when the effects of the existing package of reforms are worked through, and the industry itself has had time to adapt, should consideration be given to a further reform of the CAP. If further reform results in additional reductions in price support, then producers must be fully compensated.

WTO Negotiations on Agriculture

Within the current framework created by the CAP, the EU needs to retain adequate tariff protection for the EU dairy market and to achieve a practical and manageable framework for the elimination of export subsidies.



Picture courtesy of The Dairy Council

Skills and Training

The skill shortages facing the sector require the government to place greater emphasis on vocational training to meet the specific requirements of the food industry. The government should contribute to the provision of training by the industry.

Competition Policy

Intervention by the competition authorities should be timely and effective. It must also be informed by the industry's EU commercial context and suppliers should be given the same recognition as consumers in the determination of competition policy.

Over Thirty Months Rule

The government must work to put in place the necessary measures to facilitate the lifting of the rule preventing cattle over thirty months old from entering the supply chain and, at the same time, work towards regaining normal export markets for UK beef in order to prevent disruption of the UK beef market.

Currency

Dairy UK would support the adoption of a stable exchange rate policy, ideally through the entry of the UK into the euro at a rate that ensured that the industry was competitive and not subject to penalising cost or price pressures.

ENVIRONMENT AND REGULATION

Sustainability

The industry supports the UK government's pursuit of sustainability, but any policy measures must be, consistent with the dairy industry's international competitiveness. Intervention in the processing sector needs to be evidence-based and targets need to be realistic and attainable.

Environmental Regulation at Farm Level

In order for dairy farmers to meet the significant challenges in the coming years arising from new environmental regulation, the government should avoid prescriptive regulatory constraints and the use of taxation or other economic instruments. Instead it should continue to adopt an educative and supportive approach and, in particular, it should make funds available to help producers address diffuse water pollution.

Rural Development Regulation

In the review of the new Rural Development Regulation (RDR) that will come into force from 2007 the government must give due regard to the need for a competitive dairy farming industry. The UK must secure a greater share of funds from the EU and UK producers should not be penalised by excessive deductions from their single farm payment to fund UK RDR programmes. The government's policy of seeking to retain the UK's rebate should not be allowed to compromise the availability of funds to the UK under this regulation.



Climate Change Levy

Economic necessity means that the industry has always pursued a policy of reducing energy consumption wherever possible. Measures by government to assist in the saving of energy are extremely welcome. However, policy instruments that seek to achieve savings by penalising energy usage must be avoided. Consequently Dairy UK believes that the Climate Change Levy should be reviewed.

Integrated Pollution, Prevention & Control (IPPC)

IPPC will impose uneconomic environmental targets on the industry that, in many cases, will achieve little environmental benefit. However, Dairy UK welcomes the move by the Environment Agency to work more closely with the industry to reduce its environmental impact.



HEALTH AND NUTRITION

Nutrition Labelling and Sign-posting

Milk and dairy products form an important part of balanced diets. Government policies aimed at tackling obesity or excessive salt consumption should not deprecate the value of dairy products in the diet.

Welfare Foods Scheme

Proposed changes to the Welfare Foods Scheme are nutritionally misguided and will have an adverse impact on beneficiaries and on the dairy industry, particularly the doorstep delivery sector.

EU School Milk Subsidy

The provision of milk in schools is of considerable nutritional importance for children and for developing tomorrow's consumers of liquid milk. Dairy UK would like to see the full utilisation of available EU funding to maximise the benefit of the subsidy to the UK.

ANIMAL HEALTH ISSUES

Animal Health and Welfare Strategy

Dairy UK welcomes the new animal health and welfare strategies being pursued by SEERAD but a partnership approach also requires the government to take action where necessary and this includes the adoption of vigorous measures to reduce and eventually eliminate, bovine tuberculosis. In Scotland efforts must be directed towards reducing disease levels through increased monitoring of cattle entering Scotland from hotspot areas, reduced testing intervals and improved monitoring of wildlife.

Other Animal Diseases

Dairy UK advocates that the government should carry out a survey of the UK dairy herd to determine the incidence of Johne's disease which would be followed up by control measures to reduce, and eventually eliminate, the disease.

INDUSTRY STRATEGY

In order to sustain its profitability the dairy industry will pursue the following strategies:

Product Safety

Through its farm assurance schemes and other mechanisms, the industry will ensure that its products are produced to the highest standards of product safety. The industry will use the Precautionary Principle in dealing with any hazard that may affect the safety of its products.

Animal Welfare

Through its farm assurance scheme and other mechanisms, the industry will also ensure the operation of benchmark standards for the welfare of dairy cows.



Producer Efficiency

Producers will continue to restructure their operations to achieve greater efficiency. For many this means the achievement of greater scale to realise economies of scale. This will result in the creation of larger milk production units.

Seasonality of Production

In order to reduce costs the industry will seek to flatten the profile of aggregate milk production.

Processing Efficiency

Processors will continue to invest in larger, more efficient processing plant in order to achieve economies of scale. This will result in the rationalisation of older, less efficient plant.

Consolidation

Processors will continue to consolidate through mergers and acquisitions in order to achieve greater scale. Greater scale will:

- improve the market position of the industry
- allow greater resources to be accessed to invest in:
 - ◆ new efficient plant
 - ◆ new products and brands

Vertical Integration

Through co-op investment in processing, joint ventures and long term contractual commitments, the industry will seek to achieve closer integration between producers and processors. This will:

- reduce the price volatility in the raw milk market
- improve supply chain efficiencies
- ensure producers obtain a greater share of value added

Innovation

The industry will invest in the development of new products in order to:

- respond to consumer needs
- increase income to the industry

Integrity

Through the choice of production techniques, the industry will ensure that the consumer's perception of dairy products as wholesome and natural is fully justified.



Labelling

The industry will present its products to consumers with clear and unambiguous information on their compositional content, nutritional value and those processing methods used in their production that are relevant to maintaining product integrity.

Trust and Dialogue

The industry will maintain a continuous dialogue between all elements of the supply chain in order to improve trust and understanding.





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